

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

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POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 9

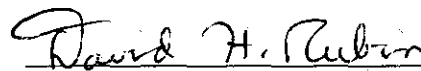
The United States Postal Service hereby provides the responses to Presiding Officer's Information Request No. 9, issued January 18, 2002. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



David H. Rubin

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January 28, 2002

**RESPONSE OF UNITED STATES POSTAL WITNESS KIEFER
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 9**

1. Please refer to USPS-LR-J-106.

- (a) In WP-BPM-16, the single-piece rates are developed using the "adjusted rate elements" for flats, rather than parcels. Please explain the rationale for using the flat rate element rather than the parcel rate element.
- (b) In WP-BPM-27 the barcode discounts for parcels, both single-piece and presort, are developed using the total volume instead of the parcel volume. Please explain the rationale for using total volume.

RESPONSE

- (a) The rates identified as the Single Piece BPM parcel rates in workpaper WP-BPM-16 were developed using the Single Piece BPM flats rate elements due to a spreadsheet error. These proposed Single Piece rates were subsequently used to calculate TYAR revenues, so the projected revenues shown in workpapers WP-BPM-27 and WP-BPM-28 are consistent with the proposed rates. Because only a small number of BPM pieces use the Single Piece rates, the sole impact of the error was to shift a slight amount of revenue recovery (less than \$900,000) from Single Piece BPM to presorted BPM. Given the small impact of the error, I believe that the BPM rates originally proposed remain appropriate and meet all the pricing criteria of the Postal Reorganization Act.
- (b) The numbers of pieces expected to bear parcel barcodes was calculated by applying percentages (Items [7a] and [7b] on workpaper WP-BPM-1) to total single piece and presort volumes, respectively. These percentages are the ratios of single piece parcel barcoded pieces to total single piece volume and of presort parcel barcoded pieces to total presort volume, calculated from historical RPW data. Since the percentages of parcel barcoded pieces were calculated from historical *total* volumes, those percentages should be applied to test year *total* volumes to derive the appropriate numbers of parcel barcoded pieces in the test year. Had the

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percentages been derived as ratios of parcel barcoded pieces to base year *parcel-shaped* pieces (assuming those data were available), then it would have been appropriate to multiply those percentages by the test year volumes of only *parcel-shaped* pieces. Of course, in that case, the percentages would have been proportionately higher, since the denominators of the ratios were smaller. Using either approach, the estimated volumes of parcel barcoded pieces, and the revenue impacts, would have been identical.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 9

Question 2, page 1 of 1

Question 2.

Rate Schedule 421 (Periodicals) in the Postal Service's Request contains several notes. (Attachment B, page 26)

- (a) Note six directs the user to multiply the "proportion of nonadvertising content by this factor and subtract from the applicable piece rate." Should the direction refer to percent instead of proportion, since the editorial discount is given as 0.00074? Please explain.
- (b) There is no indication on the rate schedule to which rates these notes apply. Please indicate the rates to which each note applies.

RESPONSE:

(a) In this context, the use of either proportion or percent reflects the same mathematical reality. One of the meanings provided for *proportion* in Webster's New Collegiate Dictionary is percentage. The use of percent may provide greater clarity.

(b) As discussed in my testimony at pages 4-5, I propose to delete rate schedule footnotes that relate to rate eligibility. The footnotes have proliferated to the point where they are no longer helpful to the reader. For instance, some rate schedules have as many as three footnotes after a single item; in other instances, a footnote that is applicable to the entire schedule is included after only a single rate cell. Also, many of the notes simply repeat information found in the body of the DMCS.

The Postal Service saw an opportunity to clean up the schedule notes by removing the superscript reference numbers, deleting redundant notes, and by rewriting the notes for clarity. I believe that all the remaining notes apply to the entire rate schedule. The language in note 4 could be clarified a little to indicate that "the factor" is the nonadvertising factor.

DECLARATION

I, Altaf H. Taufique, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read 'A. Taufique', is written over a horizontal line.

Dated: JANUARY 28, 2002

**RESPONSE OF U.S. POSTAL SERVICE WITNESS MILLER TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 9, QUESTION 3**

3. Please show the derivation of the percentage of non-machinable letter mail used in Witness Moeller's rate design workpapers for Regular subclass and Nonprofit subclass. The figures for Regular subclass are contained in LR-J-132, File USPSLR132-WP1, page E, Lines 7 and 8 (Basic= 26.39% and 3/5-Digit= 25.02%). The figures for Nonprofit subclass are contained in LR-J-132, File USPSLR132-WP2, page E, Lines 7 and 8 (Basic= 37.82% and 3/5-Digit= 40.51%). Please include the source for each figure used in the derivation.

RESPONSE:

The percentage of non-machinable Standard Regular nonautomation basic presort letters (26.39 percent) was derived using data found in USPS LR-J-60 on page 87. The calculation was performed using the cell references shown below.

$$(F60+F64+F68+F72) / (E16+E19+E32+E35+E38+E41+E58+E62+E66+E70)$$

The percentage of non-machinable Standard Regular nonautomation 3/5 digit presort letters (25.02 percent) was derived using data found in USPS LR-J-60 on page 87. The calculation was performed using the cell references shown below.

$$(F51+F55) / (E10+E12+E25+E28+E49+E53)$$

The percentage of non-machinable Standard Nonprofit nonautomation basic presort letters (37.82 percent) was derived using data found in USPS LR-J-60 on page 86. The calculation was performed using the cell references shown below.

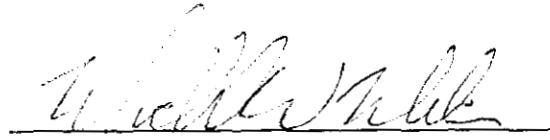
$$(F60+F64+F68+F72) / (E16+E19+E32+E35+E38+E41+E58+E62+E66+E70)$$

The percentage of non-machinable Standard Nonprofit nonautomation 3/5 digit presort letters (40.51 percent) was derived using data found in USPS LR-J-60 on page 86. The calculation was performed using the cell references shown below.

$$(F51+F55) / (E10+E12+E25+E28+E49+E53)$$

DECLARATION

I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



MICHAEL W. MILLER

Dated: 1/6/02

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 9, QUESTION 4**

4. Please refer to the spreadsheet fcmrev2.xls in USPS-LR-J-84 (rev. 11/15/01). The sheet 'NONAUTO LTR DEAVG' uses volumes from the 'ENTRY PROFILE' sheet to calculate a weighted model cost. The 'ENTRY PROFILE' sheet identifies 55.56% of "Nonautomation Non-OCR Not Upgradable" letters as nonmachinable, whereas 100% of these (Not Upgradable) letters are treated as nonmachinable in the 'NONAUTO LTR DEAVG' weighted model cost calculation.

- (a) Please explain this apparent inconsistency. Include a discussion of the treatment of "Nonautomation Non-OCR Not Upgradable" letters in the parallel Standard Mail workpapers (stdrev.xls).
- (b) Provide a definition of "Nonautomation Non-OCR Not Upgradable" letters, and describe the characteristics that would make a letter machinable but "Not Upgradable".
- (c) Please provide revisions, if necessary, and discuss any impact of the revisions including changes in costs, revenues, worksharing-related savings, DPS percentages, and unit delivery costs.

RESPONSE:

The volume data contained in USPS LR-J-84, pages 50 (First-Class entry profile spreadsheet), 86 (Standard Nonprofit entry profile spreadsheet), and 87 (Standard Regular entry profile spreadsheet), were taken from mail characteristics studies conducted in 1997. At that time, nonautomation presort letters were entered in either Optical Character Reader (OCR) upgradable trays (labeled "OCR UPGR") or Non-OCR upgradable (labeled "NON-OCR") trays. There was no rate distinction between "OCR UPGR" and "NON-OCR" mail. However, "OCR UPGR" mailings had to consist of full trays. In contrast, "NON-OCR" mailings required packaging.

In addition, some mail pieces that were entered in "NON-OCR" trays were, in fact, OCR upgradable. These mail pieces were typically separated from the non-upgradable mail pieces by postal clerks and processed with the remaining OCR upgradable mail. Consequently, the entry profile data were separated into three categories: upgradable mail in "OCR UPGR" trays, upgradable mail in "NON-OCR" trays, and non-upgradable mail in "NON-OCR" trays.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PRESIDING
OFFICERS INFORMATION REQUEST NO. 9, QUESTION 4**

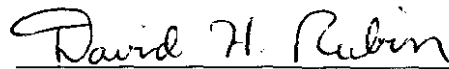
RESPONSE TO POIR NO. 9, QUESTION 4 (CONTINUED)

textures, and other characteristics specified by the respondent. All mail pieces that were classified as "NON-OCR Not Upgradable" in the entry profile spreadsheets (whether they were non-machinable, or were machinable but not upgradable) had to be processed manually. Consequently, the cost studies found in USPS LR-J-84 were developed correctly.

(c) No revisions are necessary.

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.

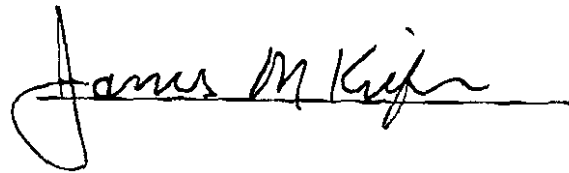
A handwritten signature in cursive script that reads "David H. Rubin". The signature is written in dark ink and is positioned above a horizontal line.

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
January 28 , 2002

DECLARATION

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

A handwritten signature in cursive script, reading "James M. Kiefer", written over a horizontal line.

Dated: 1/28/02