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

POSTAL RATE AND FEE CHANGES, 2001	Docket No. R2001–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF PRESORT MAILERS (ABA&NAPM/USPS-T43-13-41)

The United States Postal Service hereby provides the responses of witness Schenk to the following joint interrogatories of the American Bankers Association and National Association of Presort Mailers: ABA&NAPM/USPS-T43-13-41, filed on November 26, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-13:
Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function."

a. Please confirm that the marginal cost weight ounce difference for the range "1 to 2" is $0.273.

b. Please provide marginal cost difference for the entire extra ounce increment for all ranges in your table.

RESPONSE:

a. Confirmed.

b. The unit cost for First-Class Single-Piece for all shapes for the entire extra ounce increment (i.e., pieces over 1 ounce in weight) is $0.572, which results in a marginal cost difference for the entire extra ounce increment of $0.366.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-14:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function."

a. Please confirm that the unit mail processing cost is rising from 12.155 cents to 44.118 cents between the ranges "0 to 1" and "3 to 5".

b. Please confirm that unit cost mail processing cost drops to 30.585 cents in the range "5 to 7".

c. Please explain what factors contribute to such a erratic results in mail processing costs in the range "5 to 7" as compared to preceding ranges.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Please note that the costs by detailed weight increment for First-Class Mail are not used by any other postal witness in this docket. The cost by weight distributions provided in USPS-LR-J-58 are designed to provide a general indication of the relationship between weight and cost. Variation in the cited costs by weight increment may be caused by a variety of factors, including (but not limited to) shape mix, automation compatibility (or machinability), and sampling variation in the Postal Service's statistical cost data systems. Note, in particular, that the costs in lightly populated ounce increments such as those cited here are subject to more sampling variation than the cost estimates in the more heavily populated ounce increments.

For lightly populated ounce increments, sampling variation is likely the primary driver.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-15:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function."

a. Please confirm that unit mail processing costs are 12.155 cents and 32.779 cents for the ranges "0 to 1" and "1 to 2" respectively.

b. Please explain in detail and provide all supporting documents regarding the factors contributing to unit mail processing cost for the "1 to 2" range to be 2.7 times (32.779/12.155) larger as compared to the "0 to 1" range.

RESPONSE:

a. Confirmed.

b. See the response to ABA&NAPM/USPS-T43-14c. In addition to the factors cited in the referenced response, changes in presort level and entry profile may cause the increase in measured costs between the cited ounce increments.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-16:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function" and Excel file, LR58AREG.xls, Worksheet titled "3CREG all (by function)" for "Standard Mail reg. All Shapes Test Year Unit Costs by Function."

a. Please confirm that unit mail processing costs are 12.155 cents and 32.779 cents for ranges "0 to 1" and "1 to 2" for First-Class and are 5.9 and 8.7 for the Standard Mail.

b. Please explain what factors contribute the unit mail processing cost of First-Class mail in the "1 to 2" range to being 2.7 times larger (32.779/12.155) than its "0 to 1" range whereas the unit mail processing cost of the Standard mail in the "1 to 2" range to being only 1.5 times (8.7/5.9) larger than its "0 to 1" range.

c. Please explain in detail what factors contribute to the unit mail processing cost in the "1 to 2" range for the first-class mail to being 3.8 times (32.779/8.7) larger than that of unit mail processing cost in the "1 to 2" range for the standard mail.

RESPONSE:

a. Confirmed.

b. See the response to ABA&NAPM/USPS-T43-15b. Also please note that the detailed costs by weight increment for Standard Regular Mail are not used by any other postal witness in this docket.

c. I believe the primary factor driving the cited cost difference is that the First-Class Mail costs are for single-piece (non-presorted) mail, whereas much of the Standard Mail in the cited ounce increment will be presorted (up to 5-digit automation presort) and/or drop-shipped. Additionally, First-Class Mail letters and Standard Mail letters will differ in the workload associated with undeliverable-as-addressed mail pieces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-17:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function" and Excel file, LR58AREG.xls, Worksheet titled "3CREG all (by function)" for "Standard Mail Reg. All Shapes Test Year Unit Costs by Function."

a. Please refer to charts you have provided in these worksheets. Explain what factors are responsible for the graph for the unit mail processing cost for First-Class mail being erratic whereas for the standard mail to be smoother and upward sloping.
b. Please provide all the Tallies (sample sizes) and the corresponding CVs (Coefficient of Variations) for all the ranges in your tables for these worksheets.

RESPONSE:

a. See the response to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-16b-c.

b. See Attachment A, Tables 1 and 2.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
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ATTACHMENT A (to the response to ABA&NAPM/USPS-T43-17b)

Table 1: BY00 IOCS Direct Tally Dollar Weights ($000)

First-Class Single Piece

Cost Segment	0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	Over 9	No Weight	Total
Mail Processing (3.1)	1,800,569	406,954	180,286	192,594	63,543	38,163	50,064	6,338	2,738,511
Window Service (3.2)	35,620	11,778	4,864	8,786	4,448	2,941	3,034	92	71,562
City Carrier In-Office (6.1)	807,441	107,042	40,588	36,973	10,740	6,693	5,928	565	1,015,969

Standard Mail Regular

Cost Segment	0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	9 to 11	11 to 13	Over 13	No Weight	Total
Mail Processing (3.1)	596,121	284,369	163,076	235,592	66,120	40,212	22,707	23,101	31,306	8,635	1,471,239
Window Service (3.2)	1,987	573	284	599	157	205	66	190	565	0	4,627
City Carrier In-Office (6.1)	358,242	139,115	69,963	91,460	20,074	10,409	6,182	4,493	5,952	104	705,995

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF PRESORT MAILERS

ATTACHMENT A (Continued)

Table 2: Unit Costs Coefficients of Variation By Combined Weight Increments

First-Class Single Piece

		Broad Weight Groups							
		0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	over 9	Total
Mail Processing	Unit Cost	12.2	32.8	36.6	44.1	30.6	37.6	49.2	15.5
(CS 3.1)	CV*	0.8%	1.6%	2.3%	2.2%	3.6%	4.3%	3.8%	0.7%
Window Service	Unit Cost	1.5	1.4	1.3	1.9	2.0	2.1	2.1	1.5
(CS 3.2 direct labor)	CV*	4.5%	7.8%	12.2%	9.1%	12.6%	15.8%	15.4%	3.2%
City Carrier In-Office	Unit Cost	3.5	6.0	5.9	5.9	3.7	3.9	3.6	3.8
(CS 6.1 direct labor)	CV*	1.0%	2.8%	4.5%	4.7%	8.6%	10.9%	11.5%	0.9%

Standard Mail Regular (Commercial and Nonprofit)

		Broad Weight Groups									
		0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	9 to 11	11 to 13	over 13	Total
Mail Processing	Unit Cost	5.9	8.7	10.2	11.3	10.4	17.5	17.9	21.4	59.6	8.1
(CS 3.1)	CV*	1.3%	1.8%	2.3%	2.0%	3.4%	4.1%	5.2%	5.1%	4.3%	0.9%
Window Service	Unit Cost	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.7	0.1
(CS 3.2 direct labor)	CV*	16.9%	31.9%	43.9%	31.3%	63.8%	50.6%	95.6%	58.2%	32.8%	11.3%
City Carrier In-Office	Unit Cost	2.3	3.0	3.2	3.1	2.1	2.7	2.7	2.1	5.3	2.6
(CS 6.1 direct labor)	CV*	1.5%	2.4%	3.4%	3.0%	6.3%	8.7%	11.3%	13.3%	11.6%	1.1%

*Coefficients of Variation (CV) calculated using the generalized variance function approach used by Witness Ramage ANM/USPS-T2-13 (Docket R2000-1, Tr. 4/1116)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-18:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled, "SP Letters (by function)" for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function): for "First-Class Presort Letters Test Year Unit Costs by Function."

a. Please confirm that unit mail processing cost for the "5 to 7" range for the First-Class Single-Piece is 26.465 cents and for the First-Class Presort Letters is 570.431 cents.

b. Please explain why presort mail should cost 21.6 times (570.431/26.465) more to process in the "5 to 7" range as compared to First-class mail letters in the same range.

RESPONSE:

a. Confirmed.

b. See the response to ABA&NAPM/USPS-T43-15b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-19:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled, "SP Letters (by function)" for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function)" for "First-Class Presort Letters Test Year Unit Costs by Function."

a. Please confirm that unit mail processing cost for the "7 to 9" range for the First-Class Single-Piece Letters is 58.689 cents and for the First-Class Presort Letters is 1725.835 cents.

b. Please explain why presort mail should cost 29.4 times (1725.835/58.689) more to process in this range compared to First-class single-piece mail letters. If these values are wrong, please provide the correct values.

RESPONSE:

a. Confirmed.

b. See the response to ABA&NAPM/USPS-T43-15b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-20:

Please refer to your USPS LR-J-58, Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function)" for "First-Class Presort Letters Test Year Unit Costs by Function."

a. Please confirm that unit mail processing cost for the "7 to 9" and "over 9" ranges for the First-Class Presort Letters is 1725.835 cents and 8.258 cents respectively.

b. Please explain why presort mail should cost 209 times (1725.835/8.258) more to process in "7 to 9" range as compared to "over 9" range. If these values are wrong, please provide the correct values.

RESPONSE:

a. Confirmed.

b. See the response to ABA&NAPM/USPS-T43-15b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-21:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled, "SP Letters (by function)" for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function)" for "First-Class Presort Letters Test Year Unit Costs by Function."

a. Please confirm the following values are correct for "Marginal Cost Difference" reported in your worksheets:

	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	over 9
First-Class Single-Piece All Shapes $0.236	$0.273	$0.072	$0.133	$(0.080)		$0.160
First-Class Single-Piece Letters $0.378	$0.201	$0.212	$0.220	$(0.183)		$0.542
Ratio (Letters/All Shapes)	1.4x	2.9x	1.7x	2.3x	3.4x	1.6x
First-Class Presort All Shapes ($0.085)	$0.179	$0.066	$0.230	($0.009)		($0.003)
First –Class Presort Letters ($14.104)	$0.160	$0.139	$0.413	$6.635	$11.130	
Ratio (Letters/All Shapes)	1.1x	2.1x	1.8x	737.2x	3710x	165.9x

b. Please explain why for the "2 to 3" to "over 9" ranges the marginal cost difference as you have calculated is many times larger for First-Class single-piece letters as compared to First-Class single-piece all shapes. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling has contributed to this problem and why this problem (which was also prevalent in the R2000-1 rate case) was not resolved.

c. Please explain why for the "2 to 3" to "over 9" ranges the marginal cost difference as you have calculated is many times larger for FC presort letters as compared to FC single-piece all shapes. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling has contributed to this problem and why this problem, which was also prevalent in the R2000-1 rate case, was not resolved.

d. Please explain why the marginal cost difference for the FC single-piece all shapes in the "2 to 3" ounce range compared to "1 to 2" ounce range is 3.8 times (.273/0.073) lower whereas for the FC single piece letters it in fact rises from

$0.201. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling has contributed to this problem and why this problem, which was also prevalent in the R2000-1 rate case, was not resolved.

e. Please explain why the marginal cost difference for the FC presort letters in the "7 to 9" ounce range is $11.30 compared to only $0.542 for the FC Single Piece letters. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling ahs contributed to this problem and why this problem, which was also prevalent in the R2000-1 rate case, was not resolved.

RESPONSE:

a. Confirmed.

b. – e. See the response to ABA&NAPM/USPS-T43-15b. In general, the estimated costs in higher ounce increments are smaller for presorted First-Class Mail and would thus be expected to exhibit greater sampling variation than corresponding costs for single-piece First-Class Mail. Please note also that the marginal cost differences need not vary linearly or even monotonically. For instance, whereas heavier letter-shape pieces are likelier to be incompatible with the Postal Service's automation equipment and hence exhibit higher costs than lighter letters, the same is not true for non-letter pieces (flats, irregular parcel post (IPPs), and parcels).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA/NAPM-USPS-T43-22:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

a. Please confirm that the marginal cost difference reported in these worksheets for "1 to 2" range for FCM is $0.201 and for the Standard mail is $0.003.

b. Please explain what factors contribute to the marginal cost difference for the FCM in the "1 to 2" range to be 67 times (.201/003) larger than the one for the standard mail.

RESPONSE:

a. Confirmed.

b. See the responses to ABA&NAPM/USPS-T43-15b, ABA&NAPM/USPS-T43-16c, and ABA&NAPM/USPS-T43-21b-e.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

NAPM/USPS-T43-23:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

a. Please confirm the following values for the "Other" unit costs are correct (cents):

	0 to 1	1 to 2	2 to 3
Other:			
First-Class Single-Piece	0.482	1.616	2.833
Standard Mail	0.068	0.163	0.307
Ratio (FC/Std)	7.0X	9.9X	9.2X

b. Please explain in detail what are the "Other" unit costs.

c. Please explain what factors contribute to the "Other" unit costs for the First Class letters to be 7 to 10 times larger than standard mail letters.

RESPONSE:

a. Confirmed.

b. The "Other" unit costs are the CRA TY03 costs that are independent of the reported cost segments in the tables. The costs reported for each of the specific segments are the actual CRA costs for the segment as well as any piggybacked costs from other cost segments not explicitly listed in the table. The "Other" costs are calculated by simply subtracting the sum of the costs of all the segments in the table from the total CRA costs for the subclass of mail.

c. See USPS-LR-J-1 and the responses to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-16c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-24:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

a. Please confirm the following values for the mail processing costs are correct (cents):

	0 to 1	1 to 2	2 to 3
Mail Processing:			
First-Class Single-Piece	11.508	24.674	40.169
Standard Mail	4.975	4.632	6.378
Ratio (FC/Std)	2.3X	5.3X	6.3X

b. Please explain in detail why the mail processing unit costs for the FC mail letters are almost doubling across weight increments whereas for the standard mail letters they are almost constant.

c. Please explain in detail why the mail processing unit costs for the FC mail to be 2 to 6 times larger than that of standard mail letters for the above ranges.

RESPONSE:

a. Confirmed.

b. See the response to ABA&NAPM/USPS-T43-15b.

c. See the response to ABA&NAPM/USPS-T43-16c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-25:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

a. Please confirm the following values for the sum of the "City Delivery in-Office," "City Delivery Street," "Vehicle Service," "Rural Delivery," and "Transportation" are correct (cents):

	0 to 1	1 to 2	2 to 3
Delivery Unit Costs:			
First-Class Single-Piece Letters	6.386	12.193	16.953
% Change		91%	39%
Standard Mail Letters	4.000	4.597	6.381
% Change		15%	39%
Ratio (FC/Std)	1.6X	2.7X	2.7X

b. Please explain in detail why delivery unit costs across the above weight increments are several times larger for FC mail as compared to Standard mail.

c. Please explain in detail why delivery unit cost as given above rises by 91% between "0 to 1" and "1 to 2" ounce ranges for FC mail as compared to only 15% for the standard mail.

RESPONSE:

a. Confirmed.

b. I would not characterize the transportation costs in cost segments 8 (Vehicle Service) and14 (Purchased Transportation) as "delivery" costs. Cost segment 8 includes costs associated with vehicle service drivers. Vehicle service driver workload includes transporting mail between processing and distribution facilities and between Bulk Mail Centers (BMCs). Cost segment 14 includes costs associated with contract air and highway transportation. See USPS-LR-J-1 for

the description of these cost segments. See also the response to ABA&NAPM/USPS-T43-15b.

c. See the response to part ABA&NAPM/USPS-T43-16c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-26:
Please refer to your R2001-1, LR-J-58, Table, "First-Class Single-Piece Letters Test Year Unit Costs by Function" and the corresponding table in R2000-1, LR-I-91.

a. Please confirm that the figures in the following table are correct:

	R2001-1	R2000-1	% Change
City Delivery In-Office Total Unit Cost (cents)	3.6	2.9	24.1%
Overall Unit Cost ($)	0.211	0.204	3.4%

b. Please explain in detail what changes might have occurred between these two rate cases that justify 24% increase in the "City Delivery In-Office Total Unit Cost" given the overall unit cost increase of only 3.4%.

RESPONSE:

a. Confirmed.

b. In addition to changes in the factors listed in my response to ABA&NAPM/USPS-T43-14c, cost differences between the test years of different rate cases may be caused by changes in the economic forecasts, cost changes in Postal Resources, differences in cost reductions, and other programs. In Docket No. R2000-1, these issues are discussed in the testimonies of witnesses Kashani (USPS-T-14), Tayman (USPS-T-9), and Meehan (USPS-T-11), and in the supplemental testimony of witness Patelunas (USPS-ST-44). In the current docket, the Postal Service has provided a base year, a rollforward, and test year costs that were developed from assumptions made nearly two years after the development of the Docket No. R2000-1 test year costs. For discussion of these issues in the current docket, please see the testimonies of witnesses Patelunas (USPS-T-12), Tayman (USPS-T-6), and Meehan (USPS-T-11).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-27:

Please refer to your R2001-1, LR-J-58, Table, "First-Class Single-Piece Letters Test Year Unit Costs by Function" and the corresponding table in R2000-1, LR-I-91.

a. Please confirm that the total unit costs ($) across weight increments given in the following table are correct:

	0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	over 9	Overall
R2001-1	0.199	0.400	0.612	0.832	0.649	1.191	1.570	0.211
R2000-1	0.195	0.330	0.476	0.707	0.812	0.900	1.041	0.204
% Change	2.1%	21.2%	28.6%	17.7%	-20.1	32.3%	50.8%	3.4%

b. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 1 to 2 oz. range in R2001-1 to be 21.2% higher than that in R2000-1 rate case compared to overall rise of only 3.4%.

c. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 2 to 3 oz. range in R2001-1 to be 28.6% higher than that for R2000-1 as compared to overall rise of only 3.4%.

d. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 4 to 5 oz. range in R2001-1 to be 17.7% higher than that for R2000-1 as compared to overall rise of only 3.4%.

e. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 7 to 9 oz. range in R2001-1 to be 32.3% higher than that for R2000-1 as compared to overall rise of only 3.4%.

f. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the over 9 oz. range in R2001-1 to be 50.8% higher than that for R2000-1 as compared to overall rise of only 3.4%.

g. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 5 to 7 oz. range in R2001-1 to drop by 20.1% as compared to R20001-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

RESPONSE:

a. Confirmed.

b. – g. See the responses to ABA&NAPM/USPS-T43-14c and ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-28:
Please refer to your R2001-1, LR-J-58, Table, "First-Class Presort Letters Test Year Unit Costs by Function" and the corresponding table in R2000-1, LR-I-91.

a. Please confirm that the total unit costs ($) across weight increments given in the following table are correct:

	0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	over 9	Overall
R2001-1	0.094	0.253	0.392	0.805	7.44	18.571	4.467	0.099
R2000-1	0.098	0.249	0.383	0.908	1.47	3.797	5.212	0.103
% Change	-4.1%	1.6%	2.3%	-11.3%	406%	389%	-14.3%	-3.9%

b. Please explain in detail why the total unit cost in the weight increments of "5 to 7" and "7 to 9" are essentially 4 times larger in R2001-1 compared to the R2000-1 rate case.

c. Please explain in detail for the R2001-1 rate case what additional tasks are performed on the First-Class Presort Letter mail in "5 to 7" oz. range costing $7.44 as compared to only $0.805 for the "3 to 5" oz. range, a difference of more than 9 times ($7.44/$0.805). Whereas, in the R2000-1 rate case the corresponding rise was only 1.6 times ($1.47/$0.908) between these two oz. ranges.

RESPONSE:

a. Confirmed.

b. See the response to ABA&NAPM/USPS-T43-14c and ABA&NAPM/USPS-T43-26b.

c. See the response to ABA&NAPM/USPS-T43-14c. Note also that some letters in the 3-5 oz. range weigh less than 3.3 oz. and thus may be automation compatible. Accordingly, 3-5 oz. letters will tend to require less manual processing (and hence incur lower costs) than 5-7 oz. letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-29:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Function" and the "Standard Mail Reg. Letters Test Year Unit Costs by Function" and the corresponding tables in R2000-1, LR-I-91.

a. Please confirm that the total unit costs ($) across weight increments given in the following table are correct:

	First-Class Presort Letters				Std. Mail Reg. Letters			
	0 to 1	1 to 2	2 to 3	Overall	0 to 1	1 to 2	2 to 3	Overall
R2001-1	0.094	0.253	0.392	0.099	0.092	0.095	0.132	0.096
R2000-1	0.098	0.249	0.383	0.103	0.107	0.111	0.146	0.113
% Change	-4.1%	1.6%	2.3%	-3.9%	-14%	-14.4%	-9.6%	-15%

b. Please explain in detail what changes might have occurred between these two rate cases regarding the operations performed by the USPS on the Standard Mail Regular Letters and the First-Class Presort Letters resulting in the total unit costs across the weight increments and the overall to drop significantly for the former while dropping by a smaller percentage or even rising for the latter.

RESPONSE:

a. Not confirmed. The R2001-1 costs labeled "Std. Mail Reg. Letters" include both commercial and nonprofit mail, whereas the R2000-1 costs include only commercial rate mail. The following table provides the comparison between R2000-1 and R2001-1 Standard Regular total unit costs that include both commercial rate and nonprofit mail:

	Std Mail Reg. Letters			
	0 to 1	1 to 2	2 to 3	Overall
R2001-1	0.092	0.095	0.132	0.096
R2000-1	0.102	0.104	0.148	0.107
% Change	-9.8%	-8.7%	-10.8%	-10.3%

b. See the response to ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-30:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Functions" and "First-Class Presort Flats Test Year Unit Costs by Functions."

a. Please confirm that the unit costs (in cents) in the following table for the weight increment "2 to 3" oz. range are correct:

	FC Presort Letters	FC Presort Flat	% Difference (Letters over Flats)
Mail Processing	22.072	16.864	31%
City Delivery In-Office	6.758	5.088	33%
City Delivery Street	5.075	1.988	155%
Total Unit Cost in cents	39.231	29.774	32%

b. Please confirm that the total unit cost across all weight increments for the First-Class Presort Flats is 43.038 cents.

c. Please explain in detail why then the FC Presort Letters unit costs for the above categories are significantly larger than those of FC Presort Flats in this weight increment ounce range despite that its overall unit cost being less than 1/4th (9.859ents/43.038cents) of FC Presort Flats. If these values are wrong, please provide the revised table for the "first Class Presort Letters Test Year Unit Costs."

RESPONSE:

a. Confirmed.

b. Confirmed.

c. See the response to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-21b-e.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-31:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Function" and "Standard Mail Reg. Letters Test Year Unit Costs by Function."

a. Please confirm the following values for the sum of the "City Delivery in-Office," "City Delivery Street," "Vehicle Service," "Rural Delivery," and "Transportation" are correct (cents):

	0 to 1	1 to 2	2 to 3
Delivery Unit Costs:			
First-Class Presort Letters	4.783	10.311	16.148
% Change		116%	57%
Standard Mail Letters	4.000	4.597	6.381
% Change		15%	39%
Ratio (FC/Std)	1.2X	2.2X	2.5X

b. Please explain in detail why delivery unit costs across the above weight increments are several times larger for First-Class Presort Letters as compared to Standard regular mail letters.

c. Please explain in detail why delivery unit cost as given above rises by 116% between "0 to 1" and "1 to 2" ounce ranges for FC presort letters mail as compared to only 15% for the Standard regular mail letters.

d. Please explain in detail why delivery unit cost as given above rises by 57% between "1 to 2" and 2"to 3" ounce ranges for FC presort letters mail as compared to only 39% for the Standard regular mail letters.

RESPONSE:

a. Not confirmed. The unit cost for First-Class Presort Letters, 2 to 3 ounces is 15.948 (cents) and the % Change is 55%.

b. – d. See the response to ABA&NAPM/USPS-T43-15b, ABA&NAPM/USPS-T43-16c, and ABA&NAPM/USPS-T43-25b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-32:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Function" and "Standard Mail Reg. Letters Test Year Unit Costs by Function."

a. Please confirm the values for the total unit cost for the following weight increments are correct (cents):

	0 to 1	1 to 2	2 to 3
First-Class Presort Letters	9.361	25.329	39.231
% Change		171%	55%
Standard Mail Letters	9.186	9.533	13.201
% Change		4%	38%
Ratio (FC/Std)	1.02X	2.66X	2.97X

b. Please explain in detail why total unit costs in the "1 to 2" and "2 to 3" ranges are several times larger for First-Class Presort Letters as compared to Standard regular mail letters.

c. Please explain in detail why total unit costs rises by 171% between "0 to 1" and "1 to 2" ounce ranges for FC presort letters mail as compared to only 4% for the Standard regular mail letters.

d. Please explain in detail why total unit costs rises by 55% between "0 to 1" and "1 to 2" ounce ranges for FC presort letters as compared to only 38% for the Standard regular mail letters.

RESPONSE:

a. Confirmed.

b. – d. See the response to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-16c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-33:
In the library Reference you sponsor, USPS-LR-J-117, under Section II. Organization, page 4, you state the underlying city carrier in-office cost data is estimated in "a similar manner" to the last rate case.

a. Is it estimated in an identical manner, or not?

b. If your answer to a. is other than an unequivocal "Yes.", please explain all differences.

RESPONSE:

a. - b. The city carrier in-office cost data are estimated in USPS-LR-J-117 in an essentially identical manner to that used in USPS-LR-I-95/R2000-1. The same FORTRAN programs are used to replicate the LIOCATT cost estimation process in USPS-LR-J-117 as were used in USPS-LR-I-100/R2000-1. The only difference is that updated input files, such as the FY2000 IOCS data set and updated activity code maps, are used in USPS-LR-J-117.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-34:

Between the base year from the last rate case (BY98) and the base year for this rate case (BY2000), the history indicates that total unit delivery costs have fallen by a greater percentage for Standard A Regular workshared letter mail than for First Class workshared letter mail. Specifically, for automation 3D letters, for FCM workshared, it has dropped by 14% from 4.05 cents to 3.48 cents, while for Standard A Regular workshared, it has dropped from 4.22 cents to 3.33 cents, a 21% drop. For automation 5D letters, total unit delivery costs have dropped by 15% for FCM workshared letters but also by 21% for Standard A Regular letters.

a. By detailed city and rural carrier cost segment, please explain how and why such costs have dropped more for Standard A Regular than for FCM workshared.

b. Please list all cost cutting efforts that would explain both reductions in unit costs, and explain why any such efforts would produce greater cost savings for Standard A Regular than FCM workshared.

c. In dollar amounts, how much effort between this rate case and the last one was devoted to cutting delivery costs for Standard A Regular versus FCM workshared letter mail?

RESPONSE:

a. In addition to changes in the factors listed in my response to ABA&NAPM/USPS-T43-14c, cost differences between the base years of different rate cases may be explained by cost reduction efforts over the intervening years. Please see the testimony and supporting workpapers of witness Kashani (USPS-T-14 and USPS-LR-I-126) from Docket No. R2000-1 for details on cost reduction programs in the Postal Service's R2000-1 proposal. For a list of cost reduction programs in the Postal Service's response to Order No. 1294 in Docket No. R2000-1, please see the testimony and supporting workpapers of witness Patelunas, USPS-ST-44. It is also my understanding that the Postal Service has employed a different methodology for developing volume-variable costs in cost segment 7 in Docket

No. R2001-1, as compared to Docket No. R2000-1. See witness Meehan's testimony, USPS-T-11, at 4.

b. – c. It is my understanding that cost reduction efforts are discussed in USPS-T-14/R2000-1 and USPS-T-12 in this docket.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-35:

For your base year and test year summary tables in USPS-LR-J-117, please present the following rows of data for all column costs:

a. non-automation presort letters for FCM letters, as defined in USPS witness Daniel's corresponding table from the last rate case;

b. basic automation FCM letters, as defined in USPS witness Daniel's corresponding table from the last rate case.

RESPONSE:

a. – b. See Attachment B.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF PRESORT MAILERS

ATTACHMENT B (provided in response to ABA&NAPM/USPS-T43-35)

BY and TY Carrier Costs

Costs (000s)

	6.1	6.2	7.1	7.2	7.3	7.4	10	Total Piggybacked	PERMIT Volume (000s)	City Carrier Unit Cost	Rural Carrier Unit Cost	Total Unit Cost
BY												
Nonautomation Presort Letters	70,991	12,923	647	3,998	20,631	17,035	31,516	209,232	4,118,006	$0.0413	$0.0095	$0.0508
Basic Automation Letters	53,605	9,758	815	5,035	25,979	14,851	29,587	185,016	5,185,503	$0.0286	$0.0071	$0.0357
TY												
Nonautomation Presort Letters	92,310	17,334	855	5,172	26,751	22,617	40,103	274,839	4,625,031	$0.0486	$0.0108	$0.0594
Basic Automation Letters	67,191	12,617	1,077	6,513	33,686	19,228	37,597	238,016	5,823,962	$0.0328	$0.0080	$0.0409

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-36:

Your summary unit delivery cost tables for FCM and Standard differ from USPS witness Daniel's in having city carrier unit cost and rural carrier unit cost columns. Yet, the new methodology was completed for the last rate case and discussed at length in USPS LR-I-173 in that case. Please provide if possible the same two columns of data referenced above for BY98 and TY2000 [sic] for cost dynamics comparison purposes.

RESPONSE:

I assume you intend to refer to TY 2001 from Docket No. R2000-1. The city carrier unit costs can be obtained for BY98 and TY2001 by multiplying the sum of the costs in the columns labeled "6.1" through "7.4" by the appropriate city piggyback factor (from K127:K134) and dividing by the appropriate total volume (in the column labeled "Permit Volume") in worksheets 'Summary BY' and 'Summary TY' in workbook lr95revised.xls from USPS-LR-I-95. Rural carrier unit costs for BY98 and TY2001 can be obtained by subtracting the city carrier unit costs from the total unit costs (column labeled "Total Unit Cost").

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-37:

The following questions pertain to a comparison of test year unit costs for c.s. 6.1, city carrier in office direct labor, and 6.2, city carrier in office support, for TY2003 in this case compared to TY2001 from R2000-1 (see for your convenience the attached summary spread sheet comparing the LR-I-95 figures from R2000-1 and the LR-J-117 figures from R2001-1).

a. Why are these 6.1 unit costs going up for FCM single piece (31.1% increase) and workshared (15.5% for 3D; 14.2% for 5D) while they are going down for Standard A Regular (-5.4% for 3D; -5.9% for 5D)? Please list all factors explaining the differences, or if in error, please provide the correct figures.

b. Why would in office support costs drop by a greater percentage for Standard A Regular letters (-18.7% for 3D; -19.1% for 5D) between the two test years than for FCM workshared letters (-12.4% for 3D; -13.4% for 5D)? Please list all factors explaining the differences, or if in error, please provide the correct figures.

RESPONSE:

a. Please see the response to ABA&NAPM/USPS-T43-26b.

b. Please see the response to ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-38:

The following question pertain to a comparison of test year unit costs for c.s. 7.1, city route costs for TY2003 in his case compared to TY2001 from R2000-1. Why would route costs drop by 56.1% for a Standard A Regular automated letter, 3D and 5D, but by only 44.5% for its FCM counterparts?

RESPONSE:

It is my understanding that the Postal Service has employed a different methodology for developing volume-variable costs in cost segment 7 in Docket No. R2001-1, as compared to Docket No. R2000-1. See witness Meehan's testimony, USPS-T-11, at 4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-39:

The following questions pertain to a comparison of test year unit costs for c.s. 7.2, city access costs, for TY2003 in this case compared to TY2001 from R2000-1.

a. Please define fully in your own words what cost activities encompass this cost segment.

b. Why are these costs rising by substantial double digits for both FCM letters and their Standard A Regular counterparts between the two test years?

c. Why are they rising by over twice the rate for FCM letters workshared than their Standard A Regular counterparts, namely by 59.6% for FCM letters 3D and 5D, but by 22.1% for Standard A Regular letters, 3D and 5D?

RESPONSE:

a. The activities associated with the access cost component are the deviations of the carrier from the route to go to and from customer delivery points or street collection boxes. My understanding is that cost segment 7.2 also includes driving time associated with deviating from the route. For a more detailed description of this cost segment, please refer to USPS-LR-J-1, pages 7-5 to 7-7.

b. It is my understanding that the rise in access costs is due to the change between BY1998 and BY2000 in the methodology used to proportion out street time costs. See Workpaper B, WS 7.0.4.1 in both USPS-T-11/R2000-1 and USPS-T-11 in this docket, and page 4 in USPS-T-11 in this docket.

c. Please see the response to ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-40:
The following questions pertain to a comparison of test year unit costs for c.s. 7.4, city carrier street support costs, for TY2003 in this case compared to TY2001 from R2000-1.

a. Please define fully in your own words what cost activities encompass this cost segment.

b. Please confirm that these unit costs are nearly identical as between 3D and 5D letters, and as between FCM workshared and Standard A Regular workshared letters.

c. Why are these costs falling by more for Standard A Regular 3D and 5D than for their FCM counterparts, roughly by 23% as opposed to 19/20% for FCM workshared?

RESPONSE:

a. Street support costs include the additional carrier costs not accounted for in Cost Segments 7.1 through 7.3 – i.e., the portion of street time not spent running or delivering mail on the route. These activities include clocking in and out, traveling to and from the route and the Postal facility, loading the vehicle, and preparing mail at the vehicle. For a more detailed description please refer to USPS-LR-J-1, pages 7-9 to 7-10.

b. Confirmed.

c. Please see the response to ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-41:
The following questions pertain to a comparison of test year unit costs for c.s. 10, rural carrier costs, for TY2003 in this case compared to TY2001 from R2000-1.

a. Please confirm that these costs are rising for FCM letters overall while they are falling for Standard A Regular according to your data.

b. Why would rural carrier costs be rising for FCM workshared letters (6.4%for 3D; 6.7% for 5D) while they are falling for Standard A Regular counterparts (-20.8% for 3D; -20.4% for 5D)?

c. In your expert opinion, is it harder for a rural carrier to put a First Class letter in a mail box than to put a Standard A Regular advertising letter in a mail box?

RESPONSE:

a. Confirmed.

b. Please see the response to ABA&NAPM/USPS-T43-26b.

c. Possibly, in the sense that if the letters are non-identical (i.e., in different rural carrier evaluation categories), a hypothetical First-Class letter could be in a higher-cost rural carrier evaluation category than a hypothetical Standard Mail letter. Note it is my understanding that any two mail pieces in the same rural carrier evaluation category would have the same rural carrier cost regardless of subclass. Since the costs referenced in the interrogatory are not for identical or homogeneous categories of mail, it is possible for relative rural carrier unit costs by class and subclass to change over time.

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.

_____
Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
December 14, 2001