

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

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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 SCHENK TO INTERROGATORY OF
MAJOR MAILERS ASSOCIATION
(MMA/USPS-T43-20)

The United States Postal Service hereby provides the responses of witness Schenk to the following interrogatory of Major Mailers Association: MMA/USPS-T43-20, filed on December 3, 2001.

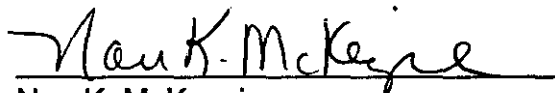
The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Nan K. McKenzie

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December 17, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-20 Please refer to your response to Interrogatory MMA/USPS-T43-10. There you state that the implied DPS percentage for First-Class single piece letters is not available from your analysis of First-Class delivery costs as provided by Library Reference USPS-LR-J-117. Please refer also to worksheet "summary BY" of USPS-LR-J-117 (revised 11/20/01).

- A. Please confirm that in order to compute the presorted "DPS unit cost by solving equation" as shown in cell A32, you used the following equation:

$$\begin{aligned} A32 &= (C27 - (1-B29) \times A31) / B29 \\ &= (.0106 - (1 - .73693) \times .0265) / .736931 \\ &= .0050 \end{aligned}$$

If you cannot confirm, please provide the correct formula and computation.

- B. Please confirm that in the formula shown in Part A, the cells shown refer to the following information:

C27 = average presorted unit 6.1 cost = .0106

B29 = average presorted DPS percentage = 73.693%

A31 = nonDPS unit cost from [letters 93]H15 = .0265

If you cannot confirm, please provide corrections.

- C. Please confirm that for First-Class single piece letters, all of that same information is available from your analysis. For example, the following information is shown on that same worksheet:

C3 = average single piece unit 6.1 cost = .0202

[letters 93] H8 = nonDPS unit cost = .0255

A32 = DPS unit cost = .0050

If you cannot confirm, please explain. If you determine that the average DPS unit cost for presorted letters cannot be used as the DPS unit cost for single piece letters, please provide precisely your reasons and support for making such a conclusion.

- D. In you can confirm part C, please explain why the implicit single piece DPS percentage for the base year cannot be derived using the following equation:

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$$\begin{aligned} \text{S.P. DPS\%} &= (\text{C3} - \text{A32}) / ([\text{letters 93}] \text{H8} - \text{A32}) \\ &= (.0222 - .0050) / .0255 - .0050 \\ &= 73.87\% \end{aligned}$$

Where [letters 93]H8 is your nonDPS base year unit cost for single piece letters.

- E. Please explain why the test year implied DPS % for single piece letters, which yields a result of 68.86%, cannot be computed in the same manner.
- F. Please confirm that you derive the following nonDPS average unit base year costs for First-Class letters:
- Single Piece 2.55 Cents
- Presorted 2.65 Cents
- G. By comparing the two unit costs in Part F, is it possible to conclude that it costs the Postal Service .1 cents less to nonDPS process single piece letters than for presorted letters? Please explain how this is a valid comparison when, as you stated in response to Interrogatory MMA/USPS-T43-7, you do not know the actual volume of letters that incurred the nonDPS costs as shown in worksheet "letters 93".
- H. Please confirm that the two unit costs in Part F are not the unit costs incurred by nonDPS processing, but are the total nonDPS costs incurred divided by all letters, a significant unknown portion of which were delivered to post office boxes and did not cause those costs to be incurred. If you cannot confirm, please explain how all the total volumes shown in column 4 of worksheet "letters 93", including those delivered to post office boxes, caused the costs shown in columns 1-3 to be incurred.
- I. Please explain why the DPS unit costs for First-Class single piece letters and workshare letters, for those letters that are DPS sorted, should not be the same.
- J. Please explain why the nonDPS unit costs for First-Class single piece letters and workshare letters, for those letters that are nonDPS sorted, should not be the same.

RESPONSE:

- A. Not confirmed. The reference to C27 should be to C29, and the last number in the formula in line 2 is properly rounded to 0.73693, not 0.736931.

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- B. Not confirmed. The reference to C27 should be to C29.
- C. Not confirmed. The average single piece unit 6.1 cost and the nonDPS unit costs are available in USPS-LR-J-117 for First-Class Single-Piece letters. The DPS unit cost for First-Class Single-Piece letters is not available in my analysis. I am not aware of any analysis that specifically confirms or denies that the DPS unit costs for single-piece and workshare letters are the same. However, unless the physical and other characteristics of single-piece and presorted First-Class letters were identical, the assumption of identical DPS unit costs would not generally be warranted, *a priori*.
- D. Aside from the fact that I cannot confirm part C, there are also other errors in the equation presented in part D. The average single-piece unit 6.1 cost is 0.0202, not .0222 as indicated in the equation. Also, the formula is incorrect. Solving the equation in cell A32 of USPS-LR-J-117.xls, worksheet "summary BY" (and also given in part A above) for the percent of DPS ("B29" in the equation given in part A above), results in the following equation:

$$\text{S.P.DPS\%} = (\text{C3} - [\text{letters 93}]\text{H8}) / (\text{A32} - [\text{letters 93}]\text{H8})$$

- E. See the response to part C. above.
- F. Confirmed.
- G. See the response to MMA/USPS-T43-11C2.

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- H. Confirmed. It should be noted however that First-Class Single-Piece letters may still incur carrier in-office costs even if delivered to a post office box, in that they can incur collection costs. See the response to MMA/USPS-T43-1Q, MMA/USPS-T43-1U, and MMA/USPS-T43-4).
- I. See response to part C. above.
- J. For those letters that are nonDPS sorted, nonDPS unit carrier costs for First-Class single piece and workshare letters would not be the same, since other carrier costs, including but not limited to collection costs and costs related to pieces being undeliverable as addressed will vary between single piece and workshare letters. See my response to MMA/USPS-T43-1C.

DECLARATION

I, Leslie M. Schenk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

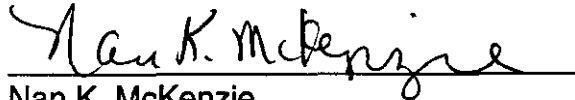


Leslie M. Schenk

Dated: 12/17/01

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.


Nan K. McKenzie

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