

Official Transcript of Proceedings

Before the

POSTAL RATE COMMISSION

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OFFICE OF THE SECRETARY

DOCKET SECTION

In the Matter of:

Postal Rate and Fee Changes

Docket No. R2001-1

VOLUME 11-B

Designation of Responses of Postal Service
Witnesses Kaneer through Shaw filed
In Response to P.O. Ruling R2001-1/23

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party

Interrogatories

United States Postal Service

Kirk T. Kaneer (USPS-T-38)

Office of the Consumer Advocate

DBP/USPS-1, 51-52, 60, 80, 122 redirected to T38
OCA/USPS-T38-1-9

Nancy R. Kay (USPS-T-21)

Postal Rate Commission

POIR No. 2, Question 12

James M. Kiefer (USPS-T-33)

Office of the Consumer Advocate

OCA/USPS-T33-1

Parcel Shippers Association

PSA/USPS-T33-1-4, 6-8, 9a-c, e

Postal Rate Commission

AMZ/USPS-T33-1
UPS/USPS-T33-27, 45
POIR No. 2, Question 1,8

United Parcel Service

OCA/USPS-T33-1
PSA/USPS-T33-1, 3, 6
UPS/USPS-T33-1-2, 5, 9-10, 15a, h, 16-23, 28-31, 33-43
UPS/USPS-T28-22-23 redirected to T33
POIR No. 2, Question 1

PartyInterrogatories**Linda A. Kingsley (USPS-T-39)**

Postal Rate Commission

UPS/USPS-T33-6 redirected to T39

POIR No. 4, Question 7,11

Samuel J. Koroma (USPS-T-37)

Office of the Consumer Advocate

OCA/USPS-T37-1-10

OCA/USPS-82 redirected to T37

United Parcel Service

CSA/USPS-T37-1-6

L. Paul Loetscher (USPS-T-41)

Association for Postal Commerce

PostCom/USPS-T41-2, 4

PostCom/USPS-T33-2d, 13a redirected to T41

Coalition of Religious Press
Associations and National Federation
of Independent PublicationsCRPA-NFIP/USPS-T34-11, 14d-e redirected to
T41

Magazine Publishers of America

MPA/USPS-T41-1-7

MPA/USPS-T34-2-4, 14, 18c, 23a-d, 24-26
redirected to T41

Mail Order Association of America

PostCom/USPS-T41-4

Susan W. Mayo (USPS-T-35)

Newspaper Association of America

OCA/USPS-T35-2

Office of the Consumer Advocate

OCA/USPS-T35-2-11

UPS/USPS-T35-1

Postal Rate Commission

POIR No. 4, Question 1

United Parcel Service

OCA/USPS-T35-2-4

PartyInterrogatories**Susan W. Mayo (USPS-T-36)**

Postal Rate Commission

POIR No. 5, Question 14

United Parcel Service

DBP/USPS-70 redirected to T36

Karen Meehan (USPS-T-11)

Postal Rate Commission

POIR No. 2, Question 2

POIR No. 3, Question 4

POIR No. 5, Question 5, 6(a)

Michael W. Miller (USPS-T-22)

Postal Rate Commission

MMA/USPS-T22-39a-b, e-j, 49, 70-71

POIR No. 5, Question 13

POIR No. 6, Question 2

Joseph D. Moeller (USPS-T-28)

Postal Rate Commission

UPS/USPS-T28-21

POIR No. 4, Question 2

United Parcel Service

POIR No. 2, Question 6

Joseph D. Moeller (USPS-T-32)

Postal Rate Commission

POIR No. 2, Question 13

Norma B. Nieto (USPS-T-26)

Office of the Consumer Advocate

DFC/USPS-T26-1-7

OCA/USPS-T42-6 redirected to T26

United Parcel Service

UPS/USPS-T26-1h, 2

PartyInterrogatories**Richard L. Patelunas (USPS-T-12)**

Postal Rate Commission

POIR No. 2, Question 9, 10, 11, 12

POIR No. 3, Question 4

POIR No. 4, Question 5

POIR No. 5, Question 9, 10, 11

POIR No. 6, Question 8

POIR No. 7, Question 2

POIR No. 7, Question 5

Maura Robinson (USPS-T-29)American Bankers Association and
National Association of Presort
Mailers

ABA&NAPM/USPS-T29-35

Leslie M. Schenk (USPS-T-43)

Newspaper Association of America

NAA/USPS-T43-8

VP/USPS-T43-10

Office of the Consumer Advocate

OCA/USPS-T43-1-2

OCA/USPS-T39-16a redirected to T43

Postal Rate Commission

POIR No. 5, Question 12

POIR No. 6, Question 1, 10

Response to Questions from Commissioner
Goldway, Tr. 5/945-46**Thomas M. Scherer (USPS-T-30)**

Office of the Consumer Advocate

DFC/USPS-T30-1

OCA/USPS-T30-3-16, 19d-h, 20b-c

UPS/USPS-T30-4-7

United Parcel Service

DFC/USPS-T30-1

OCA/USPS-T30-4

Party


Robert L. Shaw (USPS-T-1)

Postal Rate Commission

Interrogatories

POIR No. 6, Question 4, 6(a)

Respectfully submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
<u>United States Postal Service</u>	
Kirk T. Kaneer (USPS-T-38)	
DBP/USPS-1 redirected to T38	OCA
DBP/USPS-51 redirected to T38	OCA
DBP/USPS-52 redirected to T38	OCA
DBP/USPS-60 redirected to T38	OCA
DBP/USPS-80 redirected to T38	OCA
DBP/USPS-122 redirected to T38	OCA
OCA/USPS-T38-1	OCA
OCA/USPS-T38-2	OCA
OCA/USPS-T38-3	OCA
OCA/USPS-T38-4	OCA
OCA/USPS-T38-5	OCA
OCA/USPS-T38-6	OCA
OCA/USPS-T38-7	OCA
OCA/USPS-T38-8	OCA
OCA/USPS-T38-9	OCA
Nancy R. Kay (USPS-T-21)	
POIR No. 2, Question 12	PRC
James M. Kiefer (USPS-T-33)	
AMZ/USPS-T33-1	PRC
OCA/USPS-T33-1	OCA, UPS
PSA/USPS-T33-1	PSA, UPS
PSA/USPS-T33-2	PSA
PSA/USPS-T33-3	PSA, UPS
PSA/USPS-T33-4	PSA
PSA/USPS-T33-6	PSA, UPS
PSA/USPS-T33-7	PSA
PSA/USPS-T33-8	PSA
PSA/USPS-T33-9a	PSA
PSA/USPS-T33-9b	PSA

Interrogatory

POIR No. 2, Question 1,8

Designating Parties

PRC

Linda A. Kingsley (USPS-T-39)

UPS/USPS-T33-6 redirected to T39

PRC

POIR No. 4, Question 7,11

PRC

Samuel J. Koroma (USPS-T-37)

CSA/USPS-T37-1

UPS

CSA/USPS-T37-2

UPS

CSA/USPS-T37-3

UPS

CSA/USPS-T37-4

UPS

CSA/USPS-T37-5

UPS

CSA/USPS-T37-6

UPS

OCA/USPS-T37-1

OCA

OCA/USPS-T37-2

OCA

OCA/USPS-T37-3

OCA

OCA/USPS-T37-4

OCA

OCA/USPS-T37-5

OCA

OCA/USPS-T37-6

OCA

OCA/USPS-T37-7

OCA

OCA/USPS-T37-8

OCA

OCA/USPS-T37-9

OCA

OCA/USPS-T37-10

OCA

OCA/USPS-82 redirected to T37

OCA

L. Paul Loetscher (USPS-T-41)

CRPA-NFIP/USPS-T34-11 redirected to T41

CRPA-NFIP

CRPA-NFIP/USPS-T34-14d redirected to T41

CRPA-NFIP

CRPA-NFIP/USPS-T34-14e redirected to T41

CRPA-NFIP

MPA/USPS-T41-1

MPA

MPA/USPS-T41-2

MPA

MPA/USPS-T41-3

MPA

MPA/USPS-T41-4

MPA

MPA/USPS-T41-5

MPA

MPA/USPS-T41-6

MPA

MPA/USPS-T41-7

MPA

MPA/USPS-T34-2 redirected to T41

MPA

Interrogatory

MPA/USPS-T34-3 redirected to T41
 MPA/USPS-T34-4 redirected to T41
 MPA/USPS-T34-14 redirected to T41
 MPA/USPS-T34-18c redirected to T41
 MPA/USPS-T34-23a redirected to T41
 MPA/USPS-T34-23b redirected to T41
 MPA/USPS-T34-23c redirected to T41
 MPA/USPS-T34-23d redirected to T41
 MPA/USPS-T34-24 redirected to T41
 MPA/USPS-T34-25 redirected to T41
 MPA/USPS-T34-26 redirected to T41
 PostCom/USPS-T41-2
 PostCom/USPS-T41-4
 PostCom/USPS-T33-2d redirected to T41
 PostCom/USPS-T33-13a redirected to T41

Designating Parties

MPA
 MPA
 MPA
 MPA
 MPA
 MPA
 MPA
 MPA
 MPA
 MPA
 MPA
 PostCom
 MOAA, PostCom
 PostCom
 PostCom

Susan W. Mayo (USPS-T-35)

OCA/USPS-T35-2	NAA, OCA, UPS
OCA/USPS-T35-3	OCA, UPS
OCA/USPS-T35-4	OCA, UPS
OCA/USPS-T35-5	OCA
OCA/USPS-T35-6	OCA
OCA/USPS-T35-7	OCA
OCA/USPS-T35-8	OCA
OCA/USPS-T35-9	OCA
OCA/USPS-T35-10	OCA
OCA/USPS-T35-11	OCA
UPS/USPS-T35-1	OCA
POIR No. 4, Question 1	PRC

Susan W. Mayo (USPS-T-36)

DBP/USPS-70 redirected to T36	UPS
POIR No. 5, Question 14	PRC

Karen Meehan (USPS-T-11)

POIR No. 2, Question 2	PRC
POIR No. 3, Question 4	PRC

<u>Interrogatory</u>	<u>Designating Parties</u>
POIR No. 5, Question 5, 6(a)	PRC
Michael W. Miller (USPS-T-22)	
MMA/USPS-T22-39a	PRC
MMA/USPS-T22-39b	PRC
MMA/USPS-T22-39e	PRC
MMA/USPS-T22-39f	PRC
MMA/USPS-T22-39g	PRC
MMA/USPS-T22-39h	PRC
MMA/USPS-T22-39i	PRC
MMA/USPS-T22-39j	PRC
MMA/USPS-T22-49	PRC
MMA/USPS-T22-70	PRC
MMA/USPS-T22-71	PRC
POIR No. 5, Question 13	PRC
POIR No. 6, Question 2	PRC
Joseph D. Moeller (USPS-T-28)	
UPS/USPS-T28-21	PRC
POIR No. 2, Question 6	UPS
POIR No. 4, Question 2	PRC
Joseph D. Moeller (USPS-T-32)	
POIR No. 2, Question 13	PRC
Norma B. Nieto (USPS-T-26)	
DFC/USPS-T26-1	OCA
DFC/USPS-T26-2	OCA
DFC/USPS-T26-3	OCA
DFC/USPS-T26-4	OCA
DFC/USPS-T26-5	OCA
DFC/USPS-T26-6	OCA
DFC/USPS-T26-7	OCA
OCA/USPS-T42-6 redirected to T26	OCA
UPS/USPS-T26-1h	UPS
UPS/USPS-T26-2	UPS

InterrogatoryDesignating Parties**Richard L. Patelunas (USPS-T-12)**

POIR No. 2, Question 9, 10, 11, 12	PRC
POIR No. 3, Question 4	PRC
POIR No. 4, Question 5	PRC
POIR No. 5, Question 9, 10, 11	PRC
POIR No. 6, Question 8	PRC
POIR No. 7, Question 2	PRC
POIR No. 7, Question 5	PRC

Maura Robinson (USPS-T-29)

ABA&NAPM/USPS-T29-35	ABA&NAPM
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Leslie M. Schenk (USPS-T-43)

NAA/USPS-T43-8	NAA
OCA/USPS-T43-1	OCA
OCA/USPS-T43-2	OCA
OCA/USPS-T39-16a redirected to T43	OCA
VP/USPS-T43-10	NAA
POIR No. 5, Question 12	PRC
POIR No. 6, Question 1, 10	PRC
Response to Questions from Commissioner Goldway, Tr. 5/945-46	PRC

Thomas M. Scherer (USPS-T-30)

DFC/USPS-T30-1	OCA, UPS
OCA/USPS-T30-3	OCA
OCA/USPS-T30-4	OCA, UPS
OCA/USPS-T30-5	OCA
OCA/USPS-T30-6	OCA
OCA/USPS-T30-7	OCA
OCA/USPS-T30-8	OCA
OCA/USPS-T30-9	OCA
OCA/USPS-T30-10	OCA
OCA/USPS-T30-11	OCA
OCA/USPS-T30-12	OCA
OCA/USPS-T30-13	OCA
OCA/USPS-T30-14	OCA

Interrogatory

OCA/USPS-T30-15
OCA/USPS-T30-16
OCA/USPS-T30-19d
OCA/USPS-T30-19e
OCA/USPS-T30-19f
OCA/USPS-T30-19g
OCA/USPS-T30-19h
OCA/USPS-T30-20b
OCA/USPS-T30-20c
UPS/USPS-T30-4
UPS/USPS-T30-5
UPS/USPS-T30-6
UPS/USPS-T30-7

Robert L. Shaw (USPS-T-1)

POIR No. 6, Question 4, 6(a)

Designating Parties

OCA
OCA
OCA
OCA
OCA
OCA
OCA
OCA
OCA
OCA
OCA
OCA
OCA
OCA

PRC

United States Postal Service

**Kirk T. Kaneer
(USPS-T-38)**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-1 To enable me to better understand the changes in Fee Groups for Post Office Boxes, please advise both the present and the proposed Fee Groups for each of the facilities with Post Office Boxes in the 076 ZIP Code area [07601 through 07677].

RESPONSE:

See the following table, but note that the proposed groups may change during the implementation process. See my testimony at pages 34 and 35, lines 11-22 and lines 1-2 respectively.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
INTERROGATORIES OF DAVID B. POPKIN

ZIP	Current	Proposed
07601	C3	1
07603	C3	1
07604	C3	1
07605	C3	2
07606	C4	3
07607	C4	3
07620	D6	5
07621	C4	3
07624	C4	3
07626	C4	3
07627	C3	2
07628	C3	1
07630	C3	1
07631	C4	3
07632	B2	1
07640	C4	3
07641	C3	1
07642	C4	3
07643	C4	3
07644	C3	1
07645	C4	3
07646	C4	3
07647	C3	2
07648	C4	3
07649	C4	3
07650	C3	1
07652	C4	3
07656	C3	2
07657	C4	3
07660	C3	1
07661	C3	2
07662	C4	3
07663	C4	3
07666	C3	2
07670	C5	4
07675	C4	3
07677	C3	2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-51 [a] Please provide a listing of the Erent / space values and Current and Proposed Group Classifications that will be utilized for determining the rates for Post Office Box service at all postal facilities. [b] Please provide a separate listing of those Erent / space values that have changed since the original list was prepared in the previous Docket.

RESPONSE:

(a-b) These listings are provided in Excel format in library reference J-204, produced under protective conditions established by Presiding Officer's Ruling No. R2001-1/24. The current and proposed fee groups used in preparing my testimony and workpapers are provided separately without protective conditions, in Library Reference J-205. Note however that new Erent values are currently being prepared and will be used in making final assignments of ZIP Codes to fee groups. See my testimony at page 34, line 11, to page 35, line 2.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-52 [a] Explain why the cost factor was chosen to divide box rents into groups rather than some other method such as availability to the box or number of days of delivery to the box. [b] What options were considered and what were the reasons for their dismissal?

RESPONSE:

[a] See my Docket No. R2000-1 testimony (USPS-T-40), pages 4-6, especially footnote 8, which quotes the Commission encouraging the Postal Service to develop information that permits alignment of box costs with fees. Costs reflect the value of the resources utilized by consumers; other options would not reflect this primary consideration, and would unduly complicate the fee structure during the proposed alignment of fees and costs. Also see my response to interrogatory DBP/USPS-95, part (a), Docket No. R2000-1.

[b] See my response to interrogatory DBP/USPS-95, Docket No. R2000-1 and please read my testimony provided in this docket, at pages 33, lines 16-23 and page 34, lines 1-5, in which utilization as a pricing element is addressed. Also see my response to interrogatory OCA/USPS-T40-3, Docket No. R2000-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-60 [a] Within the past five years [up to and including R2001-1], has the Postal Service ever claimed in a pleading before the Postal Rate Commission that an improvement in post office box service would result from a granted post office box rate increase? [b] If so, provide details on the number of facilities that have had their service improved over the past five years, the types of improvements that have been made, the total cost of providing all of those improvements, and the total additional revenue that has been received over the past five years as a result of the rate increases as compared to not having raised the box rents at all.

RESPONSE:

[a] No.

[b] Not applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-80 With respect to the Events that are utilized to determine the Group for the determination of the fees for Post Office Box service, please clarify the conversion of the Current Classifications as shown on page 5 of USPS T-38 to the Proposed Classifications shown on page 10. Some of the classifications shown in the Proposed listing do not appear to be possible under the Current listing. For example, Proposed Group 2 has former Group B2 with cost per sq. ft. $< \$12.50$ however, Current Group B2 only has costs that are $\geq \$12.50$. Another example, Proposed Group 2 has former Group C4 with cost per sq. ft. $\geq \$10.00$ however, Current Group C4 only has costs that are $< \$10.00$. Please clarify and explain all inconsistent conversions including the two examples provided.

RESPONSE:

The proposed classifications on page 10 show all possibilities for completeness, even if no boxes may be found in a particular cell. See the "transition matrix" provided in USPS-T-38, Exhibit A, page 1, which shows that no boxes end up in the classifications which concern you.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORY OF DAVID B. POPKIN

DBP/USPS-122 Please refer to your response to DBP/USPS-51. [a] Please indicate the expected completion date of the new Erent values that are currently being prepared for use in the making final assignments of ZIP Codes to fee groups. [b] When available please provide a revised copy of the two Library References J-204 and J-205 including a listing of those facilities that have changed their values or fee groups. For those that have changed their fee group, provide a listing showing both the old fee group and the new fee group. [c] Please advise the procedures that will be used to update Erent values in the future. [d] What procedures will be utilized to change fee groups when the Erent values change.

RESPONSE:

- (a) The expectation is that the update of Erents, while completed prior to implementation, will occur after the Commission's Recommended Decision and the following action of the Board of Governors. The goal is to reflect the most timely data for fee implementation. Therefore, a definitive completion date cannot be set.
- (b) The requested listings are not expected to be available in time to update the library references. See the response to part (a).
- (c-d) No definitive procedures have been determined at this time, but current implementation plans call for Publication 431 (Post Office Box Fees) to be updated, explaining and listing the new fees and fee groups. Subsequent changes will be done as notices in the Postal Bulletin.

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".
-

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

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

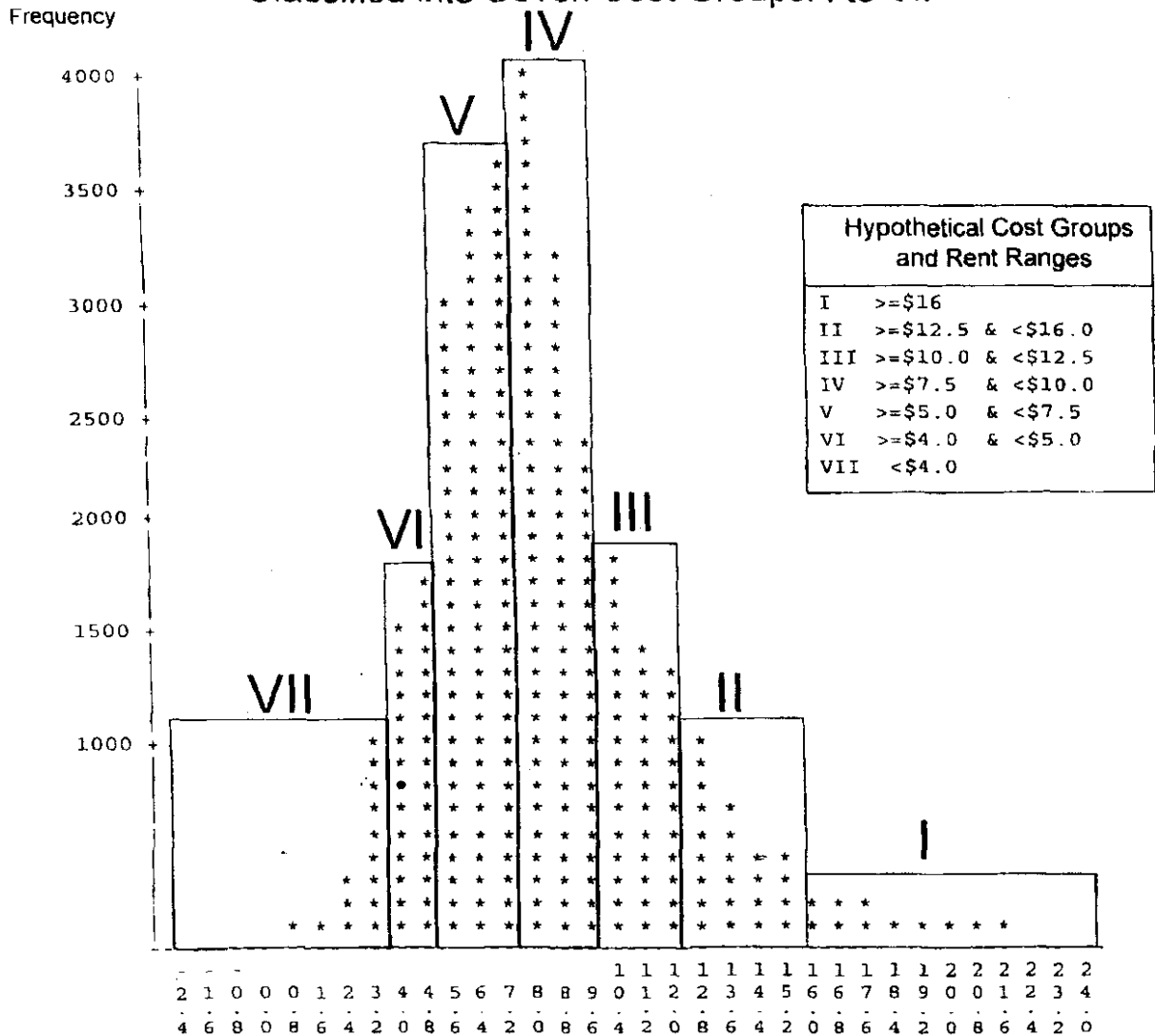
- a. Please confirm that Figure 1 is not the same SAS frequency chart shown in Docket No. R2000-1, USPS-LR-I-155 at page 37, revised March 31, 2000. If you do not confirm, please explain.
- b. Please confirm that Figure 1 is not the same SAS frequency chart shown in Docket No. R2000-1, USPS-LR-I-155 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).

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

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.

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

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

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

OCA/USPS-T38-4, Page 2 of 2

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.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO
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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.

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

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%

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

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.

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

OCA/USPS-T38-8. Please refer to your testimony at page 22, lines 15-16.

- a. Please provide a copy of PS Form 1093, which must be completed by customers who desire post office box service.
- b. At postal facilities offering post office box service, are customers who have general inquiries about post office box service provided with a brochure or any other written material concerning the features of post office box service? If yes, please provide copies.
- c. At the time customers request PS Form 1093, or are approved for post office box service, are such customers provided with a brochure or any other written material concerning post office box service, such as terms of service, fees, payment schedules, available ancillary services (e.g., fees for lost or duplicate keys, lock replacement, etc.)? If yes, please provide copies.

RESPONSE:

- a. Attached.
- b. PS Form 1093 also serves as a brochure on the features of post office box service. Please see attachment.
- c. Yes, to the extent that these matters are covered in PS Form 1093. Please see attachment. Additional information is available in DMM D910 and DMM R900.19.0.

ATTACHMENT TO RESPONSE TO
OCA/USPS-T38-86, Page 1 of 6

Apply for Post Office Box Service!

*The secure and
convenient way
to get your mail*



Why Not Use a Box?

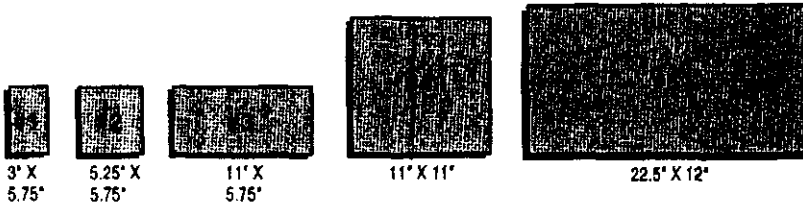
Post office box service is a secure, convenient way to receive mail. People who run a club, business, or professional organization find that post office box service gives them more room for higher volumes of mail.

If your organization gets an extra-large volume of mail, caller service is the answer. Inquire about caller service at your post office.

Benefits. With either service, you can enjoy these benefits:

- **Early Morning Mail.** You can generally pick up your mail first thing in the morning and take care of business earlier in the day. Of course, you may also pick up your mail later in the day, if you prefer.
- **Security.** You can rest assured that checks, dividend payments, and other valuable correspondence are secure.
- **Separate Business Address.** You can separate your business mail from your personal mail. That makes it easier for you to keep track of checks, orders, responses, and important correspondence.
- **Accessibility.** You can easily retrieve your mail during post office operating hours. In addition, some of our lobbies and box sections are open 24 hours a day, seven days a week. Check with your local post office for more information.
- **Travel Convenience.** You can go away on short business trips or vacations without worrying about your mail.

Sizes for All. We offer several box sizes for different fees. (Some post offices may not have every size.) The approximate sizes are shown here:



Obtaining Box Service. It's simple! Just fill in the applicable blocks on the two-part tear-out card and turn it in to your local post office. Once we verify your information and receive your payment, we will begin providing your service.

Using Box or Caller Service

Post Office Box or Caller Address Use. We deliver to your box or caller address using the address as printed on your mail, so be sure to provide correct and current address information to your correspondents. Your post office box or caller service number must appear on a separate line, immediately above the post office's city, state, and ZIP + 4 (*when we assign your box or caller service number, we will provide the corresponding ZIP + 4*). Use the following example as a guide for proper addressing:

JOHN DOE
PO BOX 1122
ANYTOWN NY 12345-1122

Fee Notification. 20 days before the fee is due, we put a notice in your box (with caller service, we include the notice with your mail). If you go out of town after turning in a temporary forwarding order, we can mail the notice to your temporary address.

Fee Payment. With either service, you can pay in advance for six months or one year. It is your responsibility to pay your fee on time. If you pay by mail, we must receive your payment by the due date.

You can pay in cash, by check made out to "Postmaster", or with your credit or debit (ATM) card. Do not send cash by mail. If your check is returned by the bank, your payment is past-due until the payment is made good. You will incur a surcharge to cover our processing costs.

Late Payment. If you do not pay your post office box fee on time, you will be denied access to the box and will not be able to retrieve your mail. After 10 days of nonpayment, we remove the mail and treat it as undeliverable and close the box. Mail for caller service is delivered to the street address. Closed boxes/terminated caller service numbers become available for assignment to new customers immediately.

Terms of Service. You may not use post office box or caller service just to avoid paying a forwarding charge or for any purpose prohibited by law or postal regulations. We will immediately terminate box or caller service if used for any unlawful purpose. Post office box or caller service may be provided to minors unless parents or guardians submit a written objection to the postmaster.

Accumulated Mail. Box customers must remove mail promptly from their boxes. You can make a special arrangement with the postmaster if you won't be able to pick up your mail for more than 30 days.

If the volume of your incoming mail repeatedly exceeds the capacity of the box you are using, you must change to a box(es) of sufficient capacity or use caller service (and pay applicable fees).

(Continued on the back of this panel)

Using Box or Caller Service

(Continued from front of this panel)

Change of Address. If you choose to discontinue your box service, please complete a change of address (COA) form found in the *Mover's Guide*, available in the lobby, or on our website: www.usps.gov/moversnet/. After completing the form give it to one of our retail associates, or to your letter carrier, or you may mail it to your post office. Only the box customer may file a COA order. We will only forward mail to the box customer. The box customer is responsible for forwarding mail to others receiving mail at the box customer's box/caller service address.

Box Keys. We issue up to two keys for key-type post office boxes and issue an access code for combination lock-type post office boxes. Additional keys may be purchased. A refundable deposit is required for each key issued or purchased. Whenever your box service terminates, turn in all keys to the Postal Service. Post office box keys may not be duplicated commercially.

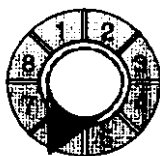
Updating Information. The information on your application (PS Form 1093) must always be current. As soon as any information changes (such as address, telephone number, etc.), you are responsible for updating the form. Failure to update the application may result in termination of service. We keep the form on file at the office where you use the service.

Use of Information. The U.S. Postal Service is authorized by 39 U.S.C. 403 and 404 to collect the information on PS Form 1093. We use the information in providing post office box or caller service to the applicant, but we may disclose it:

- To anyone authorized by law to serve judicial process.
- To a government agency, in performance of its duties.
- To a congressional office, if the boxholder requests it.
- In response to a subpoena or court order.

When it pertains to a legal proceeding that involves the Postal Service.

The complete Privacy Act Statement is on the back of the application card.



How to Use the Combination Lock

1. Clear dial by turning three times RIGHT and stop on ____.
2. Turn LEFT and stop the second time around on ____.
3. Turn RIGHT and stop on ____.
4. Turn latch key LEFT to open.



Your ZIP + 4 is:

_____ - _____

Application Cards

Tear off this page, fill it out, and turn it in to your post office.

Application for Post Office Box or Caller Service – Part 1

Customer: Complete items 1, 3-6, 14-16, and 18-19

1. Name(s) to which box number(s) is (are) assigned

3. Name of person applying, title (if representing an organization), and name of organization
(If different from item 1)

4a. Will this box be used for:
☐ Personal Use
☐ Business Use
(Optional)

4b. Email Address (Optional)

5. Address (Number, street, apt./ste. no., city, state, and ZIP Code).

When address changes, cross out address here and put new address on back.

6. Telephone number (Include area code)

14. List name(s) and age(s) of minors or names of other persons receiving mail in individual box. Other persons must present two forms of valid ID. If applicant is a firm, name each member receiving mail. Each member must have verifiable ID upon request.
(Continue on reverse side).

Warning: The furnishing of false or misleading information on this form or omission of material information may result in criminal sanctions (including fines and imprisonment) and/or civil sanctions (multiple damages and civil penalties). (18 U.S.C. 1001)

15. Signature of applicant (Same as item 3) I agree to comply with all postal rules regarding post office box or caller service.

Form 1093, August 2001 (Page 1 of 2)

Application for Post Office Box or Caller Service – Part 2

Special Orders

16. Postmaster: The following named persons or representatives of the organization listed below are authorized to accept mail addressed to this (these) post office box(es) or caller number(s). All names listed must have verifiable ID. (Continue on reverse side).

a. Name(s) of applicant(s) (Same as item 3)

b. Name of box customer (Same as item 1)

c. Other authorized representative

d. Other authorized representative

Customer note: The Postal Service may consider it valid evidence that a person is authorized to remove mail from the box if that person possesses a key or combination to the box.

18. Will this box be used for Express Mail reshipment? (Check one)

a. Yes ☐ b. No ☐

19. Signature of applicant (Same as item 3) I agree to comply with all postal rules regarding post office box or caller service.

Warning: The furnishing of false or misleading information on this form or omission of material information may result in criminal sanctions (including fines and imprisonment) and/or civil sanctions (multiple damages and civil penalties). (18 U.S.C. 1001)

Use a separate form for each box number or consecutive group of numbers, and type of service. File part 1 alphabetically by customer's name.

Use a separate form for each box number or consecutive group of numbers, and type of service. File part 2 by box or caller number.

ATTACHMENT TO RESPONSE TO
OCA/USPS-T38-84, Page 5

Form 1093, August 2001 (Page 2 of 2)

ATTACHMENT TO RESPONSE TO
OCA/USPS-T38-8(a), Page 6 of 6

Privacy Act Statement: The collection of this information is authorized by 39 USC 403 and 404. This information will be used to provide the applicant with post office box or caller service. As a routine use, the Postal Service may disclose this information to persons authorized by law to serve legal process for the purpose of serving such process; to an appropriate government agency, domestic or foreign, for law enforcement purposes; where pertinent, in a legal proceeding to which the USPS is a party or has an interest; to a government agency in order to obtain or provide information relevant to an agency decision concerning employment, security clearances, security or suitability investigations, contracts, licenses, grants, permits, or other benefits; to a congressional office at your request; to an expert, consultant, or other person under contract with the USPS to fulfill an agency function; to the Federal Records Center for storage; to the Office of Management and Budget for review of private relief legislation; to an independent certified public accountant during an official audit of USPS finances; and to a labor organization as required by the National Labor Relations Act. Information concerning an individual who has filed an appropriate protected court order with the postmaster will not be disclosed in any of the above circumstances except pursuant to the order of a court of competent jurisdiction. Completion of this form is voluntary; however, if this information is not provided, the applicant will not be able to receive a box or use caller service.

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

OCA/USPS-T38-9. Please refer to your testimony at page 27, where the section entitled "C. Assessment of the Nine Pricing Criteria" begins. In establishing fees for post office box service, to what extent did you consider the views of customers from such sources as customer comment cards, call center comments, consumer surveys, focus groups, etc., as to the value of post office box service provided by the Postal Service? If customers' views from the sources mentioned were part of your analysis, please provide copies of any material relied upon. If customers' views from the sources mentioned were not part of your analysis, please explain.

RESPONSE:

These sources were not used in this docket to assess the value of post office box service to customers. The primary reasons are:

- 1) Customer comment cards - while useful in resolving individual cases, customer comment cards usually reflect a "self selected" group of customers and therefore do not represent typical customers.
- 2) Call center comments - like customer comment cards, call center comments reflect a "self selected" group and similarly, therefore, they are unlikely to be representative of the typical customer.
- 3) Consumer surveys and focus groups - these may be an unbiased sample under proper conditions. Indeed, consumer surveys have been used to assess customer response to proposed post office box fee changes in the past. However, this means of estimating customer response to price change may be biased also, if customers tend to overstate their reaction to proposed price increases, when in fact they often will continue to purchase post office box service after the price increases. Therefore, the Postal Service is not presently pursuing consumer surveys, nor focus groups, as a means of gauging customer value for post office box service.

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

OCA/USPS-T38-9, Page 2 of 2

In general, the nine pricing criteria direct that the value of service to customers be considered in pricing post office box service. Several means of assessing customer satisfaction are reasonably available. As discussed above, several of the instruments listed have weaknesses. Also, given this docket's timing, combined with the intent to further align fees and costs, it was impractical to use any rigorous method. I have, however, remained in contact with the team that implemented the most recent set of post office box fees (in part through my attorneys) and discussed the range of concerns that surfaced with them. In addition, a reasonable assessment of customer satisfaction can be gleaned from historical growth trends in post office box usage, which demonstrates a continued customer demand, and indicates that millions of box customers are satisfied. According to economic theory, these considerations, and the availability of alternatives, such as free carrier delivery and private-sector box providers, suggest that post office box customers value the service highly. I conclude that the proposed fee increases are unlikely to significantly affect customers' existing perception of the high value of service.

In sum, customer value considerations were taken into account in this docket's post office box fee proposal. Specific steps were taken to protect customer value, by limiting fee group re-assignments and fee increases, to the extent possible, as balanced against the needs to recover costs, meet the revenue requirement as suggested by historic usage trends, and more equitably align fees with costs. In the future, additional measures of customer satisfaction may be used to evaluate box service proposals as circumstances change.

United States Postal Service

**Nancy R. Kay
(USPS-T-21)**

**RESPONSE OF POSTAL SERVICE WITNESS KAY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2**

12. Witness Patelunas' Exhibit 12A at pages 15 through 18 shows the derivation of the mail volume cost effect factors which are input into the file RAT2FACT for use in the cost rollforward process. Column 2, labeled CRA Line, shows the CRA line number for each of the classes and subclasses of mail in the CRA cost matrix. These line numbers should correspond to the line numbers shown in the file AHEAD, in Library Reference J-6 at \Fy01h\contro\AHEAD. Exhibit 12A shows the CRA line number for Insurance and Certified to be 164 and 165, respectively. However, the file \Fy01h\Control\AHEAD, shows the line numbers to be just the opposite, line 165 for Insurance and line 164 for Certified. An examination of the mail volume effect in the rollforward for FY 2001, 2002, and the Test Year Before Rates and After Rates shows that Certified costs are increased by the RAT2FACT factor apparently intended for Insurance and Insurance costs are increased by the RAT2FACT factor apparently intended for Certified. If necessary, please provide appropriate corrections. Include corrections to the cost rollforward workpapers and Exhibits of Witness Patelunas, and all corrections to Exhibits and/or Workpapers of any other witness who are affected by the correction to the rollforward. Additionally, please provide all corrections to the cost rollforward workpapers for the PRC version in Library Reference J-75.

RESPONSE:

Please see witness Patelunas's response to this item. The corrections he describes to the mail volume effect factors affect the inputs to my incremental cost analysis. Using the corrected inputs, the TYAR incremental costs reported in my testimony change as shown on the attached sheet. As can also be seen on the attached sheet, the changes are immaterial for all products except Certified and Insurance. Errata to Tables 1A and 2A of my testimony will be filed separately.

CHANGE IN TEST YEAR 2003 (AR) INCREMENTAL COST FOR SUBCLASSES AND
CLASSES, CORRECTED AS PER POIR 2

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	TY2003 (AR) INCREMENTAL COST AS FILED	TY2003 (AR) INCREMENTAL COST AS CORRECTED FOR POIR 2	DIFFERENCE	PERCENT DIFFERENCE
	COLUMN NUMBER	(1)	(2)	(3)	(4)
1	FIRST-CLASS MAIL				
2	SINGLE PIECE LETTERS	13,012,190	13,011,478	(712)	-0.01%
3	PRESORT LETTERS	5,682,987	5,682,689	(298)	-0.01%
4	TOTAL LETTERS	19,187,655	19,186,625	(1,029)	-0.01%
5	SINGLE PIECE CARDS	574,853	574,823	(31)	-0.01%
6	PRESORT CARDS	145,968	145,957	(11)	-0.01%
7	TOTAL CARDS	721,636	721,594	(42)	-0.01%
8	TOTAL FIRST	20,128,807	20,127,728	(1,079)	-0.01%
9	PRIORITY MAIL	3,907,493	3,907,368	(125)	0.00%
10	EXPRESS MAIL	833,429	833,390	(39)	-0.01%
11	MAILGRAMS	698	701	3	0.40%
12	PERIODICALS:				
13	WITHIN COUNTY	79,827	79,820	(6)	-0.01%
14	OUTSIDE COUNTY	2,341,867	2,341,769	(98)	0.00%
15	TOTAL PERIODICALS	2,423,648	2,423,541	(105)	0.00%
16	STANDARD MAIL:				
17	ENHANCED CARR RTE	2,864,987	2,864,824	(163)	-0.01%
18	REGULAR	8,935,179	8,934,727	(452)	-0.01%
19	TOTAL STANDARD MAIL	12,148,613	12,147,981	(632)	-0.01%
20	PACKAGE SERVICES:				
21	PARCEL POST	1,048,946	1,048,905	(40)	0.00%
22	BOUND PRINTED MATTER	545,267	545,241	(26)	0.00%
23	MEDIA MAIL	279,858	279,845	(13)	0.00%
24	TOTAL PACKAGE SERVICES	1,867,244	1,867,164	(80)	0.00%
25	U.S. POSTAL SERVICE				
26	FREE MAIL	38,439	38,443	4	0.01%
27	INTERNATIONAL MAIL	1,667,159	1,667,116	(44)	0.00%
28	SPECIAL SERVICES:				
29	REGISTRY	79,708	79,685	(23)	-0.03%
30	CERTIFIED	484,642	507,313	22,672	4.68%
31	INSURANCE	114,357	108,878	(5,481)	-4.79%
32	COD	12,630	12,619	(11)	-0.09%
33	MONEY ORDERS	247,016	246,989	(27)	-0.01%
34	STAMPED CARDS	2,885	2,885	-	0.00%
35	STAMPED ENVELOPES	12,978	12,976	(2)	-0.01%
36	SPECIAL HANDLING	1,945	1,946	1	0.05%
37	POST OFFICE BOX	660,125	660,065	(60)	-0.01%
38	OTHER	199,391	199,309	(82)	-0.04%
39	TOTAL SPECIAL SERVICES	1,896,143	1,917,031	18,888	1.00%
40	CORRESPONDENCE	20,098,008	20,096,946	(1,062)	-0.01%
41	ADVERTISING	12,704,261	12,703,607	(654)	-0.01%
42	EXPEDITED	5,902,384	5,902,168	(216)	0.00%

United States Postal Service

**James M. Kiefer
(USPS-T-33)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER
TO INTEROGATORY OF AMAZON.COM**

AMZ/USPS-T33-1.

- a. Please confirm that according to your workpaper WP-MM-7 the average Test Year Before Rates transportation cost for Media Mail is \$0.1850 per pound. If you do not confirm, please provide the correct figure.
- b. Please confirm that according to USPS-LR-J-2, the Cost and Revenue Analysis ("CRA") report for FY 2000, the density of Media Mail is 11.1 pounds per cubic foot. If you do not confirm, please provide the correct CRA density.
- c. Please confirm that the average Test Year Before Rates transportation cost for Media Mail is \$2.0535 per cubic foot. If you do not confirm, please provide the correct figure.

RESPONSE

- a. Confirmed.
- b. I can confirm that the CRA reports a Weight per Cubic Foot of 11.1 pounds for Media Mail.
- c. This figure cannot be confirmed as the correct figure for Media Mail transportation costs per cubic foot. It is my understanding that appropriate density data do not exist that would permit the correct transportation costs per cubic foot to be calculated for Media Mail. I have been informed that the weight per cubic foot figure reported on the CRA is based on the amount of space taken up in a shipping container, including air, and is not based on the actual dimensions of Media Mail pieces. For this reason the CRA figure is not the appropriate "density" to be used for calculating the requested cost per cubic foot.



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER
TO INTEROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T33-1. Please refer to USPS-T-33 at 12, I. 5-10. You propose to make electronic Delivery Confirmation available to Parcel Select customers on a no-fee basis (by bundling the costs in the Parcel Select rates).

- (a) Did you consider offering electronic Delivery Confirmation to retail Parcel Post customers on a no-fee basis by absorbing such costs into the rates paid by retail Parcel Post? If so, why wasn't such a proposal included in your testimony?
- (b) Are you aware that while retail Priority Mail customers generally pay a fee for manual Delivery Confirmation there is a no-fee electronic option available to them when they print a Priority Mail/Delivery Confirmation label at the Postal Service's website, specifically at http://www.usps.com/cgi-bin/api/shipping_label.cgi? (The form that Priority Mail retail customers use is attached to this set of interrogatories).
- (c) Assuming that the Commission recommends the no-fee electronic Delivery Confirmation option for Parcel Select mailers that you propose, do you agree that making this option available to retail Parcel Post customers (at the USPS website in a manner similar to Priority Mail) creates parity both with the Parcel Select customers and with retail Priority Mail customers? If not, please explain fully.

RESPONSE

- (a) While the initiative for offering Delivery Confirmation to Parcel Select on a no-fee basis came from commercial parcel shippers, the Postal Service did consider expanding the service to retail Parcel Post as well. After considering a number of factors and implications of the expansion, it was decided to limit the no-fee service to Parcel Select. One factor was the absence of any strong call coming from retail Parcel Post users for this kind of service expansion. Strong demand is important because no-fee Delivery Confirmation leads to higher postage rates for customers. A further important reason was the concern that bundling the Delivery Confirmation costs into retail Parcel Post would push up retail rates, which were already the object of substantial rate increases. (Delivery Confirmation costs for Parcel Select are reflected in the proposed Parcel Select rates. USPS-T-33 at 15.) Another factor was the realization that expansion of no-fee Delivery Confirmation to retail Parcel Post might have significant implications for similar expansions to other parcel subclasses and other classifications which contain parcels. The Postal Service would want to give

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER
TO INTEROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

these issues more thorough consideration before proposing to go beyond the proposed expansion.

- (b) Yes. I'm also aware that the cost of no-fee electronic Delivery Confirmation is built into the base costs of Priority Mail. Similar costs are not built into the base cost of retail Parcel Post.
- (c) Having no-fee Delivery Confirmation available to retail Parcel Post as well as Parcel Select and retail Priority Mail might create "parity" in that it narrows the service differences and blurs the distinctions between retail Parcel Post and these two other broad categories. This could be especially true for closer in zones where parcels from all of these categories are transported by surface. I'm not convinced that such "parity" is warranted at this time. For the reasons mentioned in subparts (a) and (b), the Postal Service does not believe there is sufficient reason to expand the service beyond our current proposal at this time.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KIEFER
TO INTEROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION**

PSA/USPS-T33-1. Please refer to USPS-LR-J-106, PPWP.xls, worksheets Proposed Priority Mail Rates and Preliminary Inter-BMC Rates.

- (a) Please confirm that, in many rate cells, proposed Priority Mail rates are less than preliminary inter-BMC Parcel Post rates. If not confirmed, please explain fully.
- (b) Please explain in detail why any proposed Priority Mail rates are less than the corresponding preliminary inter-BMC Parcel Post rate.
- (c) Are there any rate cells where the unit cost for a Priority Mail piece is less than the unit cost for an inter-BMC Parcel Post piece? If so, please explain fully why the unit cost for Priority Mail is less than the unit cost for inter-BMC Parcel Post.
- (d) How many inter-BMC Parcel Post pieces are in rate cells where the proposed Priority Mail rate is less than the preliminary inter-BMC Parcel Post rate?
- (e) Please confirm that your rate design constrains the rate for inter-BMC Parcel Post pieces to be no greater than the proposed Priority Mail rate less ten cents. If not confirmed, please explain fully.
- (f) If you eliminated the Priority Mail constraint, do you believe that some inter-BMC Parcel Post pieces would migrate to Priority mail? If so, how many inter-BMC pieces would you expect to migrate? If not, why not?

RESPONSE

- (a) Confirmed.
- (b) One or more of a number of factors could have contributed to the situation where some proposed Priority Mail rates are lower than preliminary Inter-BMC Parcel Post rates. The first is the most obvious: that what is being compared are final Priority Mail rates, which include all rate mitigation adjustments, and *preliminary* Parcel Post rates, which exclude any adjustments to address anomalies that might have arisen during the rate design process. Another factor that potentially might have led to this situation are the different cost allocation algorithms used in the Priority Mail and Parcel Post rate design processes. It is also critical to note the fact that Inter-BMC is

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a de-averaged, high-cost component of Parcel Post, while Priority Mail is a cost-averaged product.

- (c) Based on cost information I have received from witness Scherer, I have found some rate cells where the unit cost allocated to Priority Mail is less than the unit cost allocated to Inter-BMC Parcel Post. I do not know why this situation has occurred, but potential explanations include the following factors: (i) the different composition of the Priority Mail and Inter-BMC Parcel Post mail mixes; (ii) the fact that Priority Mail's allocated costs are the average costs for the whole product, whereas Inter-BMC allocated costs are the de-averaged costs for the highest-cost component of Parcel Post; (iii) the fact that Priority Mail and Parcel Post use different algorithms to allocate costs to individual rate cells. I do not know what weight each of these contributing factors may have had in producing the observed outcome.
- (d) Excluding OMAS pieces, 20,571,255 pieces, based on TYBR volumes.
- (e) That is the intent of the Priority Mail constraint.
- (f) It is likely that some Inter-BMC Parcel Post pieces would migrate to Priority Mail.

Factors in addition to the constrained Inter-BMC rates (for example, the numbers of pieces affected by discounts and surcharges and the sizes of these discounts and surcharges) affect the final prices paid by Inter-BMC mailers, and so are likely to have an impact on migration decisions. The impact of these other factors cannot be determined based on available data, so I cannot determine how many pieces would migrate if the Priority Mail constraint were eliminated.

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PSA/USPS-T33-2. Please refer to USPS-LR-J-106, PPWP.xls, worksheet TYAR Revenue Summary.

- (a) Please confirm that TYAR inter-BMC Parcel Post revenue is \$243 million. If not confirmed, what is it?
- (b) Please confirm that TYAR intra-BMC Parcel Post revenue is \$92 million. If not confirmed, what is it?
- (c) Please confirm that TYAR Parcel Select revenue is \$847 million. If not confirmed, what is it?
- (d) What is the total TYAR inter-BMC Parcel Post cost projected to be? Please also describe how you calculated this figure.
- (e) What is the total TYAR intra-BMC Parcel Post cost projected to be? Please also describe how you calculated this figure.
- (f) What is the total TYAR Parcel Select cost projected to be? Please also describe how you calculated this figure.
- (g) Please provide FY 2000 cost coverages individually for inter-BMC Parcel Post, intra-BMC Parcel Post, and Parcel Select and describe how you calculated each figure.

RESPONSE

- (a) Not confirmed. Inter-BMC adjusted revenue (excluding OMAS, combination enclosure and pickup revenue) is estimated to be \$241 million.
- (b) Intra-BMC adjusted revenue (exclusive of Alaska Bypass, combination enclosure, and pickup revenue) is estimated to be \$92 million.
- (c) Confirmed.
- (d) The estimated TYAR cost for Inter-BMC Parcel Post is \$239 million. I developed this estimate by multiplying the TYAR volume for Inter-BMC Parcel Post by the sum of the per-piece and per-pound charges (net of markup for contingency and institutional costs). I then adjusted these costs to reflect cost savings for barcoding, BMC presort and OBMC entry of some pieces, and to reflect additional costs due to

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nonmachinability of some pieces. Finally I inflated these costs by a percentage that reflected the inclusion of OMAS pieces in the overall Inter-BMC cost calculation.

- (e) The estimated TYAR cost for Intra-BMC Parcel Post is \$93 million. I developed this estimate by multiplying the TYAR volume for Intra-BMC Parcel Post by the sum of the per-piece and per-pound charges (net of markup for contingency and institutional costs) less the per-piece savings for Intra-BMC pieces relative to Inter-BMC pieces (Input [20b] on my workpaper WP-PP-1). I then adjusted these costs to reflect cost savings for barcoding of some pieces, and to reflect additional costs due to nonmachinability of some pieces. Finally I inflated these costs by a percentage that reflected the inclusion of Alaska Bypass pieces in the overall Intra-BMC cost calculation.
- (f) The estimated TYAR cost for Parcel Select Parcel Post is \$678 million. I developed this estimate by subtracting the Inter-BMC and Intra-BMC total cost estimates from the total Parcel Post TYAR cost.
- (g) No cost coverages were developed using FY 2000 data.

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PSA/USPS-T33-3. Please refer to pages 20 - 21 of your testimony where you discuss rate change constraints.

- (a) Please confirm that the sole reason you imposed rate change constraints was to mitigate the impact of the rate increase on individual mailers. If you do not confirm, please explain fully.
- (b) Please explain in detail why you selected the rate change constraints that you did.

RESPONSE

- (a) Not confirmed if the term "individual mailers" refers to specific customers. The purpose of the rate change constraints described in Section E.1 on pages 20 and 21 of my testimony was to mitigate the impacts of the rate increases on all of our Parcel Post customers. While the benefits of rate increase mitigation accrue to both commercial and retail customers, the retail rates (Intra-BMC and Inter-BMC) experience some of the largest rate mitigation, especially in the heavily used rate cells.
- (b) The rate change constraints selected represent the considered judgment of the Postal Service as to the maximum acceptable degree to which rates could change within the context of the present rate case. In making this selection, many factors were taken into consideration including, costs and changes in costs, likely impacts on mailers, current rate levels and rate relationships, the rate levels and rate relationships that would emerge as the result of rate mitigation efforts, market signals sent by various prices, and Postal Service business considerations.

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PSA/USPS-T33-4. Please refer to USPS-LR-J-106, PPWP.xls, worksheets Constrained Inter-BMC Rates, Constrained Intra-BMC Rates, and Constrained Parcel Select Rates.

- (a) Have you calculated the effective passthrough of DBMC cost avoidances that underlies your proposed rates? If so, please provide your estimate and explain your calculations.
- (b) Have you calculated the effective passthrough of DSCF cost avoidances that underlies your proposed rates? If so, please provide your estimate and explain your calculations.
- (c) Have you calculated the effective passthrough of DDU cost avoidances that underlies your proposed rates? If so, please provide your estimate and explain your calculations.

RESPONSE

- (a) This has not been calculated.
- (b) This has not been calculated.
- (c) This has not been calculated.

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PSA/USPS-T33-6. Please refer to USPS-LR-J-106, SWP 1-1 and PPWP.xls, WP-PP-1

- (a) Please confirm that your Test Year After Rates (TYAR) revenue estimate assumes that (before migration of DBMC nonmachinable parcels to the new 3-digit nonmachinable outside (NMO) DSCF rate) approximately 6.04 percent of DBMC parcels are nonmachinable. If not confirmed, please explain your response fully.
- (b) Please describe the source of the data that you used to estimate that 6.04 percent of GFY 2000 DBMC parcels were nonmachinable and provide all underlying calculations.
- (c) For each accounting period (AP) since the Postal Service implemented the Postal Rate Commission's recommended Docket No. R2000-1 rates, please provide the total volume of Parcel Select DBMC parcels and the total volume of Parcel Select DBMC nonmachinable parcels.

RESPONSE

- (a) Confirmed.
- (b) The 6.04% figure was calculated for the Parcel Post Billing Determinants by dividing the estimated volume of GFY 2000 DBMC nonmachinable pieces, 14,742,924, by the total number of GFY 2000 Parcel Select Pieces, 244,273,920. The 14.7 million figure was estimated by applying the ratio of nonmachinable DBMC pieces to total DBMC pieces, both obtained from preliminary post-R2000-1 implementation RPW data, to the GFY 2000 total DBMC volume. The workpaper for the derivation of the 14.7 million figure was not retained.

Calculation: $(14,742,924) / (244,273,970) = 6.04\%$, approximately.

The 6.04% figure therefore represents the share of DBMC nonmachinable pieces in total Parcel Select volume. Given the way input assumption [10c] was subsequently used in my workpapers, it was inappropriate to use the 6.04%

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figure for input assumption [10c] in my workpaper WP-PP-1. The figure that should have been entered was the ratio of the DBMC nonmachinable pieces to total GFY 2000 DBMC pieces, or:

$$(14,742,924) / (201,339,863) = 7.3\%, \text{ approximately.}$$

Substituting 7.3% instead of 6.04% for assumption [10c] would lower total Parcel Post revenue by only \$1.0 million out of a total revenue projection of \$1.2 billion.

- (c) The most finely disaggregated official RPW data are by postal quarter. Postal Quarters 3 and 4 for FY 2001 comprise almost all of the post-R2000-1 implementation period. The requested data for these two postal quarters are provided below.

Total DBMC parcels:

FY2001, PQ3: 35,248,046

FY2001, PQ4: 40,737,248

DBMC Nonmachinable parcels

FY2001, PQ3: 2,737,694

FY2001, PQ4: 2,582,921

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PSA/USPS-T33-7. Please refer to your response to PSA/USPS-T33-6(c) where you refer to FY 2000 destination bulk mail center (DBMC) Parcel Post volumes.

- (a) Please confirm that these references should be to FY 2001 volumes, not FY 2000 volumes. If not confirmed, please explain your response fully.
- (b) In FY 2000, what percentage of DBMC parcels were nonmachinable outside (NMO) parcels? Please explain your data source and how you calculated this figure. If you cannot provide a specific figure, do you believe that NMOs made up a larger or smaller portion of DBMC parcels before the implementation of Docket No. R2000-1 rates than after rate implementation. Please explain your response fully.

RESPONSE

- (a) Confirmed. A revised response has been filed to this question that corrects this error.
- (b) Although it is common practice to use the term NMOs to refer to all nonmachinable parcels, strictly speaking, NMOs are a subset of nonmachinable parcels—those that cannot be placed inside a container that can be mailed. Whenever the term NMO occurs in my testimony or workpapers, it should be understood in the broader sense, that is, to refer to all nonmachinable pieces. I am informed that no Postal Service data source distinguishes nonmachinable outside parcels from other nonmachinable pieces. Estimates were made of the number of Parcel Select nonmachinable pieces in FY 2000. These were made by analyzing sampled Parcel Select pieces to determine the share of pieces whose weight exceeded 35 pounds, or whose dimensions exceeded other machinability criteria. These share data were applied to RPW volumes to produce estimates of nonmachinable parcels for FY 2000. Because the markings on the parcels do not distinguish the entry point, the FY 2000 estimates were not able to distinguish DBMC parcels from other parcels. No comparable study has been performed for the post R2000-1 rate implementation period. In

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the absence of data or studies of nonmachinable outside parcels, or of total nonmachinable parcels conducted before and after implementation of Docket No. R2000-1 rates, there is no clear basis to determine whether the proportion of either DBMC nonmachinable parcels, or nonmachinable outside parcels went up or down. The imposition of a surcharge on DBMC nonmachinable pieces as part of the Docket No. R2000-1 rate implementation, all other things being equal, would presumably have had a depressing effect on the number of DBMC nonmachinable parcels and nonmachinable outside parcels entered. I have seen no studies, however, that support the notion that all other factors that might influence the share of DBMC nonmachinable parcels or nonmachinable outside parcels were, indeed, equal between these two time periods. This leaves open the possibility that other factors besides the surcharge could have either reinforced or reversed the presumed volume-depressing effect of the surcharge.

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PSA/USPS-T33-8. Please refer to your response to PSA/USPS-T33-6(b) and to USPS-LR-J-64, fa_usps.xls, worksheet "Total".

- (a) Please confirm that using a 7.3% destination bulk mail center (DBMC) nonmachinable outside (NMO) figure instead of 6.04% increases the volume of mail that migrates from the DBMC NMO rate to the 3-Digit DSCF rate and therefore would increase the Parcel Post final adjustment. If not confirmed, please explain your response fully.
- (b) If your response to subpart (a) of this interrogatory is in the affirmative, by how much would using the 7.3% figure instead of the 6.04% DBMC NMO figure increase the Test Year After Rates (TYAR) Parcel Post final adjustment.

RESPONSE

- (a),(b) Please refer to my response to PSA/USPS-T33-7 for the distinction between nonmachinable parcels and nonmachinable outside parcels. In my workpapers, all my assumptions and calculations refer to total nonmachinable parcels.
- Assuming that the share of DBMC pieces that are nonmachinable is 7.3% rather than 6.04% would, using the other assumptions incorporated in my rate design model, increase the volume of mail that is projected to migrate from the DBMC nonmachinable rate to the new proposed 3-digit nonmachinable DSCF rate.
- Witness Eggleston informs me that making this change in my assumptions would increase the size of the Parcel Post final adjustment by \$1.485 million.

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PSA/USPS-T33-9. Please refer to your response to PSA/USPS-T33-6 and USPS-LR-J-106. Also, please assume for the purpose of this interrogatory that before the implementation of the nonmachinable outside (NMO) parcel surcharge for destination bulk mail center (DBMC) parcels in January 2001, twelve percent of DBMC parcels were NMOs and that, in response to the implementation of the NMO surcharge, the NMO percentage decreased to 7.3 percent.

- (a) Please confirm that, all else being equal, a decrease in the proportion of DBMC parcels that are NMOs would reduce Parcel Post costs.
- (b) Please confirm that, all else being equal, a decrease in the proportion of DBMC parcels that are NMOs would reduce Test Year After Rates Postal Service revenues.
- (c) Is it possible that, in response to the introduction of a DBMC NMO surcharge, some mailers of DBMC NMOs began mailing these parcels using another shipper? Please explain your response fully.
- (d) Please confirm that the Postal Service did not include a final adjustment to Parcel Post costs to reflect differences in the percentage of Parcel Post DBMC parcels that were NMOs before and after the introduction of the DBMC NMO surcharge. If not confirmed, please explain fully.
- (e) Please confirm that, by using the DBMC NMO percentage from after the introduction of the DBMC NMO surcharge, your estimate of Test Year After Rates Parcel Post revenues reflect changes in the DBMC NMO percentage that occurred due to the introduction of DBMC NMO surcharge. If not confirmed, please explain fully.
- (f) Please confirm that, if the change in the DBMC NMO percentage described in the introduction to this interrogatory did indeed occur, the Postal Service's Test Year After Rates Parcel Post attributable costs would be overstated. If not confirmed, please explain fully. If so, by how much would the Postal Service's Test Year After Rate Parcel Post attributable costs be overstated?

RESPONSE

- (a) Confirmed, if all else is equal.
- (b) Confirmed, if all else is equal.
- (c) Faced with paying a nonmachinable surcharge it is reasonable that mailers of DBMC nonmachinable parcels would consider what alternatives might exist that

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did not involve paying the surcharge including, as one alternative among others, using other shippers. It is possible that some mailers did begin to utilize other shippers for these pieces.

- (d) This question has been redirected to witness Eggleston (USPS-T-25) for response.
- (e) I used the share of DBMC nonmachinable parcels obtained from post-R2000-1 rate implementation because it represented, in my judgment, the best available estimator of the share of DBMC nonmachinable parcels in the test year. It is likely that the percentage of nonmachinables in the data I used reflects, among other things, at least some of the changes, if any, in mailers' practices taken in response to the newly imposed DBMC nonmachinable surcharge. My projections of TYAR revenues depend, in part, on volume projections, which are based, in part, on my estimated DBMC nonmachinable parcel shares. While I cannot confirm that a change in the proportion of DBMC nonmachinable parcels did occur (see my response to PSA/USPS-T33-7(b)), any such changes that might have occurred would ultimately be reflected in my TYAR revenue projections.
- (f) This question has been redirected to witness Eggleston (USPS-T-25) for response.

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UPS/USPS-T33-1. Refer to library reference USPS-LR-J-106, workpaper WP-PP-26.

(a) Confirm that the preliminary rate for a 3-pound DDU destination-entry Parcel Post parcel is 85.0 cents. If not confirmed, explain in detail.

(b) Refer to library reference USPS-LR-J-64, Attachment I, page 3 and USPS-T-15, Attachment 10.

(i) Confirm that City Carrier (C/S 6 & 7) costs for Parcel Post in the TYBR (Test Year Before Rates) are \$80,127,000 (excluding contingency), and that a piggyback factor of 1.423 applies to these costs. If not confirmed, explain in detail.

(ii) Confirm that Rural Carrier (C/S 10) costs for Parcel Post in the TYBR are \$31,120,000 (excluding contingency), and that a piggyback factor of 1.243 applies to these costs. If not confirmed, explain in detail.

(iii) Confirm that, after application of piggyback factors, the total City Carrier and Rural Carrier costs for Parcel Post in the TYBR are \$152,815,000 (\$80,127,000 times 1.423, plus \$31,120,000 times 1.243).

(iv) Confirm that dividing \$152,815,000 by 405,633,782 Parcel Post pieces in the TYBR (from library reference USPS-LR-J-106, workpaper WP-PP-1) yields piggybacked city and rural carrier costs of 37.7 cents per piece (excluding contingency) for Parcel Post, including DDU destination-entry parcels.

(c) Refer to library reference USPS-LR-J-64, Attachment A, page 1 and Attachment I, page 17. Confirm that the average mail processing cost, including piggyback, for DDU destination-entry parcels is 34.6 cents per piece (excluding contingency). If not confirmed, explain in detail.

(d) Refer to library reference USPS-LR-J-106, workpaper WP-PP-15. Confirm that the transportation cost for a 3-pound DDU destination-entry parcel is 6.2 cents per piece (excluding contingency). If not confirmed, explain in detail.

(e) Refer to library reference USPS-LR-J-106, workpaper WP-PP-20. Confirm that the delivery confirmation cost for each Parcel Select piece, including DDU destination-entry parcels, is 3.8 cents per piece (excluding contingency). If not confirmed, explain in detail.

(f) Confirm that the total of city and rural carrier, mail processing, transportation and delivery confirmation costs above for a 3-pound DDU destination entry piece is 82.3 cents ($37.7 + 34.6 + 6.2 + 3.8$) per piece (excluding contingency), and 84.7 cents per piece with a 3.0% contingency. If not confirmed, explain in detail.

(g) Refer to library reference USPS-LR-J-106, workpaper WP-PP-20 and workpaper WP-PP-1. Confirm that the mark-up included in the per-piece component of Parcel Post, including that applicable to DDU destination-entry parcels, is $\$564,137,378 \times (1.03) \times (15.26\%) / 405,633,782$ pieces, or 21.9 cents per piece. If not confirmed, explain in detail.

(h) Refer to library reference USPS-LR-J-106, workpaper WP-PP-21.

(i) Confirm that the total pound charge for a 3-pound DDU destination entry parcel is 16.51 cents per piece, including markup. If not confirmed, explain in detail.

(ii) Confirm that the total pound charge for a 3-pound DDU destination entry parcel includes a markup of 15.26%. If not confirmed, explain in detail.

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(iii) Confirm that with the markup factor of 15.26%, that a markup of 2.2 cents per piece has been included in the pound charge for a 3-pound DDU destination entry parcel. If not confirmed, explain in detail.

(i) Confirm that the cost of a 3-pound DDU destination entry piece plus the markup is \$1.09 (84.7 cents plus 21.9 cents plus 2.2 cents). If confirmed, explain in detail why the preliminary rate for a 3-pound DDU-destination entry of 85.0 cents is so much lower than the cost plus markup of this same piece. If not confirmed, explain in detail.

RESPONSE

(a) Confirmed.

(b) (i) Confirmed.

(ii) The figure \$31,120,000 cannot be confirmed, and is assumed to be a typographical error. The figure \$31,210,000 and the piggyback factor can be confirmed.

(iii) The product of \$31,210,000 and 1.243, added to the product of \$80,127,000 and 1.423, can be confirmed as \$152,815,000, approximately.

(iv) The results of the computation described can be confirmed.

(c) Confirmed, if one is referring to unadjusted costs.

(d) Confirmed.

(e) Not confirmed. The 3.8 cent per piece figure includes both a contingency markup and a general markup.

(f) Not confirmed for several reasons. First, the 3.8 cents already contains markups. Second, a 3% increase over 82.3 cents is 84.8 cents, not 84.7 cents. Third these cannot be characterized as the costs of a 3-pound DDU piece, since these "costs" have not been adjusted.

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- (g) The arithmetic can be confirmed, but the characterization of this figure as the markup per piece of Parcel Post cannot. It is an intermediate result in the rate development process without any clear meaning or significance.
- (h) (i) Confirmed.
- (ii) It can be confirmed that the preliminary pound charge for the described parcel includes a markup factor of 15.26%.
- (iii) It can be confirmed that 2.2 cents of the 16.5 cents is accounted for by multiplying by one plus the 15.26% factor.
- (i) Not confirmed. The supposed \$1.09 rate figure is incorrect and is the result of a *flawed rate computation methodology*. The \$1.09 figure was arrived at using a bottom-up approach that has several incapacitating flaws. First, the cost numbers used are based on test year projections before final adjustments. Second, the per-piece costs used do not remove weight-related non-transportation costs and so misstate the per-piece costs. Third, the Parcel Select Delivery Confirmation charge already contains a contingency and a markup and is marked up a second time in UPS's calculations. Fourth, the "rate" calculation does not take into account the impacts of revenue offsets, such as from surcharges. Fifth, the UPS approach uses my Cost Coverage Markup Factor, which was developed to achieve the target Parcel Post revenue, *within the context of my rate design*, in an inappropriate fashion. This factor was developed to mark up post-final adjustments costs that had been further adjusted for leakages, surcharges and other revenue offsets. Employing it to mark up raw,

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unadjusted cost data is an invalid use of this factor and is sure to produce false and misleading "cost" and "rate" projections.

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UPS/USPS-T33-2. Provide the workpapers containing the underlying calculations used to derive the figures contained in USPS-T-33, Attachment B, "Parcel Post Financial Summary".

RESPONSE

Please see USPS-LR-J-189, which consists of an electronic spreadsheet (UPS1Q2.XLS). All items except the last column and the items identified as "Changes by Rate Category" of Attachment B are derived in workpaper WP-PP-31. The items identified as Changes by Rate Category are derived in the UPS1Q2.XLS worksheet with the tab labeled "Rate Class Increases." The items in the last column of Attachment B are derived in the worksheet with the tab labeled "Constant Mix Increases" in the cells AE40 to AE44.

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UPS/USPS-T33-5. Refer to library reference USPS-LR-J-64, Attachment A, page 6.

(a) Confirm that there were approximately 38 million Parcel Post DDU-entry pieces in Base Year 2000. If not confirmed, explain in detail.

(b) Refer to library reference USPS-LR-J-106, workpaper WP-PP-1. Confirm that there are expected to be approximately 104 million Parcel Post DDU destination-entry pieces in the TYAR under the Postal Service's proposed rates. If not confirmed, explain in detail.

(c) Confirm that Parcel Post DDU destination-entry pieces are forecast to be 28.1% of total Parcel Post volume in the TYAR. If not confirmed, explain in detail.

RESPONSE

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

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UPS/USPS-T33-9. Confirm that both *Priority Mail* and *Parcel Post* pieces will be offered free electronic delivery confirmation service under the Postal Service's proposal in this docket. If not confirmed, explain in detail.

RESPONSE

Not confirmed. The Postal Service's proposal offers no-additional-fee electronic Delivery Confirmation to Parcel Select pieces only. This service is not free to Parcel Select users. The cost of providing this service is recovered in Parcel Select rates. Neither "free" nor no-fee Delivery Confirmation is offered to non-Parcel Select Parcel Post. I am informed that electronic Delivery Confirmation is not offered free to Priority Mail customers. As with Parcel Select, electronic Delivery Confirmation is offered to Priority Mail users without paying a separate fee and its cost is recovered in Priority Mail rates.

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UPS/USPS-T33-10. Confirm that pieces below 1 pound could not be sent by Parcel Post prior to January, 2001. If not confirmed, explain in detail.

(a) Confirm that Priority Mail pieces below 1 pound could migrate to Parcel Post DDU destination entry beginning in January 2001. If not confirmed, explain in detail.

(b) Refer to library reference USPS-LR-J-106, workpaper WP-PP-7. Provide the share of 1 pound Parcel Post parcels separately for DDU destination entry and DSCF destination entry. If not available, explain why not.

RESPONSE

Prior to the implementation of Docket No. R2000-1 rates in January, 2001, pieces weighing below one pound were not eligible to use Parcel Post.

(a) Not confirmed for all Priority Mail pieces. Beginning January 7, 2001 certain Priority

Mail pieces that met the content restrictions for Parcel Post and that weighed under one pound became eligible for entry as Parcel Post, including for entry as DDU Parcel Post, provided all the other requirements for DDU Parcel Post entry were met.

(b) This information is not available. It is my understanding that the information systems used to estimate the shares of one and two pound Parcel Post parcels sample all drop-shipped parcels at the point of destination. These parcels do not bear markings that uniquely determine which Parcel Select rate category they were entered under, so the requested shares cannot be determined.

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UPS/USPS-T33-15. Refer to library reference USPS-LR-J-106 and library reference USPS-LR-J-64, Attachment A, page 1.

(a) Confirm that in your Parcel Post rate design you have applied a 100% passthrough for DBMC (Destination Bulk Mail Center) destination entry, DSCF (Destination Sectional Center Facility) destination entry, DDU (Destination Delivery Unit) destination entry, OBMC (Origin Bulk Mail Center) presort and BMC (Bulk Mail Center) presort worksharing cost avoidances in deriving preliminary rates. If confirmed, explain why a 100% passthrough was selected. If not confirmed, explain in detail.

(b) Confirm that the Postal Service proposes for the first time in this docket to apply a CRA multiplier to the derivation of the Parcel Post DBMC destination entry, DSCF destination entry, DDU destination entry, OBMC presort and BMC presort worksharing mail processing cost avoidances. If not confirmed, explain in detail.

(c) Confirm that application of a CRA multiplier increases the amount of these worksharing cost avoidances by 28.6%. If not confirmed, explain in detail.

(d) Confirm that the DDU destination entry mail processing cost avoidance in comparison to DBMC destination entry would decline from \$1.133 to \$0.881, or 25 cents per piece if the CRA multiplier were not applied. If not confirmed, explain in detail.

(e) Confirm that the DBMC destination entry mail processing cost avoidance in comparison to intra-BMC would decline by from 73.4 cents to 57.1 cents, or 16 cents per piece if the CRA multiplier were not applied. If not confirmed, explain in detail.

(f) Confirm that, in total, the mail processing cost avoided by a DDU destination entry parcel in comparison to an intra-BMC parcel would decline by 41 cents if the CRA multiplier were not applied.

(g) How confident are you that use of the new CRA multiplier provides a conservative estimate of the Parcel Post DBMC destination entry, DSCF destination entry, DDU destination entry, OBMC presort, and BMC presort worksharing cost avoidances? Explain the basis for your answer.

(h) Explain in detail how you took into account the first-time use of a CRA multiplier in selecting the passthroughs to use for the DBMC destination entry, DSCF destination entry, DDU destination entry, OBMC presort, and BMC presort worksharing cost avoidances.

RESPONSE

(a) Not confirmed for OBMC and BMC discounts. Regarding these discounts: these were not derived or reported as part of the preliminary rates I developed. In my constrained rates, I did use a 100% passthrough of cost avoidances for these discounts. The 100% passthrough of cost avoidances can be confirmed for DBMC, DSCF and DDU preliminary rates. It is generally my practice in rate design to first develop preliminary rates that reflect all reported cost savings.

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These preliminary rates are then adjusted, if needed, to incorporate considerations, such as rate change mitigation, that the preliminary rates do not reflect.

(b)-(g) Redirected to witness Eggleston for response.

- (h) No adjustment was made. It was not necessary to make any adjustment for several reasons. First, as described in witness Eggleston's response to USPS-T33-15(g), redirected to her, the use of CRA adjustment factors in estimating Parcel Post costs is not new. The only new aspect is the application of these factors to the estimation of some Parcel Post worksharing cost avoidances. There is no reason to believe that applying these factors for the first time means that the factors, or the cost avoidances they are used to estimate, are in any way less reliable, or that they should be adjusted when developing rates. Second, as described in my testimony, preliminary Parcel Post rates were significantly adjusted, primarily to mitigate rate changes and ensure appropriate rate relationships among various rate categories. Even if, contrary to fact, making additional adjustments to reflect the first time use of CRA adjustment factors were deemed to be warranted, there is no reason to believe that, once the subsequent rate mitigation and rate relationship adjustments were undertaken, the resulting rates would have differed to any material degree from those I proposed.

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UPS/USPS-T33-16. Refer to your testimony, USPS-T-33, Attachment B.

(a) Confirm that the Test Year After Rates ("TYAR") contribution per piece for Parcel Post under the Postal Service's proposed rates is 44 cents per piece (\$3.24 minus \$2.80). If not confirmed, explain in detail.

(b) Confirm that, assuming a 100% passthrough of worksharing savings, the contribution per piece for workshared categories of Parcel Post should be the same as that of the non-workshared categories from which the workshared categories' rates are derived. If not confirmed, explain in detail.

(c) Refer to library reference USPS-LR-J-106, and your workpapers WP-PP-22, WP-PP-24, and WP-PP-26, which contain the calculation of preliminary rates for Inter-BMC ("Bulk Mail Center"), intra-BMC, DBMC ("Destination Bulk Mail Center") destination-entry, DSCF ("Destination Sectional Center Facility") destination-entry, and DDU ("Destination Delivery Unit") destination entry Parcel Post. What is the contribution per piece on average for the:

- i. Inter-BMC rate category using the preliminary Inter-BMC rates?
- ii. Intra-BMC rate category using the preliminary Intra-BMC rates?
- iii. DBMC destination-entry rate category using the preliminary DBMC destination-entry rates?
- iv. DSCF destination-entry rate category using the preliminary DSCF destination-entry rates?

RESPONSE

(a) Confirmed.

(b) Not confirmed. Other factors, such as rate change mitigation, affect the final rates proposed for all Parcel Post rate categories, and therefore the contributions per piece, for these categories. Taking into account these factors, there is no reason why contributions should be identical across all rate categories.

(c) (i) to (iv): I have not performed these computations, so I don't know what the requested values are.

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UPS/USPS-T33-17. Refer to library reference USPS-LR-J-106 and your workpaper WP-PP-21.

(a) Confirm that the "pound charges" by rate category derived in workpaper WP-PP-21 include the transportation charges by rate category derived in workpaper WP-PP-15. If not confirmed, explain in detail.

(b) Confirm that the pound charges derived in workpaper WP-PP-21 include a markup, through application of a markup factor of 115.26% to the underlying costs. If not confirmed, explain in detail.

(c) Confirm that Destination Bulk Mail Center ("DBMC") destination-entry parcels, Destination Sectional Center Facility ("DSCF") destination-entry parcels, and Destination Delivery Unit ("DDU") destination-entry parcels represent workshared rate categories of Parcel Post. If not confirmed, explain in detail.

(d) Confirm that it is standard Commission practice in deriving worksharing category rates to deduct the passed-through worksharing cost savings from the rate assigned to the non-workshared rate category. If not confirmed, explain in detail.

(e) Assume the Postal Service's cost of transporting an intra-BMC ("Bulk Mail Center") parcel is \$1.00 and the Postal Service's cost of transporting the same parcel when workshared and dropshipped to the DSCF is 20 cents, reflecting 80 cents of worksharing transportation cost savings. Assume a markup up of 20% is applied in deriving rates and a 100% passthrough is applied to worksharing cost savings.

i. Confirm that the standard Commission practice in building up rates would be to assign \$1.20 for the intra-BMC parcel and \$1.20 minus 80 cents, or 40 cents, for the workshared DSCF parcel. If not confirmed, explain in detail.

ii. Confirm that under your approach in workpaper WP-PP-21, in building up rates you would assign \$1.20 for the intra-BMC parcel and 24 cents for the workshared DSCF parcel. If not confirmed, explain in detail.

(f) Confirm that deriving rates by marking-up the underlying transportation costs for each individual non-workshared and workshared rate category is mathematically equivalent to marking up transportation worksharing cost avoidances. If not confirmed, explain in detail.

(g) Confirm that the Commission explicitly stated in its Opinion and Recommended Decision in Docket No. R97-1, at 489, that Parcel Post transportation worksharing cost avoidances should not be marked up in deriving Parcel Post rates. If not confirmed, explain in detail.

(h) Explain in detail why you have chosen to mark-up transportation worksharing cost avoidances in your derivation of Parcel Post rates. Include in your explanation why you believe the Commission's traditional practices and its stated position in its Opinion and Recommended Decision in Docket No. R97-1 are wrong.

RESPONSE

(a) Confirmed.

(b) Confirmed.

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- (c) Confirmed.
- (d) This statement cannot be confirmed in the absolute. The Commission has accepted a range of practices for handling worksharing transportation costs, including applying a markup to separately derived transportation costs for destination-entry rate categories.
- (e) (i) It can be confirmed that applying a 20% markup to a \$1.00 transportation cost results in a marked up value of \$1.20 for the hypothetical Intra-BMC piece and that deducting \$0.80 from that \$1.20 results in a value of \$0.40 for the hypothetical DSCF piece. That this is "standard Commission practice" cannot be confirmed in the absolute. See the responses to part (d) above and (h) below.
(ii) This calculation cannot be confirmed since it emerges from a false and misleading premise: that the markup under my approach would be the same as under the approach used in subpart (i). Under my approach, the markup applied to produce rates is endogenously derived to achieve a Parcel Post subclass revenue target. For this reason, if a markup of 20% were used in the subpart (i) approach, the markup would not also be 20% in my approach, but a different, higher number. Assuming one piece of Intra-BMC mail and one piece of DSCF mail, the combined revenue generated by these two pieces (based on marked-up transportation costs) using the subpart (i) approach would be \$1.60 (equal to \$1.20 plus \$0.40). Applying a 20% markup in my approach produces combined revenue of \$1.44 (\$1.20 plus \$0.24), falling short of the revenue target. A higher markup than 20% would be needed to achieve the same revenue, producing

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higher rate elements for both the Intra-BMC and DSCF hypothetical pieces than the rate elements cited in subpart (ii).

- (f) Not confirmed. In the process of deriving rates, markups are endogenously arrived at, as described in my response to question 17e(ii), above, so ratemaking using my approach is not mathematically equivalent to ratemaking by marking up the worksharing cost avoidances.
- (g) The Commission's Opinion appears to express agreement with UPS witness Luciani's explanation that witness Mayes' markup approach was "incompatible with the view that the DBMC rates are based on a discount." It cannot be confirmed that this limited statement supports UPS' broad interpretation.
- (h) The Commission has recently shown its willingness to accept the transportation cost markup approach for independently derived destination-entry transport costs, in addition to the discount approach. My use of the transportation cost markup approach in this docket follows the procedure adopted by the Commission in its own Parcel Post workpapers in Docket No. R2000-1.

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UPS/USPS-T33-18. Refer to library reference USPS-LR-J-106 and your workpaper WP-PP-19 (apparently mislabeled WP-BPM-19).

(a) Confirm that the \$1.461 per piece discount for Destination Sectional Center Facility ("DSCF") destination-entry parcels has been decreased by a factor of 6.04% multiplied by \$1.914. If not confirmed, explain in detail.

(b) Confirm that the \$1.884 per piece discount for Destination Delivery Unit ("DDU") destination-entry parcels has been decreased by a factor of 6.04% multiplied by \$1.914. If not confirmed, explain in detail.

(c) Explain the reasoning behind these adjustments and why you recommend that they be incorporated in the Commission's derivation of Parcel Post rates.

RESPONSE

(a) Confirmed.

(b) Confirmed.

(c) The DSCF and DDU per piece discounts were derived by adding together the per-piece savings for DSCF and DDU to the DBMC savings relative to Intra-BMC pieces. The figures for DSCF and DDU are weighted average savings for machinable and nonmachinable parcels combined. The adjustment I made was to reduce the DBMC machinable savings relative to Intra-BMC parcels by a term that reflected the additional DBMC costs due to DBMC nonmachinable pieces. This puts the DBMC-DSCF and DBMC-DDU differentials all on the same basis: a weighted average of machinables and nonmachinables. I recommend that the Commission use this adjustment since it would be incorrect to compare DSCF and DDU machinables plus nonmachinables to DBMC machinable parcels only.

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UPS/USPS-T33-19. Refer to your answer to PSA/USPS-T33-1(b).

(a) Identify each of the "different cost allocation algorithms used in the Priority Mail and Parcel Post rate design process" to which you refer.

(b) Describe each algorithm and compare and contrast its impact on Priority Mail and Parcel Post rates.

RESPONSE

(a) The "different cost allocation algorithms" I referred to are the different methodologies used to apportion total costs to piece and pound components during the ratemaking process. The Parcel Post cost allocation algorithms are the methodologies described in detail in my testimony and workpapers. Witness Scherer informs me that the Priority Mail methodologies are described in his testimony (USPS-T-30, Chapter III, Sections A, B and C), and in his workpapers.

(b) It is my understanding that both methodologies allocate all non-transportation costs, except for weight-related non-transportation costs, to the *per-piece rate elements*, although the Inter-BMC rate is significantly adjusted to reflect a substantial amount of revenue leakages and surcharges. I understand the Priority Mail methodology also makes a revenue leakage adjustment, but that this is *relatively small*. The transportation and weight-related non-transportation costs are allocated to the per-pound rate elements for both Parcel Post and Priority Mail. The Parcel Post methodology uses cube-weight relationships to allocate costs derived on a per-cubic foot basis to weight cells. I understand that Priority Mail weight-related costs are allocated to weight cells based on the number of pounds, rather than cubic feet. I have not done any studies that trace out in detail the impacts these different methodologies might have on rates. Nevertheless, what I have been given to understand about Priority Mail's methodology leads me to believe that the allocation

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of transportation and weight-related non-transportation costs based on cubic feet for Parcel Post, and based on pounds for Priority Mail, is likely to cause Priority Mail's rates to rise more steeply with weight than Inter-BMC's rates do, all else being equal.

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UPS/USPS-T33-20. Provide all available information with respect to how often Parcel Post pieces are delivered by the next business day after entry or arrival at the DDU.

RESPONSE

Witness Kingsley's response to UPS/USPS-T33-7 indicates that there is no quantitative information as to whether parcels are delivered the next business day from the DDU. I am informed that this is true regardless of whether the pieces are entered at the DDU or arrive there from within the postal system.

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UPS/USPS-T33-21. *Refer to Witness Eggleston's response to UPS/USPS-T25- 3(d), and workpapers WP-PP-22, WP-PP-24, and WP-PP-26 from library reference USPS-LR-J-106. Confirm that the preliminary rates (exclusive of the weight-related and delivery confirmation components) for intra-BMC parcels and DBMC entry parcels do not take into account the difference in the average cubic feet per piece between intra-BMC and DBMC parcels. If confirmed, explain why not. If not confirmed, explain.*

RESPONSE

Not confirmed. The Parcel Post preliminary rates take into account the differences in cubic feet per piece in the transportation component of the rates (in addition to the weight-related mail processing component cited in the question). My preliminary rates for intra-BMC parcels and DBMC parcels do not take differences in the average cubic feet per piece between these two rate categories into account for the per-piece component of the rate since I have no cost information that specifies what, if any, non-weight-related mail processing and delivery cost differences can be attributed to differences in the average cubic feet per piece.

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UPS/USPS-T33-22. Assume the following:

- The parcel subclass is comprised of an equal number of intra-BMC (Bulk Mail Center) parcels and Destination Bulk Mail Center ("DBMC") parcels (these are the only two rate categories).
 - The average intra-BMC parcel has fewer cubic feet per piece than the average parcel subclass parcel.
 - The average DBMC parcel has more cubic feet per piece than the average parcel subclass parcel.
 - Worksharing models, after tying to Test Year Cost and Revenue Analysis (CRA) costs, show that the mail processing costs are \$1.00 for intra-BMC parcels and \$0.50 for DBMC parcels if the parcels have the same cubic feet per piece as the average parcel subclass parcel, yielding a worksharing savings of \$0.50.
 - Worksharing models, after tying to Test Year CRA costs, show that the mail processing costs for intra-BMC parcels are \$0.90 for average intra-BMC pieces (because more of these parcels fit in the average container than do average parcel subclass parcels) and \$0.60 for average DBMC parcels (because fewer of these parcels fit in the average container than do average parcel subclass parcels).
 - Parcel rates are set to exactly recover costs, mail processing costs are the only costs incurred by these parcels, and Test Year CRA mail processing costs are \$0.75 on average for parcels.
 - The rate for intra-BMC is set at \$1.00 and, using the calculated worksharing savings of \$0.50, the rate for DBMC is set at \$0.50, yielding \$0.75 on average in revenue for parcel subclass parcels.
- (a) Confirm that in this example the rate for DBMC parcels will not cover the average cost for DBMC parcels of \$0.60. If not confirmed, explain.
- (b) Confirm that in this example, the rate for intra-BMC parcels will cover more than the average cost for intra-BMC parcels of \$0.90. If not confirmed, explain.
- (c) Do you believe that it is appropriate in this example for DBMC parcels to not cover their average costs? Explain in detail.
- (d) Do you believe it is ever appropriate for DBMC parcels to not recover their average costs? Explain in detail.
- (e) Given this example, where would you set the rates for intra-BMC and DBMC parcels?

RESPONSE

- (a) I can confirm the arithmetic. If, using your example, the average cost of DBMC parcels is \$0.60 and the rate is set at \$0.50, the rate will not cover the average cost of \$0.60.

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- (b) I can confirm the arithmetic. If the average cost of Intra-BMC parcels is \$0.90 and the rate is set at \$1.00, using your example, the rate will cover more than the average cost of \$0.90.
 - (c) The hypothetical model described in this example is so grossly oversimplified and unrealistic that using it to investigate what is and is not "appropriate" practice in postal ratemaking is impossible. This hypothetical model discards so many of the real issues that must be confronted in setting rates in the real world that I am unable to determine what principles are left to judge whether any particular practice is "appropriate" or not.
 - (d) DBMC parcels differ by, among other things, weight, dimension, destination and entry point, all factors that affect costs. The rates for DBMC parcels are set primarily by zone and weight. Since the rates are not de-averaged by every factor that affects costs, it is likely, and expected, that some DBMC parcels will pay rates that do not recover "average costs," depending on how costs are averaged, and that some will pay rates that recover more than these "average costs." I do not find it inappropriate that some DBMC parcels may pay rates that may not recover some abstractly defined "average costs." The same can be said for other Parcel Post rates and rates for other classifications. I am not aware of a rationale that DBMC should be singled out for such specialized treatment.
 - (e) See my response to (c).
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UPS/USPS-T33-23. Refer to Witness Eggleston's response to UPS/USPS-T25- 3(e), and workpapers WP-PP-8, WP-PP-14 and WP-PP-15 from library reference USPS-LR-J-106.

- (a) Confirm that in the Parcel Post rate design an average cubic foot per piece for each weight increment from 1 pound to 70 pounds is derived separately for inter-BMC (Bulk Mail Center), intra-BMC, and Parcel Select parcels. If not confirmed, explain.
- (b) Confirm that the separate cubic feet per piece for inter-BMC, intra-BMC, and Parcel Select parcels for each weight increment from 1 to 70 pounds is then multiplied by the transportation cost per cubic foot by rate category to calculate the transportation cost for each rate category by weight and zone. If not confirmed, explain in detail.
- (c) Confirm that this means that in the Parcel Post rate design, the difference in transportation costs between the inter-BMC, intra-BMC, and Parcel Select rate categories takes into account the difference in average cubic feet per piece between the rate categories. If not confirmed, explain.
- (d) Explain why it is appropriate in the Parcel Post rate design to take into account average cubic feet per piece differences between non-Parcel Select and Parcel Select parcels with respect to transportation costs but not for mail processing costs.

RESPONSE


- (a) *Confirmed.*
- (b) Not confirmed. The cubic feet per piece numbers from workpaper WP-PP-8 are multiplied by the transportation costs per cubic foot by rate category and zone to calculate the transportation cost numbers in workpaper WP-PP-15.
- (c) It can be confirmed that in my rate design, the transportation cost estimates between the Parcel Post rate categories take into account the differences between the cubic feet per piece between the rate categories within each weight level.
- (d) Witness Eggleston's responses to UPS/USPS-T25-3(d) and 3(e) describe how she took average cubic feet per piece differences into account in her transportation cost methodology and not in her mail processing cost methodology, and why it was appropriate to use these different approaches in the two cases. Given that her existing approaches were appropriate, it is appropriate for me to use her cost estimates, and to use them in my rate design in a manner that is consistent with the way they were derived.

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UPS/USPS-T33-27. Refer to your response to interrogatory UPS/USPS-T33-16(b), regarding migration of Priority Mail to DDU-entry Parcel Post. Confirm that, assuming a 100% passthrough of worksharing savings, the contribution per piece embodied in the preliminary rates for workshared categories of Parcel Post should be the same as that embodied in the preliminary rates of the non-workshared categories from which the workshared categories' preliminary rates are derived. If not confirmed, explain in detail.

RESPONSE

While this proposition can probably be confirmed for the per-piece components of the rates, I do not believe it can be confirmed for the per-pound components. The per-pound components incorporate separately derived transportation costs for the so-called workshared and non-workshared components. These costs were distributed to weight cells based on cube-weight profiles that differ between the workshared rate categories and the non-workshared categories. Accepting, for the sake of argument, that workshared parcel transportation cost "savings" were known and available, I think that the different cube-weight profiles, at least, would be sufficient to lead to different contributions per piece between workshared and non-workshared categories. Given that there are significant differences between the per-pound costs of DDU Parcel Post and retail, or "non-workshared" Parcel Post, I believe that the approach I have adopted—marking up the transportation and weight-related non-transportation costs, when they can be separately identified and estimated—is appropriate in parcel ratemaking. This approach is also consistent with the way we treat other "non-workshared" parcels. For example, from a transportation standpoint, there is no logical barrier that distinguishes an Intra-BMC parcel, or even a zone-skipped Inter-BMC parcel from destination entry parcels. In each case, the Postal Service is not required to provide some transportation services. If one argues that DDU parcels are "transportation workshared" parcels, then by the same logic so are Intra-BMC and zone-skipped Inter-BMC parcels. Similarly, if we impose the requirement that both DDU parcels, which have low transportation costs and Intra-BMC parcels which have higher



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transportation costs, bear the same absolute (rather than percentage) markup, there is no logical barrier that can keep this requirement from extending also to weight differences. This could then lead to the unacceptable situation where a 70-pound Intra-BMC parcel would have the same absolute contribution as a 3-pound Intra-BMC parcel, when the heavier parcel requires significantly more transportation services from the Postal Service. The approach I used in my workpapers uses a consistent *percentage*, rather than *absolute*, markup on separately derived transportation costs. This approach will, naturally, lead to higher contributions per piece on heavier parcels within rate categories. It will also lead to higher contributions per piece on the per-pound components of parcels for which the Postal Service provides more transportation services, and lower contributions per piece for parcels, such as DDU parcels, where the Postal Service provides little, if any, transportation services. See also my response to UPS/USPS-T33-42.

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UPS/USPS-T33-28. Refer to your response to interrogatories UPS/USPS-T33- 17(d) and (h). Identify any instances in which the Commission has applied the same markup to separately derived transportation costs for non-destination entry rate categories and destination-entry rate categories other than "the procedure adopted by the Commission in its own Parcel Post workpapers in Docket No. R2000-1."

RESPONSE

I am not aware of any other instances.

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UPS/USPS-T33-29. Refer to your response to interrogatory UPS/USPS-T33- 17(d), (g) and (h). Confirm that the Postal Service's proposed Parcel Post rate design in Docket No. R97-1, in Docket No. R2000-1, and in Docket No. R2001-1 applies the same markup to separately derived transportation costs for non-destination entry rate categories and destination-entry rate categories.

RESPONSE

The Parcel Post rate design applies the same markup factor to separately derived transportation costs for destination entry and non-destination entry transportation costs in Docket No. R2001-1, Docket No. R2000-1 and for Inter-BMC, Intra-BMC and DBMC rate categories in Docket No. R97-1. Rate categories for DSCF and DDU were introduced for the first time in Docket No. R97-1.

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UPS/USPS-T33-30. Refer to your response to interrogatory UPS/USPS-T33- 17(d), (g) and (h). Provide citations to any discussion in the Commission's recommended decision in Docket No. R2000-1 regarding whether to apply the same markup or different markups to separately derived transportation costs for non-destination entry rate categories and destination-entry rate categories for Parcel Post.

RESPONSE

To my knowledge, this subject was not explicitly addressed in the Commission's Opinion and Recommended Decision in Docket No. R2000-1.

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UPS/USPS-T33-31. Refer to your response to interrogatory UPS/USPS-T33- 17(e)(ii), where you state that *"Applying a 20% markup in my approach produces combined revenue of \$1.44 (\$1.20 plus \$0.24), falling short of the revenue target. A higher markup than 20% would be needed to achieve the same revenue, producing higher rate elements for both the Intra-BMC and DSCF hypothetical pieces than the rate elements cited in [the previous subpart]."* Confirm that the higher markup necessary under your approach to achieve the same \$1.60 revenue target achieved in subpart (i) would be 33.33%, and that applying this 33.33% markup would yield an intra-BMC rate of \$1.333 and a DSCF rate of \$0.2667.

(a) If confirmed, explain why a rate differential of \$1.0663 is an appropriate means to reflect 80 cents of worksharing savings.

(b) If not confirmed, explain.


RESPONSE

It can be confirmed that, within the context of the hypothetical example given in question UPS/USPS-T33-17, applying the same markup of 33.33% to the costs assumed for the hypothetical Intra-BMC piece and to the costs assumed for the hypothetical DSCF piece would yield a total revenue of \$1.60 for the two pieces and rates of \$1.333 for the hypothetical Intra-BMC piece and \$0.2667 for the hypothetical DSCF piece.

(a),(b) In judging appropriateness in rate design one must take into consideration many factors. The hypothetical model of question UPS/USPS-T33-17, by apparently focusing solely on a narrow mathematical consideration, *strips away all context and all other criteria that are key factors in determining what is appropriate in ratemaking.* What may be an appropriate action when the full range of ratemaking factors and the full context of the action are considered, may be an inappropriate action in an unrealistic, narrow mathematical model that is shorn of the contextual factors that tie it to the real world in which the Postal Service and the Commission must make their ratemaking decisions. The reverse is also true. The hypothetical model of question UPS/USPS-T33-17 is an example of such an unrealistic model. *While all models simplify to a degree, some, like the example of question 17, are inappropriately simplistic because they simplify in a way that gives a distorted view of the object they attempt to model.* For example, the

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example assumes rates and the transportation cost component of rates are made in isolation, rather than as part of an integrated process. This ignores the countervailing tendencies that mitigate the impacts of any expansion of cost worksharing differences that might result from applying a markup factor to separately derived transportation cost figures. *The example also assumes that the volumes of drop-shipped and non-drop-shipped Parcel Post are equal, when the reality is that approximately 85% of all Parcel Post is drop-shipped.* By assuming equal volumes, this model again inappropriately distorts the impacts of marking up separately derived transportation costs. This model is based on further unrealistic and unrepresentative assumptions that magnify the impacts of any expansion of worksharing cost differences that might occur when separate transportation cost components are marked up. Such unrealistic assumptions include picking an unrealistically high markup (33.33% in the example, compared to less than 16% in my workpapers), and assuming a 5 to 1 ratio of Intra-BMC transportation costs to DSCF transportation costs, when the transportation cost ratios are much less than this. *While the approach I adopted in my workpapers is appropriate within the overall context of crafting Parcel Post rates, if one is forced to abandon this context and deal solely within the mathematical context of the caricature model of UPS/USPS-T33-17, the rate differential may well be inappropriate.*



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UPS/USPS-T33-33. Refer to library reference USPS-LR-J-106, WP-PP-1, line 18(a), 18(b) and 18(c), workpaper WP-PP-20, and USPS-T-25, Table X-1: Final Adjustments (\$000).

- (a) Confirm that the TYBR Total Adjusted Volume Variable Cost of \$1,124,669,905 shown in workpaper WP-PP-1 is net of \$163,429 thousand of TYBR Parcel Post final adjustments. If not confirmed, explain.
- (b) Confirm that the TYBR Total Purchased Transportation Costs of \$387,206,000 is not net of the \$78,379 thousand TYBR Parcel Post transportation cost final adjustment. If not confirmed, explain.
- (c) Confirm that the TYBR Total Purchased Transportation Costs used in WP-PP-1 should be net of final adjustments in order to properly derive piece-related costs in workpaper WP-PP-20. If confirmed, explain why the figure is not net of final adjustment. If not confirmed, explain in detail.
- (d) Confirm that the TYBR Total Vehicle Service Driver Costs in workpaper WP-PP-1 of \$106,051,780 are not net of TYBR Parcel Post Vehicle Service Driver final adjustments of \$11,787 thousand.
- (e) Confirm that the TYBR Total Vehicle Service Driver Costs in workpaper WP-PP-1 should be net of final adjustments in order to properly derive piece related costs in workpaper WP-PP-20. If confirmed, explain why the figures are not net of final adjustments. If not confirmed, explain in detail.

RESPONSE

- (a) Confirmed.
- (b) The TYBR Total Purchased Transportation Costs figure in WP-PP-1 is not net of any final adjustment figure.
- (c),(e) Not confirmed. The Total Purchased Transportation Costs and Total Vehicle Service Driver Costs numbers I used were consistent with the values used by witness Eggleston to develop the transportation cost estimates for each of the Parcel Post rate categories. I used witness Eggleston's transportation cost estimates together with the total purchased transportation and vehicle service driver values they were developed from in my rate design model. Witness Eggleston informs me that the Parcel Post final adjustment was derived after the transportation cost figures were estimated and was based, in part, on those cost estimates, so the Parcel Post final adjustment was not known when the transportation costs were derived. I have also been informed by witness

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Patelunas that final adjustments are not distributed to cost segments in the Postal Service's rollforward costing methodology, which is the source of my Parcel Post aggregate cost data. I am not familiar with the full details of how witness Eggleston arrived at the apportionment of the Parcel Post final adjustment among the cost components shown in USPS-T-25, Table X-1, so I cannot say whether it would be appropriate to adjust Total Purchased Transportation Costs or Total Vehicle Service Driver Costs by the figures shown in her Table X-1 for use in developing rates, particularly since such "adjusted" data would be used together with witness Eggleston's transportation costs by rate category which are only consistent with the "unadjusted" Total Purchased Transportation Costs and Total Vehicle Service Driver Costs. Ideally, all necessary costing information would be known before the transportation costs were derived and both the per cubic foot transportation costs and the total purchased transportation and vehicle service driver costs used in the rate design model could reflect this costing information, obviating the need for final adjustments.

- (d) The TYBR Total Vehicle Service Driver Costs figure in WP-PP-1 is not net of any final adjustment figure.

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UPS/USPS-T33-34. Refer to library reference USPS-LR-J-106, workpaper WP-PP- 1, line 18(c).

(a) Confirm that a piggyback factor of 1.516 has been applied to the TYBR Vehicle Service Driver costs.

(b) Explain why a piggyback factor was applied to the TYBR Vehicle Service Driver costs.

(c) Explain in detail why the final adjustment piggyback factor for Vehicle Service Drivers of 1.141 (see USPS-T-15, Attachment 11) was not applied instead of 1.516.

RESPONSE

(a) Confirmed.

(b) Using piggybacked Vehicle Service Driver costs is consistent with the way witness Eggleston informs me the transportation cost estimates I used in my rate design were derived.

(c) Witness Eggleston informs me that the 1.516 value is the correct one to use, since it is the same piggyback factor she used with Vehicle Service Driver costs when she developed her transportation cost estimates for Parcel Post rate categories.

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UPS/USPS-T33-35. Refer to your response to interrogatory UPS/USPS-T33- 1(c), (f), and (i) where costs for the 3-pound Destination Delivery Unit ("DDU") destination entry parcel are referred to as "unadjusted."

(a) Are you referring only to the mail processing costs, including piggyback, for DDU destination entry pieces of 34.6 cents per piece obtained from Witness Eggleston's Parcel Post analysis contained in library reference USPS-LR-J-64, Attachment A, or are there other costs that need to be "adjusted"? If there are other costs, identify each cost that should be "adjusted".

(b) Confirm that you are referring to the final adjustment process, which in the case of Parcel Post, has been performed by Witness Eggleston, in library reference USPS LR-J-64, Attachment I. If not confirmed, explain in detail the adjustment(s) to which you are referring.

(c) Confirm that the final adjustments for Parcel Post adjust Test Year Parcel Post costs for the differing volume mix by rate category from the Base Year to the Test Year. If not confirmed, explain.

(d) Confirm that, in adjusting Parcel Post costs, the final adjustments use Witness Eggleston's Parcel Post mail processing and transportation cost estimates by rate category derived in library reference USPS-LR-J-64, Attachment A and B. If not confirmed, explain.

(e) Why will the application of final adjustments to Parcel Post overall costs impact the underlying cost by rate category of Parcel Post derived by Witness Eggleston?

RESPONSE

(a) In my response to question UPS/USPS-T33-1, my reference to unadjusted costs was designed to reflect my concern that building up a rate using unit costs that tie to individual cost pools before final adjustments would produce incorrect results. There are two reasons for this concern: first, if these unit costs were aggregated across all rate cells, they would significantly exceed total adjusted Parcel Post costs. And second, the markup used in the bottom-up process was developed with post-final adjustment costs, and would therefore be incorrect to use with unit costs that did not reflect these adjustments. It was not my intent in my response to either limit or specify which individual cost items should receive final adjustments (see my response to subpart (b), below, and to question UPS/USPS-T33-33). Rather, my response was intended to point out that final adjustments must be incorporated somewhere within the bottom-up ratemaking

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process, and must be applied in an appropriate fashion. Since I did not use the bottom-up approach in preparing my testimony and workpapers, I did not have to solve the problem of how the final adjustments should appropriately feed into unit costs for the purposes of developing Parcel Post rates using a bottom-up approach. I cannot say in detail which cost components should bear which portion, if any, of the total adjustment.

- (b) I can confirm that when I referred to Parcel Post final adjustments, I was referring to the final adjustments reported to me by witness Patelunas in the "D report" of the rollforward model. I understand that witness Eggleston developed most of the final adjustments for Parcel Post that were included in the D report.
- (c) This question has been redirected to witness Eggleston (USPS-T-25) for response.
- (d) This question has been redirected to witness Eggleston (USPS-T-25) for response.
- (e) If the "underlying cost by rate category of Parcel Post derived by Witness Eggleston" refers to the transportation costs for each Parcel Post rate category estimated by witness Eggleston and supplied to me, then application of final adjustments will not affect those cost estimates, since they tie to the cost pool numbers before final adjustments. Witness Eggleston also supplied me with a number of estimated cost differences between workshared and non-workshared Parcel Post, which I used in my rate design. The final adjustments would not affect these cost differences.

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UPS/USPS-T33-36. Refer to your response to interrogatory UPS/USPS-T33- 1(g) and to workpapers WP-PP-20 and WP-PP-1 from library reference USPS-LR-J-106. Confirm that the mark-up included in the per piece component of your preliminary Parcel Post rates, including that applicable to Destination Delivery Unit ("DDU") destination-entry parcels, is $\$564,137,378 \times (1.03) \times (15.26\%) / 405,633,782$ pieces, or 21.9 cents per piece. If not confirmed, explain in detail.

RESPONSE

The markup factor applied to the per-piece costs plus contingency produces an average "preliminary per piece markup" of 21.9 cents per piece.

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UPS/USPS-T33-37. Refer to your response to interrogatory UPS/USPS-T33- 1(e) and to workpaper WP-PP-20 from library reference USPS-LR-J-106. Confirm that the delivery confirmation cost assessed to each Parcel Select piece, including Destination Delivery Unit ("DDU") destination-entry parcels, in deriving preliminary rates is 3.8 cents per piece (including contingency and the markup used to derive preliminary rates). If not confirmed, explain in detail.

RESPONSE

Confirmed.

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UPS/USPS-T33-38. Refer to your response to interrogatory UPS/USPS-T33-1(f) regarding the per piece costs used in the calculation of the cost of a 3-pound Destination Delivery Unit ("DDU") destination entry piece not being adjusted to "remove weight-related non-transportation costs."

(a) Confirm that, in your Parcel Post rate design, weight-related non-transportation costs are removed from the per piece charges and replaced by weight-related non-transportation costs included in the per pound charges. If not confirmed, explain.

(b) Refer to workpaper WP-PP-20 from library reference USPS-LR-J-106. Confirm that the weight-related non-transportation costs removed from the per piece charges in your Parcel Post rate design is 12.1 cents (obtained by dividing \$49,060,830 of weight-related non-transportation costs by the number of TYBR pieces of 405,633,782), excluding contingency. If not confirmed, explain.

(c) Refer to workpaper WP-PP-16, from library reference USPS-LR-J-106. Confirm that the weight-related non-transportation cost for a 3-pound DDU destination entry parcel applied in your Parcel Post rate design is 6.9 cents per piece, excluding contingency. If not confirmed, explain.

(d) Confirm that in your Parcel Post rate design the costs applied to a 3-pound DDU parcel in deriving preliminary rates is reduced by 5.2 cents (12.1 cents minus 6.9 cents), excluding contingency, by application of the weight-related non-transportation cost calculation. If not confirmed, explain.

RESPONSE

(a) *Confirmed.*

(b) The amount of weight-related non-transportation costs, excluding contingency, subtracted from the total costs allocated to the per-piece element when divided by the total number of pieces is 12.1 cents.

(c) *Confirmed.*

(d) Not confirmed. There is no cost reduction. Weight-related non-transportation costs, as well as transportation costs are removed from total costs. The remaining costs are then recovered in the per-piece rate elements and the weight-related non-transportation costs and transportation costs are recovered in the per-pound rate elements. Weight-related non-transportation costs are apportioned to all Parcel Post rate categories based on their cube-weight relationships as recommended by the Commission in Docket No. R2000-1. Referring to this apportionment as a "cost reduction" is erroneous and is

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analogous to referring to a tax refund that I might receive because too much
money was withheld from my paycheck as a "tax reduction."

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UPS/USPS-T33-39. Refer to your response to interrogatory UPS/USPS-T33- 1(f). Confirm that, prior to any potential "adjustment" to the 34.6 cent mail processing cost for Destination Delivery Unit ("DDU") destination-entry parcels:

- (a) The total of city and rural carrier, mail processing, and transportation costs for a 3-pound DDU destination entry piece is 78.5 cents ($37.7 + 34.6 + 6.2$) per piece (excluding contingency). If not confirmed, explain.
- (b) Accepting the need to adjust non-transportation costs for weight would reduce the cost of 78.5 cents per piece cost by 5.2 cents per piece (excluding contingency) for a 3-pound DDU parcel. If not confirmed, explain.
- (c) This yields a cost for a 3-pound DDU destination entry piece of 73.3 cents per piece ($78.5 - 5.2$) excluding contingency, and 75.5 cents per piece with a 3.0% contingency applied. If not confirmed, explain in detail.
- (d) Adding to this total the delivery confirmation charges (including markup and contingency) of 3.8 cents per piece, the per piece markup used in deriving preliminary rates of 21.9 cents per piece, and the per pound markup used in deriving preliminary rates of 2.2 cents per piece, yields a total cost, including the markup used in deriving preliminary rates, for a 3-pound DDU destination entry piece of \$1.03.4. If not confirmed, explain.

RESPONSE

- (a) The reservations expressed in my responses to UPS/USPS-T33-1 still apply. If the cost components are understood as unadjusted costs, the proposition can be mathematically confirmed.
 - (b) The reservations expressed in my responses to UPS/USPS-T33-1 still apply. If the cost components are understood as unadjusted costs, the proposition can be mathematically confirmed.
 - (c) The reservations expressed in my responses to UPS/USPS-T33-1 still apply. If the cost components are understood as unadjusted costs, the proposition can be mathematically confirmed.
 - (d) The reservations expressed in my responses to UPS/USPS-T33-1 still apply. If the cost components are understood as unadjusted costs, the proposition can be mathematically confirmed.
-

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UPS/USPS-T33-40. Refer to your response to interrogatory UPS/USPS-T33-1(i) regarding taking "into account the impacts of revenue offsets, such as from surcharges," in deriving the cost plus markup of a 3-pound Destination Delivery Unit ("DDU") destination entry piece.

(a) Confirm that preliminary rate markups per piece are used both in the bottom-up calculation in interrogatory UPS/USPS-T33-1 of the cost, plus markup, of a 3-pound DDU destination entry piece and the preliminary rate you derive for a 3-pound DDU destination entry piece. If not confirmed, explain.

(b) Explain why a bottom-up cost analysis that applies the same markup as used in preliminary rates needs to take into account the impact of revenue offsets when the results of the bottom-up cost analysis is being compared to the preliminary rate.

RESPONSE

- (a) It can be confirmed that both procedures use markup factors. The term "preliminary rate markups" is not one that I have used in my testimony. If it refers to the Cost Coverage Markup Factor that I used in my Parcel Post workpapers, I can confirm that both my preliminary rate calculation and the bottom-up calculation referred to in this question use this factor.
- (b) To the extent that the same markup factor is applied to the same set of costs, the same revenue apparently should be generated. With this understanding in mind, the revenue offsets, such as from surcharges, only serve to reduce the overall revenue target, and so they should not need to be taken into account when my approach is being compared to a bottom-up approach. My response to UPS/USPS-T33-1(i) should be revised to reflect this understanding.
-

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UPS/USPS-T33-41. Refer to your response to interrogatory UPS/USPS-T33- 1(i). Confirm that, in your Parcel Post rate design, in the absence of rate change constraints, preliminary Parcel Post rates will equal final Parcel Post rates. If not confirmed, explain in detail.

RESPONSE

Not confirmed. In developing the rates the Postal Service proposes to the Postal Rate Commission, my preliminary rates serve as only a starting point. How the rates change from their current values is certainly an important consideration, but it is by no means the only issue considered when developing the proposed rates. My testimony and workpapers show that other factors such as the relationship of Intra-BMC rates to DBMC rates, and the relationship of Intra-BMC and Inter-BMC rates to Priority Mail rates also impose constraints on the final rates proposed. If it were the case, which it is not, that the preliminary rates were in complete accord with all Postal Service ratemaking goals, it is then likely that the preliminary Parcel Post rates would be those recommended to the Commission.

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UPS/USPS-T33-42. Refer to your response to interrogatory UPS/USPS-T33- 1(h)(iii) and workpaper WP-PP-21, from library reference USPS-LR-J-106.

(a) Confirm that intra-BMC (Bulk Mail Center) Zone 1 through 5 pieces 3- pound pieces have a per pound charge of \$1.5825 per piece applied in deriving preliminary rates. If not confirmed, explain.

(b) Confirm that the preliminary rate markup (using the markup factor of 15.26%) embodied in this per pound charge for a 3-pound intra-BMC Zone 1 through 5 piece is 21.0 cents. If not confirmed, explain.

(c) Explain why the preliminary rate markup in the per pound charge for a 3- pound piece should be 21.0 cents for an intra-BMC piece, but only 2.2 cents for a Destination Delivery Unit ("DDU") destination entry piece when DDU destination entry is a workshared rate category.

RESPONSE

(a) Confirmed.

(b) Confirmed.

(c) When the markup factor is applied to separately derived transportation costs those rate categories with higher per pound costs (such as Intra-BMC and Inter-BMC) experience a greater "preliminary rate markup" than those categories (such as DDU) that impose less per-pound costs on the Postal Service. It should be remembered that this so-called "preliminary rate markup" on the per-pound component of the preliminary rates represents only one portion of the total "preliminary markup" associated with any particular rate cell. It should also be noted that the preliminary rates are just the starting point for developing the final rates (see my response to UPS/USPS-T33-41), and that these rates undergo significant adjustments before they become the final rates that the Postal Service proposes to the Postal Rate Commission. These adjustments have significant impact on the real "markup," or contribution, associated with individual rate cells. Furthermore, for the reasons discussed in my response to UPS/USPS-T33-27, calling DDU mail a workshared category for transportation cost purposes can be misleading and lead to artificial distinctions and ratemaking practices that are

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inappropriate, since there are no logical distinctions between the "transportation worksharing" involved in destination entry and in, for example, zone skipping. Moreover, as explained in my response to question 27, once one accepts the argument that transportation costs should bear the same absolute markup, there is no logical barrier to extending this requirement to all zones and weights, a wholly undesirable result. Finally, if a 3-pound DDU parcel were to have the same 21.0 cent markup on its per-pound component as a 3-pound Intra-BMC parcel, the transportation component of the DDU piece would bear a markup that far exceeds 300%. I fail to see why it is reasonable to impose this kind of markup on DDU parcels' transportation costs.

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UPS/USPS-T33-43. Refer to Witness Eggleston's response to UPS/USPS-T25- 26 regarding the uncertainty associated with the cube and the corresponding costs for 1-pound Parcel Post parcels (e.g., extremely light parcels cannot be sorted using a parcels sorting machine). Given this uncertainty, why is it appropriate for there to be a different rate for 1 and 2 pound Parcel Post pieces?

RESPONSE

The way I read witness Eggleston's response, it is an attempt to reply accurately to an *overly broad inquiry*. While she does discuss how it is possible that smaller parcels might cost more to sort than slightly heavier parcels (since the smallest parcels might not be machinable), I do not read her discussion as a statement that she believes that, on average, Parcel Post parcels paying the one-pound rate will incur either significantly higher or significantly lower mail processing costs than parcels that weigh up to two pounds. Any lack of universal certainty that may exist regarding the exact cost of processing parcels weighing under one pound appear to be within the range of uncertainty that the Postal Service faces all the time when making rates. This lack of total certainty does not raise sufficient concern to argue against offering our customers the benefits of a *separate rate for parcels weighing less than one pound*. Such lack of universal certainty could exist for various weight increments for various classes. Given the Commission's obvious interest in seeing a separate rate, if possible, for these parcels, and the fact that two-pound parcels cost more to transport than one-pound parcels, I believe a much more compelling reason than the aforementioned "uncertainties" would have to emerge to deny our customers the benefits of a one-pound rate.

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UPS/USPS-T33-45. Refer to your response to interrogatory UPS/USPS-T33-23.

- (a) Confirm that, in making Parcel Post rates, the division of costs between the per piece and per pound rate elements is an important step in deriving the preliminary rates for each rate category. If not confirmed, explain.
- (b) Confirm that, all else equal, recovering the correct amount of cost in the per piece rate elements but too much cost in the per pound rate elements, will lower the markup factor (shown in library reference USPS-LR-J-106, WP-PP-1, line (2)) used in the Parcel Post rate design process. If not confirmed, explain.
- (c) Confirm that, all else equal, recovering too little cost plus markup in the per piece rate element and too much cost plus markup in the per pound rate elements will yield Parcel Post rates that are too high for rate categories with relatively high pound-related costs and too low for rate categories with relatively low pound-related costs. If not confirmed, explain.

RESPONSE

- (a) I can confirm that the stated operation is one of many important steps.
- (b),(c) I cannot confirm any of these propositions since I am unable to discern what the terms "correct amount of costs," "too much cost," and "too little cost" mean within the context of developing per-piece and per-pound rate elements. Many factors enter into the ratemaking process. I cannot agree with the premise that there is a single "correct" value for the portion of cost that should be recovered in either the per-piece or per-pound rate elements in the same way one can say that there is a single "correct" value for physical constants like, for example, the speed of light, or for mathematical constants like pi. In developing its rate proposals the Postal Service takes into account mathematical processes and formulas, as well as many other factors as part of the rate design process. The end result is a set of rate proposals that the Postal Service believes are appropriate, after all factors have been considered. It would be inappropriate to identify any single value of cost as the only correct amount of cost that can be recovered in either the per-piece rate element or the per-pound rate element. In the course of rate design, the Postal Service often shifts the recovery of costs between the per-piece and per-pound rate elements, as well as between one rate category (such as DDU Parcel Post) and another (such as

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Inter-BMC Parcel Post). The Postal Service believes that such redistributions of cost recoveries can be appropriate, when taken within the right context of overall rate design. This approach leads to results where the proposed rates may sometimes differ significantly from the preliminary, or starting, rate figures produced by the application of mathematical formulas. For example, taking the case of the three-pound DDU parcel oft-cited in UPS's interrogatories, my preliminary rate for this piece is \$0.85, while using a different approach (described in interrogatory UPS/USPS-T33-39), UPS apparently develops a preliminary rate of \$1.03. My actual proposed rate for this parcel is \$1.29, which is significantly higher than the preliminary rate even UPS's approach produces. I believe that taking all factors into account, the \$1.29 proposed is appropriate for this parcel, and would still be appropriate, even had I followed an alternative approach to rate design that had produced a preliminary rate for a three-pound DDU parcel closer to UPS's preliminary rate.

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REDIRECTED FROM WITNESS MOELLER**

UPS/USPS-T28-22. Confirm that a worksharing discount is not offered for Priority Mail pieces that are entered at the Destination Delivery Unit ("DDU"). If not confirmed, explain in detail.

(a) Confirm that any piece that is migrated from Priority Mail to Parcel Post DDU destination entry will yield significantly less contribution per piece to institutional costs. If not confirmed, explain in detail.

(b) Assume there was a DDU destination entry discount for Priority Mail pieces. Confirm that a workshared Priority Mail DDU destination entry piece with 100% passthrough of worksharing savings would have a contribution to institutional costs of \$2.23 per piece. If not confirmed, explain in detail.

RESPONSE:

See my response to UPS/USPS-T33-4.

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REDIRECTED FROM WITNESS MOELLER**

UPS/USPS-T28-23. Refer to library reference USPS-LR-J-64, Attachment A, page 6.

(a) Confirm that there were approximately 38 million Parcel Post DDU-entry pieces in Base Year 2000. If not confirmed, explain in detail.

(b) Refer to library reference USPS-LR-J-106, workpaper WP-PP-1. Confirm that there are expected to be approximately 104 million Parcel Post DDU destination-entry pieces in the TYAR under the Postal Service's proposed rates. If not confirmed, explain in detail.

(c) Confirm that Parcel Post DDU destination entry pieces are forecast to be 28.1% of total Parcel Post volume in the TYAR. If not confirmed, explain in detail.

RESPONSE:

See my response to UPS/USPS-T33-5.

**RESPONSE OF UNITED STATES POSTAL WITNESS KIEFER
TO PRESIDING OFFICER'S INFORMATION REQUEST 2**

QUESTION 1

At page 22 of USPS-T-33, witness Kiefer describes the use of 'Zoning Factors' to counteract the tendency toward anomalous rates due to the fact that non-local Intra-BMC transportation costs "bear no readily identifiable relationship to the distances between the origin and destination ZIP codes." These zoning factors for zones 1 & 2, 3, 4, and 5 are 0.99, 1.00, 1.02, and 1.05 respectively. a. Please describe how these factors were determined? b. Did the Postal Service explore other means of reducing the tendency for Intra-BMC rates to dictate DBMC rates? c. If so, please describe in detail and explain why each was rejected.

RESPONSE

- a. The values for these zoning factors were determined judgmentally so as to be initially revenue neutral, while reducing to acceptable levels the tendency for DBMC rates to be set by Intra-BMC rates. In this context, "revenue neutral" means that the factor values were selected so that they did not alter the total amount of revenue collected by the Intra-BMC rates.
- b + c. The Postal Service could have used a system of arbitrary or *ad hoc* adjustments to the Intra-BMC rate cells to address the rate anomaly. This approach was rejected in favor of the zoning factor approach, which the Postal Service believes to be superior because it allows rates to be adjusted in a systematic and analytically transparent fashion.

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QUESTION 8

In discussing the possibility of mailers converting machinable parcels to nonmachinable parcels in order to take advantage of the proposed NMO DSCF rate witness Kiefer states, "The Postal Service intends to develop implementation rules that will forestall any such conversions." Please describe the factors and considerations that will be used in developing these implementation rules and discuss how they will forestall conversions.

RESPONSE

The Postal Service has proposed the new 3-digit nonmachinable DSCF rate to offer mailers a way to avoid paying the DBMC nonmachinable surcharge on parcels that cannot practically be prepared in a way that will allow them to be processed on the Postal Service's parcel sorting equipment. In developing this rate proposal, the Postal Service had no desire to divert parcels that could be sorted on its parcel sorters, located in BMCs, to SCFs where they would have to be manually sorted. In consideration of these factors, the Postal Service expects that it will not alter the rules that define what is a machinable parcel and what is nonmachinable so as to make it easier for parcels to bypass mechanized parcel sorting at BMCs. Current rules require machinable parcels deposited at the DSCF to be sorted to 5-digit ZIP Codes. These rules will not be changed. Machinable parcels sorted to 3-digit ZIP Codes will not be eligible for DSCF entry, with or without payment of the 3-digit nonmachinable DSCF surcharge. The Postal Service intends to strictly enforce existing rules to avoid any such diversion of machinable parcels to DSCFs unless they are sorted to 5-digit ZIP Codes.

United States Postal Service

**Linda A. Kingsley
(USPS-T-39)**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO INTERROGATORIES OF UNITED PARCEL SERVICE REDIRECTED FROM
WITNESS KIEFER

UPS/USPS-T33-6 Describe in detail all differences in the processing and delivery of Priority Mail pieces and Parcel Post pieces upon reaching the DDU.

Response:

Under normal circumstances, processing will be the same. However, if there are more parcel-shaped volume than the carrier can deliver that day, the carrier will deliver all the Priority Mail and handle the Standard Parcels and Parcel Post in accordance with local procedures. Frequently, this results in leaving the Standard Parcels and Parcel Post for delivery the next day. In addition, if Priority Mail arrives late at the DDU, expedited procedures (e.g., special transportation to the carrier on the route) may be used to ensure delivery the same day. Similar treatment would not be given to parcel post.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**


POIR 4/7. Please provide by subclass Base Year and Test Year volumes for flat shaped mail separated for manual processing. Please also describe the types of flat shaped mail that are separated for manual processing and the reasons for the separation.

RESPONSE:

The Postal Service does not track volumes by class or subclass either in MODS at plants or in delivery units (see response to MMA/USPS-T-39-7). However, the portion of flats sorted in manual operations in plants in FY 2000 was 23 percent (6.8 billion pieces) and the goal for FY 2002 is 7.4 percent. (See response to DMA/USPS-T39-5 and 14). Goals for the Test Year have not yet been determined.

Other than incoming secondary operations, the types of flat shaped mail that are in manual operations include rejects from the FSMs and pieces that are non-machinable such as: a small, rolled-up newspaper, a magazine over 1.25 inches thick, or any piece that does not meet the FSM 1000 machinability requirements listed in DMM C820.3.

For incoming secondary operations, the above factors come into play for automated zones (zones on an FSM to sort to carrier route) but not for non-automated zones where machinability does not matter since the sort will be done manually, usually at the delivery unit. See response to POSTCOM/USPS-T39-9, which explains criteria for the expected 65 percent of machinable incoming



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

secondary volumes, which will be sorted to carrier route on FSMs in the test year.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

POIR 4/11. These questions refer to Standard class.

- (a) Are barcodes on flat-shaped mail required to be 100 percent readable by flat automation equipment to be eligible for automation rates?
- (b) Please describe how the Postal Service determines that barcodes are readable.
- (c) If the barcodes on flat-shaped mail are found to be unreadable during mail processing, after acceptance at the dock, does the Postal Service charge the corresponding non-automation rate? If so, how?
- (d) What is the percentage of prebarcoded flats that cannot be processed on automated flat sorting machines because the barcodes are not readable?
- (e) Please describe how the Postal Service processes flat-shaped mail with unreadable barcodes.

RESPONSE:

- (a) To ensure readability, barcodes on all flat-shaped mail are required to meet the applicable barcode standards in Domestic Mail Manual (DMM) C840. Acceptance and verification procedures for barcode quality are contained in *Business Mail Acceptance Handbook DM-109*. Under these procedures, when barcodes on automation rate flat-size mailpieces are inspected for compliance with DMM standards, if 90 percent or more of the mailpieces in the sample meet the standards for barcode quality, the mailing passes the verification for barcode quality. If, as a result of the barcode quality inspection, less than 90 percent of the mailpieces sampled meet the barcode quality standards, postage is adjusted before the mailing is accepted.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KINGSLEY
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

- (b) MERLIN is used at sites where it has been deployed. At sites where MERLIN has not been deployed, barcodes are visually inspected for DMM compliance using the verification tools specified in Handbook DM-109, Chapter 7.
- (c) There is no procedure in place to charge mailers additional postage for barcodes that are found to be unreadable during mail processing.
- (d) Results from AFSM 100 engineering tests indicate barcode read rates of 93.87 percent. This figure is in LR-J-61, page 84 for Standard mail.
- (e) OCR/BCR read rejects on the AFSM 100 have images keyed through the Video Coding System (VCS). For non-incoming secondary processing operations, if the keyer is unable to resolve the image, the piece will most likely go to an FSM 1000 to be keyed while the OCR/BCR read rejects from the FSM 881 are either keyed on the FSM 881 or FSM 1000. For FSM incoming secondary processing operations, the rejects would be sent to manual operations.

United States Postal Service

**Samuel J. Koroma
(USPS-T-37)**

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF CONTINUITY SHIPPERS ASSOCIATION
(CSA/USPS-T37-1-6)**

CSA/USPS-T37-1. *How many companies used BPRS in 1998, in 1999, and in 2000?*

RESPONSE:

Four companies used BPRS in 1998, six in 1999, and fourteen in 2000.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF CONTINUITY SHIPPERS ASSOCIATION
(CSA/USPS-T37-1-6)**

CSA/USPS-T37-2. In your testimony, you provide BPRS volume numbers for 1998, 1999, and 2000.

- (a) What is the source of these volume numbers?
- (b) Are these volume numbers actuals or estimates?
- (c) If they are estimates, please provide the method for estimating them.

RESPONSE:

- (a) The source of the data is the Revenue, Pieces, and Weight (RPW) Report.
- (b) Estimates.
- (c) See witness Pafford's testimony, USPS-T-3. See also, Library References USPS-LR-J-16, USPS-LR-J-17, and USPS-LR-J-21 through USPS-LR-J-23.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF CONTINUITY SHIPPERS ASSOCIATION
(CSA/USPS-T37-1-6)**

CSA/USPS-T37-3. In your testimony you provide revenue figures for 1998, 1999, and 2000.

- (a) Please provide the source of these figures.
- (b) Are these actuals or estimates?
- (c) If they are estimates, please provide the method for estimating them.
- (d) Do these revenue estimates include annual permit fees and accounting fees?

RESPONSE:

- (a) The source of the data is the Revenue, Pieces, and Weight (RPW) Report.
- (b) Estimates.
- (c) See witness Pafford's testimony, USPS-T-3. See also, Library References USPS-LR-J-16, USPS-LR-J-17, and USPS-LR-J-21 through USPS-LR-J-23.
- (d) No.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF CONTINUITY SHIPPERS ASSOCIATION
(CSA/USPS-T37-1-6)**

CSA/USPS-T37-4. Please confirm that the revenue per piece given the volumes and the revenues in your testimony are \$1.75 in 1998, \$1.75 in 1999, and \$1.75 in 2000. If you cannot confirm, please provide the correct revenue per piece.

RESPONSE:

Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF CONTINUITY SHIPPERS ASSOCIATION
(CSA/USPS-T37-1-6)**

CSA/USPS-T37-5. Please explain why the revenue per piece did not decrease even though the fee per returned piece has declined from \$1.75 to \$1.62.

RESPONSE:

The fee of \$1.62 per returned piece was not implemented until January 7, 2001.

Prior to that, the \$1.75 fee was in place during 1998, 1999, and 2000.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF CONTINUITY SHIPPERS ASSOCIATION
(CSA/USPS-T37-1-6)**

CSA/USPS-T37-6. In your testimony you say, "the BPRS fee is designed in this case to keep the percentage increase not too far above the systemwide average increase." Please confirm that the BPRS proposed per piece increase is 11 percent, that the systemwide average increase is 8.7 percent, and that 11 percent is 26 percent greater than 8.7 percent. If you can not confirm, please explain why.

RESPONSE:

Confirmed, assuming you mean "greater than 8.7 percent".

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-1-6)**

OCA/USPS-T37-1. Under the current fee schedule for domestic money orders, one fee is charged for money orders valued up to \$700.00. Per your testimony, the Postal Service is not proposing to increase the money order fee for money orders up to \$500.00. However, your testimony at page 40 states, "[P]urchasers of money order [sic] with face value of \$500.01 – \$1000 are receiving a higher value service, so a reasonable fee increase is proposed."

- (a) Given that the existing domestic money order fee is \$0.90 for a money order valued up to \$700.00, please explain your rationale for claiming that money orders from \$500.01 to \$700.00 now provide a higher value service and thus should be charged the higher fee of \$1.25.
- (b) Please confirm that you indicate at page 40 of your testimony that you are proposing two tiers for money orders -- \$0.01 to \$500.00 and \$500.01 to \$1,000.00.
- (c) Please explain why the Fee Schedule 971 provided in the USPS request indicates that the Postal Service is proposing three distinct domestic moneyorder categories - \$0.01 - \$500.00; \$500.01 - \$700.00; and \$700.01 - \$1,000.00.

RESPONSE:

- (a) My testimony at page 40 specifically referred to money orders valued from \$500.01 to \$1000 as receiving a higher value service. Consistent with the proposed two-tiered structure, I consider money orders with face value of \$500.01-\$1000 as having a higher value of service compared to money orders with face value of \$0.01-\$500. The \$500.01-\$1,000 money orders have a higher monetary value than the \$0.01-\$500 money orders. As discussed in my testimony, moreover, the \$500.01-\$700 money orders

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-1-6)**

have a higher value than the lower value money orders because of the lack of competitive alternatives at comparable prices.

(b) Confirmed.

(c) The Postal Service is not proposing three distinct domestic money order fee categories but two as confirmed in (b) above. The fee schedule is presented as three lines so that we can present the current and proposed fees together. Our intent is to have two fee categories, with the higher category for \$500.01 to \$1000.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-1-6)**

OCA/USPS-T37-2. Please confirm that in January 7, 2001, the money order fee was \$0.75 for money orders valued between \$0.01 and \$700.00. If you are unable to confirm, please explain.

RESPONSE:

Confirmed. However, this was a result of the Decision of the Governors of the United States Postal Service to allow the Commission's recommendations to take effect under protest.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-1-6)**

OCA/USPS-T37-3. Please confirm that the domestic money order fee was increased to \$0.90 in July 1, 2001, for money orders valued between \$0.01 and \$700.00. If you are unable to confirm, please explain.

RESPONSE:

Confirmed.

Revised Nov. 2, 2001

**REVISED RESPONSE OF
POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T37-4. The USPS August 2001, Billing Determinants for FY 2000, indicates that there were 582,140 APO/FPO money order transactions totaling \$174,642. For FY 2000, in \$50.00 increments beginning with \$0.01 - \$50.00, please provide the number of transactions and the total value of APO/FPO money order transactions purchased.

RESPONSE:

Money Orders sold at APO/FPO Installations			
(Data extracted from the Money Order History File dated 10/12/2001)			
FY 2000			
(9/11/1999-9/8/2000)			
Amount Range	APO/FPO Money Orders		
	Count	Face Amount	
\$0.01-\$50.00	270,823	\$6,623,685.40	
\$50.01-\$100.00	124,152	\$9,953,581.04	
\$100.01-\$150.00	52,911	\$6,789,464.76	
\$150.01-\$200.00	44,529	\$8,233,908.50	
\$200.01-\$250.00	21,692	\$4,989,473.27	
\$250.01-\$300.00	25,290	\$7,260,590.64	
\$300.01-\$350.00	11,362	\$3,733,977.89	
\$350.01-\$400.00	14,422	\$5,571,167.47	
\$400.01-\$450.00	6,612	\$2,832,694.22	
\$450.01-\$500.00	16,974	\$8,376,095.18	
\$500.01-\$550.00	4,057	\$2,139,982.13	
\$550.01-\$600.00	6,496	\$3,830,940.03	
\$600.01-\$650.00	2,603	\$1,637,690.01	
\$650.01-\$700.00	27,486	\$19,191,521.81	
>\$700.00	22	\$16,542.14	
Total	629,431	\$91,181,314.49	

Note volume discrepancy of 47,219 between the above and what was provided in the Billing Determinants. The above figures include disposition of all APO/FPO money order records, which includes reissues, cancellations, corrections and other adjustments.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-1-6)**

OCA/USPS-T37-5. Your testimony at page 41 states, "Increasing the limit to \$1000 also eliminates the need to purchase two money orders to pay for high dollar value COD purchases. . . . Additionally, it reduces the need to purchase multiple money orders for higher value expenditures such as rent." Please explain why the limit of \$700.00 on Military (APO/FPO) money orders was not increased to \$1,000.00.

RESPONSE:

We are proposing to increase the limit for APO/FPO money orders to \$1000.00.

As discussed on pages 35 and 41 of my testimony, the classification change to increase the money order limit to \$1,000 applies to both domestic and APO/FPO money orders. Also see Table 8 of my testimony. An erratum to proposed Fee Schedule 971 to state the new limit for APO/FPO money orders will be filed shortly.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-1-6)**

OCA/USPS-T37-6. Your testimony at page 42 states, "The highest value of money order readily available through alternative means is \$500.00." Please identify the "readily available alternative means" you are referring to.

RESPONSE:


The readily available alternative means I am referring to are drug stores, convenience stores, liquor stores, and check cashing establishments.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-7-8)**

OCA/USPS-T37-7. You indicate on page 1 of your testimony, lines 3-8, that your testimony proposes fee changes and classification changes for a number of special services: Address changes for election boards, address correction, bulk parcel return service, carrier sequencing of address cards, certificates of mailing, collect on delivery, correction of mailing lists, money orders, on-site meter service, Periodicals applications fees, permit fees, registered mail, restricted delivery, and ZIP Coding of mailing lists.

- a. How does the Postal Service measure the quality of service and customer satisfaction for these services?
- b. Please provide copies of all studies, memos, analyses, reviews, and presentations that the Postal Service has in its possession related to the quality of service provided for these services.
- c. Please provide copies of all studies, memos, analyses, reviews, and presentations that the Postal Service has in its possession related to customer satisfaction with respect to these services.

RESPONSE:

- (a) The Postal Service has no measurement for the quality of service or customer satisfaction for these services. However, I do consider the quality of service of the special services described in my testimony through a qualitative approach depending on the service or product offered.
 - (b) The Postal service does not hold any studies, memos, analyses, reviews, or presentations related to the quality of service provided for these services.
 - (c) There are no such studies, memos, analyses, reviews, or presentations.
- 

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORIES OF THE OFFICE OF CONSUMER ADVOCATE
(OCA/USPS-T37-7-8)**

OCA/USPS-T37-8. On page 3 of your testimony, lines 5-34, you discuss pricing and classification criteria.

- a. Please explain how you applied each of the nine criteria to each service.
- b. For each of the special services that you address, please provide the weightings that you used for each of the criteria in arriving at an overall decision on pricing.

RESPONSE:

- (a) See my discussion(s) on pricing criteria for each of the services addressed in my testimony. Since each special service addressed in my testimony has its own unique characteristics, the specific criteria applicable to the service in question are discussed in the appropriate section in my testimony.
- (b) No explicit weighting factors were applied to the pricing criteria discussed in my testimony. Pricing decisions are arrived at through reasonable and sound judgment.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T37-9. The following interrogatory refers to your response to OCA/USPS-T37-4. Since the current maximum money order denomination is \$700.00, please explain how 22 money orders with a total value of \$16,542.14 were sold in denominations greater than \$700.00.

RESPONSE:

The 22 money orders identified in the attachment to OCA/USPS-T37-4 were erroneously issued for amounts in excess of \$700.

I have been informed that the process for issuing APO/FPO money orders at small units or on smaller vessels is primarily a manual process performed by a member of the unit as an ancillary duty. Infrequently, APO/FPO money orders are issued for amounts in excess of \$700. When a money order issued for an amount in excess of \$700 is presented to the St. Louis Money Order Processing Center, the staff will verify the amount of the money order against the APO/FPO issuance report to ensure that funds in the amount of the money order were collected. The money order is then paid.

Considering the manual nature of the process, the issuance error rate of .003 (22/629,431) percent, with the corresponding loss of \$5.50 of fees, does not appear excessive.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T37-10. The following questions refer to a library reference you are sponsoring, USPS-LR-J-110.

- (a) In order to test the impact of a change in the Test Year number of money order transactions and a change in the Test Year money order fee, please confirm that one would need to change the worksheet titled "Money Order," cell B012 (transactions) and cells AJ25 to AJ27 (fees). If you are unable to confirm, please explain.
- (b) Please confirm that there are no forecasted money order volumes for the \$700.01 to \$1000.00 range for Test Year Before and After Rates. If you are unable to confirm, please explain.
- (c) Please explain why the USPS did not forecast money orders volumes for the \$700.01 to \$1000.00 range for the Test Year Before and After Rates.

RESPONSE:

- (a) Not Confirmed. Modifying cell B012 (After Rate Volume Forecast) will affect transaction volumes for all money order categories. Modifying AJ 25 to AJ 27 will change fee levels for domestic money orders only.
- (b-c) Not confirmed. See attached revised version of WP-11, which will be filed as errata, and clarifies my intent to project one TYAR volume (22,747) for the new \$500-\$1000 category. Since the value levels \$500.01-\$700 and \$700.01-\$1000 are in the same fee category proposed in my testimony, I did not attempt to divide the volume between these two value levels in my workpapers. Nonetheless, I do expect that some of this volume will be in the \$700.01-\$1000 value level. For example, a customer who currently

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37)
TO INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE**
OCA/USPS-T37-10, Page 2 of 2

purchases a \$100 and a \$700 money order to get \$800 in money orders would be expected to simply purchase one \$800 money order, if my proposal is implemented.

Test Year Before and After Rates transaction volume forecasts were obtained from Library Reference J-125, Tables 125-1 and 125-2, respectively. The TYBR volume is all in the \$500-\$700 value level, since the \$700 limit is increased only in TYAR. My WP-11, USPS-LR-J-110 allocates the total money order TYAR forecast volume to the types and fee categories of money orders based on FY 2000 volumes. (This classification of volume is clarified in the attached version of WP-11.)

SPECIAL SERVICES
MONEY ORDERS
TEST YEAR 2003

USPS-T-37
WP-11

VALUE	TRANSACTIONS (000s)			FEES (\$)		REVENUES (000)		PERCENT CHANGE 1/
	FY 2000	TEST YEAR BEFORE RATES	TEST YEAR AFTER RATES			BEFORE RATES VOLUME CURRENT FEE	AFTER RATES VOLUME PROPOSED FEE	
				CURRENT	PROPOSED			
APO-FPO	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
\$0-\$700/\$0-\$1000	582	580	574	\$0.25	\$0.25	145	144	0.00%
DOMESTIC								
\$0-\$700/\$0-\$500	230,587	229,642	204,719 2/	\$0.90	\$0.90	206,677	184,247	0.00%
\$500-\$1000	N/A	N/A	22,747 3/	\$0.90/NA	\$1.25	N/A	28,433	38.89% 4/
INTERNATIONAL								
\$0-\$700/\$0-\$1000	1,591	1,584	1,569	\$3.00	\$3.00	4,752	4,707	0.00%
TOTAL (APO, DOM, INT)	232,759	231,805	229,608			211,575	217,531	
INQUIRY FEE	889	885	877	\$2.75	\$3.00	2,435	2,631	9.09%
MO COMM REDEEM INTERNATIONAL FOR ISSUE						585	580	
MONEY ORDER FLOAT						51,334	50,848	
OUTSTANDING MONEY ORDERS TAKEN INTO REVENUE 5/						32,291	31,985	
GRAND TOTAL						298,219	303,574	

1/ Denotes the percentage change from the current fee to the proposed fee or (Column 5 - Column 4) / Column 4.

2/ 90 percent of total TYAR money orders, based on FY 2000 transaction split

3/ 10 percent of total TYAR money orders, based on FY 2000 transaction split

4/ Percentage computed based on a comparison of current fee for money orders between \$500.01 and \$700.00 to proposed fee for money orders over \$500.01.

5/ One-time downward adjustment of \$ 14.4 million to reflect base year variance.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE
REDIRECTED FROM THE POSTAL SERVICE**

OCA/USPS-82. The following refers to USPS-LR-J-144, volume 1, Module 7, page 134.

- (a) Please explain why a postal customer cannot purchase a postal money order or pay for the money order fees with a credit card.
- (b) Can a postal customer purchase a postal money order with a debit card?

RESPONSE:

- (a) The business decision not to accept credit cards as a payment method for the purchase of money orders was a joint decision made by Corporate Treasury and the Inspection Service. After assessing the risk and liability of permitting the use of credit cards for the purchase of money orders, it was found that the risk exposure to the Postal Service due to fraudulent use outweighed the service convenience to the postal customer.

Once purchased, a money order, regardless of what payment method is used, can be cashed immediately for its face value. Under the governance of the Card Association rules and regulations, a customer who has made purchases with a credit card has the right to dispute a purchase and request a chargeback of the amount of the sale. During the period in which the chargeback dispute is being resolved, the customer is not obligated to make payment on the credit card transaction to the card issuer. This period can range from 60 to 180 days. The customer would

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE
REDIRECTED FROM THE POSTAL SERVICE
(OCA/USPS-82, PAGE 2 OF 3)**

then have the cash in their possession as well as be alleviated from the obligation of paying the credit card company through the chargeback process.

This would enable the customer to get access to instant cash and not be obligated to pay. The fraudulent use of credit cards, either through theft or misuse of the cards, is sufficient to present the Postal Service with significant fiduciary risk. Therefore, Corporate Treasury and the Inspection Service have concluded that this financial exposure is sufficient to exclude credit cards as a payment method for the purchase of money orders.

In addition, the bank card associations strongly discourage use of credit cards for the purchase of cash-like instruments such as money orders, travelers checks and money transfers. In addition to fraud potential, the associations do not want cardholders to circumvent the cash advance provisions which many card-issuing banks offer their customers. Cash advances on credit cards are charged immediately as loans at the prevailing credit card interest rates.

**RESPONSE OF POSTAL SERVICE WITNESS KOROMA (USPS-T-37) TO
INTERROGATORY OF THE OFFICE OF CONSUMER ADVOCATE
REDIRECTED FROM THE POSTAL SERVICE
(OCA/USPS-82, PAGE 3 OF 3)**

Unlike purchases of merchandise, cash advances begin accruing interest immediately upon receipt of the funds. If a cardholder was able to charge a money order they could immediately turn-around and cash it and in effect receive a \$700 cash advance for only 90 cents at the current money order limit and fees. Because of these concerns, the card associations require special handling of credit card purchases for cash-like instruments.

(b) Yes.

United States Postal Service

**L. Paul Loetscher
(USPS-T-41)**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS L. PAUL
LOETSCHER TO INTEROGATORIES OF COALITION OF RELIGIOUS PRESS
ASSOCIATIONS AND NATIONAL FEDERATION OF INDEPENDENT PUBLICATIONS

CRPA-NFPI/USPS-T-34-11.

Your response to CRPA-NFIP/USPS-T34-3(d) states: "The estimate for palletized volume used by the Postal Service is based on the entry profile study presented by Witness Loetscher in USPS-LR-J-114.". Confirm that the entry profile for palletization of periodicals in USPS-LR-J-114 is based on year 2000 volumes, and does not include or project any data that quantifies periodical palletization in the Test Year 2003.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS L. PAUL
LOETSCHER TO INTEROGATORIES OF COALITION OF RELIGIOUS PRESS
ASSOCIATIONS AND NATIONAL FEDERATION OF INDEPENDENT PUBLICATIONS

CRPA-NFPI/USPS-T-34-14.

.....

- (d) Confirm that the first two charts (for both nonprofit and regular periodicals) of stratified periodical circulations which follow your response to CRPA-NFIP/USPS-T34-5(d) show (1) that the only circulation strata therein which display publications which have combined DDU/DSCF/Zone 1&2 postal entries in excess of 50% of their total mailed copies are the 500,000 – 1,000,000 and 1 million + levels for regular rate periodicals, and (2) that there are no strata where nonprofit periodicals of any circulation size mail more than 50% of their circulations to a combination of DDU/DSCF/Zone 1&2 entries.
- (e) Please explain what universe the chart entitled “Regular and Nonprofit” which follows your response to 5(d), *supra*, is supposed to describe, and why that data was not included in the two earlier tables which list Nonprofit and Regular stratified volumes separately.

RESPONSE:

- (d) Not confirmed. The table presented in response to CRPA-NFIP/USPS-T34-5(d) reports the percentage of publications in the strata with the stated volume characteristics and not the characteristics of the volume of the strata. To illustrate, there are 93 publications that submitted all mail at Regular Periodicals rates in fiscal year 2000 and have an estimated issue size (issue size estimate described in MPA/USPS-T34-3) between 500,000 – 1,000,000 copies. Of these 93, two publications reported 0 advertising percentage for all mailings in FY 2000, meaning the zone distribution of these publications couldn't be determined. Of the remaining 91 publications, 58 mailed more than 50 percent of their copies at DDU, DSCF or Zone 1&2 rates. Thus 63.74 (58/91) percent of Regular Periodicals publications with measurable zone distribution and estimated issue size between 500,000 – 1,000,000 copies mailed more than 50 percent of their copies at DDU, DSCF or Zone 1&2 rates. To further illustrate,

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there are 4,230 Nonprofit Periodicals publications with an estimated issue size between 0 – 1,000. Of these, 3,974 publications reported 0 advertising percentage for all mailings in FY 2000, meaning the zone distribution of these 3,974 publications couldn't be determined. Of the remaining 256 Nonprofit Periodicals publications 91 mailed more than 50 percent of their copies at DDU, DSCF or Zone 1&2 rates. Thus 35.55 percent (91/256) of Nonprofit Periodicals publications with a measurable zone distribution and an estimated issue size between 0 – 1,000 copies mailed more than 50 percent of there copies at DDU, DSCF or Zone 1&2 rates.

- (e) Publications were allocated to table cell based on estimated issue size, as described in MPA/USPS-T34-3 and rates paid in fiscal year 2000. Publications that entered all FY 2000 mail at Regular Periodical rates are assigned to the "Regular" category. Publications that entered all FY 2000 mail at Nonprofit Periodical rates are assigned to the "Nonprofit" category. Publications that entered mail at both Nonprofit Periodicals and Regular Periodicals rates are assigned to the "Regular and Nonprofit" category.

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MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T41-1:

Table 2 of USPS-LR-J-114 disaggregates Periodicals Outside-County mail volume, weight, and number of containers by entry facility type, container type, and container size. Using the data used to produce Table 2, please provide an estimate of the number of Periodicals Outside-County sacks there are by sack size (i.e., number of pieces in sack), sack presort level, and entry facility. If the study did not collect enough detail to provide such an estimate, please provide an estimate of the number of sacks by sack size and sack presort level using the most recent data available. Please also describe the data source you used to develop the estimate.

RESPONSE:

Table 2 of LR-J-114 does not disaggregate Periodicals Outside-County mail volume, weight and number of containers by entry facility, container type and container size.

Table 2 of LR-J-114 disaggregates Periodicals Outside-County mail volume, weight and number of containers by entry facility type, container type and container presort level.

The study presented in LR-J-114 did not collect the data needed to estimate the distribution of sacks by size, presort level and entry facility. To provide an estimate, the study presented in LR-I-87/R2000-1 is used to estimate the FY1999 distribution of sacks by sack size and presort level. This distribution is then applied to the estimated sack counts presented in LR-J-114. The results are presented in Table 1 - MPA/USPS-T41-1. As preparation rules have changed since LR-I-87/R2000-1 was conducted, the distribution here may not be reflective of the current distribution of sack sizes.

Table 1 - MPAUSPS-T41-1

Distribution of Sacks by sack size
 LR-J-114 Sack Estimate distributed based on LR-J-87 Sack Distribution

Sacks from LR-J-114 5,818,875 10,134,187 37,737,042 28,481,328 3,622,061 10,443,886 3,364,127

Phases/Sack	OR Sack	ORTS Sack	S-D Sack	S-O Sack	S-CF Sack	ADC Sack	MADC Sack
1	1,408	0	155,672	74,008	85	46,822	79,348
2	242,084	0	26,589	208,438	1,079	78,442	112,888
3	2,912	0	23,933	42,185	232	78,888	118,388
4	2,784	271	884,883	22,327	157	38,030	72,782
5	2,170	0	484,484	77,013	775	38,438	52,734
6	1,180,818	481,080	3,038,704	1,378,801	33,188	624,178	80,310
7	488,785	147,127	1,674,836	884,256	44,670	488,708	68,888
8	358,445	20,281	1,181,578	787,018	52,227	378,040	78,346
9	287,232	184,841	880,578	832,387	28,572	383,845	48,384
10	177,481	22,888	638,382	582,088	18,801	232,882	82,375
11	218,788	88,300	448,451	448,800	14,871	281,791	48,111
12	808,442	478,083	482,830	542,232	18,884	388,840	11,848
13	38,888	207,254	5,832,188	623,847	31,888	812,302	12,417
14	18,188	141,571	1,418,818	848,888	28,880	310,808	12,215
15	27,088	147,110	3,384,808	388,887	22,030	254,347	48,388
16	75,105	85,880	1,784,874	348,813	28,888	133,888	24,388
17	33,534	44,146	2,228,138	380,880	18,881	105,188	42,088
18	18,283	282,385	288,117	144,028	18,028	282,383	28,848
19	72,018	888,183	1,881,421	330,317	18,878	81,818	91,288
20	82,380	388,888	343,888	278,873	38,388	82,881	43,882
21	7,388	88,382	2,384,888	280,147	27,101	88,380	8,881
22	12,834	388,888	831,288	288,748	48,732	108,382	38,828
23	3,884	832,338	112,034	487,888	28,732	78,438	37,471
24	223,978	188,478	1,181,838	880,883	188,843	381,388	80,373
25	188,884	40,882	887,872	788,888	232,840	347,888	28,884
26	188,870	281,810	258,387	988,878	311,888	387,818	34,821
27	182,782	151,018	844,882	811,883	283,482	388,378	34,827
28	22,833	488,088	188,148	784,736	172,182	241,888	38,288
29	188,858	34,878	124,838	884,880	233,418	138,388	28,148
30	28,875	488,088	723,018	881,383	118,803	170,148	12,173
31	57,847	188,217	834,838	438,878	108,880	188,878	8,882
32	2,888	181,284	240,857	438,823	178,385	222,388	17,280
33	121,818	880,028	712,474	313,818	71,788	84,083	48,125
34	7,487	832,811	132,854	347,475	132,475	178,374	28,282
35	37,873	28,148	181,888	188,883	184,288	218,567	30,818
36	15,001	138,238	188,338	840,829	123,012	218,284	47,880
37	27,419	3,488	117,758	218,880	74,888	80,184	84,338
38	2,488	78,487	287,280	588,824	187,787	121,811	28,181
39	12,888	312,218	880,088	348,313	58,723	218,723	13,238
40	2,888	284,477	281,838	287,544	40,138	88,018	21,888
41	28,477	2,588	188,188	378,388	88,723	218,113	18,157
42	1,840	4,380	27,187	343,885	81,280	114,718	13,678
43	3,180	31,442	318,187	234,485	72,812	87,704	3,888
44	12,888	227,088	78,128	261,884	28,818	81,718	38,888
45	887	18,188	113,344	371,883	40,058	48,085	21,775
46	17,781	12,888	27,884	285,158	35,341	70,428	11,818
47	1,187	10,281	38,888	343,841	37,471	57,842	37,188
48	25,214	888	48,143	77,783	28,013	133,418	18,233
49	838	82,318	53,387	291,384	33,838	70,801	11,788
50	180,351	74,828	128,737	218,847	28,288	88,188	13,850
51	18,748	110,038	7,884	138,774	41,884	42,880	50,135
52	15,388	11,184	8,018	481,182	14,288	55,287	7,280
53	28,121	6,487	10,223	281,883	32,381	55,001	16,888
54	58,888	4,013	23,801	188,140	12,788	18,170	31,417
55	11,787	8,888	81,677	132,851	20,887	82,178	28,818
56	4,833	875	78,228	128,785	18,017	24,153	57,787
57	545	7,132	38,382	244,886	33,449	64,185	30,818
58	487	68,673	4,265	248,884	4,872	164,733	68,773
59	288	28,481	38,715	88,886	8,888	25,640	15,027
60	84,050	2,635	13,837	118,714	18,818	111,888	33,781
61	228,054	1,188	18,710	97,756	7,818	42,257	48,078
62	838	188,378	9,187	88,114	6,888	26,688	68,581
63	418	888	3,082	78,353	14,368	22,454	12,831
64	787	888	13,085	142,588	16,583	31,874	17,814
65	1,138	1,424	1,770	214,121	3,888	18,880	4,178
66	241	913	20,874	287,024	2,673	88,788	3,858
67	315	930	2,488	88,781	3,847	14,120	6,015
68	287	871	1,848	153,352	728	28,730	3,878
69	8,282	931	58,137	113,122	18,220	25,812	8,434
70	484	882	1,784	287,888	18,807	18,832	28,881
71	428	7,858	4,218	142,388	8,241	18,011	9,453
72	228	810	835	88,555	31	19,871	21,831
73	348	11,848	8,741	78,718	388	15,157	9,088
74	440	1,878	16,985	32,824	1,282	7,311	33,263
75	313	918	88,532	133,878	1,828	28,472	21,710
76	5,188	6,870	10,878	258,588	147	55,781	18,881
77	428	7,258	88,787	41,722	878	37,828	8,348
78	288	1,280	25,731	288,588	158	5,887	18,021
79	28,475	853	7,448	287,538	0	31,031	37,817
80	257	1,458	5,480	115,081	4,484	25,187	27,857
81	438	1,718	410	14,485	3,888	18,887	7,754
82	388	1,877	553	15,512	83	21,843	17,887
83	3,141	29,874	58,555	152,846	781	5,688	13,435
84	8,646	16,843	908	84,086	4,848	23,788	44,218
85	381	585	421	88,211	1,824	5,330	17,958
86	370	4,581	4,958	78,748	144	24,888	18,174
87	273	330	637	88,811	23	23,843	7,340
88	97,388	188	272	38,435	54	7,380	28,820
89	13,161	283	5,122	23,884	31	13,122	13,012
90	224	458	192	238,214	0	817	8,888
91	25,458	4,158	478	78,871	17	14,018	18,474
92	97,374	231	8,738	12,124	48	2,234	6,888
93	358	384	478	10,581	1,888	2,287	8,787
94	281	88,374	340	34,480	0	3,768	21,933

198	8	52	8	308	0	79	80
199	40	0	0	370	0	0	1,380
200	10	108	0	18,486	0	79	4,734
201	15	105	0	478	0	79	26
202	0	52	0	14,797	0	0	729
203	10	0	0	44,629	0	24	1,082
204	0	158	0	606	0	108	3,298
205	10	0	0	420	0	79	541
206	0	55	0	24,087	0	0	3,313
207	20	118	0	201	0	0	648
208	10	108	0	215	0	79	1,389
209	0	0	0	93	0	8	0
210	10	96	11	58,736	0	0	548
211	0	210	0	7,341	0	0	0
212	0	13	8	75	0	79	102
213	0	170	0	76	0	0	102
214	0	106	0	8	0	0	0
215	10	0	0	234	0	0	2,414
216	10	108	0	181	0	0	308
217	0	0	0	1,382	0	0	877
218	0	32	0	2,506	0	0	482
219	0	52	0	80	0	30	433
220	0	52	0	19	0	0	1,348
221	0	52	0	57	0	103	39
222	0	106	0	138	0	0	1,980
223	0	106	0	10	0	0	90
224	0	0	0	254	0	79	0
225	20	0	0	10	0	0	1,721
226	0	52	85	224	0	0	717
227	0	52	0	48	0	0	0
228	0	1,805	0	39	0	0	80
229	0	0	0	84	0	0	385
230	0	0	0	84	0	0	0
231	0	96	0	51	0	0	0
232	0	32	0	85	0	0	487
233	0	106	0	70	0	146	1,384
234	0	5	2	178	0	0	211
235	0	0	0	11	0	0	17
236	0	1,945	0	20	0	0	385
237	0	21	0	185	471	0	385
238	0	82	0	15	0	79	92
239	0	52	0	187	0	79	475
240	0	0	0	43	0	0	3,647
241	0	52	0	327	0	0	382
242	0	13	0	152	0	0	80
243	0	32	0	107	0	0	1,820
244	0	1,361	0	7,237	0	0	11
245	0	0	0	71	0	0	0
246	0	0	0	7,994	0	0	0
247	0	158	0	382	0	0	1,886
248	0	0	0	188	0	0	20
249	0	0	0	0	0	0	64
250	0	0	0	8	0	0	717
251	0	0	0	0	0	0	405
252	0	0	0	0	0	0	0
253	0	0	0	10	0	0	102
254	0	0	0	3,277	0	0	102
255	0	0	0	14	0	79	102
256	0	52	427	95	0	0	0
257	0	0	0	17	0	0	0
258	0	52	1	8	0	79	0
259	0	0	8	0	0	0	1,946
260	0	52	8	0	0	0	0
261	0	0	0	14	0	79	1,820
262	0	52	0	15	0	0	2,045
263	0	105	0	23,079	0	78	0
264	0	0	0	3,265	0	0	395
265	0	52	0	27	0	0	53
266	0	0	0	14	0	0	37
267	0	0	0	8	0	0	2,212
268	0	52	0	8	0	0	121
269	0	0	0	3,689	0	0	0
270	0	13	0	0	0	0	392
271	0	114	0	0	0	0	0
272	0	0	0	15	0	0	0
273	0	0	0	7,237	0	0	0
274	0	52	0	17	0	79	898
275	0	52	0	464	0	0	0
276	0	0	0	3,689	0	0	85
277	0	0	0	14	0	79	506
278	0	13	1,436	0	0	0	1,820
279	0	52	0	38	0	0	0
280	0	52	0	13,962	0	0	609
281	0	0	0	8	0	0	0
282	0	13	0	14	0	0	1,820
283	0	96	0	1,324	0	0	0
284	0	0	0	19	0	0	0
285	0	0	0	8	0	0	0
286	0	0	0	14	0	0	0
287	0	0	0	8	0	0	12
288	0	52	0	0	0	0	3,677
289	0	0	0	76	0	79	0
290	0	0	0	8	0	0	0
291	0	0	0	5,429	0	79	37
292	0	0	0	0	0	0	235
293	0	0	0	0	0	0	37
294	0	13	0	0	0	0	195
295	0	0	0	8	0	0	1,858
296	0	0	0	0	0	0	0
297	0	52	0	8	0	0	195
298	0	0	0	8	0	0	0
299	0	52	0	0	0	0	0
300	0	0	0	9	0	0	0

301	0	0	0	0	0	0	0
302	0	0	0	0	0	0	11
303	0	0	0	0	0	0	0
304	0	0	0	2,486	0	0	0
305	0	0	0	8	0	0	0
306	0	52	0	0	0	0	362
307	0	0	0	89	0	0	0
308	0	13	0	0	0	0	0
309	0	13	0	1,803	0	0	163
310	0	52	0	5,437	0	0	1,561
311	0	0	0	20	0	0	0
312	0	0	0	0	0	0	0
313	0	0	0	1,175	0	0	0
314	0	0	0	19	0	0	0
315	0	1,862	0	1,249	0	0	0
316	0	0	0	76	0	0	0
317	0	52	0	0	0	0	0
318	0	52	0	0	0	0	0
319	0	0	0	0	0	0	0
320	0	0	0	0	0	0	436
321	0	52	0	14	0	0	794
322	0	0	0	0	0	0	612
323	0	0	0	0	0	0	0
324	0	0	0	0	0	0	0
325	0	13	0	0	0	0	0
326	0	0	0	0	0	0	37
327	0	0	0	0	0	0	0
328	0	0	0	0	0	0	0
329	0	0	0	0	0	0	0
330	0	0	0	0	0	0	0
331	0	52	0	0	0	0	0
332	0	0	0	0	0	0	0
333	0	146	0	16	0	0	0
334	0	0	0	76	0	0	0
335	0	52	0	27	0	0	0
336	0	0	0	0	0	0	0
337	0	0	0	0	0	0	0
338	0	0	0	0	0	0	0
339	0	0	0	0	0	0	0
340	0	0	0	76	0	0	2,342
341	0	0	0	0	0	0	42
342	0	52	0	1,271	0	139	185
343	0	0	0	0	0	0	0
344	0	0	0	0	0	0	0
345	0	0	0	0	0	0	308
346	0	0	0	0	0	0	275
347	0	0	0	0	0	0	0
348	0	0	0	18	0	0	0
349	0	0	0	27	0	0	0
350	0	0	0	227	0	0	226
351	0	0	0	0	0	0	0
352	0	0	0	0	0	0	0
353	0	0	0	0	0	0	0
354	0	52	0	0	0	0	0
355	0	0	0	0	0	0	0
356	0	0	0	0	0	0	0
357	0	0	0	0	0	0	0
358	0	0	0	0	0	0	0
359	0	52	0	15	0	0	0
360	0	0	0	0	0	0	0
361	0	0	0	0	0	0	0
362	0	0	0	0	0	0	0
363	0	52	0	0	0	0	0
364	0	52	0	0	0	0	0
365	0	0	0	0	0	0	0
366	0	0	0	0	0	0	0
367	0	0	0	0	0	0	0
368	0	0	0	0	0	0	0
369	0	0	0	0	0	0	185
370	0	0	0	0	0	0	0
371	0	0	0	0	0	0	0
372	0	0	0	0	0	0	0
373	0	0	0	0	0	0	0
374	0	0	0	0	0	0	0
375	0	0	0	0	0	0	0
376	0	0	0	0	0	0	0
377	0	0	0	0	0	0	0
378	0	52	0	0	0	0	0
379	0	0	0	0	0	0	612
380	0	0	0	0	0	0	1,630
381	0	0	0	1,257	0	0	0
382	0	0	0	0	0	0	11
383	0	0	0	0	0	0	0
384	0	0	0	0	0	0	0
385	0	0	0	0	0	0	0
386	0	0	0	0	0	0	1,620
387	0	0	0	0	0	0	0
388	0	0	0	0	0	0	248
389	0	0	0	5,645	0	0	0
390	0	0	0	0	0	0	0
391	0	0	0	0	0	0	0
392	0	0	0	0	0	0	222
393	0	0	0	0	0	0	0
394	0	0	0	0	0	0	0
395	0	0	0	14	0	0	0
396	0	0	0	0	0	0	163
397	0	0	0	0	0	0	0
398	0	0	0	0	0	0	0
399	0	0	0	0	0	0	0
400	0	0	0	0	0	0	0
401	0	0	0	0	0	0	0
402	0	0	0	0	0	0	71
403	0	0	0	0	0	0	71

404	0	0	0	0	0	0
405	0	0	0	0	0	0
406	0	0	0	0	0	0
407	0	0	0	0	0	0
408	0	0	0	0	0	0
409	0	0	0	0	0	0
410	0	0	0	0	0	226
411	0	0	0	0	0	0
412	0	0	0	0	0	0
413	0	0	0	0	0	53
414	0	0	0	0	0	0
415	0	0	0	0	0	0
416	0	0	0	0	0	0
417	0	0	0	10.273	0	0
418	0	0	0	0	0	0
419	0	0	0	0	0	0
420	0	0	0	0	0	0
421	0	106	0	0	0	0
422	0	0	0	0	0	0
423	0	0	0	0	0	0
424	0	0	0	0	0	0
425	0	0	0	0	0	0
426	0	0	0	0	0	0
427	0	0	0	0	0	0
428	0	0	0	0	0	0
429	0	0	0	0	0	0
430	0	0	0	0	0	0
431	0	0	0	1.271	0	0
432	0	52	0	0	0	0
433	0	0	0	0	0	0
434	0	0	0	0	0	0
435	0	0	0	0	0	0
436	0	0	0	0	0	0
437	0	52	0	0	0	0
438	0	0	0	0	0	0
439	0	13	0	0	0	0
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843	0	0	0	0	0	0	0
844	0	0	0	0	0	0	0
845	0	0	0	0	0	0	0
846	0	0	0	0	0	0	0
847	0	0	0	0	0	0	0
848	0	0	0	0	0	0	0
849	0	0	0	0	0	0	0
850	0	0	0	0	0	0	0
851	0	0	0	0	0	0	0
852	0	0	0	0	0	0	0
853	0	0	0	0	0	0	0
854	0	0	0	0	0	0	0
855	0	0	0	0	0	0	0
856	0	0	0	0	0	0	0
857	0	0	0	0	0	0	0
858	0	0	0	0	0	0	0
859	0	0	0	0	0	0	0
860	0	0	0	0	0	0	0
861	0	0	0	0	0	0	0
862	0	0	0	0	0	0	0
863	0	0	0	0	0	0	0
864	0	0	0	0	0	0	0
865	0	0	0	0	0	0	0
866	0	0	0	0	0	0	0
867	0	0	0	0	0	0	0
868	0	0	0	0	0	0	0
869	0	0	0	0	0	0	0
870	0	0	0	0	0	0	0
871	0	0	0	0	0	0	0
872	0	0	0	0	0	0	0
873	0	0	0	0	0	0	0
874	0	0	0	0	0	0	0
875	0	0	0	0	0	0	0
876	0	0	0	0	0	0	0
877	0	0	0	0	0	0	0
878	0	0	0	0	0	0	0
879	0	0	0	0	0	0	0
880	0	0	0	0	0	0	0
881	0	0	0	0	0	0	0
882	0	0	0	0	0	0	0
883	0	0	0	0	0	0	0
884	0	0	0	0	0	0	0
885	0	0	0	0	0	0	0
886	0	0	0	0	0	0	0
887	0	0	0	0	0	0	0
888	0	0	0	0	0	0	0
889	0	0	0	0	0	0	0
890	0	0	0	0	0	0	0
891	0	0	0	0	0	0	0
892	0	0	0	0	0	0	0
893	0	0	0	0	0	0	0
894	0	0	0	0	0	0	0
895	0	0	0	0	0	0	0
896	0	0	0	0	0	0	0
897	0	0	0	0	0	0	0
898	0	0	0	0	0	0	0
899	0	0	0	0	0	0	0
1,000	0	0	0	0	0	0	0
1,001	0	0	0	0	0	0	0
1,002	0	0	0	0	0	0	0
1,003	0	0	0	0	0	0	0
1,004	0	0	0	0	0	0	0
1,005	0	0	0	0	0	0	0
1,006	0	0	0	0	0	0	0
1,007	0	0	0	0	0	0	0
1,008	0	0	0	0	0	0	0
1,009	0	0	0	0	0	0	0
1,010	0	0	0	0	0	0	0
1,011	0	0	0	0	0	0	0
1,012	0	0	0	0	0	0	0
1,013	0	0	0	0	0	0	0
1,014	0	0	0	0	0	0	0
1,015	0	0	0	0	0	0	0
1,016	0	0	0	0	0	0	0
1,017	0	0	0	0	0	0	0
1,018	0	0	0	0	0	0	0
1,019	0	0	0	0	0	0	0
1,020	0	0	0	0	0	0	0
1,021	0	0	0	0	0	0	0

1.022	0	0	0	0	0	0
1.023	0	0	0	0	0	0
1.024	0	0	0	0	0	0
1.025	0	0	0	0	0	0
1.026	0	0	0	0	0	0
1.027	0	0	0	0	0	0
1.028	0	0	0	0	0	0
1.029	0	0	0	0	0	0
1.030	0	0	0	0	0	0
1.031	0	0	0	0	0	0
1.032	0	0	0	0	0	0
1.033	0	0	0	0	0	0
1.034	0	0	0	0	0	0
1.035	0	0	0	0	0	0
1.036	0	0	0	0	0	0
1.037	0	0	0	0	0	0
1.038	0	0	0	0	0	0
1.039	0	0	0	0	0	0
1.040	0	0	0	0	0	0
1.041	0	0	0	0	0	0
1.042	0	0	0	0	0	0
1.043	0	0	0	0	0	0
1.044	0	0	0	0	0	0
1.045	0	0	0	0	0	0
1.046	0	0	0	0	0	0
1.047	0	0	0	0	0	0
1.048	0	0	0	0	0	0
1.049	0	0	0	0	0	0
1.050	0	0	0	0	0	0
1.051	0	0	0	0	0	0
1.052	0	0	0	0	0	0
1.053	0	0	0	0	0	0
1.054	0	0	0	0	0	0
1.055	0	0	0	0	0	0
1.056	0	0	0	0	0	0
1.057	0	0	0	0	0	0
1.058	0	0	0	0	0	0
1.059	0	0	0	0	0	0
1.060	0	0	0	0	0	0
1.061	0	0	0	0	0	0
1.062	0	0	0	0	0	0
1.063	0	0	0	0	0	0
1.064	0	0	0	0	0	0
1.065	0	0	0	0	0	0
1.066	0	0	0	0	0	0
1.067	0	0	0	0	0	0
1.068	0	0	0	0	0	0
1.069	0	0	0	0	0	0
1.070	0	0	0	0	0	0
1.071	0	0	0	0	0	0
1.072	0	0	0	0	0	0
1.073	0	0	0	0	0	0
1.074	0	0	0	0	0	0
1.075	0	0	0	0	0	0
1.076	0	0	0	0	0	0
1.077	0	0	0	0	0	0
1.078	0	0	0	0	0	0
1.079	0	0	0	0	0	0
1.080	0	0	0	0	0	0
1.081	0	0	0	0	0	0
1.082	0	0	0	0	0	0
1.083	0	0	0	0	0	0
1.084	0	0	0	0	0	0
1.085	0	0	0	0	0	0
1.086	0	0	0	0	0	0
1.087	0	0	0	0	0	0
1.088	0	0	0	0	0	0
1.089	0	0	0	0	0	0
1.090	0	0	0	0	0	0
1.091	0	0	0	0	0	0
1.092	0	0	0	0	0	0
1.093	0	0	0	0	0	0
1.094	0	0	0	0	0	0
1.095	0	0	0	0	0	0
1.096	0	0	0	0	0	0
1.097	0	0	0	0	0	0
1.098	0	0	0	0	0	0
1.099	0	0	0	0	0	0
1.100	0	0	0	0	0	0
1.101	0	0	0	0	0	0
1.102	0	0	0	0	0	0
1.103	0	0	0	0	0	0
1.104	0	0	0	0	0	0
1.105	0	0	0	0	0	0
1.106	0	0	0	0	0	0
1.107	0	0	0	0	0	0
1.108	0	0	0	0	0	0
1.109	0	0	0	0	0	0
1.110	0	0	0	0	0	0
1.111	0	0	0	0	0	0
1.112	0	0	0	0	0	0
1.113	0	0	0	0	0	0
1.114	0	0	0	0	0	0
1.115	0	0	0	0	0	0
1.116	0	0	0	0	0	0
1.117	0	0	0	0	0	0
1.118	0	0	0	0	0	0
1.119	0	0	0	0	0	0
1.120	0	0	0	0	0	0
1.121	0	0	0	0	0	0
1.122	0	0	0	0	0	0
1.123	0	0	0	0	0	0
1.124	0	0	0	0	0	0

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MPA/USPS-T41-2. Please refer to MPA/USPS-T34-3, Table 2. For each row in this table, please identify the number of publications that are local publications. Please also describe the source of these numbers.

RESPONSE:

To my knowledge the Postal Service does not define publications as local or non-local.

I assume that the definition of "local," as it is used here, means publications that are produced and distributed within the same geographic area. To my knowledge the Postal Service does not maintain origin and destination data for Periodical pieces. However, if a publication contains advertising, the zone profile of the publication can be estimated from mailing statement data. Table 1 MPA/USPS-T41-2 presents publication counts by percentage of copies that pay DDU, DSCF and Zone 1&2 advertising pound charges, using PERMIT system mailing statement data. The zone distributions for publications that had no advertising in more than 50 percent of FY 2000 copies are not presented. Publications with a large percentage of copies paying the DDU, DSCF and Zone 1&2 rates are not necessarily "local" publications. The values in Table 1 also include drop-shipped publications. The data available do not enable me to distinguish between a "local" publication and a drop-shipped publication.

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MPA/USPS-T41-3. Please refer to MPA/USPS-T34-2, Table 1. For each row in this table, please identify the number of publications that are local publications. Please also describe the source of these numbers.

RESPONSE:

To my knowledge the Postal Service does not define publications as local or non-local.

I assume that the definition of "local," as it is used here, means publications that are produced and distributed within the same geographic area. To my knowledge the

Postal Service does not maintain origin and destination data for Periodical pieces.

However, if a publication contains advertising, the zone profile of the publication can be estimated from mailing statement data. Table 2 MPA/USPS-T41-3 presents publication counts by percentage of copies that pay DDU, DSCF and Zone 1&2 advertising pound charges, using PERMIT system mailing statement data. The zone distributions for publications that had no advertising in more than 50 percent of FY 2000 copies are not presented. Publications with a large percentage of copies paying the DDU, DSCF and Zone 1&2 rates are not necessarily "local" publications. The values in Table 2 also include drop-shipped publications. The data available do not enable me to distinguish between a "local" publication and a drop-shipped publication.

Tulsa
PEPNET System
An Outside-County Mail
Publication Counts by Percentage DDULDCP and Zone 1A2
By Average Annual Advertising Percentage

Advertising Percentage	Percent DDULDCP and Zone 1A2																				Editorial
	0 to 9%	9 to 19%	19 to 29%	29 to 39%	39 to 49%	49 to 59%	59 to 69%	69 to 79%	79 to 89%	89 to 99%	99 to 100%	0 to 9%	9 to 19%	19 to 29%	29 to 39%	39 to 49%	49 to 59%	59 to 69%	69 to 79%	79 to 89%	
0-10%	404	655	825	378	237	188	43	29	31	19	17	14	18	18	14	12	12	8	8	18	9,367
10-20%	294	370	487	188	120	84	58	38	38	28	38	38	38	43	35	35	33	34	33	35	108
20-30%	398	327	252	158	94	78	74	38	38	33	29	44	39	48	34	38	34	38	48	83	32
30-40%	418	320	182	120	102	84	75	82	55	57	54	78	88	81	51	51	78	88	88	84	81
40-50%	525	384	148	144	88	113	80	88	82	87	107	115	102	115	114	98	88	88	81	88	4
50-60%	430	238	112	114	82	88	80	47	48	52	53	88	112	118	105	88	78	78	48	81	148
60-70%	117	88	38	88	88	14	28	30	21	22	17	21	57	58	88	88	78	78	48	81	3
70-80%	38	8	8	18	14	18	14	14	10	13	8	8	7	18	18	18	18	18	18	18	1
80-90%	3	4	8	17	19	18	14	14	10	13	8	8	7	18	18	18	18	18	18	18	1
90-100%	8	8	8	18	14	18	14	14	10	13	8	8	7	18	18	18	18	18	18	18	0

Note: Editorial Publications are defined as publications carrying at least 50 percent of FY 2000 copies with 8 percent advertising.

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MPA/USPS-T41-4. Please refer to MPA/USPS-T34-3. Table 2.

- (a) Please confirm that the majority of pieces in mailings of publications with issue sizes above one million pieces are almost 100 percent palletized. If not confirmed, please explain fully.
- (b) Please confirm that the majority of pieces in mailings of publications with issue sizes between 500,000 and one million pieces are almost 100 percent palletized. If not confirmed, please explain fully.
- (c) Please confirm that the majority of pieces in mailings of publications with issue sizes between 200,000 and 500,000 are almost 100 percent palletized. If not confirmed, please explain fully.

RESPONSE:

- (a) Not confirmed. Table 2 of MPA/USPS-T34-3 presents PERMIT system volumes, advertising weight, and total weight by estimated issue size. The percentage of pieces that are palletized cannot be inferred from this table. To my knowledge the Postal Service does not collect data on the containerization of all Periodicals publications, so it is not possible to respond to the question with absolute certainty. Further the phrase "almost 100 percent" is ambiguous and I am reluctant to speculate on what is meant by "almost." From the sample of Outside County Periodicals presented in LR-J-114, I estimate a palletization distribution using the 41 publications sampled that had an estimated issue size greater than 1 million pieces (estimated issue size based on methodology used in USPS/MPA-T34-3). These estimates are presented in Table 3 MPA/USPS-T41-4. Based on these estimates, 63.4 percent of publications with an estimated issue size greater than 1 million pieces palletized 95 percent or more of their pieces; 83.9 percent of publications with an estimated issue size greater than 1

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million pieces palletized 90 percent or more of their pieces; and 90.2 percent of publications with an estimated issue size greater than 1 million pieces palletized 85 percent or more of their pieces. All sampled publications with estimated issue size greater than 1 million pieces palletized at least 83 percent of their pieces.

- (b) Not confirmed. Table 2 of MPA/USPS-T34-3 presents PERMIT system volumes, advertising weight, and total weight by estimated issue size. The percentage of pieces that are palletized cannot be inferred from this table. To my knowledge the Postal Service does not collect data on the containerization of all Periodicals publications, so it is not possible to respond to the question absolute certainty. Further the phrase "almost 100 percent" is ambiguous and I am reluctant to speculate on what is meant by "almost." From the sample of Outside County Periodicals presented in LR-J-114, I estimate a palletization distribution using the 38 publications sampled that had an estimated issue size between 500,000 and 1 million pieces (estimated issue size based on methodology used in USPS/MPA-T34-3). These estimates are presented in Table 3 MPA/USPS-T41-4. Based on these estimates 60.5 percent of publications with estimated issue size between 500,000 and 1 million pieces palletized 95 percent or more of their pieces; 84.2 percent of publications with an estimated issue size between 500,000 and 1 million pieces palletized 90 percent or more of their pieces; and 94.7 percent of publications with an estimated issue size between 500,000 and 1 million pieces palletized 85 percent or more of their pieces. All sampled
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publications with estimated issue size between 500,000 and than 1 million pieces palletized at least 80 percent of their pieces.

- (c) Not confirmed. Table 2 of MPA/USPS-T34-3 presents PERMIT system volumes, advertising weight, and total weight by estimated issue size. The percentage of pieces that are palletized cannot be inferred from this table. To my knowledge the Postal Service does not collect data on the containerization of all Periodicals publications, so it is not possible to respond to the question absolute certainty. Further the phrase "almost 100 percent" is ambiguous and I am reluctant to speculate on what is meant by "almost." From the sample of Outside County Periodicals presented in LR-J-114, I estimate a palletization distribution using the 37 publications sampled that had an estimated issue size between 200,000 and 500,000 (estimated issue size based on methodology used in USPS/MPA-T34-3). These estimates are presented in Table 3 MPA/USPS-T41-4. Based on these estimates 16.2 percent of publications with estimated issue size between 200,000 and 500,000 pieces palletized 95 percent or more of their pieces; 37.8 percent of publications with an estimated issue size between 200,000 and 500,000 pieces palletized 90 percent or more of their pieces; and 59.5 percent of publications with an estimated issue size between 200,000 and 500,000 pieces palletized 85 percent or more of their pieces. An estimated 18.9 percent of sampled publications with estimated issue size between 200,000 and 500,000 pieces palletized less than 70 percent of their pieces.
-

Table 3 MPAA/MPG-T01-4
Percent of Sampled Publications
By Percent Polished and Estimated Issue Size

Source: LBJ-114

Estimated Issue Size				
Percentage of Placed on Polish	1 Million +	500K-1M	200K-500K	
100	2%	0%	0%	
99	7%	11%	0%	
98	17%	13%	0%	
97	12%	11%	0%	
96	20%	21%	3%	
95	0%	0%	3%	
94	0%	0%	3%	
93	7%	3%	0%	
92	0%	0%	11%	
91	2%	0%	3%	
90	0%	0%	0%	
89	0%	3%	3%	
88	2%	0%	11%	
87	2%	0%	0%	
86	0%	3%	0%	
85	0%	0%	3%	
84	7%	0%	0%	
83	0%	3%	3%	
82	0%	0%	3%	
81	0%	0%	3%	
80	0%	3%	0%	
79	0%	0%	0%	
78	0%	0%	3%	
77	0%	0%	0%	
76	0%	0%	0%	
75	0%	0%	0%	
74	0%	0%	3%	
73	0%	0%	3%	
72	0%	0%	3%	
71	0%	0%	0%	
70	0%	0%	0%	
69	0%	0%	0%	
68	0%	0%	0%	
67	0%	0%	0%	
66	0%	0%	0%	
65	0%	0%	0%	
64	0%	0%	0%	
63	0%	0%	0%	
62	0%	0%	0%	
61	0%	0%	0%	
60	0%	0%	3%	
59	0%	0%	3%	
58	0%	0%	0%	
57	0%	0%	0%	
56	0%	0%	0%	
55	0%	0%	0%	
54	0%	0%	0%	
53	0%	0%	0%	
52	0%	0%	0%	
51	0%	0%	3%	
50	0%	0%	3%	
49	0%	0%	0%	
48	0%	0%	0%	
47	0%	0%	0%	
46	0%	0%	0%	
45	0%	0%	0%	
44	0%	0%	0%	
43	0%	0%	0%	
42	0%	0%	0%	
41	0%	0%	0%	
40	0%	0%	0%	
39	0%	0%	0%	
38	0%	0%	0%	
37	0%	0%	0%	
36	0%	0%	0%	
35	0%	0%	0%	
34	0%	0%	0%	
33	0%	0%	0%	
32	0%	0%	0%	
31	0%	0%	0%	
30	0%	0%	0%	
29	0%	0%	0%	
28	0%	0%	0%	
27	0%	0%	0%	
26	0%	0%	0%	
25	0%	0%	0%	
24	0%	0%	0%	
23	0%	0%	0%	
22	0%	0%	0%	
21	0%	0%	0%	
20	0%	0%	0%	
19	0%	0%	0%	
18	0%	0%	0%	
17	0%	0%	0%	
16	0%	0%	0%	
15	0%	0%	0%	
14	0%	0%	0%	
13	0%	0%	0%	
12	0%	0%	0%	
11	0%	0%	0%	
10	0%	0%	0%	
9	0%	0%	0%	
8	0%	0%	0%	
7	0%	0%	0%	
6	0%	0%	0%	
5	0%	0%	0%	
4	0%	0%	0%	
3	0%	0%	0%	
2	0%	0%	0%	
1	0%	0%	0%	
0	0%	0%	0%	
Publications Sampled	41	38	27	

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MPA/USPS-T41-5. Please refer to your response to MPA/USPS-T34-3 where you state, "Estimated issue size used to produce this table is the ratio of PERMIT system annual volume to reported issue frequency. This estimate will produce erroneous estimates for numerous reasons." Please provide your expert opinion about the extent to which the total mail volume, total weight, and advertising weight by issue are erroneous.

- (a) By what percentage do you think these figures are likely to be wrong? Please explain your answer fully.
- (b) Do you think this analysis would tend to overstate issue size or understate issue size? Please explain your answer fully.
- (c) If you estimated that the issue size for a particular publication was greater than 1 million, is it likely that the issue size was actually less than 500,000?
- (d) If you estimated that the issue size for a particular publication was greater than 500,000, is it likely that the issue size was actually less than 200,000?

Response:

- (a) In order to estimate the extent to which the PERMIT-based estimates are in error, I use observations from LR-J-114 to compare the PERMIT-based estimates of issue size to observed mailings in the LR-J-114 sample period. To reduce the possibility of erroneous comparisons the following adjustments are made to the LR-J-114 data set. Pending publications and publications where reported issue frequency is missing are removed from the dataset. Publications recording revenue at more than one office are also removed. Finally, total volume for publications that submitted more than one issue during the sample period are converted into average issue size by dividing total volume in the sample period by the number of issues sampled. The PERMIT-based estimate of issue size is then compared to observed issue size in Table 4 MPA/USPS-T41-5. Table 4 demonstrates that the classification of publications by issue size
-

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is generally accurate as indicated by the high frequency of diagonal entries.

When misclassification occurs it is generally one classification higher or lower.

There is no apparent pattern in the errors – high or low.

(b) See response to part (a).

(c) See response to part (a).

(d) See response to part (a).

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MPA/USPS-T41-6. Please refer to your response to MPA/USPS-T34-4 where you state, "The Postal Service produced estimates of the cost savings that would result from increasing the piece minimum of Carrier Route sacks to 24 pieces. The estimated cost savings and underlying calculations are presented in LR-I-332 in Docket No. R2000-1".

- (a) Are the costs presented in USPS-LR-I-332 adjusted to match Cost and Revenue Analysis (CRA) costs?
- (b) If your response to subpart (a) of this interrogatory is affirmative, where in USPS-LR-I-332 does the Postal Service adjust the costs to Match CRA costs?
- (c) If the cost presented in USPS-LR-I-332 are not adjusted to match CRA costs, has the Postal Service or any of its contractors performed any analysis (whether preliminary or final) to determine the appropriate proportional and fixed CRA adjustment factors that should be used to adjust the costs presented in USPS-LR-I-332 to match CRA costs?
- (d) If your response to subpart (c) of this interrogatory is affirmative please provide the proportional and fixed Cra adjustment factors resulting from these analyses and provide all underlying calculations in electronic spreadsheet format.

Response:

- (a) No.
 - (b) Not applicable.
 - (c) No.
 - (d) Not applicable.
-

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MAGAZINE PUBLISHERS OF AMERICA, INC.

RESPONSE:

The data collected to produce USPS-LR-J-114 provides entry point and container destination ZIP code for sampled containers. However, postal zone is calculated based on the entry point of the piece and the destination of the piece, not the container. The destination information collected for USPS-LR-J-114 applies only to the container. Thus, the information requested by this interrogatory cannot be obtained from the USPS-LR-J-114 data. I am unaware of any data collected by the Postal Service that could be used to produce the information requested.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T34-2:

Please complete the following table regarding the advertising content of Periodicals Outside-County publications. Please also provide the source of your data. If you cannot complete the table, please re-direct this interrogatory to another witness who can do so.

Advertising Percent	No. of Publications in Category in FY 2000	FY 2000 Total Mail Volume	FY 2000 Total Weight
0-10%			
10-20%			
20-30%			
30-40%			
40-50%			
50-60%			
60-70%			
70-80%			
80-90%			
90-100%			

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

RESPONSE TO MPA/USPS-T34-2:

The Postal Service does not collect the requested information on all Periodicals Outside-County Publications. Therefore it is not possible to complete the table for all of FY 2000 Periodicals Outside-County mail. The PERMIT system collects Postage Statement data (form 3541) for roughly 95 percent of Periodicals Outside-County mail Trial Balance revenue. I used the PERMIT system data to complete the table for those publications authorized to mail at Periodicals rates (pending publications are excluded) and entering mail at PERMIT system equipped facilities. For purposes of completing this table, publications are mapped to advertising content category using the ratio of the sum of FY 2000 PERMIT system advertising pounds to the sum of FY 2000 PERMIT system total pounds. The assignments to advertising content categories are not mailing specific. A publication is assigned an advertising content category based on its annual average content. The results are presented in Table 1 MPA/USPS-T34-2.

Table 1 MPA/USPS-T34-2
PERMIT System Periodicals Outside-County Mail
Publication Counts, Volume and Weight
By Average Annual Advertising Percentage

Advertising Percentage	No. of Publications in Category in FY 2,000	FY 2000 Mail Volume	FY 2000 Total Weight
0-10%	12,487	1,005,867,452	291,783,604
10-20%	2,171	460,226,958	183,601,708
20-30%	1,941	573,401,204	186,966,107
30-40%	2,209	1,781,213,921	630,546,628
40-50%	2,745	2,333,316,245	1,061,847,729
50-60%	2,461	2,102,640,725	1,495,201,558
60-70%	1,232	560,342,788	390,872,198
70-80%	380	95,069,385	68,287,985
80-90%	125	859,837	1,702,140
90-100%	121	329,231	89,108
Totals	25,872	8,913,267,744	4,310,898,765

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T34-3:

On page 8 of your testimony, you state, "The Postal Service recognizes the impact of higher dropship discounts on smaller customers, who individually may not have the volume and/or density to enter mail closer to destination". Please complete the following table regarding the distribution of Periodicals Outside-County mail by issue size. Please also provide the source of your data and explain the definition of an issue you used to populate the table. If you cannot complete this table, please re-direct this interrogatory to another witness who can do so.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

Mailed Copies Per Issue in FY 2000	No. of Publications in Category in FY 2000	FY 2000 Mail Volume	FY 2000 Total Weight	FY 2000 Advertising Weight
Regular				
0-1,000				
1,000-2,000				
2,000-5,000				
5,000-10,000				
10,000-25,000				
25,000-50,000				
50,000-75,000				
75,000-100,000				
100,000-200,000				
200,000-500,000				
500,000-1 Million				
1 Million+				
Nonprofit				
0-1,000				
1,000-2,000				
2,000-5,000				
5,000-10,000				
10,000-25,000				
25,000-50,000				
50,000-75,000				
75,000-100,000				
100,000-200,000				
200,000-500,000				
500,000-1 Million				
1 Million+				

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

RESPONSE TO MPA/USPS-T34-3:

The Postal Service does not collect issue size data, nor do any of the Postal Service's volume data systems distinguish between the various issues of a publication. Self reported information on the frequency of publication is available for most, but not all publications. Total annual volume can be calculated by publications for publications entering mail at PERMIT system equipped sites. The Postal Service does not collect annual volume information for all Periodicals Outside-County publications, therefore it is not possible to complete the table for all of FY 2000 Periodicals Outside-County mail. The PERMIT system collects Postage Statement (form 3541) data for roughly 95 percent of Periodicals Outside-County mail Trial Balance revenue. I used the PERMIT system data to complete the table for those publications authorized to mail at Periodicals rates (pending publications are excluded) and entering mail at PERMIT system equipped facilities. Estimated issue size used to produce this table is the ratio of PERMIT system annual volume to reported issue frequency. This estimate will produce erroneous estimates for numerous reasons (e.g. tend to over estimate the issue size of publications mailing supplemental issues and back issues and underestimate issue sizes of publications which did produce issues for all of FY 2000 etc.). Publications mailing at both Periodical Outside-County Regular rates and Periodicals Outside County Nonprofit rates are presented separately. The results are presented in Table 2 MPA/USPS-T34-3.

Table 2 MPA/USPS-T34-3
PERMIT System Periodicals Regular and Nonprofit
Publication Counts, Volume and Weight, Advertising Weight
By Estimated Issue Size

	No. of Publications in Category in FY 2000	FY 2000 Mail Volume	FY 2000 Total Weight	FY 2000 Advertising Weight
Regular				
0-1,000	9059	135,656,935	62,387,012	27,456,630
1,000-2,000	1399	68,530,301	34,848,478	14,268,170
2,000-5,000	1583	135,887,279	66,072,796	27,671,833
5,000-10,000	1020	143,083,807	65,634,030	24,732,494
10,000-25,000	2331	801,042,313	382,831,861	182,105,492
25,000-50,000	355	286,448,712	139,650,358	69,514,496
50,000-75,000	188	218,653,994	106,176,152	52,911,546
75,000-100,000	266	567,612,675	311,232,664	150,006,715
100,000-200,000	45	163,221,636	85,905,304	41,616,523
200,000-500,000	121	595,058,770	385,172,604	188,567,960
500,000-1,000,000	93	901,977,487	609,648,788	303,007,288
1 Million+	67	2,614,868,906	1,371,054,143	630,477,780
Issue Frequency Not Available	849	72,008,644	37,008,961	16,853,979
Nonprofit				
0-1,000	4230	13,612,528	4,991,860	149,484
1,000-2,000	752	9,141,050	4,728,294	127,903
2,000-5,000	926	28,095,948	14,930,405	972,510
5,000-10,000	587	39,633,873	15,125,538	1,520,169
10,000-25,000	1139	301,249,805	81,565,175	16,612,703
25,000-50,000	161	127,219,813	33,616,817	8,624,434
50,000-75,000	89	93,549,763	26,174,933	7,665,517
75,000-100,000	144	218,263,001	57,020,651	15,427,267
100,000-200,000	15	24,931,100	6,714,493	1,588,804
200,000-500,000	66	252,215,536	67,569,553	19,325,817
500,000-1,000,000	25	136,923,902	34,199,333	6,518,907
1 Million+	22	682,459,326	260,296,710	73,248,542
Issue Frequency Not Available	159	17,080,734	6,408,060	2,319,944
Regular & Nonprofit				
0-1,000	34	143,427	49,327	8,380
1,000-2,000	15	158,716	60,082	3,290
2,000-5,000	19	453,532	120,776	12,260
5,000-10,000	14	1,828,598	780,555	161,764
10,000-25,000	17	4,847,366	2,616,746	441,360
25,000-50,000	4	1,305,927	367,413	94,368
50,000-75,000	0	0	0	0
75,000-100,000	3	3,977,002	1,009,076	12,564
100,000-200,000	1	1,869,282	745,547	319,902
200,000-500,000	1	1,594,980	151,236	0
500,000-1,000,000	0	0	0	0
1 Million+	0	0	0	0
Issue Frequency Not Available	37	6,878,391	2,208,233	404,811

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T34-4:

Has the Postal Service or any of its contractors ever estimated the cost savings that would result from increasing sack minimums for Periodicals? If so, please provide the date that each estimate was developed, the cost savings, and all underlying calculations.

RESPONSE TO MPA/USPS-T34-4:

The Postal Service produced estimates of the cost savings that would result from increasing the piece minimum of Carrier Route sacks to 24 pieces. The estimated cost savings and underlying calculations are presented in LR-I-332 in Docket No. R2000-1.

It is my understanding that neither the Postal Service nor any of its contractors have produced estimates of cost savings that would result from increasing sack minimums on other sack presort levels.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T34-14:

Please refer to USPS-LR-J-114, Table 2 and confirm that a total of 4.3 billion Periodicals Outside-County pieces are entered at Origin Bulk Mail Centers (OBMC), Origin Area Distribution Centers (OADC) [not in the Destination Bulk Mail Centers (DBMC) service territory], and Origin Sectional Center Facilities (OSCF) [not in the Destination Area Distribution Center (DADC) or Destination Bulk Mail Center (DBMC) service territory]. If not confirmed, please explain fully.

RESPONSE:

Confirmed.



RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T34-18(c):

Please refer to USPS-LR-J-114, Table 2, and USPS-LR-J-107, OC01.xls.

....

(c) Please confirm that 65 percent of the mail entered at OAO's and OSCFs in DSCF/DADC service territories is sacked.

RESPONSE:

Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T34-23.

Please refer to witness Loetscher's response to MPA/USPS-T41-2, and worksheet "MPA 2" in resp-mpa-usps-t41-2-6.xls, which was provided in response to MPA/USPS-T41-2. Please refer further to Table 1 below, which was produced based upon the data in worksheet "MPA 2".

Table 1. Percent of Nonprofit Publications (For Which Entry Point Data Are Available) That Entered Fifty Percent or More of Copies at the Destination Delivery Unit (DDU), Destination Sectional Center Facility (DSCF), or in Zones 1 and 2

Issue Size	Percent DDU, DSCF, or Zones 1 and 2
0-1,000	35.5 percent
1,000-2,000	36.7
2,000-5,000	35.0
5,000-10,000	29.4
10,000-25,000	34.0
25,000-50,000	30.4
50,000-75,000	31.0
75,000-100,000	29.3
100,000-200,000	33.3
200,000-500,000	46.7
500,000-1,000,000	14.3
1 Million+	23.1

- (a) Please confirm that Table 1 accurately summarizes the nonprofit data in resp-mpa-usps-T41-2-6.xls, worksheet "MPA 2." If not confirmed, please provide the correct figures.
- (b) Please confirm that "local" publications – those that are produced and distributed within the same geographic area – either currently qualify for destination entry rates or that a large portion of such publications could qualify for destination entry rates without having to be hauled long distances. If not confirmed, please explain your response fully.
- (c) Please confirm that a portion of small-circulation publications (defined as less than 50,000 pieces per issue) are "local" publications.
- (d) Please confirm that the data shown in Table 1 above suggests that a larger portion of small-circulation publications than of large-circulation nonprofit publications are "local" publications. Please explain your response fully.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

Response:

- (a) Confirmed.
 - (b) It is likely that "local" publications exist that currently qualify for destination entry rates or a large portion of such publications could qualify for destination entry rates without having to be hauled long distances. There also can exist "local" publications that may have to be hauled long distances to qualify for destination entry rates, depending on the definition of "geographic area" and what is considered a "long distance."
 - (c) It is likely that a portion of small-circulation publications (defined as less than 50,000 pieces per issue) are "local" publications under most definitions of the term "local." However no Postal Service data source exists that would enable me to determine what this portion is under any definition of the term "local."
 - (d) If the degree of "local-ness" is correlated with the percent of copies entered at DDU, DSCF, and Zone 1&2 rates, then I would imagine the data in Table 1 is consistent with a larger proportion of small-circulation nonprofit publications being "local." However to my knowledge the term "local" is not defined. Further it is not possible to measure the correlation of "local-ness" and DDU, SCF and Zone 1 & 2 entry.
-

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T34-24.

Please refer to witness Loetscher's response to MPA/USPS-T41-1, which presents a distribution of sacks by sack size for the Periodicals Outside-County subclass. Please confirm the following table accurately summarizes Table 1 – MPA/USPS-T41-1. If you do not confirm, please explain and provide an accurate summary.

Table 2. Summary of Table 1 – MPA/USPS-T41-1 Distribution of Sacks by Sack Size

Sack Size	Number of Sacks	Percentage of Total Number of Sacks
1 to 5 Pieces per Sack	2,734,086 sacks	2.7 percent
1 to 11 Pieces per Sack	21,252,530	21.0
1 to 17 Pieces per Sack	41,939,031	41.5
1 to 23 Pieces per Sack	52,221,973	51.7
Total Number of Sacks	100,972,544	100.0

Response: Not confirmed. See attached Table 1.

Table 1 MPA/USPS-T34-24

Summary of Table 1 - MPA/USPS-T41-1
Distribution of Sacks by Sack Size

Sack Size	Number of Sacks	Percentage of Total Number of Sacks
1 to 5 Pieces per Sack	2,736,228	2.7%
1 to 11 Pieces per Sack	21,240,198	21.0%
1 to 17 Pieces per Sack	41,918,786	41.5%
1 to 23 Pieces per Sack	52,338,319	51.8%
Total Number of Sacks	101,002,554	100.0%

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T34-25.

Please refer to USPS-LR-J-114, which presents Periodicals Outside-County entry profile data.

- (a) Please confirm that Table 3 accurately summarizes USPS-LR-J-114, Table 2. If you do not confirm, please explain and provide an accurate summary.

Table 3. Summary of USPS-LR-J-114, Table 2 Periodicals Entry Profile Data

Entry Facility	Number of Sacks	Percentage of Total Number of Sacks
Destination Delivery Unit	1,008,250 sacks	1.0 percent
Origin Associate Office in Service Territory of Destination Sectional Center Facility	1,606,092	1.6
Destination Sectional Center Facility	17,609,556	17.4
Origin Associate Office in Service Territory of Destination Area Distribution Center	2,000,183	2.0
Origin Sectional Center Facility in Service Territory of Destination Area Distribution Center	5,566,191	5.5
Destination Area Distribution Center	4,854,467	4.8
Origin Associate Office in Service Territory of Destination Bulk Mail Center	626,280	0.6
Origin Sectional Center Facility in Service Territory of Destination Bulk Mail Center	3,524,012	3.5
Origin Area Distribution Center in Service Territory of Destination Bulk Mail Center	6,434,251	6.4
Destination Bulk Mail Center	550,283	0.5
Origin Bulk Mail Center	6,125,469	6.1
Origin Area Distribution Center	22,234,455	22.0
Origin Sectional Center Facility	26,294,182	26.0
Origin Associate Office	2,568,881	2.5
Total	101,002,554	100.0

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

(b) Please confirm that, according to USPS-LR-J-114, 26 percent of all Periodicals Outside-County sacks are entered at the origin sectional center facility (OSCF) and 22 percent of all Periodicals Outside-County sacks are entered at the origin area distribution center (OADC). If you do not confirm please provide the correct figures.

Response:

(a) Confirmed.

(b) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS-T34-26.

Please refer to USPS-LR-J-114, which presents Periodicals Outside-County entry profile data.

- (a) Please confirm that Table 4 accurately summarizes USPS-LR-J-114, Table 2. If you do not confirm, please explain and provide an accurate summary.

Table 4. Summary of USPS-LR-J-114, Table 2 Periodicals Entry Profile Data

Entry Facility	Number of Pallets	Percentage of Total Number of Pallets
Destination Delivery Unit	83,774 pallets	2.1 percent
Origin Associate Office in Service Territory of Destination Sectional Center Facility	1,951	0.0
Destination Sectional Center Facility	1,482,460	37.2
Origin Associate Office in Service Territory of Destination Area Distribution Center	1,079	0.0
Origin Sectional Center Facility in Service Territory of Destination Area Distribution Center	72,612	1.8
Destination Area Distribution Center	364,832	9.2
Origin Associate Office in Service Territory of Destination Bulk Mail Center	1,808	0.0
Origin Sectional Center Facility in Service Territory of Destination Bulk Mail Center	62,031	1.6
Origin Area Distribution Center in Service Territory of Destination Bulk Mail Center	169,245	4.2
Destination Bulk Mail Center	89,034	2.2
Origin Bulk Mail Center	273,729	6.9
Origin Area Distribution Center	741,175	18.6
Origin Sectional Center Facility	583,846	14.6
Origin Associate Office	58,103	1.5
Total	3,985,681	100.0

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

(b) Please confirm that, according to USPS-LR-J-114, 37.2 percent of all pallets are entered at the destination sectional center facility (DSCF) and 18.8 percent of all pallets are entered at the origin area distribution center (OADC). If you do not confirm please explain and provide the correct data.

Response:

(a) Confirmed.

(b) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
ASSOCIATION FOR POSTAL COMMERCE (POSTCOM)

POSTCOM/USPS-T41-2. Please refer to USPS-LR-J-112, stdb_q12000.xls, worksheet Shape Final.

- (a) Please confirm that the source data that you used to develop the volume figures on this page were from mailing statements. If not confirmed, please explain fully.
- (b) Please provide a precise definition of a flat as used in this worksheet.
- (c) Please describe the information on mailing statements that you used to determine whether a BPM piece is a flat.
- (d) Please provide a precise definition of a parcel as used in this worksheet.
- (e) Please describe the information on mailing statements that you used to determine whether a BPM piece is a parcel.
- (f) Please confirm that Witness Kiefer used the "shape shares" that you developed to derive TYAR billing determinants. If not confirmed, please explain fully.

RESPONSE:

- (a) Not confirmed. Three sources of data are used in the derivation of this table. For each mail code, total revenue, pieces and weight are taken from the Postal Service's Revenue, Piece and Weight system. These totals are then disaggregated by shape using the best available data source. For single-piece categories, ODIS data is used to create a shape distribution key. For presorted categories the PERMIT system database of mailing statements is used to create the shape distribution key.
- (b) Flat definitions for ODIS data can be found in USPS-LR-J-75. PERMIT mailing statement data shape definition comes from the Domestic Mail Manual C050. Additionally, PERMIT system data is edited to restrict flat shaped mail to be less than 4.0 pounds. Thus the precise definition of shape used in this table is pieces recorded as flats on form 3605 that have an average weight less than 4.0 pounds.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
ASSOCIATION FOR POSTAL COMMERCE (POSTCOM)

- (c) The shape information that appears in the PERMIT record comes from the "Processing Category" box on form 3605. In this postage statement field three check boxes are present: Flats, Irregular Parcels, and Machinable Parcels. To test if the average piece weight is greater than 4.0 pounds, the "Weight of a Single Piece" field, if available, is used. In the case of non-identical transactions the "Weight of a Single Piece" is not recorded. For non-identical transactions, the "Total Pieces" and "Total Weight" fields are used to calculate average piece weight.
- (d) Parcel definitions for ODIS data can be found in USPS-LR-J-75. PERMIT mailing statement data shape definition comes from the Domestic Mail Manual C050. Additionally, PERMIT system data is edited to restrict flat shaped mail to be less than 4.0 pounds. Thus the precise definition of parcels used to develop these tables is all pieces not recorded as flats on form 3605, and pieces recorded as flats on form 3605 that have an average weight greater than 4.0 pounds.
- (e) The shape information that appears in the PERMIT record comes from the "Processing Category" box on form 3605. In this postage statement field three check boxes are present: Flats, Irregular Parcels, and Machinable Parcels. To test if the average piece weight is greater than 4.0 pounds, the "Weight of a Single Piece" field, if available, is used. In the case of non-identical transactions the "Weight of a Single Piece" is not recorded. For non-identical transactions the "Total Pieces" and "Total Weight" fields are used to calculate average piece weight.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
ASSOCIATION FOR POSTAL COMMERCE (POSTCOM)

(f) Not Confirmed. Witness Kiefer used the "shape shares" I developed in his projections of TYAR BPM pieces, pounds, and revenue. Please also see his response to POSTCOM/USPS-T-33, question 4h.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORY OF
ASSOCIATION FOR POSTAL COMMERCE

POSTCCOM/USPS-T41-4:

Please refer to your response to POSTCOM/USPS-T41-2(b) where you state, "PERMIT mailing statement data shape definition comes from the Domestic Mail Manual C050. Additionally, PERMIT system data is edited to restrict flat shaped mail to be less than 4.0 pounds. Thus the precise definition of shape used in this table is pieces recorded as flats on form 3605 that have an average weight less than 4.0 pounds."

- (a) Please explain in detail why the "PERMIT system data is edited to restrict flat shaped mail to be less than 4.0 pounds."
- (b) Please provide a percentage distribution of Presort Bound Printed Matter flat mail pieces by ½-pound increment.
- (c) Please provide all rate implications that would have resulted from recording a Bound Printed Matter piece as a flat instead of as a parcel in FY 2000.

RESPONSE:

- (a) When I processed the PERMIT data I checked each record for possible data entry errors. In this process I discovered a few records that had the processing category recorded as flats, but had large average piece weights. I suspected that these records were recorded in error, and reasonable data edits were in order. The 4.0-pound limit was arrived at by taking the maximum dimensions for a flat in DMM C050 (12" x 15" x 0.75") multiplied by the density of a standard ream of business paper (0.0267 pounds per cubic inch). Thus I calculated the maximum weight of a flat shaped piece to be 3.61 pounds. The 4.0-pound number was chosen to allow for higher density paper.
 - (b) See Table 1.
 - (c) Redirected to Witness Kiefer.
-

POSTCOM/USPS-T41-4(b)

Table 1

Percentage Distribution of
Presorted Bound Printed Matter
By Half Pound Weight Increment

Weight inc	Percent
LT 0.5	0.03%
0.5 - 1.0	0.57%
1.0 - 1.5	49.69%
1.5 - 2.0	23.50%
2.0 - 2.5	7.89%
2.5 - 3.0	8.35%
3.0 - 3.5	3.55%
3.5 - 4.0	2.26%
4.0 - 4.5	0.76%
4.5 - 5.0	0.85%
5.0 - 5.5	0.65%
5.5 - 6.0	0.59%
6.0 - 6.5	0.25%
6.5 - 7.0	0.22%
7.0 - 7.5	0.14%
7.5 - 8.0	0.09%
8.0 - 8.5	0.09%
8.5 - 9.0	0.08%
9.0 - 9.5	0.03%
9.5 - 10.0	0.01%
10.0 - 10.5	0.06%
10.5 - 11.0	0.05%
11.0 - 11.5	0.05%
11.5 - 12.0	0.03%
12.0 - 12.5	0.02%
12.5 - 13.0	0.06%
13.0 - 13.5	0.01%
13.5 - 14.0	0.12%
14.0 - 14.5	0.01%
GT 14.5	0.00%

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOETSCHER
TO INTEROGATORY OF ASSOCIATION OF POSTAL COMMERCE (POSTCOM)
REDIRECTED FROM WITNESS KIEFER

POSTCOM/USPS-T33-2. Please refer to USPS-LR-J-106, SWP2-1.

.....

(d) Please provide the exact definition of a flat that was used to develop the BPM flats volume shares shown in SWP2-1. Please also describe the data source that was used to produce SWP2-1.

RESPONSE:

Data for SWP2-1 come from USPS-LR-J-112. The PERMIT system Postage Statement (form 3605) data were used to develop the shape distribution key for presorted BPM.

ODIS data were used to develop the shape distribution key for single piece BPM.

These distribution keys are applied to the Postal Services Revenue, Pieces and Weight estimates by mail code. Flat definitions for ODIS data can be found in USPS-LR-J-75.

PERMIT mailing statement data shape definition come from the Domestic Mail Manual C050, additionally PERMIT system data is edited to restrict flat shaped mail to be less than 4.0 pounds. Thus the precise definition of shape used to develop the distribution key for presorted categories is pieces recorded as flats on form 3605 that have an average weight less than 4.0 pounds.

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORY OF
ASSOCIATION FOR POSTAL COMMERCE

POSTCCOM/USPS-T33-13:

The following questions refer to your Supplemental Workpaper 2:

- (a) Does LR-J-112 differentiate between flats and parcels/IPPs?
1. If so, on what is that differentiation based?
 2. If not, how did you make the differentiation in your Work paper?

....

RESPONSE:

Yes. LR-J-112 differentiates between flats and parcels/IPP's. See my response to POSTCOM/USPS-T41-2.

United States Postal Service

**Susan W. Mayo
(USPS-T-35)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T35-2. The Commission Opinion in Docket No. R2000-1 noted its concern about the high on-time failure rate of 8.8 percent for Express Mail which, it said, is inconsistent with guaranteed service and that because the service is not really "premium" the intrinsic value of service justifies only a markup index near the systemwide average (Opinion at 221).

- (a) Please provide the on-time failure rate for Express Mail for each period since the 8.8 percent period cited by the Commission in the Opinion.
- (b) Please indicate what steps the Postal Service is taking to improve the on-time failure rate for Express Mail during the period that the rates proposed in this case will be in effect.

RESPONSE:

- a. Annual Express Mail failure rates for Postal Fiscal Year 1999 through 2001 are 9.1%, 9.3%, and 11.6%, respectively.
- b. The Postal Service has been working towards service improvement while bearing in mind the additional challenges placed on the transportation networks since the terrorist attacks on September 11, 2001. One focus in improving on-time performance is continued work with the airlines to improve transportation.

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

OCA/USPS-T35-3. The following questions refer to the proposed classification change in the service guarantee for Express Mail postage refunds.

(a) For each year, FY 2000 and FY 2001, please provide by Express Mail weight increment and service type, the number of refunds requested. Also, for each refund requested, please provide: (1) the amount of additional insurance purchased; (2) the amount of the refund requested; (3) indicate whether or not the claim has been paid; (4) if the claim was denied, please provide the reason that the claim was denied; (5) if the claim was paid, indicate the amount paid; (6) provide the time elapsed from the claim's filing date to the claim's settlement date; and (7) the mail piece's destination ZIP Code. Provide specific cites to all source documents used in preparing your response and include a copy of the source documents if one has not been previously filed in this docket. In preparing your response, please provide the information in a file format that may be imported into an EXCEL spreadsheet.

(b) For each year, FY 2000 and FY 2001, please provide by Express Mail weight increment, the total dollar value, the total number of claims filed, and the value of any subsequent refunds paid for service delays due to each of the following reasons: (1) detention for law enforcement purposes; (2) strike or work stoppage; (3) late deposit of shipment, forwarding, return, incorrect address, or incorrect ZIP Code; (4) delay or cancellation of flights; (5) war, insurrection, or civil disturbance; (6) a breakdown in the transportation network; and (7) acts of God. Provide specific cites to all source documents used in preparing your response and include a copy of the source documents if one has not been previously filed in this docket. In preparing your response, please provide the information in a file format that may be imported into an EXCEL spreadsheet.

RESPONSE:

- a. The Postal Service does not collect Express Mail refund information by weight increment or service type.

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

OCA/USPS-T35-3. (CONTINUED)

RESPONSE:

a. (continued)

1. Individual refund information is only available at the local level and is not included in a national database.
2. Individual refund information is only available at the local level and is not included in a national database.
3. Individual refund information is only available at the local level and is not included in a national database. In general terms, if a claim is validated, it is paid.
4. Individual refund information is only available at the local level and is not included in a national database.
5. Individual refund information is only available at the local level and is not included in a national database.

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

OCA/USPS-T35-3. (CONTINUED)

RESPONSE:

a. (continued)

6. Individual refund information is only available at the local level and is not included in a national database. In general terms, settlements of verifiable claims where refunds are requested for service failure through a retail transaction—not using an Express Mail corporate account—can be done on the spot at a retail window.

7. Individual refund information is only available at the local level and is not included in a national database.

b. The Postal Service does not collect this type of information.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-T35-4. In September 2001, the Postal Service's Answer Unit (800-725-2161) Customer Service Representative indicated in response to a telephone inquiry that the Postal Service employee responsible for determining whether to pay an Express Mail postage refund claim is the local window clerk.

(a) For any given Express Mail postage refund claim, is the USPS local window clerk responsible for determining whether an Express Mail postage refund claim should be paid?

(b) If your response to part (a) of this interrogatory is affirmative, please provide copies of all training materials and information available and used by window clerks in determining the conditions under which the USPS will honor an Express Mail postage refund claim.

(c) If your response to part (a) of this interrogatory is other than affirmative, please indicate who is responsible for determining when to pay an Express Mail postage refund claim and provide copies of all training materials and information used by the individual when determining the conditions under which the USPS will honor an Express Mail postage refund.

(d) What current means are available to postal patrons who wish to appeal a local clerk's decision to deny a postage refund payment for an overdue Express Mail item? Please provide specific cites to all source documents used in preparing your response and include a copy of the source documents if one has not been previously filed in this docket.

(e) For each year, FY 2000 and FY 2001, how many Express Mail postage refund claims were denied and what was the total dollar value of those claims? (For FY 2001, please provide the most current data available.) Provide specific cites to all source documents used in preparing your response and include a copy of the source documents if one has not been previously filed in this docket.

(f) For each year, FY 2000 and FY 2001, how many Express Mail postage refund claims that were initially denied by window clerks were subsequently paid and what is the total dollar value of those claims? Provide specific cites to all source documents used in preparing your response and include a copy of the source documents if one has not been previously filed in this docket.

(g) Does the Postal Service evaluate or otherwise track whether Express Mail postage refund claims are processed and paid by the window clerks on a consistent nationwide basis? If so, please provide copies of all documentation available as to how the consistency is evaluated. In your response, please include a summary of the Express Mail postage refund evaluations by postal region for FY 2000 and FY 2001.

(h) If your response to part (g) of this interrogatory is other than affirmative, please explain why evaluations on the consistency of treatment for Express Mail postage refund claims are not performed.

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

OCA/USPS-T35-4 (CONTINUED)

(i) For each year, FY 2000 and FY 2001, please provide the total budgeted amount as well as the actual payments made for Express Mail postage refunds resulting from the failure of the Postal Service to meet its stated standards. Please provide specific cites to all source documents referenced and include a copy of each reference used if one has not been previously filed in this docket.

(j) For FY 2000 and FY 2001, please provide a copy, by Express Mail service offering and by postal designated region, the (1) the USPS service standards, paired with (2) the actual service standards achieved. Provide specific cites to all source documents used in preparing your response and include a copy of the source documents if one has not been previously filed in this docket.

RESPONSE:

- a. No, unless the window clerk is the postmaster's designee for determining whether a claim is paid.
- b. Not applicable.
- c. The postmaster or designee is responsible for determining when to pay an Express Mail refund claim. A copy of the "Structured on the Job Training Processes" training worksheet for refund processing is attached.
- d. Information on postage refunds for Express Mail is detailed in Section P014.5.0 of the Domestic Mail Manual (DMM). Specifically, Section 5.4 covers how to apply for a refund, Section 5.5 covers immediate refunds, and Section 5.6 covers deferred refunds. If it can be determined immediately that the mailer is entitled to a refund, and the Express Mail mailpiece had postage affixed, the Postal Service refunds the postage immediately in cash or with a no-fee money

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

OCA/USPS-T35-4 (CONTINUED)

RESPONSE:

order. If the postmaster or his/her designee is not able to confirm the entitlement for the refund, the Postal Service researches the request and, if appropriate, issues a refund to the mailer within five business days. There are three methods available to confirm a request immediately: (1) calling a toll-free 800 number, (2) going on the Postal Service website, or (3) speaking with an Expedited Service Specialist (ESS) at the appropriate district Expedited Service Office (ESO).

e. The Postal Service does not collect this type of information for denied claims.

f. The Postal Service does not collect this type of information for denied claims.

g. No.

h. As described in part (d) above, there are policies and procedures that detail the Express Mail refund process. Secondly, as described in part (c) above, the Postal Service maintains a national training program that addresses the handling of Express Mail refunds. Finally, the determination of whether or not to provide a refund is made by the postmaster or the postmaster's designee, and not a window clerk. Therefore, there does not appear to be a need for an independent process to track the refund process consistency.

i. To the best of my knowledge, the Postal Service does not separately budget for Express Mail postage refunds.

j. Partial objection filed on October 11, 2001.

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

OCA/USPS-T35-4 (CONTINUED)

(1) The service standard information on a nationwide basis can be obtained by calling the Postal Service's toll-free help line at 1-800-275-8777 and providing the origin/destination ZIP Codes.

(2) Actual service standards achieved on an aggregate national basis for PFY 2000 and 2001 are 90.7% and 88.4% respectively. This information was retrieved from the Expedited Mail Reporting System (EMRS).

Training Worksheet

Lesson #75

Task:

POS ONE/IRT Processing a Refund Using PS Form 3533

Terminal Objective: review with future Associate

How to Process a Refund Using a PS Form 3533

Prerequisites:

- ☐ Sales and Services Associate Training
- ☐ Knowledge of Domestic Mail Manual
- ☐ Knowledge of F-1 Post Office Accounting Procedures Manual
- ☐ Review GIST

Supplies and Equipment Needed for This Training Session:

- ☐ IRT/POS ONE System ☐ pen/pencil
- ☐ PS Form 3533
- ☐ Domestic Mail Manual
- ☐ F-1 Post Office Accounting Procedures Manual

NOTE to all RC's teaching this session:

Training step that is specific to clarifying questions to be asked of customer must include pertinent information on any or all of the following:

- HAZMAT
 - Aviation Security
-

Training Worksheet

Task: POS ONE/IRT Processing a Refund Using PS Form 3533

1. RC will:
Explain the uses of PS Form 3533.

Future Associate will:
Repeat uses of Form 3533.

2. RC will:
Demonstrate filling out PS Form 3533. Attach mailing receipt or PVI label if appropriate.

Future Associate will:
Fill out a PS Form 3533.

3. RC will:
Demonstrate entering PS Form 3533 (refund information) in appropriate
AIC (IRT), GLA (POS), or Manual 1412.

Future Associate will:
Repeat demonstration.

4. RC will
Demonstrate how to process refund.

Future Associate will
Repeat demonstration.

5. RC will

Future Associate will

6. RC will

Future Associate will

7. RC will

Future Associate will

Training Worksheet

Task: POS ONE/RT Processing a Refund Using PS Form 3533

____ 8. RC will

Future Associate will

____ 9. RC will

Future Associate will

____ 10. RC will

Future Associate will

How tested:

____ Role Play

____ Customer

Date: _____

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

OCA/USPS-T35-5. The USPS proposed DMCS language provides for discretionary authority to deny refunds when an Express Mail delay is caused by: (a) detention for law enforcement purposes;

(b) strike or work stoppage;

(c) late deposit of shipment, forwarding, return, incorrect address, or incorrect ZIP Code;

(d) delay or cancellation of flights;

(e) governmental action beyond the control of the Postal Service or air carriers;

(f) war, insurrection, or civil disturbance;

(g) breakdown in the transportation network; or

(h) acts of God.

See USPS-T-35 at 26. Given the proposed discretionary authority, what prevents the Postal Service from denying all Express Mail postage refund claims?

RESPONSE:

It is important to keep in mind that the DMCS provisions would be discretionary, and the circumstances in which refunds would be denied, as explained in my testimony, are expected to be rare. The grounding of air transport as a result of the terrorist activities beginning on September 11 would be a possible example of circumstances warranting the denial of refunds. Generally, the new provisions would clarify that refunds could be denied when circumstances beyond the control of the Postal Service lead to the delay of Express Mail. By contrast, circumstances within the control of the Postal Service, such as scheduling of transportation to and from the airport, as well as scheduling of delivery personnel to perform on-time delivery, would not be considered to be beyond the control of the Postal Service. Thus, if these circumstances led to delay of Express Mail, refunds would not be denied under the revised DMCS provisions.

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

OCA/USPS-T35-6. Given the proposed DMCS language for Express Mail postage refunds, under what condition or conditions will an Express Mail customer be likely to obtain a postage refund when the service commitment has not been achieved? -

RESPONSE:

See response to OCA/USPS-T35-5.

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

OCA/USPS-T35-7. If the proposed DMCS language, for Express Mail postage refunds, is adopted, how and when will the Postal Service educate postal patrons about the new changes?

RESPONSE:

The Postal Service prints the terms and conditions of Express Mail refunds on the reverse of each postage label. In addition, information about Express Mail refunds is contained in Publication 201, "Consumer's Guide to Postal Services & Products", on the Postal Service website, www.usps.com.

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

OCA/USPS-T35-8. The following refers to your response to OCA/USPS-T35-5. Your response states,

[C]ircumstances within the control of the Postal Service, such as scheduling of transportation to and from the airport, as well as scheduling of delivery personnel to perform on-time delivery, would not be considered to be beyond the control of the Postal Service.

However, one could easily infer that scheduling of transportation to and from the airport and the scheduling of delivery personnel could be considered an example of a "breakdown in the transportation network." Please explain how the USPS can assure the public that a "postmaster or his/her designee" will not deny a claim based upon a generalized interpretation of your proposed DMCS language "breakdown in the transportation network"?

RESPONSE:

The "breakdown in the transportation network" criterion is designed to deal with extraordinary circumstances, such as what the Postal Service experienced as a result of the actions that took place on September 11, 2001. The Postal Service will narrowly define the DMM regulations governing refunds during implementation so as to assure claims would not be denied based upon generalized interpretations.

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

OCA/USPS-T35-9. Your response to OCA/USPS-T35-7 indicates that the Postal Service will update the terms and conditions of the Express Mail refunds appearing on the reverse side of each postage label. Please provide the cost of updating the information on the back of the Express Mail postage label. Provide an estimate of the number of Express Mail postage labels printed in FY 2000, FY 2001 and FY 2002. Provide the full calculation for both the cost data and the estimate of the number of labels. Please provide specific cites to all source documents and provide copies if one has not been previously filed in this docket.

RESPONSE:

The cost of updating the information is absorbed by the printer supplier at no additional cost to the Postal Service. The estimated volume of Express Mail labels printed (which includes Global Express Mail labels) is as follows: FY 2000 – 118.8 million; FY 2001 – 118.0 million; and FY 2002 – 90 to 110 million.

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

OCA/USPS-T35-10. For Express Mail, please provide available data from the most recent year for which data are available that show, by ounce, the volume of Express Mail for each type of mailing envelope or container supplied by the Postal Service. In preparing your answer, please provide the information in a format similar to that provided by USPS witness Scherer in his response to DFC/USPS-T30-1.

RESPONSE:

The Postal Service does not collect information, by ounce, on the volume of Express Mail for each type of Postal Service supplied mailing envelope or container.

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

OCA/USPS-T35-11. In reducing the level of insurance automatically included in Express Mail from \$500 to \$100, please: (a) identify and explain the indemnity costs deducted from Express Mail, and (b) explain the consideration you gave to the Express Mail rate proposals with regard to the decreased value of service due to a reduction in the level of insurance included at no extra cost. Please provide specific cites to all source documents and provide copies if one has not been previously filed in this docket.

RESPONSE:

(a) It is my understanding that the indemnity costs for Express Mail from witness Patelunas's testimony are as follows: Base Year 2000 - \$1,258,000; FY 2001 - \$1,295,000; Test Year 2003 Before Rates - \$1,488,000, and Test Year After Rates 2003 - \$1,347,000. It is also my understanding that there was no adjustment to indemnity costs related to the reduction in free indemnity coverage.

(b) The Express Mail rates proposed in my testimony were developed with a target average increase and target cost coverage in mind. See my testimony at page 28. The value of service criterion consideration for the Express Mail rate proposals is addressed in witness Moeller's testimony, USPS-T-28.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORY OF UNITED PARCEL SERVICE

UPS/USPS-T35-1. What will the Postal Service policy be for handling Express Mail flat-rate envelopes that exceed one-half pound?

RESPONSE:

The Postal Service's policy will be the same as it is currently for handling Express Mail flat-rate envelopes that exceed two pounds, i.e., delivering the flat-rate mailpiece for the established rate regardless of the weight.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

POIR 4/1. This question concerns Express Mail and refers to USPS-T-35.

(a) At page 24, witness Mayo discusses the proposal for tying the Express Mail flat rate envelope rate to the half-pound rate. Will the proposed flat rate envelope be the same size and have the same capacity as the current flat rate envelope?

(b) At page 25, lines 13-14, witness Mayo states, "Express Mail paid claims for merchandise in the \$0 to \$500 range averaged \$170." What percent of the claims were below \$100?

(c) At page 28, lines 13-15, witness Mayo states, "The Custom Designed rate differential was developed by applying a 30-cent differential to the Post Office to Post Office rate differential. The 30-cent rate differential was considered a reasonable differential." Please explain all considerations and factors that led to the conclusion that this was a 'reasonable' differential.

RESPONSE:

(a) Yes.

(b) In FY 2000, 53 percent of the Express Mail paid claims for merchandise in the \$0 to \$500 range were \$100 and below.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

POIR 4/ (Continued):

(c) I examined two methods to arrive at the 30-cent rate differential. First, I marked up the cost differential from Post Office to Addressee to Post Office to Post Office of (\$1.40) by the target cost coverage of 229 percent, resulting in (\$3.22). I then applied the target cost coverage of 229 percent to the cost differential from Post Office to Addressee to Custom Designed of (\$1.21) to arrive at (\$2.78). The difference between the two differentials is (\$0.44) or [(\$3.22 minus \$2.78)]. I compared the marked up cost differential difference (\$0.44) with the cost differential difference before markup of \$0.19 or (\$1.40 minus \$1.21). The difference between these two numbers is (\$0.25) or (\$0.44 minus \$0.19). I mitigated the increase in the Custom Designed rates by dividing the (\$0.25) difference in half to arrive at (\$0.125). I added this (\$0.125) to the (\$0.19) differential which resulted in (\$0.315). I rounded this number to the nearest nickel that resulted in 30 cents. The second method I examined involved taking the difference in the current rate structure of -\$0.15 and \$0.55 between the Post Office to Post Office and Custom Designed rates and dividing this \$0.70 range by two to arrive at \$0.35.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

POIR 4/I (Continued):

The proposed differential of 30 cents is "reasonable", as discussed in my testimony at page 28, lines 15-20. I believe the 30-cent difference reflects a balanced approach. If I had fully marked up the cost differential, an undue burden would have been placed on Custom Designed rates. Instead, I chose a more moderate approach.

United States Postal Service

**Susan W. Mayo
(USPS-T-36)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO TO
INTERROGATORIES OF DAVID B. POPKIN (DBP/USPS-1-82)
REDIRECTED FROM THE POSTAL SERVICE**

DBP/USPS-70. Please refer to your response to Interrogatory OCA/USPS-118. Has Delivery Confirmation service always been available for mail addressed to the IRS since the time that service was established? *If not, please provide details.*

RESPONSE:

Yes. Delivery Confirmation was available for mail addressed to the IRS during the April, 1999 income tax season, although it was strongly discouraged by the Postal Service that tax season as it was a brand new product offering and there were concerns that reliable service could not be provided.

**RESPONSE OF POSTAL SERVICE WITNESS MAYO (USPS-T-36) TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5**

POIR 5/14. Please refer to USPS-LR-J-109, file 'BRPFWorkpapers.xls,' worksheet 'Business Reply Mail,' cell J 48. How many mailers does the Postal Service estimate are responsible for this volume?

RESPONSE:

Based on the total permit revenue and advance deposit account revenue I use for developing billing determinants, there is no way to determine the number of non-accounting-fee permits. *It is possible to have multiple advance deposit accounts for one permit.* Therefore, a calculation as to how many non-accounting-fee permits could not be made from taking the total number of permits paid less the advance deposit accounts paid. I also have not been able to obtain any other estimate of how many permits are responsible for this volume.

United States Postal Service

**Karen Meehan
(USPS-T-11)**

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 2

4335

POIR/USPS-2. In the transportation workpapers for R2000-1 the Postal Service distributed empty equipment cost for highway based on all highway costs. It distributed the empty equipment for rail based on all rail costs. In docket R2000-1 the Commission recommended adoption of MPA's proposal to distribute empty equipment rail costs based on the costs of all surface transportation rather than just the other rail costs. In this docket the Service appears to have distributed the empty equipment costs for both highway and rail based on the combined costs of both surface and air transportation. Please explain this change in distribution methodology.

Response:

The Postal Service did indeed change the distribution of both highway and rail costs in its FY 2000 CRA. (It was inadvertently left out of the base year testimony section on changes in the FY 2000 CRA.) This change was carried over to the base year. As the question indicates, two changes were made. First, the empty equipment cost distribution was based on all transportation costs, not just surface transportation costs. This change was made in recognition of the fact that the equipment being transported includes mail transport equipment (e.g., sacks, letter trays, flat tubs, pallets,) used in all modes of transportation, not just surface transportation. Second, the distribution of highway empty equipment costs was changed to recognize that these costs are incurred to transport the same assortment of empty equipment as is transported on rail.

Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 3

4336

POIR/USPS-4. Witness Meehan's Workpaper B spreadsheets include the outputs to the CRA for each cost segment and component which are reflected in the manual input of witness Meehan's Workpaper A. The structure of the outputs to the CRA and the manual input to the CRA does not include costs associated with any of the former non-profit subclasses such as Periodicals Non-Profit or Standard Non-Profit ECR. However, it appears that the costs associated to the non-profit subclasses are included in section of the spreadsheets labeled "*oldoutputs*". Please confirm that if the CRA structure was the same as in Docket No. R2000-1 the costs input into the CRA would have come from the spreadsheet sections labeled "*oldoutputs*" in the Workpaper B spreadsheets.

*If confirmed please provide the PESSA, custodial maintenance and equipment, and rollforward distribution keys that are included in the manual inputs into the CRA in the same format as indicated in the "*oldoutputs*" sections mentioned above.*

Response:

Confirmed. The relevant keys requested are provided as follows. Component 943, Space Distribution Key for Platform, can be found in USPS-LR-J-55, Table V-1, part 5, column d, labeled Component 943, Space Platform Distribution Key. The other base year distribution keys are filed in USPS-LR-J-154.

**Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 5**

POIR/USPS-5. Witness Meehan's LR-J-57, Workpaper B-7, worksheet "Input LR.xls", provides the Curbline Access Test (CAT) and Foot Access Test (FAT) factors used to split running time for the Postal Service cost treatment of city carrier street time costs. The worksheet "Input PRC" provides the CAT/FAT factors used to split running time for the Postal Service development of the PRC cost treatment of city carrier street time as calculated in LR-J-74.

(a) The cited source for the CAT/FAT factors in the Postal Service treatment is "R97-1, USPS LR-H-141". This does not appear to be current as the factors calculated in LR-H-141 are based on FY96 City Carrier Cost Survey data. Please provide the calculations of the current Postal Service CAT/FAT factors updated with FY 2000 City Carrier Cost Survey data.

(b) The CAT/FAT factors in the PRC treatment are based on FY97 data in "CRA97adj.xls, 'AF Input 4' ". Please update the factors with FY 2000 City Carrier Cost Survey data.

Response:

(a-b) Unintentionally, different USPS CAT/FAT and PRC CAT/FAT factors were used in LR-J-57, Workpaper B-7, tab "Input LR" and tab "Input PRC". The use of the same CAT/FAT factors – namely those derived from the PRC's running time models – had been intended. The requested updated factors are below, and they can be used to update both the "Input LR" and the "Input PRC" tabs.

1. FAT Split Factors for the Business Foot, Residential Foot, and Mixed Foot

Route-Type Categories:

**SDR 0.6963
MDR 0.7346
BAM 0.6748**

**Response of United States Postal Service Witness Meehan
to
Presiding Officer Information Request No. 5**

2 FAT Split Factors for the Business Motorized, Residential Curb, Residential Park & Loop, Mixed Curb, and Mixed Park & Loop Route-Type Categories:

**SDR 0.5732
MDR 0.6110
BAM 0.5480**

3. CAT Split Factors - All Route Types

**SDR 0.4337
MDR 0.3980
BAM 0.4679**

USPS LR-J-182 shows how these split factors are calculated.

**Response of Postal Service Witness Meehan To
Presiding Officer's Information Request Number 5**

6. Witness Meehan, T-11, page 7, lines 4-8, states: "In response to the PRC's request to separate the cost of special services from their ancillary services, elemental load calculations in cost segment 7 were updated to remove return receipt costs out of the special service volume variable cost. The changes to elemental load are discussed in the testimony of witness Bradley, USPS-T-16."

- (a) Please describe the cost segment 7 updates that remove return receipt costs from the special service volume variable costs and identify the B-7 Workpaper spreadsheets and cells involved.
- (b) Please provide a specific cites to witness Bradley's discussion and to a modification in the calculation of BY00 volume variable elemental load costs.

Response:

- (a) The updates to Cost Segment 7 are made on the following pages of the B-7 Workpaper spreadsheets: Input LR, cells F86, E86 and D86, (repeated again in spreadsheet 7.0.8 cells I60, N60 and S60). The effect of including this change is that return receipt costs are separately identified and put into Special Service Other. Distribution of costs occurs and is shown in spreadsheets 7.0.6.5 column (4) Accountables, 7.0.6.6 column (4) Accountables, and 7.0.6.7 column (4) Accountables.
- (b) To be answered by witness Bradley, USPS-T-16.

United States Postal Service

**Michael W. Miller
(USPS-T-22)**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-39 Please refer to pages 41 and 43 of USPS-LR-J-60 where you derive the unit cost estimate for nonstandard single piece and nonstandard presort letters.

- A. Please confirm that your CRA-adjusted unit costs for single piece nonstandard and presorted nonstandard letters are 18.934 cents and 16.545 cents, respectively. If no, please explain.
- B. Do you agree that letters weighing up to one ounce are processed no differently from letters weighing between 1.1 and 2.0 ounces? If no, please explain.
- C. Please explain why the Postal Service proposes to charge nonstandard single piece letters less than 2-ounce single piece letters, when your cost analysis indicates that the nonstandard letters cost the Postal Service more to process.
- D. Please explain why the Postal Service proposes to charge nonstandard presort letters less than 2-ounce presorted letters, when your cost analysis indicates that the nonstandard letters cost the Postal Service more to process.
- E. Please confirm that you assumed that for nonstandard single piece letters, 7,500 of 10,000 letters could be sent to the RBCS for barcoding, and that 7,459 of those letters (99.45%) were successfully barcoded such that they could be sent to automation processing in the next operation. If you cannot confirm, please explain.
- F. Please confirm that if you had assumed that all of those 7,500 pieces discussed in Part E were prebarcoded by the mailer, your resulting CRA-adjusted unit cost would increase by 12.3% from 18.934 cents to 21.269 cents. If you cannot confirm, please explain.
- G. Please confirm that you assumed that for nonstandard presort letters, 1,181 of 10,000 letters could be sent to the outgoing RBCS for barcoding, and that 1,174 of those letters (99.43%) were successfully barcoded such that they could be sent to automation processing in the next operation. If you cannot confirm, please explain.
- H. Please confirm that you assumed that for nonstandard presort letters, 4,486 of 10,000 letters could be sent to the incoming RBCS for barcoding, and that 4,461 of those letters (99.46%) were successfully barcoded such that they could be sent to automation processing in the next operation. If you cannot confirm, please explain.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-39 (CONTINUED)

- I. Please confirm that if you had assumed that all of those 5,567 pieces discussed in Parts G and H were prebarcoded by the mailer, your resulting CRA-adjusted unit cost would increase by 4.7% from 16.545 cents to 17.320 cents. If you cannot confirm, please explain.
- J. Please justify the reasonableness of a cost model such as the ones you present to the Commission for nonstandard letters that result in increased costs when mailers provide a prebarcode on their outgoing letters.

RESPONSE:

- (A) It can be confirmed that the mail processing unit cost estimate for a nonstandard single-piece letter-shaped mail piece is 18.678 cents. It can be confirmed that the mail processing unit cost estimate for a nonstandard presort letter-shaped mail piece is 16.254 cents. Please see the revisions filed on 11/15/01.
- (B) In general, yes.
- (C) Redirected to the Postal Service.
- (D) Redirected to the Postal Service.
- (E) It can be confirmed that it was assumed that 75% of the letters would be machinable and processed in RBCS. It cannot be confirmed that the result was as described. Please see the revisions filed on 11/15/01.
- (F) Not confirmed. Please see the revisions filed on 11/15/01.
- (G) Not confirmed. Please see the revisions filed on 11/15/01.
- (H) Not confirmed. Please see the revisions filed on 11/15/01.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

REPONSE TO MMA/USPS-T22-39 (CONTINUED)

- (I) Not confirmed. Please see the revisions filed on 11/15/01.
- (J) The action described in part (I) seeks to use the cost model for a purpose other than that intended. The nonstandard surcharge cost models and automation presort letters cost models are not interdependent in any way.

Most cost studies involve narrowly defined benchmark - rate category comparisons. For example, automation presort letter cost models by rate category are used to de-average a CRA mail processing unit cost estimate. Those results are then compared to a Bulk Metered Mail (BMM) letter benchmark.

There are limitations when it comes to the data that can be used for cost models. Many data inputs represent "average" figures. In addition, some of the data inputs would likely change if large volumes of mail migrated from one mail type (e.g., single-piece) to another. The cost models in USPS LR-J-60 were not constructed to evaluate such migration.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-49 Please refer to Part A of Interrogatory MMA/USPS-T22-19 where you were asked about the impact of your decision to use machinable nonautomation mixed AADC letters as a proxy for BMM in order to estimate delivery unit costs and your response thereto.

- A. In part A, you were asked about how this decision impacted your derived workshare cost savings. Your response indicates that you feel it made your derived workshare cost savings more accurate. Please provide the actual data, appropriate citations to the record in this case, and copies of any other source documents that you believe support that claim.
- B. Please confirm the unit delivery costs as shown in the table below. Please make any corrections, if necessary.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-49 (CONTINUED)

Comparison of Delivery Costs From Docket Nos. R2000-1 and R2001-1

First-Class Category	Delivery Unit Costs In Cents		Difference
	R00-1	R01-1	R01-1 - R00-1
Single Piece	5.362	6.037	0.675
BMM	5.479	4.083	-1.396
Nonautomation Presort Letters	5.479	5.942	0.463
Nonautomation Nonmachinable Mixed ADC		8.408	
Nonautomation Nonmachinable ADC		8.408	
Nonautomation Machinable Mixed AADC		4.083	
Nonautomation Machinable AADC		4.083	
Nonautomation Nonmachinable 3-Digit		8.408	
Nonautomation Nonmachinable 5-Digit		8.408	
Nonautomation Machinable 3-Digit		3.954	
Nonautomation Machinable 5-Digit		3.954	
Nonautomation Machinable Letters (All Presort Levels)		4.005	
Automation Mixed AADC Letters		4.164	
Automation AADC Letters		4.015	
Automation Basic Letters	4.319		
Automation 3-Digit Presort Letters	4.196	3.979	-0.217
Automation 5-Digit Presort Letters	2.966	3.794	0.828
Automation 5-Digit Presort Letters (CSBCS/Manual Sites)	6.160	6.160	0.000
Automation Carrier Route Presort Letters	6.059	6.059	0.000
Source:	USPS-LR-I-95 (rev)	USPS-LR-J-117	

- C. Please confirm that had you used nonpresorted letter delivery costs as a proxy for BMM, as you did in the last case, the BMM delivery cost would have increased by 1.867 cents. If you cannot confirm, please explain.
- D. Please confirm that had you used nonpresorted letter delivery costs as a proxy for BMM, as you did in the last case, your workshare cost savings would have

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-49 (CONTINUED)

- E. increased by 1.867 cents for *each* automation letter category. If you cannot confirm, please explain.
- F. Please confirm that the test year after rates Automation letter volume is 47.743 billion pieces. If no, please provide the correct volume figure.
- G. Please confirm that your assumption concerning BMM delivery costs reduced potential workshare savings by $.01867 \times 47.743$ billion or \$891 million. If you do not agree, then please provide the correct amount, and explain the reason for such correction.
- H. Please confirm that the only explanation that you provide in your Direct Testimony and Library References for changing the assumption from the last case concerning BMM delivery costs is found on page 20 of your Direct Testimony. There you state: "

In this docket, I have refined that assumption and have assumed that delivery unit costs for BMM letters are the same as the delivery unit costs for First-Class machinable mixed AADC nonautomation presort letters".

If you cannot confirm, please provide all other record citations where you explain the rationale for your "refined" assumption.

- I. In Part B of your response, you indicate that the DPS percentage for BMM is 76.35% and is virtually identical to that for nonautomation machinable mixed AADC presort letters.
 - 1. Please confirm that, as your BMM model is constructed, if you have overstated the amount of letters processed by automation, then the very likely result would be an understatement of the true BMM unit costs. If you cannot confirm, please explain.
 - 2. Please confirm that, as your BMM model is constructed, if you have overstated the amount of letters processed by automation, then the very likely result would be an overstatement of the DPS percentage. If you cannot confirm, please explain.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-49 (CONTINUED)

3. Please confirm that as your BMM model is constructed, if you have understated the true BMM unit cost, then the very likely result would be an overstatement of the DPS percentage. If you cannot confirm, please explain.
 4. Please confirm that, as your BMM model is constructed, if you had assumed that every BMM letter was prebarcoded, then the resulting unit BMM cost increases from 4.193 cents to 4.63 cents. If you cannot confirm, please indicate by how much the unit cost increases and support your response with appropriate citations to the record in this case. If the unit cost decreases, please support your response.
 5. Please confirm that, as your BMM model is constructed, if you had assumed that every BMM letter was prebarcoded, then the resulting BMM DPS percentage decreases from 76.35% to 72.97%. If you cannot confirm, please indicate by how much the DPS percentage decreases and support your response. If the DPS percentage increases, please support your response.
 6. Please confirm that application of the CRA adjustment factor, which you claim compensates for the use of aggregated data (see your answer to Part J of Interrogatory MMA/USPS-T22-21), in no way relates to your model-derived DPS percentage. If you cannot confirm, please explain.
- J. In your response to Part C, you state that the IOCS system does not track costs for BMM letters.
1. Does the IOCS track costs for metered letters? If yes, please explain why you could not have used metered mail costs as you did for mail processing costs?
 2. Doesn't an assumption that potentially impacts almost a \$1 billion warrant more attention that you gave it?

RESPONSE:

(A) Please see the response to MMA/USPS-T22-19(B).

(B) The table has been corrected to include the revised figures filed on 11/15/01.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-49 (CONTINUED)

- (C) It can be confirmed that had the nonautomation presort letters unit cost estimate been used as the proxy for BMM letters, the BMM letters delivery unit cost estimate would have increased 1.850 cents.
- (D) It can be confirmed that the automation presort letters worksharing related savings estimates would have increased by 1.850 cents.
- (E) Confirmed.
- (F) Not confirmed. The aggregate nonautomation presort letters unit cost estimate represents a category of mail that requires a substantial amount of manual processing. Consequently, I do not view this cost difference as "potential savings" related to Bulk Metered Mail (BMM) letters.
- (G) Confirmed. In addition, please see the response to MMA/USPS-T22-19(B).
- (H1) Confirmed. However, BMM letters and nonautomation machinable mixed AADC presort letters follow identical processing paths. If the amount of BMM letters processed on automation were overstated, then the amount of nonautomation machinable mixed AADC presort letters processed on automation would also be overstated.
- (H2) Confirmed. However, BMM letters and nonautomation machinable mixed AADC presort letters follow identical processing paths. If the Delivery Point Sequencing (DPS) percentage for BMM letters were overstated, then the DPS percentage for nonautomation machinable mixed AADC presort letters would also be overstated. Consequently, those percentages would still be nearly identical.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-49 (CONTINUED)

- (H3) Not confirmed. It depends on what costs are being understated.
- (H4) I would not have made such an assumption as it has always been my understanding that BMM letters are not generally prebarcoded. Please see the response to MMA/USPS-T22-38(K). However, it can be confirmed that, in the purely mathematical sense, this assumption would change the model costs from 4.276 cents to 4.280 cents.
- (H5) I would not have made such an assumption as it has always been my understanding that BMM letters are not generally prebarcoded. Please see the response to MMA/USPS-T22-38(K). However, it can be confirmed that, in the purely mathematical sense, this assumption would change the DPS percentage from 75.73 percent to 73.76 percent.
- (H6) Not confirmed. For example, the revisions that were filed on 11/15/01 affected both the DPS percentage and the CRA proportional adjustment factor.
- (I1) Yes. Please see the response to MMA/USPS-T22-43(O). The rationale that explains the delivery unit cost proxy for BMM letters can be found in the response to MMA/USPS-T22-19(B).
- (I2) The rationale that explains the delivery unit cost proxy for BMM letters can be found in the response to MMA/USPS-T22-19(B). In addition, the fact that there may be a cost difference between two delivery unit cost estimates does not, in and of itself, mean that one estimate is the best proxy for BMM letters.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-70 Please refer to your response to Part H of Interrogatory MMA/USPS-T22-49. There you discuss the relationship in your models among the percentage of letters processed by automation, the unit mail processing cost, and the DPS percentage.

- A. In response to Parts H 1 and H 2, you indicate that BMM and non-automation machinable, mixed AADC letters follow identical processing paths in your models. Please explain how, in your model, the flow for single piece metered letters would differ, if at all, from the flow for BMM letters.
- B. In response to Parts H 1 and H 2, you indicate that the DPS percentages for both BMM and non-automation machinable, mixed AADC letters are likely to be overstated if the model-derived costs are understated. Please confirm that if the costs are in fact understated, and the DPS % is in fact overstated, then the delivery costs for both BMM and non-automation machinable, mixed AADC letters are likely to be understated. If you cannot confirm, please explain.
- C. Please confirm that, based on your BMM and non-automation, machinable mixed AADC letters models, your unit cost estimates understate the CRA-derived unit costs by approximately 50%, according to your derived CRA-adjustment factors. If you cannot confirm, please explain.
- D. Please confirm that, as your automation letter mail models are constructed, if you have understated the percentage of letters processed by automation through the incoming secondary, then the very likely result would be an overstatement of the true automation letter unit costs. If you cannot confirm, please explain.
- E. Please confirm that, as your automation letter mail models are constructed, if you have understated the percentage of letters processed by automation through the incoming secondary, then the very likely result would be an understatement of the true automation letter DPS percentage. If you cannot confirm, please explain.
- F. Please confirm that, as your automation letter mail models are constructed, if you have overstated the true automation letter unit costs, then the very likely result would be an understatement of the true automation letter DPS percentage. If you cannot confirm, please explain.
- G. Please confirm that, based on your automation letter models, your model-derived unit cost estimates overstate the CRA-derived by an average of 20%, according to your derived CRA-adjustment factor. If you cannot confirm, please explain.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-70 (CONTINUED)

- H. Please confirm that, if you have understated the true automation letter DPS percentages, then the very likely result would be an overstatement of the automation delivery unit costs. If you cannot confirm, please explain.
- I. Please confirm that, if your model-derived unit costs overstate the true automation letter DPS percentages and overstate the true non-automation machinable, mixed AADC DPS percentage, then the very likely result is that you have understated the differences between the delivery unit costs. If you cannot confirm, please explain.

RESPONSE:

- (A) Cost model differences related to First-Class single-piece metered letters are discussed in the response to MMA/USPS-T22-62(B).
- (B) Not confirmed. It is my understanding that DPS percentages for all the presort letters cost models have been used by witness Schenk to de-average the delivery unit costs for presort letters. If the cost models could overstate the BMM letters and nonautomation mixed AADC presort letters DPS percentages, then the DPS percentages in all the presort letters cost models could be overstated. The revised figures would then have to be used to de-average the delivery unit cost for presort letters.
Consequently, the specific outcome is unknown.
- (C) It can be confirmed that the CRA proportional adjustment factors for BMM letters and nonautomation presort letters are 1.493 and 1.508 cents, respectively.
- (D) Confirmed.
- (E) Confirmed. In addition, please see the response to MMA/USPS-T22-70(B).

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE TO MMA/USPS-T22-70 (CONTINUED)

- (F) Not confirmed. If a productivity value for a specific operation were understated, the costs would be overstated. This overstatement of costs would not affect the DPS percentages.
- (G) It can be confirmed that the CRA adjustment factor for First-Class automation presort letters is 0.797. In addition, please see the response to MMA/USPS-T29-14.
- (H) Not confirmed. Please see the response to MMA/USPS-T22-70(B).
- (I) Not confirmed. Please see the response to MMA/USPS-T22-70(B).

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T22-71 Please refer to your response to Part H 3 of Interrogatory MMA/USPS-T22-49. There you failed to confirm that if, using your BMM model results in an overstatement of the DPS percentage, then the result would be an understatement of the true BMM unit cost. Your explanation was that it depends on what costs are being understated.

- A. Assuming that your BMM model understates the true BMM unit cost, please explain precisely how the *very likely* impact would not be an overstatement of the DPS percentage.
- B. Please explain whether or not you agree with the following paragraph. If you do not agree please precisely explain why not.

A major cost driver reflected by the simulation mail flow models is the extent to which the letters can be processed by automation versus manually. As more mail is processed by automation, the resulting unit costs will decrease. As more mail is processed by automation, the DPS percentage will increase. As more mail is processed by automation, the delivery unit costs will decrease.

RESPONSE:

- (A) The answer I provided in response to MMA/USPS-T22-49(H3) is correct. Each cost model consists of two spreadsheets: a mail flow spreadsheet and a cost spreadsheet (please see USPS-T-22, page 10 at 14-15). For example, if any of the productivity values were overstated, the BMM letters model cost would be understated, as would the model costs for all rate categories. This understatement of costs, however, would not impact the DPS percentages calculated in the cost models because the productivity values are used in the cost spreadsheets and are not used to flow mail through the mail flow spreadsheets. The DPS volumes are calculated in the mail flow spreadsheets.
- (B) I would agree that the extent to which mail is processed in automation operations or in manual operations is a cost driver for Postal Service costs. In regard to how this statement might apply to the cost models in USPS LR-J-60, it depends on the context in which this statement is being made. In addition, I would delete the word "simulation" as it generally refers to activities not performed by the cost models in this docket.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5 QUESTION 13**

Question 13 Please refer to USPS-LR-J-60, file 'Fees.xls,' worksheet 'BASIC BRM.'

- (a) The explanation in cell B 53 refers to "10 pcs/wk * 52 wks/yr." Please explain how this was used in the calculation of the per piece fee for account oversight and maintenance.
- (b) Please provide the source of the 1,000 pieces per year figure mentioned in cell B 38.
- (c) Is "Account Oversight and Maintenance" different for the postage due accounts of Basic BRM than for BRM advance deposit accounts? Please explain.
- (d) Please define and describe the "Collection Method" for High Volume BRM, Basic QBRM, and High Volume QBRM.

RESPONSE:

- (a) This figure was once a placeholder, but was not used in the final cost study. The 1,000 pieces per year figure was used in the actual cost study. Please see the revisions filed to both USPS LR-J-60 and USPS LR-J-84 on 11/26/01.
- (b) In my field observations, "basic BRM" recipients tend to receive from 2 - 4 pieces per day. On an annual basis, these figures translate to 624 - 1,248 pieces per year. It is my understanding that there are difficulties in developing an average annual figure using postal data collection systems. As an alternative, I have used 1,000 pieces per year as a proxy.
- (c) It is my understanding that the tasks required to maintain an advanced deposit account and postage due account are very similar. When the funds in those accounts are running low, or cannot cover the costs for pieces that are ready to be delivered, postal employees contact the BRM recipients and attempt to resolve the matter.
- (d) It is assumed that this question actually refers to the "counting methods" and

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5 QUESTION 13**

RESPONSE TO POIR NO. 5 QUESTION 13 (CONTINUED)

not "collection methods." The possible counting methods include: (1) other software, (2) BRMAS software, (3) End-Of-Run reports, (4) counting machines, (5) manual procedures, and (6) weight averaging procedures.

"Other software" refers to the software used at one specific facility. Accounting procedures at this facility are totally electronic. This electronic system is specific to this one facility; it is not compatible with other postal systems.

The "Business Reply Mail Accounting System (BRMAS)" software can also be used to process BRM. It will count and rate mail pieces and generate a bill for each separation, or permit. This system is not completely electronic. Consequently, some additional paperwork tasks are required.

"End-of-Run (EOR)" reports are also used to process BRM. An EOR report can be generated after a given sort plan is used to process mail on a given Bar Code Sorter (BCS). EOR reports show various information, including how many pieces were sorted to each bin. Rather than using the BRMAS system, some plants have obtained an agreement with the BRM recipient that the EOR reports can be used for counting purposes. The rating and billing process is then completed manually by postage due clerks.

"Counting machines" have also been purchased by some plants to count BRM. These machines are only located at a few sites. Consequently, I have not personally observed these procedures.

"Manual" methods are also used to count BRM mail pieces. Typically, manual methods are used when the total volume of BRM processed at a given facility does not justify the use of a BCS to process that mail.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 5 QUESTION 13**

RESPONSE TO POIR NO. 5 QUESTION 13 (CONTINUED)

"Weight averaging" techniques are also used to count BRM. Postage due clerks periodically weigh BRM mail pieces to determine a proper conversion factor. On a daily basis, they weigh the mail and use these conversion factors to determine the total number of BRM mail pieces.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
PRESIDING OFFICERS INFORMATION REQUEST NO.6 QUESTION 2**

Question 2 Please refer to the response to POIR Number 5, question 13(d). The question requested a description of the "Collection Method" for each of the BRM types. This term is used in USPS LR-J-60, file 'fees.xls,' worksheet 'BASIC BRM,' cell A19. Worksheets 'HIGH VOL BRM,' 'BASIC QBRM,' and 'HIGH VOL QBRM' do not contain entries for 'Collection Method.' Please define and describe in detail how each category of BRM is collected.

RESPONSE:

The term "collection method" in the basic BRM cost study found on page 101 of USPS LR-J-60 refers to the manner in which funds for 20.70 percent of these mail pieces are collected and paid after the mail pieces have been counted rated and billed. The funds are paid using direct monetary transactions between the BRM recipient and postal employees (box section clerks or carriers). The funds for the remaining 79.30 percent of the mail pieces in this rate category are paid using postage due accounts.

The high volume QBRM, basic QBRM, and high volume BRM rate categories must all use advance deposit accounts to pay the postage and fees for 100 percent of the mail pieces they receive. Consequently, the "collection methods" section, as it can be found in the basic BRM cost study, is not an element in the cost studies for the other three rate categories.

United States Postal Service

**Joseph D. Moeller
(USPS-T-28)**

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T28-21. Refer to your testimony, USPS-T-28, Exhibit USPS-28B, and your response to POIR No. 2, Question 6, Attachment, page 3 of 8.

(a) Confirm that the average TYAR revenue per piece for Priority Mail under the Postal Service's proposed rates is \$5.26 per piece. If not confirmed, explain in detail.

(b) Confirm that the average TYAR volume variable cost per piece for Priority Mail under the Postal Service's proposed rates is \$3.03 per piece (\$3,567,994,000/1,178,757,000 pieces). If not confirmed, explain in detail.

(c) Confirm that the average TYAR contribution per piece to institutional costs for Priority Mail under the Postal Service's proposed rates is \$2.23 per piece.

(d) Refer to USPS-T-33, Attachment B. Confirm that the average TYAR contribution per piece to institutional costs for Parcel Post under the Postal Service's proposed rates is 44 cents per piece (\$3.24 minus \$2.80). If not confirmed, explain in detail.

(e) Confirm that the average contribution per piece to institutional costs for Priority Mail is significantly higher than that for Parcel Post. If not confirmed, explain in detail.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. \$2.23 is higher than \$0.44.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO PRESIDING OFFICER'S INFORMATION REQUEST**

6. Please provide workpapers, in support of Exhibits USPS-28A, USPS-28B and USPS-28C, that show for each mail category and special service the following statistics and their source: (a) mail volume, (b) postage, (c) fees, (d) total revenue, and (e) revenue per piece. The requested workpapers should have a similar structure as the workpapers submitted by Postal Service witness Mayes in support of her Exhibits USPS-32A, USPS-32B and USPS-32C in Docket No. R2000-1 (See response to POIR No. 1/3 in Docket No. R2000-1).

RESPONSE:

The attached pages include the revenue data incorporated into Exhibits USPS-28A, USPS-28B, and USPS-28C, in the same format and detail presented by witness Mayes in her response to POIR No. 1, Question 4, in Docket No. R2000-1. Pages 1-2 of the attachment correspond to Exhibit USPS-28A; pages 3-4 correspond to Exhibit USPS-28B; pages 5-6 correspond to the FY2002 figures presented in Exhibit USPS-28C; page 7-8 correspond to the FY2001 figures presented in USPS-28C. The volume figures are from the Before and After Rates volume forecasts (USPS-LR-J-125, Table 125-1, and Table 125-2), and USPS-LR-J-109, WP-3, WP-4, WP-7, WP-10.

SUMMARY OF REVENUES
FISCAL YEAR 2003 - BEFORE RATES
(thousands)

MAIL SERVICE	Volume	Postage	Fees	Postage and Fees	Revenue per piece
First-Class Mail					
Letters - Single	47,899,389	20,619,369	184,032	20,803,401	0.434315
Automated and Carrier Route	47,619,273	13,262,340		13,262,340	0.278508
Non-Automation Presort	3,679,940	1,335,180		1,335,180	0.362827
Total Worksharing	51,299,213	14,597,520	25,060	14,622,580	0.285045
Total Letters/Flats/Parcels	99,198,602	35,216,889	209,092	35,425,981	0.357122
Stamped Cards	182,342	38,292	73	38,365	0.210402
Post Cards - Single	2,520,666	544,170	9,342	553,512	0.219590
Automated and Carrier Route Post Cards	2,506,237	417,766		417,766	0.166691
Non-Automated Presort Cards	424,530	80,315		80,315	0.189186
Total Worksharing Cards	2,930,767	498,081	1,422	499,503	0.170434
Total Cards	5,633,776	1,080,543	10,837	1,091,380	0.193721
Business Reply Fees		166,639	(166,639)	0	
Domestic Mail Fees		53,290	(53,290)	0	
Total First Class	104,832,378	36,517,361	-	36,517,361	0.348340
	postage=	36,297,432			
Priority Mail					
Priority Mail (with pick up fee)	1,257,064	5,824,103	1169	5,825,272	4.634032
Domestic Mail Fees		1,169	(1,169)	-	
Total Priority	1,257,064	5,825,272	0	5,825,272	4.634032
Express Mail	77,239	1,145,263		1,145,263	14.827434
Mailgrams	2,725	1,131	0	1,131	0.415000
Periodicals					
In-County	855,781	79,783	1,555	81,338	0.095045
Outside County					
Nonprofit	1,959,377	336,539	3,561	340,100	0.173575
Classroom	58,942	14,972	107	15,079	0.255830
Regular-Rate	7,163,763	1,925,780	13,018	1,938,798	0.270640
Domestic Mail Fees		18,241	(18,241)		
Total Periodicals	10,037,863	2,375,315	0	2,375,315	0.236635
	postage=	2,357,074			
Standard Mail A					
Commercial					
Regular	48,424,553	10,465,298	18,896	10,484,194	0.216506
Enhanced Carrier Route	33,873,784	5,338,299	13,218	5,351,517	0.157984
Total Commercial	82,298,337	15,803,597	32,115	15,835,712	0.192418
Nonprofit					
Nonprofit	11,943,287	1,524,051	49,034	1,573,085	0.131713
Enhanced Carrier Route	3,252,519	293,537	13,353	306,890	0.094355
Total Nonprofit	15,195,806	1,817,588	62,387	1,879,975	0.123717
Bulk Mailing Fees		67,338	(67,338)		
Domestic Mail Fees		27,164	(27,164)		
Total Standard Mail A	97,494,143	17,715,687	0	17,715,687	0.181710

SUMMARY OF REVENUES - FISCAL YEAR 2003 (continued)
(thousands)

<u>MAIL SERVICE</u>	Volume	Postage	Fees	Postage and Fees	Revenue per piece
Package Services					
Parcel Post					
Destination Entry	336,136				
Inter-BMC	42,557				
Intra-BMC	26,941				
Total Parcel Post	405,634	1,232,002	557	1,232,559	3.038601
Bound Printed Matter	594,824	643,914	820	644,734	1.083908
Media Mail	159,100	260,661	348	261,009	1.640530
Library Rate	27,111	48,440	58	48,498	1.788832
Domestic Mail Fees		1,714	(1,714)	0	
Special Handling		61	(61)	0	
Parcel Airlift Fees		8	(8)	0	
Package Services	1,186,669	2,186,800	0	2,186,800	1.842805
Total USPS Penalty Mail	353,484	0	0	0	0
Free-for-the-Blind	46,859	0	0	0	0
Total Domestic Mail	215,288,424	65,766,829	0	65,766,829	0.305482
International					
Postage	1,289,500	1,593,492	11,758	1,605,250	1.244862
Terminal & Transit	0	287,572	0	287,572	
Fees, etc.	0	11,758	(11,758)	0	
Total	1,289,500	1,892,822	0	1,892,822	1.467873
Total All Mail	216,577,924	67,659,651	0	67,659,651	0.312403
Special Services					
Registry	10,515	93,555	0	93,555	8.897678
Certified Mail	283,708	595,787	0	595,787	2.100004
Insurance	64,165	136,607	0	136,607	2.128987
COD	3,100	17,700	0	17,700	5.709656
Delivery Confirmation	237,552	38,061	0	38,061	0.160201
Money Orders *	231,804	298,219	0	298,219	1.286511
Return Receipts	232,023	352,113	0	352,113	1.517577
Stamped Cards	182,342	3,647	0	3,647	0.020001
Stamped Envelopes	400,000	16,102	0	16,102	0.040256
Box/Caller Service	17,232	746,319	0	746,319	43.309098
Subtotal	1,662,471	2,298,110	0	2,298,110	1.382346
Other		27,310	0	27,310	n/a
Total	1,662,471	2,325,420	0	2,325,420	1.398773
Total Mail & Services	216,577,924	69,985,071	0	69,985,071	0.323140
Other Income		589,816	0	589,816	
Revenue Forgone		30,857	0	30,857	
Interest and Investment Income *		(22,434)	0	(22,434)	
Total, all items	216,577,924	70,583,310	0	70,583,310	0.325903

* Money order revenues include interest of
\$ 51,334 (this amount has been removed from "investment income" above)

AFTER RATES SUMMARY OF REVENUES
FISCAL YEAR 2003
(thousands)

MAIL SERVICE	Volume	Postage	Fees	Postage and Fees	Revenue per piece
First-Class Mail					
Letters - Single	46,865,402	21,661,130	220,695	21,881,825	0.466908
Automated and Carrier Route	47,742,776	14,511,388		14,511,388	0.303949
Non-Automation Presort	3,579,306	1,450,367		1,450,367	0.405209
Total Worksharing	51,322,082	15,961,755	28,991	15,990,746	0.311576
Total Letters/Flats/Parcels	98,187,484	37,622,885	249,687	37,872,572	0.385717
Stamped Cards	170,412	39,195	79	39,274	0.230464
Post Cards - Single	2,454,000	580,418	11,186	591,604	0.241077
Automated and Carrier Route Post Cards	2,426,214	441,848		441,848	0.182114
Non-Automated Presort Cards	216,053	45,607		45,607	0.211092
Total Worksharing Cards	2,642,267	487,455	1,482	488,937	0.185044
Total Cards	5,266,679	1,107,068	12,746	1,119,814	0.212622
Business Reply Fees		202,048	(202,048)	0	
Domestic Mail Fees		60,385	(60,385)	0	
Total First Class	103,454,162	38,992,386	-	38,992,386	0.376905
	postage=	38,729,953			
Priority Mail					
Priority Mail (with pick up fee)	1,178,757	6,198,666	1,417	6,200,084	5.259850
Domestic Mail Fees		1,417	(1,417)	-	
Total Priority	1,178,757	6,200,084	-	6,200,084	5.259850
Express Mail	69,911	1,133,705		1,133,705	16.216333
Mailgrams	2,725	1,131	-	1,131	0.415000
Periodicals					
In-County	853,535	80,886	1,640	82,526	0.096687
Outside County					
Nonprofit	1,940,225	370,257	3,727	373,984	0.192753
Classroom	58,335	16,576	112	16,688	0.286074
Regular-Rate	7,110,414	2,107,270	13,658	2,120,928	0.298285
Domestic Mail Fees		19,137	(19,137)	-	
Total Periodicals	9,962,508	2,594,126	-	2,594,126	0.260389
	postage=	2,574,989			
Standard Mail A					
Commercial					
Regular	47,296,185	11,018,040	19,537	11,037,577	0.233371
Enhanced Carrier Route	33,125,689	5,541,973	13,683	5,555,656	0.167714
Total Commercial	80,421,874	16,560,013	33,220	16,593,233	0.206327
Nonprofit					
Nonprofit	11,882,923	1,611,177	57,887	1,669,064	0.140459
Enhanced Carrier Route	3,236,397	309,444	15,766	325,210	0.100485
Total Nonprofit	15,119,320	1,920,621	73,653	1,994,274	0.131902
Bulk Mailing Fees		80,203	(80,203)		
Domestic Mail Fees		26,670	(26,670)		
Total Standard Mail	95,541,195	18,587,507	-	18,587,507	0.194550

AFTER RATES SUMMARY OF REVENUES - FISCAL YEAR 2003 (continued)
(thousands)

MAIL SERVICE	Volume	Postage	Fees	Postage and Fees	Revenue per piece
Package Services					
Parcel Post					
Destination Entry	314,684				
Inter-BMC	34,918				
Intra-BMC	21,930				
Total Parcel Post	371,533	1,202,000	568	1,202,568	3.236775
Bound Printed Matter	588,557	694,880	874	695,754	1.182135
Special Rate	158,641	270,393	403	270,795	1.706973
Library Rate	27,047	49,911	61	49,972	1.847568
Domestic Mail Fees		1,835	(1,835)	0	
Special Handling		62	(62)	0	
Parcel Airlift Fees		9	(9)	0	
Package Services	1,145,778	2,219,090	-	2,219,090	1.936754
Total USPS Penalty Mail	353,484	0	-	0	0
Free-for-the-Blind	46,859	0	0	0	0
Total Domestic Mail	211,755,380	69,728,028	0	69,728,028	0.329286
International					
Postage	1,205,533	1,618,900	11,484	1,630,384	1.352418
Terminal & Transit	0	287,572	0	287,572	
Fees, etc.	0	11,484	(11,484)	0	
Total	1,205,533	1,917,956	0	1,917,956	1.590961
Total All Mail	212,960,913	71,645,984	0	71,645,984	0.336428
Special Services					
Registry	10,331	98,550	0	98,550	9.538959
Certified Mail	302,882	696,629	0	696,629	2.300001
Insurance	61,800	144,397	0	144,397	2.336544
COD	3,100	17,700	0	17,700	5.709656
Delivery Confirmation	30,215	34,636	0	34,636	0.112761
Money Orders *	229,607	303,574	0	303,574	1.322144
Return Receipts	221,638	394,585	0	394,585	1.780309
Stamped Cards	170,412	3,408	0	3,408	0.019999
Stamped Envelopes	400,000	16,102	0	16,102	0.040256
Box/Caller Service	17,232	854,712	0	854,712	49.599184
Subtotal	1,724,168	2,564,294	0	2,564,294	1.487264
Other		30,812	0	30,812	n/a
Total	1,724,168	2,595,105	0	2,595,105	1.505135
Total Mail & Services	212,960,913	74,241,089	0	74,241,089	0.348614
Other Income		589,816	0	589,816	
Revenue Forgone		30,857	0	30,857	
Interest and Investment Income *		(21,948)	0	(21,948)	
Total, all items	212,960,913	74,839,814	0	74,839,814	0.351425

* Money order revenues include interest of

\$ 50,848 (this amount has been removed from "investment income" above)

SUMMARY OF REVENUES
 FISCAL YEAR 2002
 (thousands)

MAIL SERVICE	Volume	Postage	Fees	Postage and Fees	Revenue per piece
First-Class Mail					
Letters - Single	49,251,920	21,202,002	182,710	21,384,712	0.434190
Automated and Carrier Route	45,173,742	12,584,908		12,584,908	0.278589
Non-Automation Presort	3,577,057	1,297,852		1,297,852	0.362827
Total Worksharing	48,750,799	13,882,760	24,039	13,906,799	0.285263
Total Letters/Flats/Parcels	98,002,718	35,084,762	206,749	35,291,511	0.360107
Stamped Cards	179,205	37,633	72	37,705	0.210399
Post Cards - Single	2,479,306	535,233	8,874	544,107	0.219460
Automated and Carrier Route Post Cards	2,368,428	394,644		394,644	0.166627
Non-Automated Presort Cards	462,957	87,585		87,585	0.189186
Total Worksharing Cards	2,831,385	482,229	1,386	483,615	0.170805
Total Cards	5,489,897	1,055,095	10,332	1,065,427	0.194071
Business Reply Fees		164,476	(164,476)	0	
Domestic Mail Fees		52,606	(52,606)	0	
Total First Class	103,492,615	36,356,939	0	36,356,939	0.351300
	postage	36,139,857			
Priority Mail					
Priority Mail (with pickup fee rev)	1,186,878	5,498,924	1104	5,500,028	4.634030
Domestic Mail Fees		1,104	(1,104)		
Total Priority	1,186,878	5,500,028	0	5,500,028	4.634030
Express Mail	72,605	1,076,552		1,076,552	14.827572
Mailgrams	3,110	1,291	0	1,291	0.415000
Periodicals					
In-County	866,869	80,817	1,575	82,392	0.095045
Outside County					
Nonprofit	2,020,664	347,049	3,671	350,720	0.173567
Classroom	60,786	15,440	110	15,550	0.255825
Regular-Rate	7,133,125	1,917,585	12,960	1,930,545	0.270645
Domestic Mail Fees		18,317	(18,317)		
Total Periodicals	10,081,444	2,379,208	0	2,379,208	0.235999
	postage=	2,360,891			
Standard Mail A					
Commercial					
Regular	45,070,344	9,761,493	17,588	9,779,081	0.216974
Enhanced Carrier Route	32,345,535	5,097,247	12,622	5,109,869	0.157978
Total Commercial	77,415,879	14,858,740	30,210	14,888,950	0.192324
Nonprofit					
Nonprofit	11,687,265	1,501,205	47,983	1,549,188	0.132553
Enhanced Carrier Route	3,197,576	288,532	13,128	301,660	0.094340
Total Nonprofit	14,884,842	1,789,737	61,110	1,850,847	0.124344
Bulk Mailing Fees		65,603	(65,603)		
Domestic Mail Fees		25,717	(25,717)		
Total Standard Mail A	92,300,721	16,739,797	0	16,739,797	0.181361

SUMMARY OF REVENUES - FISCAL YEAR 2002 (continued)
(thousands)

MAIL SERVICE	Volume	Postage	Fees	Postage and Fees	Revenue per piece
Package Services					
Parcel Post					
Destination Entry	302,207				
Inter-BMC	47,017				
Intra-BMC	29,766				
Total Parcel Post	378,991	1,190,274	522	1,190,796	3.142020
Bound Printed Matter	579,223	630,502	799	631,301	1.089909
Special Rate	154,947	253,857	339	254,196	1.640536
Library Rate	26,392	47,156	56	47,212	1.788849
Domestic Mail Fees		1,650	(1,650)	0	
Special Handling		57	(57)	0	
Parcel Airlift Fees		8	(8)	0	
Package Services	1,139,553	2,123,504	0	2,123,504	1.863453
Total USPS Penalty Mail	367,452	0	0	0	0
Free-for-the-Blind	45,319	0	0	0	0
Total Domestic Mail	208,689,696	64,177,319	0	64,177,319	0.307525
International					
Postage	1,249,492	1,544,051	10,910	1,554,961	1.244475
Terminal & Transit	0	283,203	0	283,203	
Fees, etc.	0	10,910	(10,910)	0	
Total	1,249,492	1,838,164	0	1,838,164	1.471129
Total All Mail	209,939,188	66,015,483	0	66,015,483	0.314450
Special Services					
Registry	11,151	99,223	0	99,223	8.898472
Certified Mail	273,126	573,565	0	573,565	2.099999
Insurance	64,541	137,403	0	137,403	2.128941
COD	3,266	18,646	0	18,646	5.708260
Delivery Confirmation	214,292	32,542	0	32,542	0.151857
Money Orders *	230,767	296,885	0	296,885	1.286514
Return Receipts	225,486	342,192	0	342,192	1.517575
Stamped Cards	179,205	3,584	0	3,584	0.019999
Stamped Envelopes	400,000	16,102	0	16,102	0.040256
Box/Caller Service	17,064	738,366	0	738,366	43.270403
Subtotal	1,618,898	2,258,509	0	2,258,509	1.395090
Other		26,862	0	26,862	n/a
Total	1,618,898	2,285,371	0	2,285,371	1.411683
Total Mail & Services	209,939,188	68,300,854	0	68,300,854	0.325336
Other Income		497,020	0	497,020	
Revenue Forgone		47,619	0	47,619	
Interest and Investment Income *		(22,004)	0	(22,004)	
Total, all items	209,939,188	68,823,489	0	68,823,489	0.327826

* Money order revenues include interest of

\$ 51,104 (this amount has been removed from "investment income" above)

SUMMARY OF REVENUES
FISCAL YEAR 2001
(thousands)

<u>MAIL SERVICE</u>	Volume	Postage	Fees	Postage and Fees	Revenue per piece
First-Class Mail					
Letters - Single	50,952,604	21,467,815	174,354	21,642,169	0.424751
Automated and Carrier Route	42,854,498	11,726,926		11,726,926	0.273645
Non-Automation Presort	3,725,435	1,334,177		1,334,177	0.358126
Total Worksharing	46,579,933	13,061,103	22,093	13,083,196	0.280876
Total Letters/Flats/Parcels	97,532,537	34,528,918	196,447	34,725,365	0.356039
Stamped Cards	210,932	46,138	80	46,218	0.219116
Post Cards - Single	2,477,585	516,873	8,167	525,041	0.211916
Automated and Carrier Route Post Cards	2,295,830	364,358		364,358	0.158704
Non-Automated Presort Cards	484,513	88,242		88,242	0.182124
Total Worksharing Cards	2,780,344	452,599	1,309	453,908	0.163256
Total Cards	5,468,860	1,015,611	9,556	1,025,167	0.187455
Business Reply Fees		155,790	(155,790)	0	
Domestic Mail Fees		50,214	(50,214)	0	
Total First Class	103,001,397	35,750,532	0	35,750,532	0.347088
	postage	35,544,528			
Priority Mail					
Priority Mail with pickup fee	1,162,477	5,137,890	1041	5,138,930	4.420672
Domestic Mail Fees		1,041	(1,041)		
Total Priority	1,162,477	5,138,930	0	5,138,930	4.420672
Express Mail with pickup fee	70,656	1,022,894		1,022,894	14.477087
Mailgrams	3,438	1,539	0	1,539	0.447674
Periodicals					
In-County	875,375	79,283	1,562	80,845	0.092355
Outside County					
Nonprofit	2,094,051	350,119	3,736	353,855	0.168981
Classroom	64,269	16,140	115	16,254	0.252910
Regular-Rate	7,161,039	1,811,236	12,775	1,824,010	0.254713
Domestic Mail Fees		18,186	(18,186)		
Total Periodicals	10,194,734	2,274,964	0	2,274,964	0.223151
	postage=	2,256,778			
Standard Mail A					
Commercial					
Regular	44,465,086	9,276,679	17,044	9,293,722	0.209012
Enhanced Carrier Route	31,499,436	4,860,859	12,074	4,872,933	0.154699
Total Commercial	75,964,522	14,137,538	29,117	14,166,656	0.186490
Nonprofit					
Nonprofit	11,413,503	1,425,951	44,199	1,470,150	0.128808
Enhanced Carrier Route	3,176,224	265,203	12,300	277,502	0.087369
Total Nonprofit	14,589,727	1,691,154	56,498	1,747,652	0.119786
Bulk Mailing Fees		60,397	(60,397)		
Domestic Mail Fees		25,218	(25,218)		
Total Standard Mail A	90,554,249	15,914,308	0	15,914,308	0.175743

SUMMARY OF REVENUES - FISCAL YEAR 2001 (continued)
(thousands)

<u>MAIL SERVICE</u>	Volume	Postage	Fees	Postage and Fees	Revenue per piece
Package Services					
Parcel Post					
Destination Entry	262,237				
Inter-BMC	54,200				
Intra-BMC	36,259				
Total Parcel Post with pickup fee	352,695	1,122,268	438	1,122,706	3.183220
Bound Printed Matter	577,889	588,090	798	588,888	1.019034
Special Rate	153,075	253,300	339	253,639	1.656955
Library Rate	24,916	43,207	50	43,257	1.736143
Domestic Mail Fees		1,587	(1,587)	0	
Special Handling		30	(30)	0	
Parcel Airlift Fees		8	(8)	0	
Package Services	1,108,574	2,008,490	0	2,008,490	1.811777
Total USPS Penalty Mail	381,827	0	0	0	0
Free-for-the-Blind	44,450	0	0	0	0
Total Domestic Mail	206,521,803	62,111,658	0	62,111,656	0.300751
International					
Postage	1,181,875	1,486,913	9,717	1,496,630	1.266318
Terminal & Transit	0	276,137	0	276,137	
Fees, etc.	0	9,717	(9,717)	0	
Total	1,181,875	1,772,767	0	1,772,767	1.499962
Total All Mail	207,703,678	63,884,423	0	63,884,423	0.307575
Special Services					
Registry	11,875	101,897	0	101,897	8.580551
Certified Mail	277,995	514,467	0	514,467	1.850636
Insurance	63,950	130,440	0	130,440	2.039714
COD	3,223	17,943	0	17,943	5.566602
Delivery Confirmation	28,306	28,306	0	28,306	0.154315
Money Orders *	235,125	195,174	0	195,174	0.830085
Return Receipts	232,401	339,472	0	339,472	1.460715
Stamped Cards rev included in FCM	210,932	-	0	-	-
Stamped Envelopes	400,000	15,110	0	15,110	0.037774
Box/Caller Service	16,890	694,629	0	694,629	41.127725
Subtotal	1,635,819	2,037,437	0	2,037,437	1.245515
Other			0	26,223	n/a
Total	1,635,819	2,063,660	0	2,063,660	1.261546
Total Mail & Services	207,703,678	65,948,084	0	65,948,084	0.317510
Other Income		295,706	0	295,706	
Revenue Forgone		66,888	0	66,888	
Interest and Investment Income *		33,300	0	33,300	
Total, all items	207,703,678	66,343,978	0	66,343,978	0.319416

* Money order revenues include interest of

\$ - net out of Investment Income above if added to MO revenue

RESPONSE OF U.S. POSTAL SERVICE WITNESS MOELLER TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 4, QUESTION 2

2. This question refers to the calculation of the avoidable costs underlying the worksharing discounts in the four subclasses of Standard Class. In previous rate cases, the Postal Service has provided separate mail processing cost model calculations for the *regular and nonprofit subclasses with corresponding CRA* adjustment factors. The separate costs are available for the base year in the underlying workpapers, which suggests that the mail processing models and the unit mail processing costs by shape could have been calculated separately for Regular and Nonprofit. Base year data are also available separately for Enhanced Carrier Route (ECR) and Nonprofit ECR. What is the rationale for calculating one set of worksharing costs that combine the commercial and nonprofit subclasses?

RESPONSE:

The rationale for one set of worksharing costs has several components. First, the recently-enacted law affecting nonprofit rates (P.L. No. 106-384) directs that the factors of 3622(b) be applied to the combined cost of the regular rate mail and the corresponding special rate mail. This combination of costs is an important feature of the law. It helps moderate the rate swings that sometimes resulted from underlying cost changes and the "half-the-markup" rule embodied in the Revenue Forgone Reform Act (1993). The new law was intended to address this "rate swing" problem. (See Part II of Senate Report No. 106-468, 106th Cong., 2d Sess.). Under the new rate mechanism, separately identified costs (at the "subclass" level) for nonprofit do not play a role in the determination of nonprofit rates, and the Postal Service will not be tracking the costs separately. While the law did not specifically address costs for worksharing discounts, the natural extension of the combination of costs at the "subclass" level is to combine the measurement of cost differences for categories beneath

RESPONSE OF U.S. POSTAL SERVICE WITNESS MOELLER TO PRESIDING
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the subclass level, especially since the combined costs at the subclass level sometimes serve as inputs to the worksharing cost avoidance calculations.

The combination of costs for determining rate differentials within Standard Mail is not unprecedented. For example, the destination entry discounts and the Residual Shape Surcharge are, and in the past have been, based on cost estimates that combine commercial and nonprofit. Also, all else equal, the cost difference between, for example, 3-digit automation letters and 5-digit automation letters would not be expected to differ significantly for commercial as opposed to nonprofit. Combining the costs, therefore, is reasonable, since it would not appear to be overlooking significant differences between commercial and nonprofit in terms of workshare-related cost avoidances. Moreover, the law *does* allow for distinct passthroughs (for a given discount) within the rate design for commercial and nonprofit, so even though the cost differentials may be the same, the discounts might differ due to selection of different passthroughs. The ability to choose separate passthroughs provides flexibility in the respective rate designs for commercial and nonprofit, and lessens even further the importance of distinct worksharing costs for nonprofit and commercial.

United States Postal Service

**Joseph D. Moeller
(USPS-T-32)**

RESPONSE OF U.S. POSTAL SERVICE WITNESS MOELLER TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 2

13. This question concerns prebarcoded letter-shaped mail pieces that weigh more than 3.3 ounces, but not more than 3.5 ounces and that meet all other automation requirements for letters. Witness Moeller refers to this mail as heavy automation letters. USPS-T-32 at 4.

- a. In USPS-T-32 at 4-5, witness Moeller states that "[t]his proposal is also advantageous to the Postal Service, since automated letter processing (even for pieces of this weight) is more cost-effective than manual letter or automated flat processing." Are heavy automation letters currently processed in the letter mail processing stream or the flat mail processing stream? If heavy automation letters are currently processed as automated letters, is the Postal Service currently benefiting from the cost effectiveness of processing these mail pieces as automated letters rather than as automated flats or manual letters?
- b. In USPS-T-32 at 4, witness Moeller states that "the proposed change is intended to permit automation letter mailers to avoid the substantial rate increase for letter-shaped pieces exceeding 3.3 ounces." Will the proposed pound rate applicable to heavy automation letters cover their additional costs compared to the costs of other automation letters?
- c. Does the Postal Service expect some mailers to convert from flat-shaped automation pieces to heavy weight automation letters to take advantage of the lower rate?

RESPONSE:

- a. Under the current rates and mail preparation guidelines, there are no "heavy automation letters" in Standard Mail. Automation pieces that weigh more than 3.3 ounces are deemed nonletters for rate and preparation purposes. They are likely to be prepared as automation flats, since that is the best rate available for pieces of this weight. As such, they are typically processed in the flat automation mailstream. Therefore, there is currently little or no benefit because they are not typically processed as automation letters.

RESPONSE OF U.S. POSTAL SERVICE WITNESS MOELLER TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 2

RESPONSE to POIR 2, Question 13 (continued):

- b. No explicit cost data are available that isolate the added cost of an additional 0.2 ounce for an automation letter. It is assumed that any added cost is covered by charging the incremental pound rate that would be charged to any other pound-rated mailpiece that experiences an increase in weight of 0.2 ounce.

- c. Although no estimates are made of any conversion from automation flats to automation letters, it seems that such conversion might occur. However, mailers of automation flats that weigh in the vicinity of 3.3-3.5 ounces have incentive today to reconfigure as letters if their marketing goals can be achieved with a letter-size format, and if the weight can be limited to 3.3 ounces. The slight increase in the automation letter weight limit might make such conversion somewhat more likely; however, the mailer would still have to weigh the benefit of the lower rate against the potential costs of converting flat mail to letter-shaped mail and the perceived marketing impact (either positive or negative).

United States Postal Service

**Norma B. Nieto
(USPS-T-26)**

**RESPONSE OF POSTAL SERVICE WITNESS NIETO TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T26-1. Please refer to your testimony at pages 12–13. Please confirm that Postal Service data systems already contain a digital or other electronic image of the signature of the person or entity that accepted delivery of certified and registered articles. If you do not confirm, please explain.

Response to DFC/USPS-T26-1. Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS NIETO TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T26-2. Please refer to your testimony at pages 12–13. Assume that the Commission recommends and the Postal Service implements the service enhancements to certified mail and registered mail that the Postal Service has proposed in this proceeding. Please confirm that the Postal Service has the technological capability to make available to customers a copy of the signature of the person or entity that accepted delivery of certified and registered articles. If you do not confirm, please explain.

Response to DFC/USPS-T26-2. Not confirmed. The Postal Service does not have the technological capability to provide signatures over the Internet, without the risk of infringement on its customers' privacy or security. All recipient signature images are provided by fax, mail or, as proposed for the electronic return receipt, by secure email.

**RESPONSE OF POSTAL SERVICE WITNESS NIETO TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T26-3. Please refer to your testimony at pages 12-13. Assume that the Commission recommends and the Postal Service implements the service enhancements to certified mail and registered mail that the Postal Service has proposed in this proceeding. Please identify and explain the types of costs, if any, that the Postal Service would incur if the Commission recommended and the Postal Service implemented an additional service enhancement that provided, to customers using the Internet, access to a copy of the signature of the person or entity that accepted delivery of certified and registered articles.

Response to DFC/USPS-T26-3. As described above, the Postal Service is not able to provide a secure method of presenting the signature over the Internet. We have not conducted any cost studies regarding the development of that capability. However, these costs may include additional servers, programming costs, and the costs of processing applications to secure a Personal Identification Number (PIN) for accessing the signature.

**RESPONSE OF POSTAL SERVICE WITNESS NIETO
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T26-4. Please describe in detail all the processes by which a customer will obtain an electronic return receipt. Please specifically explain how a customer will obtain an electronic return receipt if the customer does not visit a retail window to mail the item.

RESPONSE:

There will be two primary methods for a customer to obtain an electronic return receipt. He or she may (1) purchase it at the window or (2) purchase it online. Each process is explained below.

- (1) Customer will purchase an electronic return receipt at the window at the time of mailing the accountable piece. At time of purchase, customer will provide an e-mail address that will be captured and then sent to a secure repository server.
- (2) After sending an accountable mail piece, the customer will be able to log onto USPS.com to purchase an electronic return receipt. The customer will make a credit/debit card payment and enter his or her accountable mail piece tracking number and e-mail address.

After the piece is delivered, the accountable mail tracking number, delivery date/time information and signature image will be transmitted to the e-mail address of the recipient.

**RESPONSE OF POSTAL SERVICE WITNESS NIETO
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T26-5. Please refer to your response to DFC/USPS-T26-2 and

DFC/USPS-T26-3. For purposes of protecting customers' privacy and security, please explain the difference between a secure, digitally encrypted e-mail transmission and a secure browser connection on Netscape or Internet Explorer that would provide customers with a signature via their Internet browser.

RESPONSE:

It is my understanding that each option has its own security risks, but that a primary difference is that providing signature images over the Internet to any user entering an accountable mail number risks the security of potentially thousands of signatures on a publicly available server, while the risk for an e-mail transmission is limited to a single signature.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS NIETO
TO INTERROGATORY OF DOUGLAS F. CARLSON

Revised November 19, 2001

DFC/USPS-T26-6. Please explain exactly how a secure, digitally encrypted e-mail transmission works from the recipient's perspective.

RESPONSE:

From the recipient's viewpoint, nothing is different about the encrypted e-mail message from any other normal e-mail message. The encryption and decryption takes place between the USPS servers and the recipient's e-mail software. Any inappropriate access or attempt to read the e-mail message in transit would be unsuccessful because the message would be encrypted. Additionally, a secure, digitally encrypted e-mail has a legally recognized authentication certificate. The recipient's e-mail software provides a certificate with the e-mail authenticating the transmission as being from the Postal Service and not having been tampered with en route. The encryption and the authentication protect the recipient of the accountable mail piece who provided the signature.

**Response of Postal Service Witness Nieto to
Interrogatory of Douglas F. Carlson**

DFC/USPS-T26-7.

- a. Please identify and itemize all costs that the Postal Service will incur to provide a return receipt after mailing that a customer purchases by visiting a retail window at a post office.
- b. Please identify and itemize all costs that the Postal Service will incur to provide a return receipt after mailing that a customer purchases via the Internet.
- c. Please identify and itemize all costs that the Postal Service will incur to provide an electronic return receipt that a customer purchases at the time of mailing at a retail window at a post office, as you described in your response to DFC/USPS-T26-4.
- d. Please identify and itemize all costs that the Postal Service will incur to provide an electronic return receipt that a customer purchases subsequent to the time of mailing via the Internet, as you described in your response to DFC/USPS-T26-4.
- e. Please identify and itemize all costs that the Postal Service will incur to provide a return receipt.
- f. Please identify and itemize all costs that the Postal Service will incur to provide a return receipt for merchandise.
- g. Please identify and itemize all costs involved in developing the software and related systems necessary to implement the electronic return receipt.

Response to DFC/USPS-T26-7.

- (a) and (b) Please refer to USPS-LR-J-135, Return Receipt Workbook, Worksheet C-4 for an itemization of costs for return receipts after mailing. I do not calculate a separate estimate based on where the return receipt after mailing is purchased.
- (c) These costs are presented in USPS-LR-J-135, Return Receipt Workbook, Worksheet C-5.
-

Response of Postal Service Witness Nieto to
Interrogatory of Douglas F. Carlson

DFC/USPS-T26-7, Page 2 of 2

- (d) These costs are presented in USPS-LR-J-135, Return Receipt Workbook, Worksheets C-4 and C-5.

Total RRAM from Online Purchase Cost	\$0.2621
<u>Cost of Digitally Secure Email Transmission</u>	<u>\$0.5000</u>
Internet-Purchased eRR Volume Variable Cost	\$0.7621

Please also see response to part (g) for non-volume variable costs.

- (e) These costs are presented in USPS-LR-J-135, Return Receipt Workbook, Worksheets C-1-3.

- (f) These costs are presented in USPS-LR-J-135, Return Receipt Workbook, Worksheets C-6-8.

- (g) Estimated costs for developing the software and related systems for sending the secure email to electronic return receipt customers are included in the \$0.50 transmission fee charged by an outside vendor. Other development costs, which include integration of vendor software with Postal Service systems and an upgrade to the retail POS-One systems, are estimated at \$1.65 million.

**RESPONSE OF POSTAL SERVICE WITNESS NIETO
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
(REDIRECTED FROM WITNESS ABDIRAHMAN)**

OCA/USPS-T42-6. If one were to perform a rough estimate of the unit cost of a printed envelope (\$0.0476 – see OCA/USPS-T42-1 (b)) that incorporates manual delivery confirmation, please confirm that one could add to the unit cost of a printed envelope the cost of manual delivery confirmation for a Priority Mail piece (\$0.4064 – from USPS-T26 at page 6) less the unit selling cost of a printed envelope (\$0.0058 – from USPS-LR-69 at page 35) yielding a unit cost of \$0.4482 ($\$0.0476 + \$0.4064 - \0.0058). If you are unable to confirm, please explain what steps would be necessary to prepare a rough estimate of the unit cost of a USPS delivery confirmation printed envelope.

RESPONSE:

Not confirmed. I have not studied the costs of Delivery Confirmation for letter-shaped mail, but I believe that the costs for manual Delivery Confirmation for Priority Mail may not be a good proxy. For example, providing Delivery Confirmation for a First-Class Mail letter would require different operations than those currently in place today. Also, it is my understanding that the cost of a printed stamped envelope would not be a good proxy for the cost to produce an envelope with a Delivery Confirmation barcode.

Please refer to the response of witness Abdirahman to OCA/USPS-T42-1. Both an envelope cost and a letter-mail Delivery Confirmation cost would need to be studied to develop even a rough estimate of costs.

**Response of Postal Service Witness Nieto to
Interrogatories of United Parcel Service**

UPS/USPS-T26-1. Refer to "Minutes of the Mailers' Technical Advisory Committee, August 1-2, 2001" in the section labeled "Issue 61 – Service Assessment for DDU [Destination Delivery Unit] Drop Shipments" and the "MTAC/USPS DDU Drop Shipment Service Assessment for Parcels Workgroup, Minutes from April 25, 2001 Meeting," available at <http://www.ribbs.usps.gov/mtac.htm>.

(a) Confirm that the Service Assessment for DDU Drop Shipments measurement program is currently in place. If not confirmed, explain when the program will be put into place.

(b) How long will the measurement program be in place?

(c) Will the measurement program be in place at all DDUs that accept drop shipments?

(d) Confirm that this program applies only to Parcel Post DDU destination entry parcels. If not confirmed, explain in detail.

(e) Confirm that under this program "Delivery Confirmation pieces would receive an initial scan upon receipt and another upon delivery." If not confirmed, explain in detail.

(f) Confirm that all parcels scanned under this program will have had selected electronic delivery confirmation, and not manual delivery confirmation. If not confirmed, explain in detail.

(g) Explain the process used to perform "an initial scan upon receipt", including the employee type (e.g., city carrier) that performs the operation, the location at which this scan takes place, and the time at which the scan takes place (e.g., at the time the parcels are dropped at the DDU").

(h) Explain how the cost of this measurement program has been included in your analysis of delivery confirmation costs in USPS-LR-J-135. If it has not been included, explain why not.

Response to UPS/USPS-T26-1.

(a)-(g) Redirected to the United States Postal Service.

(h) The cost of the Service Assessment for DDU Drop Shipments measurement program is not included in my delivery confirmation costs. It has not been included because any scan at acceptance by the Postal Service would not be done as part of

**Response of Postal Service Witness Nieto to
Interrogatories of United Parcel Service**

UPS/USPS-T26-1(h), Page 2 of 2

Delivery Confirmation service, but rather to obtain data for service performance reasons. The purpose of the system is to improve service for all package services mail, not just delivery confirmation mail.

Response of Postal Service Witness Nieto to
Interrogatories of United Parcel Service

UPS/USPS-T26-2. Refer to library reference USPS-LR-J-135, Section A, Worksheet A-1 and A-3.

- (a) Describe any and all scanning performed at the DDU on delivery confirmation parcels received at the DDU prior to the parcels being delivered.
- (b) Confirm that your calculations of the cost of delivery confirmation do not include the cost of a "received at DDU" scan. If not confirmed, explain in detail.
- (c) Describe any and all scanning performed at any postal facility on delivery confirmation parcels prior to the parcels being delivered.
- (d) Confirm that the cost of an additional scan would be 3.5 cents if performed by box section clerks, presuming the scanner did not need to be retrieved or returned to the cradle. If not confirmed, explain in detail.

RESPONSE:

- (a) Upon arrival at the DDU, a barcode on the dropship documentation (Form 8125) is scanned by a clerk. This information is transmitted to the tracking database and all of the pieces associated with that 8125 barcode are updated automatically in the system with an arrival record.
 - (b) Confirmed. These costs are not included because the acceptance scan is not part of the Delivery Confirmation offering. Rather, it is performed to obtain data for internal service performance measurement.
 - (c) For parcels with retail rate delivery confirmation, the Delivery Confirmation label of each parcel is scanned by the clerk accepting the mailpiece. For parcels with electronic option Delivery Confirmation, a barcode representing the Delivery Confirmation Electronic File Number of the entire manifest is scanned from PS Form 3152, *Delivery Confirmation Certification*. For Plant Verified Drop Shipments with
-

**Response of Postal Service Witness Nieto to
Interrogatories of United Parcel Service**

UPS/USPS-T26-2, Page 2 of 2

electronic option Delivery Confirmation, the electronic file number in barcode format is scanned from PS Form 8125 for the entire manifest. As noted in part (b), these scans are performed for internal service performance measurement purposes.

- (d) Confirmed that the volume variable cost of an additional scan by a box section clerk would be 3.56 cents.

United States Postal Service

**Richard L. Patelunas
(USPS-T-12)**

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2**

4389

9. There are discrepancies between the Rollforward's BEN2FACT and its VBL5 and VBL6 control strings. For example, the distribution key on line 236 of FY2001 BEN2FACT file indicates that cost reduction dollars are distributed to component 43 using component 1449, whereas the VBL5 of the Rollforward Model is actually using component 1469 to distribute costs to component 43. Please compare the FY2001, FY2002, and FY2003 before rate and after rates BEN2FACT files with their corresponding VBL5 and VBL6 control strings, report any discrepancies and for each discrepancy indicate which is correct, the BEN2FACT file or the VBL control strings. Include a detailed explanation of each difference and its impact on the Rollforward, if any, for FY 2001, FY 2002, FY 2003 before rates and after rates.

Response:

Please refer to Attachment 1 that accompanies this response. The first column of eighteen digits preceded by a plus or minus sign is the multiplicative or additive amount applied to the rollforward. Each amount is applied by the use of control strings found in the VBL files 1 through 6 for each execution of the rollforward. These amounts and the directions contained in the VBL control strings define the calculations and results of executing the model. As such, the correct factor amounts and distribution keys are those defined in the VBL control strings.

The second through seventh columns of Attachment 1 are for information purposes only; they have no impact on the results generated by executing the rollforward program. As such, the information provided in these columns is not always properly updated under certain time constraints. Attachment 1 properly updates columns two through seven to reflect the instructions defined in the VBL5 and VBL6 files. The first column in Attachment 1 is for Fiscal Year 2001 only, but columns two through seven apply to all the rollforward years.

**** TSO FOREGROUND HARDCOPY ****
 DSNAM=H37060.FY01H.BEN.DATA

+000000000025492000	1	1	PM EAS 23 & BELOW	CL	M
+000000000025492000	2	2	PM EAS 24 & ABOVE	CL	M
+000000000025492000	3	3	BMC MGRS	CL	M
+000000000022604000	4	252	TOTAL SUPERVISORS	CL	M
+000000000051716000	5	253	TOTAL CLKS & MAILHANDLERS	CL	M
+000000000065450000	6	254	CAG K CLERKS	CL	M
+000000000075189000	7	256/257	TOTAL CITY CARRIERS	CL	M
+000000000049518000	8	258	VEHICLE SERVICE DRIVERS	CL	M
+000000000000000000	9	61	TOTAL SPECIAL DEL. MGRS.	CL	M
+000000000000000000	10	62	EMA-SPECIAL DELIVERY	CL	M
+0000000000043710000	11	75	OPERATING EQ MAINT PERS	CL	M
+000000000028700000	12	73	EMA-RURAL	CL	M
+000000000054540000	13	72	TOTAL RURAL SALARIES	CL	M
+000000000056997000	14	74	TOTAL CLNG & PROTECT PERS	CL	M
+0000000000046542000	15	79	BLDG EQUIP MAINT PERS	CL	M
+000000000042500000	16	81	CONTRACT CLEANERS	CL	M
+000000000048100000	17	90	MVS-PERSONNEL	CL	M
+000000000023500000	18	99	MVS-SUPPLIES&MATERIALS	CL	M
+000000000026800000	19	108	MVS-RENTAL OF MOTOR VEH	CL	M
+000000000033100000	20	125	BANKING FEES	CL	M
+0000000000056161000	21	110	MAIL EQ SHOPS-SALARIES	CL	M
+000000000042500000	22	111	CONTRACT STA. SERV-SALS.	CL	M
+0000000000042500000	23	112	PM RENTAL ALLOWANCE	CL	M
+000000000006100000	24	113	TOLLS & FERRIAGE	CL	M
+000000000026800000	25	117	MAIL EQ SHOP-FREIGHT	CL	M
+000000000000000000	26	N/U			
+000000000017235000	27	114	FAC & PROC CENTERS	CL	M
-000000000000000000	28	257	SEI & WKHR MGT		
+000000000006100000	29	135	CITY DELIVERY-CARFARE	CL	M
+000000000000000000	30	136-141	CITY DELIVERY-DRIVEOUT	CL	M
+0000000000026400000	31	142/681	DOMESTIC TRANSPORT-AIR	CL	M
+000000000044400000	32	143	DOMESTIC TRANSPORT-HIGHWAY	CL	M
+000000000013700000	33	144	DOMESTIC TRANSPORT-RAIL	CL	M
+000000000026800000	34	145	DOMESTIC TRANSPORT-WATER	CL	M
-0000000000005100000	35	SEVERAL	ADDITIONAL WORKDAY	AW	M
+000143412000000000	36	208	ANNUITANT HEALTH BENEFITS	OTHER A	
+000000000033100000	37	115	INDIVIDUAL AWARDS (CS1-12)	CL	M
+000000000042500000	38	165	RENTS	CL	M
+0000000000309583000	39	166	HEATING FUEL	CL	M
+0000000000054500000	40	167	UTILITIES	CL	M
+0000000000052800000	41	168	COMMUNICATIONS	CL	M
+0000000000052800000	42	169	BLDG PROJECTS EXPENSED	CL	M
+0000000000026800000	43	170	MOVING EXPENSE	CL	M
+000000000039294000	44	173	MATERIAL DIST&LABEL PERS	CL	M
+000000000023500000	45	174	ADP SUPPLIES & SERVICES	CL	M
+000000000023500000	46	175	EQ REPAIR&MAINT EXCL ADP	CL	M
+000000000023500000	47	176	CUSTODIAL	CL	M
+000000000023500000	48	177	BUILDING	CL	M
+000000000007000000	49	179	PRINTING & REPRODUCTION	CL	M
+000000000007000000	50	180	STAMPS & ACCTABLE PAPER	CL	M
+000000000007000000	51	181	MONEY ORDERS	CL	M
+000000000023500000	52	184	OPERATING EQUIP & SUPPLES	CL	M
+000000000023500000	53	189	REIMBURSEMENTS	CL	M
+000000000020326000	54	191	HQ&FIELD SERV UNIT PERS	CL	M
+000000000045817000	55	192	M. O. BRANCH PERSONNEL	CL	M
+000000000017401000	56	193	AREA ADMIN PERSONNEL	CL	M
+000000000045715000	57	194	SECURITY FORCE PERSONNEL	CL	M

Attachment 1
 POIR 2
 Question 9

+0000000000	JO 58	18	195	INSPECTION SERVICE		M
-0000000000000000	59	1	1	PM EAS 23 & BELOW	NVW	M
+0000000000000000	60	N/U				
-000017400000000000	61	18	199	REPRICED ANNUAL LEAVE	OTHER	A
+000000000040034000	62	14	146	INTERNAT'L TRANSPORTATION	CL	A
+0000000000033100000	63	18	244	COMMISSIONS NON-US MOS	CL	M
+000000000023500000	64	18	210	SUPPLIES & SERVICES	CL	M
+000000000000000000	65	N/U				
+000000000033100000	66	18	212	INSPECTION SERV EXPENSES	CL	M
+0000000000007000000	67	16	248	STAMPED ENVELOPES	CL	M
+0000000000015844000	68	19	219	MAINT TECH SUPPORT CTR	CL	M
+0000000000033100000	69	19	220	SUPPLIES & SERVICES	CL	M
+000000000033100000	70	18	213	REIMBURSEMENTS	CL	M
+0000000000033100000	71	20	239	DOMESTIC INDEMNITIES	CL	M
+000000000033100000	72	20	240	INTERNAT'L INDEMNITIES	CL	M
+000000000000000000	73	N/U				
+000000000000000000	74	N/U				
+0000000000006220000	75	7	47, 48, 54	CITY CARR-LOAD ACCESS RTE	NVW	M
+0000000000028430000	76	10	72	RURAL ROUTES	NVW	M
+0000000000023050000	77	11	74, 79, 81	TOTAL CLNG&PROTECTION PERS	NVW	M
+0000000000035300000	78	13	111	CONTRACT STA SERV-SALARIES	NVW	M
-0000000000028970000	79	13	112	PM RENTAL ALLOWANCE-CAG L	NVW	M
+000000000033100000	80	20	242	CLAIMS & LOSSES	CL	M
+000000000000000000	81	N/U				
+000000000000000000	82	N/U				
+0000000000022000000	83	10	73	EQUIP MAINT ALLOWANC RURAL	NVW	M
+000000000000000000	84	N/U				
+000000000033100000	85	18	1429	INDIVIDUAL AMDS (CS13-20)	CL	M
+000000000006940000	86	15	165	RENT	NVW	M
+0000000000023050000	87	15	166	HEATING FUEL	NVW	M
+0000000000023050000	88	15	167	UTILITIES	NVW	M
+0000309930000000000	89	15	166	HEATING FUEL	OTHER	A
+0000843120000000000	90	15	165	RENTS	OTHER	A
-0000001760000000000	91	15	167	UTILITIES	OTHER	A
+0000077320000000000	92	15	169	BLDG PROJECTS EXPENSED	OTHER	A
-0000044840000000000	93	15	168	COMMUNICATIONS	OTHER	A
+0000017060000000000	94	15	170	MOVING EXPENSES	OTHER	A
+0000000001000000000	95	13	113	TOLLS & FERRIAGE	OTHER	A
+0001099420000000000	96	16	174	ADP SUPPLIES & SERVICES	OTHER	A
+0000068140000000000	97	16	175	EQUIP REPAIR&MAINT EXC ADP	OTHER	A
+0000001850000000000	98	16	176	CUSTODIAL SUPPLIES&SERV	OTHER	A
-0000000000000000000	99	16	187	EXPEDITED MAIL SUPPLIES	CL	M
+0000000000000000000	100	16	197	OTHER POSTAL SUPPLIES	CL	M
+0000000000000000000	101	16	1426	REMOTE ENCODING SUPP	CL	M
-0000000000000000000	102	16	196	TRACKING & TRACING	CL	M
+0000000000000000000	103	15	234	PRODUCT SPECIFIC RENT	CL	M
+0000000000000000000	104	10	72	RURAL CARRIERS PER	OTHER	A
+0000000000000000000	105	10	73	EMA-RURAL	OTHER	A
+0000023710000000000	106	17	267	R & D CONTRACTS	OTHER	A
+0000000001000000000	107	13	125	BANKING FEES	OTHER	A
+0000000250000000000	108	15	234	PRODUCT SPECIFIC RENT	OTHER	A
+0000001330000000000	109	16	197	OTHER POSTAL SUPPLIES	OTHER	A
-0000345300000000000	110	18	201	CSRS CURRENT	OTHER	A
+0000986120000000000	111	18	202	CSRS PRIOR	OTHER	A
+0000170000000000000	112	14	146	INTERNAT TRANSP PROGRAMS	OTHER	A
-0000041000000000000	113	18	200	HOLIDAY LEAVE VARIANCE	OTHER	A
+0000415170000000000	114	18	207	ANNUITY PROTECTION PROGRAM	OTHER	A
+0000734740000000000	115	18	204	WORKERS' COMP CURRENT	OTHER	A
+0000143970000000000	116	18	210	SUPPORT: SUPPLIES&SERVICES	OTHER	A
-0000348630000000000	117	18	205	WORKERS' COMP PRIOR	OTHER	A
+0000006980000000000	118	18	895	WORKERS' COMP HEALTH BEN	OTHER	A

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+000006690	JO 119	13	114	FAC & PURCHASE FIELD UNIT	A
+0000000000000000	120	6	256257	CITY CARRIER REDUCTIONS	CR A
-00000005770000000000	121	20	231	VEHICLE DEPRECIATION	OTHER A
+00014822800000000000	122	20	232	EQUIPMENT DEPRECIATION	OTHER A
-00001992800000000000	123	20	238	BLDG DEPREC & AMORT	OTHER A
+00004571700000000000	124	20	245	DISPOSITION OF PROPERTY	OTHER A
+00002236400000000000	125	18	241	UNEMPLOYMENT COMPENSATION	OTHER A
-00000564600000000000	126	16	246	ADVERTISING SALES&PROMO	OTHER A
-00000291100000000000	127	16	173	MATERIAL DIST&LABEL PRT	OTHER A
-00000000000000000000	128	N/U			
-00000493700000000000	129	18	541	POD WORKERS' COMP	OTHER A
-00003400000000000000	130	14	144	DOMESTIC TRANSPORT-RAIL	CR A
+00000000000000000000	131	14	144	DOMESTIC TRANSPORT-RAIL	OTHER A
+00000000000528000000	132	15	171	REIMBURSEMENTS	CL M
-00007800000000000000	133	14	142	DOMESTIC AIR REDUCTIONS	CR A
+00000000000000000000	134	14	681	ALASKA AIR REDUCTION	CR A
-00000000000000000000	135	14	143/1418	PARCEL POST DS CR (01BR)	CR A
-00000000000000000000	136	3	35/1418	PARCEL POST DS CR (01BR)	CR A
+00013000000000000000	137	14	143	HIGHWAY PROGRAMS	OTHER A
-00000023700000000000	138	20	242	CLAIMES & LOSSES	OTHER A
+00000039600000000000	139	20	249	REIMBURSEMENTS	OTHER A
+00000000050000000000	140	11	81	CONTRACT CLEANERS	OTHER A
+00000363900000000000	141	13	117	FREIGHT-SUPPLIES&MAT	OTHER A
+00000000000000000000	142	N/U			
+00000013800000000000	143	13	135	CARFARE	OTHER A
-00008100000000000000	144	14	143	HIGHWAY TRANSPORTATION	CR A
+00000000000000000000	145	14	146	INTERNAT TRANSP PROGRAMS	CR A
+00000000000000000000	146	N/U			
+00000000000000000000	147	14	142	DOMESTIC AIR PROGRAMS	OTHER A
-00004000000000000000	148	15	168	COMMUNICATIONS	CR A
-00000496500000000000	149	3	228	TACS	CR A
-00000208900000000000	150	3	35/1440	DBCS OSS	CR A
-00004006900000000000	151	3	35/1469	DBCS ADD CAPACITY	CR A
-00001162400000000000	152	3	35/1468	ROBOTICS	CR A
+00000066900000000000	153	3	228	TACS	OTHER A
+00000000000000000000	154	16	184	OPERATING EQ & SUPPLIES	CR A
-00004617200000000000	155	2	4/1446	REC REDUCTIONS	CR A
-00000132600000000000	156	2	4/1451	TMS UNIVERSAL TRANSPORT	CR A
+00000057100000000000	157	2	4/1451	TMS UNIVERSAL TRANSPORT	OTHER A
+00000000000000000000	158	N/U			OTHER A
+00000000000000000000	159	N/U			OTHER A
-00000006300000000000	160	12	108	RENTAL OF MOTOR VEHICLES	OTHER A
+00000000000000000000	161	12	90	MVS PERSONNEL	OTHER A
+00000000000000000000	162	N/U			CR A
+00000000000000000000	163	N/U			
+00003396500000000000	164	12	99	MVS SUPPLIES & SERVICES	OTHER A
+00000000000000000000	165	10	72	RURAL PROGRAMS	OTHER A
+00000000000000000000	166	13	111	CONTRACT STATION SERVICE	OTHER A
+00000000000000000000	167	N/U			
+00000000000000000000	168	N/U			
-00000054100000000000	169	13	110	MAIL EQUIPMENT SHOPS	OTHER A
+00000000000000000000	170	11	74	MAINT PROGRAMS	OTHER A
+00000220000000000000	171	16	189	REIMBURSEMENTS	OTHER A
+00010000000000000000	172	16	177/1420	FEDEX STARTUP	OTHER A
+00000000000000000000	173	14	142/1465	FY02 FEDEX AIR	CR A
+00000000000000000000	174	14	143/1466	FY02 FEDEX GROUND	OTHER A
+00000000000000000000	175	14	143/1467	FY02 FEDEX HIGHWAY	OTHER A
+00000000000000000000	176	14	142/1470	FY03 FEDEX AIR	CR A
+00000000000000000000	177	14	142/1471	FY03 FEDEX GROUND	CR A
+00000000000000000000	178	14	143/1472	FY02 FEDEX HIGHWAY	OTHER A
+00000000000000000000	179	14	142/142	DOMESTIC AIR OTHER PROG	OTHER A

Attachment 1
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Question 9

-000000000	JO 180	2	252	SUPERVISORS PROGRAMS	A
+000000000000000000	181	3	35/1468	TOTAL GEN & LOGISTIC	OTHER A
+000000000000000000	182	N/U			
+000000000000000000	183	N/U			
+000000000000000000	184	N/U			
+000000000000000000	185	N/U			
+000000000000000000	186	N/U			
+000000000000000000	187	N/U			
+000000000000000000	188	N/U			
+000000000000000000	189	20	899	OBRA RETROACTIVE PORTION	OTHER A
+000000300000000000	190	18	71	ANNUITANT COLA LIFE INS	OTHER A
+000000000000000000	191	N/U			
+000204200000000000	192	14	142/1454	PMPC DOMESTIC AIR	OTHER A
+000055300000000000	193	14	143/1454	PMPC HIGHWAY	OTHER A
-000018343000000000	194	18	193	AREA ADMINISTRATION	OTHER A
+000000008000000000	195	18	213	REIMBURSEMENTS	OTHER A
+000005853000000000	196	18	195	INSPECTION SERVICE	OTHER A
+000000000000000000	197	18	1430	MISC PERSONNEL EXPENSE	OTHER A
+000137402000000000	198	18	1435	CSRS ANNUITANT COLA	OTHER A
+000000174000000000	199	16	182	INVENTORY ADJUSTMENT	OTHER A
-000245944000000000	200	16	187	EXPEDITED MAIL SUPPLIES	OTHER A
+000000000000000000	201	16	1426	REMOTE ENCODING SUP&SERV	OTHER A
-000000602000000000	202	16	196	COMP TRACKING&TRACING	OTHER A
+000005809000000000	203	11	75/1469	DBCS ADD CAPACITY	OTHER A
+000001056000000000	204	11	75/1468	ROBOTICS	OTHER A
-000001394000000000	205	11	75/35	MTESC/MERLIN MAINT	CR A
+000000067000000000	206	16	248	STAMPED ENVELOPES	OTHER A
+000062506000000000	207	16	177	MISC SUPPLIES & SERVICES	OTHER A
-000000958000000000	208	16	179	PRINTING & REPRODUCTION	OTHER A
+000005621000000000	209	16	180	STAMPS & ACCOUNTABLE PAPER	OTHER A
+000000000000000000	210	N/U			
+000000067000000000	211	16	181	MONEY ORDERS	OTHER A
+000010781000000000	212	3	35/1442	FSM OTHER PROGRAMS	OTHER A
+000000223000000000	213	11	75/1453	PARCEL SINGULATOR	OTHER A
+000000331000000000	214	11	75/1447	DBCS DIOSS	OTHER A
+000000000000000000	215	11	75/1450	PARCEL SINGULATOR	CR A
-000000000000000000	216	N/U			CR A
-000000000000000000	217	11	75/1439	CPS MAINT	OTHER A
+000001957000000000	218	18	194	SECURITY FORCE	OTHER A
+000082836000000000	219	18	191	HQ & FIELD SVC UNIT PER	OTHER A
+000000000000000000	220	14	1438	FOREIGN SETTLEMENT TRANS	OTHER A
+000225963000000000	221	18	211	MISC SUPPORT COST BR	OTHER A
+000000118000000000	222	18	212	INSPECTION SERV EXPENSES	OTHER A
-000000295000000000	223	19	219	MTSC PERSONNEL	OTHER A
-000000045000000000	224	6	43/1452	CSBCS EXPANSION	CR A
-000041546000000000	225	16	184	OPERATING EQ & SUPPLIES	OTHER A
-000000373000000000	226	19	220	CONTRACT TRAINING SUPPORT	OTHER A
+000003285000000000	227	3	35/1469	DBCS ADD CAPACITY	OTHER A
+000000424000000000	228	3	35/1448	SORTING TO FLAT CASES	OTHER A
-000094906000000000	229	6	43/1447	DBCS DIOSS	CR A
-000014331000000000	230	6	43/1463-	ID CODE SORT (1440,41,52)	CR A
-000000002000000000	231	6	43/1447	SORTING TO LETTER CASES	OTHER A
+000037354000000000	232	20	1436	INTEREST-RETIREMENT	OTHER A
+000000259000000000	233	20	1437	INTEREST-OTHER	OTHER A
+000093151000000000	234	20	587	INTEREST ON DEBT	OTHER A
-000000000000000000	235	N/U			CR A
-000010848000000000	236	6	43/1469	DBCS ADD CAPACITY	CR A
+000000000000000000	237	6	43/1449	MLOC PROGRAMS	CR A
+000000000000000000	238	3	43/1452	CSBCS PROGRAMS	CR A
+000014603000000000	239	6	46/1464	DELIVERY CONFIRM SCAN	OTHER A
-000000000000000000	240	N/U			OTHER A

Attachment 1
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+000000000000	J0	241	N/U			A
+0000000000000000		242	N/U			OTHER A
-0000000000000000		243	N/U			
+0000000000000000		244	N/U			CR A
-0000000000000000		245	N/U			CR A
+0000000000000000		246	N/U			CR A
-0000000000000000		247	N/U			CR A
-0000000000000000		248	3	35/1451	NON-BMC GEN & LOGISTIC	OTHER A
-000005370000000000		249	3	35/142	AUTO AIRLINE SWYB	CR A
-000040198000000000		250	3	35/1463	ID CODE SORT (1440,41,52)	CR A
-000057984000000000		251	3	35/1446	RCR 2000, REC CONSOLD	CR A
-000000479000000000		252	3	35/1450	MAT BMS SYSTEM	CR A
+0000000000000000		253	6	43/1446	RBCS	CR A
+0001468000000000		254	3	35/1454	PRIORITY PROC CENTER	OTHER A
-0000000000000000		255	N/U			
-0000000000000000		256	3	35/1441	DBCS MAIL CARTRIDGE	CR A
-000000121000000000		257	3	35/1452	CSBCS SAVINGS	CR A
-000132875000000000		258	3	35/1448	SORTING TO FLAT CASES	CR A
-000001991000000000		259	3	35/1447	SORTING TO LETTER CASES	CR A
-000010146000000000		260	3	35/1445	SPBS	CR A
-000036088000000000		261	3	35/1442	FLAT SAVINGS	CR A
-0000000000000000		262	3	35/1443	DIRECT CONNECT	CR A
-000000065000000000		263	3	35/1439	CPS SAVINGS	CR A
-000008628000000000		264	3	35	MAIL PROC DIRECT	CR A
-0000000000000000		265	3	35/1449	MLOC R SAVINGS	CR A
-000000147000000000		266	3	35/1444	ROUGH CULL SAVINGS	CR A
-000025948000000000		267	3	35/1451	NON-BMC GEN & LOGISTIC	CR A
+0000000000000000		268	3	35/1441	DBCS MP COSTS	OTHER A
+000000406000000000		269	3	35/1445	SPBS MP COSTS	OTHER A
-000006772000000000		270	11	75/1446	RCR 2000, REC CONSOLD	CR A
+0000000000000000		271	N/U			OTHER A
+0000000000000000		272	11	75/1441	DBCS MAINT COSTS	OTHER A
+000002902000000000		273	11	75/1442	FLATS AUTO MAINT COSTS	OTHER A
+000000012000000000		274	11	75/1444	ROUGH CULL MAINT COSTS	OTHER A
+000000528000000000		275	11	75/1445	SPBS MAINT	OTHER A
+000014685000000000		276	11	75/1448	SORTING TO FLAT CASES	OTHER A
+0000000000000000		277	11	75/1449	MLOC R MAINT COSTS	OTHER A
+000008231000000000		278	11	75/1451	NON-BMC GEN & LOGISTIC	OTHER A
-000172500000000000		279	3	253	CLK/MH BPI	OTHER A
+000008001000000000		280	3	35/1464	DELIVERY CONFIRM SCAN	OTHER A
+0000000000000000		281	3	35/1419	INT'L CLERKS & MH	OTHER A
+000000625000000000		282	11	75/142	AUTO AIRLINE SWYB	OTHER A
-0000000000000000		283	N/U			CR A
-0000000000000000		284	N/U			CR A
-0000000000000000		285	N/U			CR A
+0000000000000000		286	N/U			OTHER A
-0000000000000000		287	N/U			CR A
-000001097000000000		288	11	75/1451	MAIL TRANSPORT	CR A
-0000000000000000		289	11	75/1451	NON-BMC GEN & LOGISTIC	CR A
+0000000000000000		290	11	75/1419	INT'L MAINT	OTHER A
+0000000000000000		291	2	4/1419	INT'L SUPERVISORS	OTHER A
+000000010000000000		292	11	75/1446	RCR 2000, REC CONSOLD	OTHER A
+000004635000000000		293	11	75/1463-	ID CODE SORT (1440,41,52)	OTHER A
+0000000000000000		294	N/U			OTHER A
+0000000000000000		295	N/U			CR A
-000077500000000000		296	6&7	256-257	CITY CARRIER BPI	OTHER A
+000000003000000000		297	3	35/1447	DBCS DIOS	OTHER A
+000000097000000000		298	11	75/35	MTESC MERLIN	OTHER A
+000000077000000000		299	11	75/1440	DBCS OSS	OTHER A
-0000000000000000		300	11	75/1443	DIRECT CONNECT	OTHER A

Attachment 1
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**RESPONSE OF UNITED STATES POSTAL SERVICE
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4395

10. The FY 2000 mail volumes for International, Registry, Certified, Insurance, and Other Special Services in Witness Patelunas' Exhibit 12A at page 15 differ from those listed in Witness Meehan's Workpaper A, pages 125 and 126. Please explain these differences and indicate which volumes should be used in the rollforward and discuss the impact, if any, on FY 2001, FY 2002, FY 2003 Before Rates, and FY 2003 After Rates costs.

Response:

The amounts shown in my Exhibit 12A at page 15 should be used in the rollforward because they are consistent with the amounts shown in the volume forecast. An explanation of the differences between my Exhibit 12A and witness Meehan's Workpaper A, pages 125 and 126 follows, and these differences have no impact on any of the rollforward years. Also, there is no mail volume effect applied to Other Special Services; therefore, the Exhibit 12A effect is correct.

Please refer to Attachment 1 that accompanies this response. The first column shows the amounts appearing in my Exhibit 12A. The last column shows the amounts appearing in witness Meehan's Workpaper A at page 125. As the equation explains, the last column is the result of adding column (1) and (2), subtracting columns (3), (4) and (5), and adding column (6).

	Petrolanas Exhibit 12A Page 18	Meehan Workpaper A Additional Svc Pieces Page 125	Meehan Workpaper B W/S 1.1.2 (page 12) Internat'l Other Spec Svc	Domestic Return Receipts	Ancillary Pieces Restricted Delivery	Meehan Workpaper B W/S 1.1.2 (page 12) Internat'l Money Orders	Meehan Workpaper A Total Pieces Page 125
	(1)	(2)	(3)	(4)	(5)	(6)	(1)+(2)-(3)-(4)-(5)+(6)
International	1,105,773	-	6,295		-	1,546	1,101,024
Registry	8,931	2,444	-		18		11,357
Certified	270,533	231,800	-		2,898		499,495
Insurance	58,835	1,671	-		45		58,461
Other Special Services	356,058	-	-	233,014			123,042

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11. Please provide the Excel spreadsheet associated with USPS-T-12, Appendix A, Mail Processing Cost Reduction Explanation and Display.

Response:

Please see USPS-LR-J-48, Diskette of Witness Patelunas's Spreadsheets for Appendices A and B and Exhibit USPS-12A (USPS-T-12), filed September 24, 2001.

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12. Witness Patelunas' Exhibit 12A at pages 15 through 18 shows the derivation of the mail volume cost effect factors which are input into the file RAT2FACT for use in the cost rollforward process. Column 2, labeled CRA Line, shows the CRA line number for each of the classes and subclasses of mail in the CRA cost matrix. These line numbers should correspond to the line numbers shown in the file AHEAD, in Library Reference J-6 at \Fy01h\control\AHEAD. Exhibit 12A shows the CRA line number for Insurance and Certified to be 164 and 165, respectively. However, the file \Fy01h\Control\AHEAD, shows the line numbers to be just the opposite, line 165 for Insurance and line 164 for Certified. An examination of the mail volume effect in the rollforward for FY 2001, 2002, and the Test Year Before Rates and After Rates shows that Certified costs are increased by the RAT2FACT factor apparently intended for Insurance and Insurance costs are increased by the RAT2FACT factor apparently intended for Certified. If necessary, please provide appropriate corrections. Include corrections to the cost rollforward workpapers and Exhibits of Witness Patelunas, and all corrections to Exhibits and/or Workpapers of any other witness who are affected by the correction to the rollforward. Additionally, please provide all corrections to the cost rollforward workpapers for the PRC version in Library Reference J-75.

Response:

The hypothesis posed in this Information Request is correct – for each of the rollforward years, Certified costs are increased by the RAT2FACT factor intended for Insurance and Insurance costs are increased by the RAT2FACT factor intended for Certified. In addition to the error identified in the Information Request, two other errors were found in the Postal Service version and the corrections are incorporated in the revisions. One, the FY 2002 D Report in Exhibit USPS-12E calculated a contingency and there is no contingency in that year. Second, the Test Year Final Adjustment intended for Certified was applied to Insurance. These corrections have been made and the rollforward has been rerun. The results are shown in the errata filed separately today, 10/31/01, for the following documents:

**RESPONSE OF UNITED STATES POSTAL SERVICE
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USPS-T-12	Exhibit A	TYAR Total Costs
USPS-T-12	Exhibit E	FY02G with Mix D Report
USPS-T-12	Exhibit I	TY03 After Rates with Mix D Report
USPS-T-12	Workpaper WP-H	Table E TY03AR with Mix D Report

Additionally, Attachment 1 that accompanies this response shows the test year impact on classes, subclasses and special services of correcting for the mail volume effect and final adjustments on Certified and Insurance; the FY 2002 D Report adjustment has no impact on the test year figures.

Attachment 1
POIR 2
Question 12
Response of
Witness Patelunas

	USPS-T-12 Exhibit 12A	USPS-T-12 Exhibit 12A Revised 10/31/01	Difference Column (1) minus Column (2)	% Difference Column (3) divided by Column (1)
	(1)	(2)	(3)	(4)
First-Class Mail:				
Single-Piece Letters	12,426,541	12,425,866	(683)	-0.01%
Presort Letters	5,438,962	5,438,371	(290)	-0.01%
Total Letters	17,865,203	17,862,230	(973)	-0.01%
Single-Piece Cards	668,862	668,631	(31)	-0.01%
Presort Cards	145,845	145,835	(10)	-0.01%
Total Cards	705,507	705,466	(41)	-0.01%
Total First	18,569,710	18,567,696	(1,015)	-0.01%
Priority Mail	3,567,993	3,567,998	(125)	0.00%
Express Mail	484,819	484,779	(40)	-0.01%
Mailgrams	637	636	2	0.32%
Periodicals				
In-County	78,785	78,780	(5)	-0.01%
Outside County	2,313,219	2,313,124	(95)	0.00%
Total Periodicals	2,382,004	2,381,903	(101)	0.00%
Standard Mail				
Enhanced Carrier Route	2,700,724	2,700,570	(153)	-0.01%
Regular	8,690,374	8,689,931	(443)	-0.01%
Total Standard Mail	11,391,097	11,390,501	(596)	-0.01%
Package Services				
Parcel Post	1,040,238	1,040,198	(40)	0.00%
Bound Printed Matter	542,200	542,173	(27)	0.00%
Media Mail	279,052	279,039	(12)	0.00%
Total Package Services	1,861,490	1,861,411	(79)	0.00%
U S Postal Service	0	-	-	0.00%
Free Mail—Blind&Hndc&Serv	38,341	38,344	3	0.01%
International Mail	1,580,572	1,580,532	(40)	0.00%
Total Mail				
Special Services:				
Registry	79,597	79,573	(25)	-0.03%
Certified	454,204	475,444	21,240	4.68%
Insurance	114,184	108,721	(5,473)	-4.78%
COD	12,608	12,598	(10)	-0.08%
Money Orders	180,181	180,180	(21)	-0.01%
Stamped Cards	2,886	2,886	-	0.00%
Stamped Envelopes	12,976	12,977	(1)	-0.01%
Special Handling	1,944	1,945	1	0.05%
Post Office Box	658,780	658,700	(81)	-0.01%
Other	178,848	178,867	(81)	-0.05%
Total Svc Svcs	1,885,000	1,719,568	16,532	0.92%
Volume Variable	41,580,863	41,804,240	13,577	0.03%
Other	32,583,186	32,582,084	(1,111)	0.00%
Total Costs	74,173,868	74,186,324	12,456	0.02%

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4401

4. Witness Meehan's Workpaper B spreadsheets include the outputs to the CRA for each cost segment and component which are reflected in the manual input of witness Meehan's Workpaper A. The structure of the outputs to the CRA and the manual input to the CRA does not include costs associated with any of the former non-profit subclasses such as Periodicals Non-Profit or Standard Non-Profit ECR. However, it appears that the costs associated to the non-profit subclasses are included in section of the spreadsheets labeled "*oldoutputs*". Please confirm that if the CRA structure was the same as in Docket No. R2000-1 the costs input into the CRA would have come from the spreadsheet sections labeled "*oldoutputs*" in the Workpaper B spreadsheets.

If confirmed please provide the PESSA, custodial maintenance and equipment, and rollforward distribution keys that are included in the manual inputs into the CRA in the same format as indicated in the "*oldoutputs*" sections mentioned above.

Response:

The rollforward distribution keys are not presently available. Developing the rollforward distribution keys that are included in the manual inputs into the CRA requires much work because many of those "inputs" are outputs from various sources. The list below shows the rollforward manual inputs that would require additional work:

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Response continued:

Rollforward

Manual

<u>Input</u>	<u>Title</u>	<u>Source</u>	<u>Input</u>
1439	CFS	Factor Report	Rerun Base Year
1440	MPBCS	Factor Report	Rerun Base Year
1441	Del BCS	Factor Report	Rerun Base Year
1442	FSM	Factor Report	Rerun Base Year
1443	Fac/Canx	Factor Report	Rerun Base Year
1444	Culling	Factor Report	Rerun Base Year
1445	SPBS	Factor Report	Rerun Base Year
1446	RBCS	Factor Report	Rerun Base Year
1449	OCR	Factor Report	Rerun Base Year
1450	GenLog BMC	Factor Report	Rerun Base Year
1451	GenLog NonBMC	Factor Report	Rerun Base Year
1452	CS BCS	Factor Report	Rerun Base Year
1453	Parcel NMO	Factor Report	Rerun Base Year
1465	FY02 FedEx Air	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1466	FY02 FedEx Gr	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1467	FY02 FedEx Hwy	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1470	FY03 FedEx Air	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1471	FY03 FedEx Gr	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1472	FY03 FedEx Hwy	Rerun USPS-LR-J-94/Hatfield USPS-T-18	
1397	FY2001 Final Adj	Cost Study Models	Rerun Rollforward
1398	FY2002 Final Adj	Cost Study Models	Rerun Rollforward
1399	TYBR Final Adj	Cost Study Models	Rerun Rollforward
1455	TYAR Final Adj	Cost Study Models	Rerun Rollforward

The first group of manual inputs are taken from the Factor Report of the base year and are used in the rollforward to distribute cost reductions and other programs for the interim and test years. The Factor Report is used as the source

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Response continued:

because it provides the correct variabilities that are applied to the individual cost reductions and other programs. It is my understanding, that in order to generate a Factor Report, the base year must be run using the format necessary to provide the profit-nonprofit distribution keys requested. As such, a new base year must be built, tested and run using the former profit-nonprofit classes of mail in all the files and control strings. It should be noted then, that producing the PESSA and custodial maintenance and equipment distribution keys in the old format (See witness Meehan's, USPS-T-11, response to this request and USPS-LR-154) is only the starting point because all those distribution keys would need to be input into a functioning base year model.

The second set of distribution keys are those associated with incorporating the FedEx contract into the rollforward, and these were provided in USPS-LR-J-94, associated with the testimony of witness Hatfield, USPS-T-18. It is my understanding that, while the underlying TRACs distribution keys for Base Year 2000 are available for the profit-nonprofit distinction, much like the base year model, USPS-LR-J-94 would need to be modified and tested to incorporate that distinction. USPS-LR-J-94 is in Excel format; therefore, rows for the profit-nonprofit data would need to be manually inserted into each of the spreadsheets and ensure that all of the linkages and formulas were still correct.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

4404

Response continued:

The last section of rollforward distribution keys is the final adjustments that are applied to each individual year in the rollforward. It is my understanding that each of the cost study models would need to be modified because the profit-nonprofit distinction is in none of the models. This would require rebuilding the cost models of witnesses Miller, USPS-T-22 and USPS-T-24, and Eggleston, USPS-T-26, to incorporate the former profit-nonprofit class distinction. Additionally, each of those models require inputs from the rollforward; therefore, the rollforward model would need to be run incorporating the profit-nonprofit distinction.

To run that rollforward also requires additional work. There must first be a functioning base year model because that cost matrix is the basis of the rollforward model. As in the case of the base year model, all the rollforward files and control strings for each of the years would need to be modified and tested; including the *before rates* and *after rates* test years, there are eight rollforward versions that would need to be modified and tested before successful execution.

Revised 12/12/01

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

5. Please describe in detail the Sales Force Augmentation Project.
- (a) Please provide the number of vendors used during FY00 and FY01, a description of the method(s) by which payments to the vendors are determined, a copy of a typical contract, the scope of the Project and geographic coverage, benefits expected to be gained and actually achieved from the project, including savings from not using Postal Service employees, expenses incurred from the project from FY 1999 on, and a description of how expenses associated with the project are attributed.
 - (b) Please provide any Office of the Inspector General audit or management reports concerning the Project submitted to the Postal Service since January 1, 1999. If such reports recommended any corrective actions, please describe what corrective actions were recommended and what corrective actions have been taken.
 - (c) Please identify the account number(s) in the USPS Chart of Accounts where these costs are recorded and specify the cost segment and components where the identified account numbers are located in the CRA.

Response:

- (a) I am told the Sales Force Augmentation (SFA) helps the Postal Service Sales organization obtain new commercial revenue through the sale of Priority Mail, Express Mail, Global Priority Mail, and International Express Mail. This program enables the Postal Service to service previously uncovered small and medium size customer segments. The program uses a full-service provider (contractor) who staffs and manages a core of professional sales people trained explicitly to sell the Postal Service package service products mentioned above in selected markets.

The Sales Force Augmentation contractor is paid on a commission basis. The program provides added flexibility to the Postal Service in changing market

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**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

Response continued:

conditions because resources can be redirected and supplemented as necessary.

The Postal Service awarded a three-year contract to TIC Enterprises, Inc, of Roswell, GA on 12/3/99; thus, there is a single vendor for the project. A copy of the contract was filed as USPS-LR-I-2002 in Docket No. R2000-1. The contract includes extension for two additional two-year periods. The scope of the project requires TIC's sales representatives to call on prospective clients in the small to medium size business segment. The geographic coverage of the project extends over twelve major metropolitan areas: San Francisco, Los Angeles, Denver, Dallas, St. Louis, Chicago, New York City, Boston, Philadelphia, Atlanta, Washington D.C., and Miami. Existing Postal Service customers and prospects are off-limits to the TIC sales force. Sales are monitored, with volume and revenue being measured for each participating customer. The contractor is compensated on a percentage of sales (i.e. commission basis), with the percentage less than the contribution margins for the products.

Since SFA began in Fiscal Year 1999, a total of \$119.9 M in new revenue has been generated. Commissions paid against that revenue amounted to \$24.2 million.

<u>Year</u>	<u>Revenue</u>	<u>Commission</u>
FY99	\$20.7M	\$ 3.9M
FY00	\$35.3M	\$ 9.4M
FY01	\$63.9M	\$ 10.9 M

Revised 12/12/01

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

Response continued:

The Revenue to Commission comparison above shows one benefit, and there is the additional financial benefit of a contractor pay structure. It is estimated that the salary and benefits costs of performing the same functions as SFA would be in excess of \$14 million annually for the Postal Service. Another benefit of using SFA is the increased flexibility to respond to market conditions allowed by using a professional, non-Postal sales force.

The Commissions paid by the Postal Service are in Account Number 52323 in the USPS Chart of Accounts. This account is a portion of Cost Component 210, Administration and Area Operations in Cost Segment 18. The entire amount of Cost Component 210 is in Other costs; there are no volume variable costs.

(b) It is my understanding that OIG audits, dated March 30, 1999 and October 31, 2000 are being provided today in USPS-LR-J-195 in accordance with Presiding Officer's Ruling No. R2001-1/16, issued December 7, 2001.

(c) See the last paragraph of the response to part (a).

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 5**

9. Question 11 of POIR No. 2 asked the Postal Service to provide the Excel spreadsheet associated with USPS-T-12, Appendix A, Mail Processing Cost Reduction Explanation and Display. Witness Patelunas answered that the spreadsheet was in USPS Library Reference J-48. An examination of the electronic files filed as LR-J-48 shows that the only spreadsheet files included in the library reference were those for Exhibit 12A and Appendix B. The spreadsheet files for Appendix A were not included in LR-J-48. Please provide the Excel spreadsheet file(s) associated with Appendix A of USPS-T-12.

Response:

A replacement diskette containing the missing spreadsheets for USPS-LR-J-48 was filed on November 16, 2001.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 5**

4409

10. The file VBL2.dat of USPS Library Reference J-6, at lines 000286 through 000347, lists the direct and indirect cost components used to develop the mail volume cost effect for components 9 (Supervision of Time & Attendance), 30 (Higher Level Supervisors), and 228 (Time and Attendance Clerks). Cost component 30, Higher Level Supervisors, is listed as receiving a mail volume effect (Line 000345) and is also part of the list of direct and indirect cost components used to develop the mail volume cost effect for Higher Level Supervisors (Line 000302). An examination of the other VBL data files, VBL3 (non-volume workload) and VBL4 (additional workday) shows that component 29 (Supervision of E&LR) receives the indirect cost effect, not component 30. Please explain the apparent discrepancy in the indirect cost treatment of component 30, Higher Level Supervisors, between the mail volume effect, the Non-volume Workload effect, and the Additional Workday effect.

Response:

With respect to treatment of component 30, Higher Level Supervisors, the proper treatment is to remove component 30 from the independent components, or in other words, component 20 should not be included in those components used to develop the mail volume cost effect for components 9, 30, and 228. Additionally, component 29 should be added to the list of dependent components; thus, the dependent components would be 9, 29, 30, and 228. The same treatment also applies to VBLs 3 and 4.

**RESPONSE OF UNITED STATES POSTAL SERVICE
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PRESIDING OFFICER'S INFORMATION REQUEST No. 5**

- 11. USPS Exhibit 12A at 17 shows a mail volume cost effect for Stamped Cards of -0.078998912 for FY 2003BR. An examination of the RAT2FACT file in Library Reference J-6 shows a mail volume effect for Stamped Cards of $+0.017505092$. Please explain the discrepancy between the USPS Exhibit 12A and the RAT2FACT file for FY 2003BR.**

Response:

The USPS Exhibit 12A at 17 factor of -0.078998912 for FY 2003BR is the correct factor.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 6**

8. International mail volume estimates are provided in USPS Library Reference J-159. A comparison of the base year 2000 through TYAR International mail volumes between LR-J-59 and USPS Exhibit 12A show differences for each year as shown below:

Fiscal Year	USPS Exhibit 12A	USPS LR-J-159	Difference
BY 2000	1,105,773	1,099,478	6,295
FY 2001	1,187,578	1,181,875	5,703
FY 2002	1,255,066	1,249,492	5,574
FY 2003 BR	1,294,889	1,289,500	5,389
FY 2003 AR	1,210,804	1,205,553	5,251

Additionally, the special service transactions for registry, insurance, money orders, and PO Boxes for the base year, test year BR and the test year AR shown in USPS LR-J-109, revised, are different from the number of transactions shown in USPS Exhibit 12A. Also, the transactions shown for FY 2001 and FY 2002 in the attachments to the response to Presiding Officers Information Request No. 2, Question 6 are different than shown in Exhibit 12A.

- (a) Please explain the differences noted in the above table for the international mail volumes and explain why the volumes developed in LR-J-159 should or should not be used in the rollforward.
- (b) Please explain the differences in the number of transactions for registry, money orders, insurance, and PO Boxes and explain why the transactions shown in LR-J-109, revised, and the response to POIR No. 2, Question 6 should or should not be used in the rollforward.

Response:

- (a) Please refer to Attachment 1 of POIR 2, Question 10 that provides a crosswalk between witness Meehan's (USPS-T-11) base year volumes and witness Patelunas's (USPS-T-12) rollforward volumes. Column (3) of that attachment shows the International Special Services amount of 6,295. This is the same 6,295 that appears in the first row of the table shown in the question. A similar reconciliation is needed for the USPS Exhibit 12A column and the USPS LR-J-159 column in the table. The

**RESPONSE OF UNITED STATES POSTAL SERVICE
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PRESIDING OFFICER'S INFORMATION REQUEST No. 6**

Response continued:

USPS Exhibit A column is the International volumes shown in the USPS LR-J-159 column plus the International Special Services. The International Special Services can be found in USPS Library Reference J-125 on Tables 125-1 and 125-2. The amounts in the USPS Exhibit 12A column should be used in the rollforward because they include all the volume impacts associated with International mail.

- (b) Much like in the response to part (a) of this question, the differences for registry, money orders and insurance are due to the inclusion or exclusion of International Special Services. The response to POIR 2, Question 6, includes International Special Services with the domestic Special Services; USPS LR-J-109, revised, includes International Special Services in International. For Post Office Boxes, the amounts shown in the response to POIR 2, Question 6 are correct.

The rollforward amounts shown in USPS Exhibit 12A for registry, money orders and insurance should be used in the rollforward. That is, the proper rollforward methodology included International Special Services in the International row. For Post Office Boxes, the amounts shown in the response to POIR2, Question 6 should be used because the Test Year Before Rates Post Office Box amount shown in USPS Exhibit 12A was not updated properly.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 7**

2. This is a follow-up to the November 28, 2001 response of witness Patelunas to Presiding Officer's Information Request No. 4. Question 5 pertaining to the Sales Force Augmentation Project.

(a) According to contract proviso B.8 in LR-I-202, commissions are calculated on the basis of the quantity of each individual product sales. Please identify for FY 1999 through 2001, the separate amounts of commissions paid for each of the four products sold.

(b) Please identify all payments made to the contractor other than the commissions, such as: for training fees per contract proviso G.5, offset of lease payments per contract proviso G.6, and other start up or minimum amount payments made to the contractor or on behalf of the contractor.

(c) Please identify costs incurred by the Postal Service that are associated with the program, such as: computer hardware, software or development costs incurred as part of the project, or the management of it; training of contractor personnel per contract proviso B.8; arranging, conducting or analyzing customer satisfaction surveys; and other project development and contract administration costs.

(d) Please identify any other costs that can be associated with the project.

(e) Since commission costs are calculated on the basis of the volume of sales for each product, please explain why commission costs are not attributed to the respective products.

(f) Since commission payments are calculated on the basis of the volume of sales for each product, please explain why project related supervisory, equipment, and other such costs can not be attributed to the products sold on the basis of the distribution of commissions to products.

(g) Please describe in detail how one computes the commission for an individual account on an ongoing basis. For example, provide the commission earned if a new customer in weeks one through five uses Priority Mail five times each week, then uses Priority Mail 10 times a week for weeks 6-10, then uses no Priority Mail for weeks 11-15, and then uses Priority Mail five times a week for weeks 16-20. Please explain your response.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 7**

Response:

(a) The current contract, referred to in the questions and the following responses, was not signed until December 1999; therefore, information is only available for a portion of Fiscal Year 2000 and the entirety of Fiscal Year 2001. As information, a pilot program existed prior to the current contract and under the pilot program commissions were site specific, not product specific. Pilot program commissions for the Atlanta and San Francisco sites were 19.75%, and 16.5% for the Los Angeles site. Also, the pilot program included only three products: Express Mail, Priority Mail and Global Priority Mail. The commissions paid under the current contract were:

	<u>FY00</u>	<u>FY01</u>
Express Mail	\$1,895,584	\$2,976,681
Priority Mail	3,844,120	6,631,720
Global Express Mail	86,495	392,251
Global Priority Mail	253,542	267,912
Total	6,079,741	10,268,564

(b) Payments made to the contractor other than the commissions were:

Training fees- \$2,118,650
IT fees - \$157,200
Hardship Expense due to accelerated implementation schedule- \$57,182.

All the above payments were made in Fiscal Year 2000.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 7**

Response continued:

(c – d) The following table displays the expenses associated with the Sales Force Augmentation program, including the Fiscal Year 1999 expenses of the pilot program:

	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001</u>
Employee Awards	500	0	500
HQ General Mgt.	243,881	240,685	891,734
Travel Other than Trng.	205,906	191,175	59,754
Training	38,895	27,985	11,210
Printing	1,026	0	114
Supplies	14,009	9,970	4,989
Services	194,913	345,930	172,402
Consult Serv.	3,875,276	9,445,423	10,870,895
Advertising	0	32	0
Depreciation	0	2,808	2,807
Miscellaneous	7,432	22,875	19,657
Communications	6,705	15,024	7,404
Information Technology	572	357,771	460,989
Annual Totals	4,589,115	10,659,678	12,502,455

(e - f) Commission costs were charged to accounts 52321 and 52323, which are included in Component 210, Supplies and Services, in Cost Segment 18; Component 210 is not volume variable. Related supervisory, equipment, and other such costs are included in numerous components and cost segments, many with different levels of volume variability. The Postal Service has not specifically studied the treatment of the commission costs.

**RESPONSE OF UNITED STATES POSTAL SERVICE
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PRESIDING OFFICER'S INFORMATION REQUEST No. 7**

Response continued:

(g) The contract provides a unit price (based on the average piece revenue), for each product line to which the commissions will be applied. The unit prices are: Express Mail International \$27.82, Express Mail \$14.49, Priority Mail \$4.37 and Global Priority Mail \$6.69. The hypothetical posed in the question results in the following commissions:

<u>Week</u>	<u>Priority Pieces</u>	<u>Revenue per Piece</u>	<u>Total Revenue</u>	<u>Commission @18.75%</u>
0	0	\$4.37	0	0
1	5	4.37	21.85	4.10
2	5	4.37	21.85	4.10
3	5	4.37	21.85	4.10
4	5	4.37	21.85	4.10
5	5	4.37	21.85	4.10
6	10	4.37	43.70	8.19
7	10	4.37	43.70	8.19
8	10	4.37	43.70	8.19
9	10	4.37	43.70	8.19
10	10	4.37	43.70	8.19
11	0	4.37	0	0
12	0	4.37	0	0
13	0	4.37	0	0
14	0	4.37	0	0
15	0	4.37	0	0
16	5	4.37	21.85	4.10
17	5	4.37	21.85	4.10
18	5	4.37	21.85	4.10
19	5	4.37	21.85	4.10
20	5	4.37	21.85	4.10

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
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Response continued:

The hypothetical begins in week 0 with no volume or revenue. As a "new customer," the base line is zero pieces per week. After meeting with the Sales Force Augmentation representative, the pieces sold are compared to the base line of zero. Using \$4.37 average revenue per piece, the number of Priority pieces each week is multiplied by this average to calculate Total Revenue. The 18.75% commission is applied to the Total Revenue to determine the commissions paid, as shown in the final column.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 7**

5. A replication of the USPS cost rollforward indicates that the Test Year Alaskan air adjustment factor used in cost segment 14 was 0.0707, the same factor as for the base year. USPS LR-J-40 shows a test year adjustment factor of 0.0772. Please confirm that the CRA/Rollforward for the test year used an Alaskan air adjustment factor of 0.0707 and not the test year factor of 0.0772 as calculated in USPS LR-J-40. If confirmed show the effect on the test year costs, before rates and after rates, of using the correct Alaskan air adjustment factor.

Response:

Confirmed that the CRA/Rollforward for the test year used an Alaska air adjustment factor of 0.0707 and not the test year factor of 0.0772 as calculated in USPS LR-J-40. The effect on test year costs, before rates and after rates, is shown in Attachment 1 that accompanies this response. Page 1 displays the comparison of the before rates scenario by comparing USPS-T-12, Exhibit 12G with the results of using the correct Alaska adjustment. Page 2 displays the comparison of the after rates scenario by comparing USPS-T-12, Exhibit I, before the 10/31/01 revision, with the results of using the correct Alaska adjustment. I used the USPS-T-12, Exhibit I, before the 10/31/01 revision because this allows the impact of correcting the Alaska adjustment to be shown in isolation; the 10/31/01 revisions to Exhibit I present other impacts in addition to the Alaska adjustment.

	USPS-T-12 Exhibit 12G Pages 1 - 2	POIR No. 7 Question 5 (corrected Alaska Adj)	Absolute Difference	Percent Difference
	TYBR Total Volume Variable	TYBR Total Volume Variable		
First-Class Mail:				
Single-Piece Letters	12,309,893	12,309,894	1	0.00%
Presort Letters	5,370,400	5,370,400	0	0.00%
Total Letters	17,680,293	17,680,294	1	0.00%
Single-Piece Cards	558,389	558,389	0	0.00%
Presort Cards	161,308	161,308	0	0.00%
Total Cards	719,697	719,697	0	0.00%
Total First	18,399,990	18,399,991	1	0.00%
Priority Mail	3,698,146	3,698,153	7	0.00%
Express Mail	527,620	527,620	0	0.00%
Mailgrams	616	616	0	0.00%
Periodicals				
In-County	80,525	80,525	0	0.00%
Outside County	2,290,793	2,290,794	1	0.00%
Total Periodicals	2,371,318	2,371,319	1	0.00%
Standard Mail				
Enhanced Carrier Route	2,677,343	2,677,347	4	0.00%
Regular	8,949,042	8,949,046	4	0.00%
Total Standard Mail	11,626,385	11,626,393	8	0.00%
Package Services				
Parcel Post	1,288,110	1,288,938	828	0.06%
Bound Printed Matter	530,158	530,158	0	0.00%
Media Mail	270,999	270,999	0	0.00%
Total Package Services	2,089,267	2,090,095	828	0.04%
U S Postal Service	329,810	329,812	2	0.00%
Free Mail--Blind & Hndc & Servicemen	37,585	37,585	0	0.00%
International Mail	1,626,735	1,626,735	0	0.00%
Special Services:				
Registry	77,862	77,862	0	0.00%
Certified	434,571	434,571	0	0.00%
Insurance	103,837	103,837	0	0.00%
COD	12,221	12,221	0	0.00%
Money Orders	176,348	176,348	0	0.00%
Stamped Cards	2,995	2,995	0	0.00%
Stamped Envelopes	12,591	12,591	0	0.00%
Special Handling	1,912	1,912	0	0.00%
Post Office Box	653,888	653,888	0	0.00%
Other	199,554	199,554	0	0.00%
Total Spc Svcs	1,675,779	1,675,779	0	0.00%
Volume Variable	42,383,251	42,384,098	847	0.00%
Other	31,331,563	31,330,716	-847	0.00%
Total Costs	73,714,814	73,714,814	0	0.00%

	USPS-T-12 Exhibit 12I Pages 1 - 2 (as originally filed)	POIR No. 7 Question 5 (corrected Alaska Adj)	Absolute Difference	Percent Difference
	TYAR Total Volume Variable	TYAR Total Volume Variable		
First-Class Mail:				
Single-Piece Letters	12,065,038	12,065,039	1	0.00%
Presort Letters	5,378,733	5,378,733	0	0.00%
Total Letters	17,443,771	17,443,772	1	0.00%
Single-Piece Cards	543,361	543,361	0	0.00%
Presort Cards	146,057	146,057	0	0.00%
Total Cards	689,418	689,418	0	0.00%
Total First	18,133,189	18,133,190	1	0.00%
Priority Mail	3,489,841	3,489,847	6	0.00%
Express Mail	480,799	480,799	0	0.00%
Mailgrams	618	618	0	0.00%
Periodicals				
In-County	80,471	80,471	0	0.00%
Outside County	2,276,038	2,276,039	1	0.00%
Total Periodicals	2,356,509	2,356,510	1	0.00%
Standard Mail				
Enhanced Carrier Route	2,629,559	2,629,563	4	0.00%
Regular	8,787,581	8,787,585	4	0.00%
Total Standard Mail	11,417,140	11,417,148	8	0.00%
Package Services				
Parcel Post	1,184,096	1,184,855	759	0.06%
Bound Printed Matter	526,408	526,409	1	0.00%
Media Mail	270,924	270,925	1	0.00%
Total Package Services	1,981,428	1,982,189	761	0.04%
U S Postal Service	330,439	330,441	2	0.00%
Free Mail--Blind & Hndc & Servicemen	37,634	37,634	0	0.00%
International Mail	1,523,858	1,523,858	0	0.00%
Special Services:				
Registry	76,778	76,778	0	0.00%
Certified	419,561	419,561	0	0.00%
Insurance	110,868	110,868	0	0.00%
COD	12,241	12,241	0	0.00%
Money Orders	174,933	174,933	0	0.00%
Stamped Cards	2,801	2,801	0	0.00%
Stamped Envelopes	12,600	12,600	0	0.00%
Special Handling	1,887	1,887	0	0.00%
Post Office Box	640,544	640,544	0	0.00%
Other	199,755	199,755	0	0.00%
Total Spc Svcs	1,651,968	1,651,968	0	0.00%
Volume Variable	41,403,423	41,404,202	779	0.00%
Other	31,304,083	31,303,305	-778	0.00%
Total Costs	72,707,506	72,707,507	1	0.00%

United States Postal Service

**Maura Robinson
(USPS-T-29)**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T29-35

Please see the response to ABA&NAPM/USPS-T22-3. Please confirm that the worksharing related savings estimates calculated in USPS LR-J-60 would increase to the figures found in Column 1 below if the aggregate delivery unit cost estimate for nonautomation presort letters were to be used as the proxy for Bulk Metered Mail (BMM) letters.

- a. Please see the response to ABA&NAPM/USPS-T22-4. Please confirm that the worksharing related savings estimates calculated in USPS LR-J-84 would increase to the figures found in Column 2 below if the aggregate delivery unit cost estimate for nonautomation presort letters were to be used as the proxy for Bulk Metered Mail (BMM) letters.
- b. Please confirm that column 3 in the table below shows the discounts resulting from the "Settlement" rates reflected in Attachment B, page 5 to the December 26, 2001 Postal Service Motion Submitting Revised Stipulation and Agreement.
- c. Please confirm that the figures presented in column (1) and (2) exceed the corresponding discounts in column (3).

FCLM Automated Rate Cost Avoidance/Discounts

	ABA&NAPM/USPS-T22-3 Cost Avoidance (1)	ABA&NAPM/USPS- T22-4 Cost Avoidance (2)	Proposed Settlement Discounts (3)
Auto Mixed Basic	6.950 cents	7.835 cents	6.1 cents
Auto AADC	7.825 cents	8.918 cents	6.9 cents
Auto 3D	8.142 cents	9.280 cents	7.8 cents
Auto 5D	9.278 cents	10.552 cents	9.2 cents

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

Response to ABA&NAPM/USPS-T29-35 (page 2 of 2)

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

United States Postal Service

**Leslie M. Schenk
(USPS-T-43)**

Revised 12/20/01

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-8. Please refer to LR-J-58 spreadsheet "LR58AECR.xls", tab "TY MP." Please provide the number of IOCS direct tallies and the number of weighted tallies associated with each distributed mail processing cost figure, by shape, presort level (activity code), handling category (Field F9213: single piece, item, and container), and by weight increment (including no weight).

RESPONSE:

See Attachment B.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

ATTACHMENT B: BY00 IOCS Weighted Direct Tallies (\$000s) by shape and weight increment - Standard Mail Enhanced Carrier Route (ECR) (Response to NAA/USPS-T43-8)

Shape	Activity Code	Handling Category	Weight Increment (ounces)										
			0 to .5	.5 to 1.0	1.0 to 1.5	1.5 to 2	2 to 2.5	2.5 to 3	3 to 3.5	3.5 to 4	4 to 5	5 to 6	6 to 7
Letters	1310 Single Piece		8,655	8,058	1,066	1,095	970	848	288	417	0	0	0
	1310 Single Item		7,662	6,063	2,490	1,449	989	593	307	951	143	0	0
	1310 Container		302	0	59	0	0	0	0	0	0	0	0
	1330 Single Piece		2,464	1,886	1,049	202	111	51	64	15	0	0	0
	1330 Single Item		1,884	1,468	121	0	77	0	0	0	0	0	0
	1330 Container		128	55	0	0	0	0	0	0	0	0	0
Total Letters			21,095	17,530	4,785	2,745	2,148	1,493	659	1,383	143	0	0
Flats	2310 Single Piece		1,851	6,091	5,389	5,199	3,358	3,598	4,139	5,422	1,789	1,277	1,183
	2310 Single Item		3,393	5,325	6,619	7,089	7,267	4,956	5,666	7,608	3,323	2,450	1,626
	2310 Container		311	505	261	622	365	320	525	260	173	273	142
	2330 Single Piece		315	1,316	669	753	346	320	451	169	115	88	62
	2330 Single Item		371	636	352	476	0	514	57	261	357	59	67
	2330 Container		0	0	0	0	0	0	0	0	0	0	0
Total Flats			6,240	13,873	13,290	14,139	11,336	9,708	10,838	13,721	5,757	4,146	3,080
IPPs	3310 Single Piece		513	107	49	120	193	778	559	589	182	110	187
	3310 Single Item		0	229	118	110	0	0	47	180	60	196	64
	3310 Container		57	0	58	0	0	0	115	0	91	57	0
	3330 Single Piece		0	0	52	0	0	0	57	0	0	0	80
	3330 Single Item		0	0	55	0	0	0	54	261	0	0	0
	3330 Container		0	0	0	0	0	0	0	0	0	0	0
Total IPPs			569	336	333	230	193	778	831	1,030	333	363	332
Parcels	4310 Single Piece		0	0	0	0	0	0	0	0	0	0	0
	4310 Single Item		0	0	0	0	0	0	0	0	0	0	0
	4310 Container		0	0	0	0	0	0	0	0	0	0	0
	4330 Single Piece		0	0	0	0	0	0	0	0	0	0	0
	4330 Single Item		0	0	0	0	0	0	0	0	0	0	0
	4330 Container		0	0	0	0	0	0	0	0	0	0	0
Total Parcels			0	0	0	0	0	0	0	0	0	0	0

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ATTACHMENT B: BY00 IOCS Weighted Direct Tallies (\$000s) by shape and weight increment - Standard Mail Enhanced Carrier Route (ECR) (continued) (Response to NAA/USPS-T43-8)

Shape	Activity Code	Handling Category	7 to 8	8 to 9	9 to 10	10 to 11	11 to 12	12 to 13	13 to 14	14 to 15	15 to 16	> 16 oz	No Wgt *	Total
Letters	1310	Single Piece	0	0	0	0	0	0	0	0	0	0	0	21,397
	1310	Single Item	0	0	0	0	0	0	0	0	116	0	466	21,230
	1310	Container	0	0	0	0	0	0	0	0	0	0	0	361
	1330	Single Piece	0	0	0	0	0	0	0	0	0	0	0	5,842
	1330	Single Item	0	0	0	0	0	0	0	0	0	0	23	3,573
	1330	Container	0	0	0	0	0	0	0	0	0	0	0	183
Total Letters			0	0	0	0	0	0	0	0	116	0	489	52,586
Flats	2310	Single Piece	1,987	371	53	124	669	329	52	0	455	0	0	43,335
	2310	Single Item	706	585	365	615	198	347	479	341	745	0	1,573	61,276
	2310	Container	220	0	0	49	0	0	0	0	0	0	0	4,028
	2330	Single Piece	0	0	225	0	0	0	0	0	0	0	0	4,828
	2330	Single Item	100	15	0	0	0	0	0	62	0	0	175	3,501
	2330	Container	0	0	0	0	0	0	0	0	0	0	0	0
Total Flats			3,012	972	642	789	867	676	531	403	1,199	0	1,748	116,968
IPPs	3310	Single Piece	0	0	0	0	0	0	0	0	0	0	0	3,388
	3310	Single Item	0	0	0	0	0	0	0	0	0	0	115	1,121
	3310	Container	0	0	0	0	0	0	0	0	0	0	0	377
	3330	Single Piece	0	0	0	0	0	0	0	0	0	0	0	189
	3330	Single Item	0	0	0	0	0	0	0	0	0	0	0	370
	3330	Container	0	0	0	0	0	0	0	0	0	0	0	0
Total IPPs			0	0	0	0	0	0	0	0	0	0	115	5,445
Parcels	4310	Single Piece	117	219	69	0	0	0	246	269	635	59	0	1,615
	4310	Single Item	254	0	0	0	46	166	0	0	0	0	254	720
	4310	Container	0	59	0	70	47	0	0	0	0	0	0	176
	4330	Single Piece	64	59	49	0	0	0	0	0	0	0	0	172
	4330	Single Item	83	0	0	0	0	0	0	0	0	0	231	314
	4330	Container	0	0	0	0	0	0	0	0	0	0	0	0
Total Parcels			517	337	118	70	94	166	246	269	635	59	485	2,997

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T43-1. Please refer to your response to OCA/USPS-T39-7(b), and the response to OCA/USPS-217(a). Please confirm that the volume for Regular letters in USPS-LR-J-58, LR58AREG.xls includes Regular cards. If you do not confirm, please provide the information requested in parts b. and c. of OCA/USPS-217.

RESPONSE:

Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T43-2. Please refer to USPS-LR-J-58, which is cited in the response to VP/USPS-4, Attachment A.

- a. Please refer to the table entitled "TY 03 Unit Mail Processing Costs" in Attachment A. Please confirm that the sum of each of the 0-1 oz, 1-2 oz, and 2-3 oz columns equals the mail processing unit costs for First-Class Single Piece, First-Class Presort, and Standard Regular for each weight range found in USPS-LR-J-58. If you do not confirm, please explain and provide the unit costs by cost pools to permit calculation of First-Class Single Piece, First-Class Presort, and Standard Regular mail processing unit costs for the 0-1 oz, 1-2 oz, and 2-3 oz weight ranges.
- b. Please refer to the table entitled "Unit Cost Difference 2-3 oz. To 0-1 oz." in Attachment A. Please explain the reasons for calculating the unit cost difference in the "All but 'Other'" row. Why were the unit cost difference figures in the "Other pools" excluded from the calculation of the "All but 'Other'" row?
- c. Please provide the electronic spreadsheets used in the development of Attachment A.

RESPONSE:

- a. Confirmed.
- b. VP/USPS-4 asked for an explanation as to "which MODS operations are the major cause for mail processing unit costs of First-Class Single Piece Mail between 2-3 ounces to increase by 249 percent..., while the unit cost for 2-3 ounce Standard Regular Mail increases by only 28 percent...over that of 0-1 ounce Standard Regular Mail." The 'Other' category in the tables in Attachment A of the response to VP/USPS-4 includes all those MODS operations that were not identified as major causes of the cost differences. The "All but 'Other'" row was provided to show the total effect of all the MODS operations that were identified as major causers of the cost differences. The "Total difference" row includes the 'Other' category. The "Percent of total" row shows

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that the majority of the "Total difference" is accounted for by the "All but 'Other'" cost pools.

c. See USPS-LR-J-192, "TY03 Volume Variable Mail Processing Costs by Cost Pool, Provided in Response to VP/USPS-4."

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REDIRECTED FROM WITNESS KINGSLEY**

OCA/USPS-T39-16a. Please refer to the response to VP/USPS-4, Attachment A.

- a. Refer to the response to part a., where it references "manual sortation cost pools," "allied cost pools," and "mechanized sortation cost pools" in Attachment A.
- i. Please list the "manual sortation cost pools" from Attachment A.
 - ii. Please list the "allied cost pools" from Attachment A.
 - iii. Please list the "mechanized sortation cost pools" from Attachment A.

RESPONSE:

- i. The cost pools referred to as "manual sortation cost pools" are MANL and Manual Letter (Non-MODs).
- ii. The cost pools referred to as "allied cost pools" are 1CANCMPP, 1OPPref, 1PLATFRM, 1POUCHNG, and Allied (Non-MODs).
- iii. The cost s referred to as "mechanized sortation cost pools" are BCS/, BCS/DBCS, and OCR.

Supplement 12/28/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.
AND VAL-PAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T43-10.

Please refer to your response to VP/USPS-T43-6, part a, where you state that it is your understanding that the unit costs need no adjustments for worksharing differences, in that the unit cost data you supplied to witness Hope are consistent with her unit revenue data insofar as both reflect the different profiles above and below the breakpoint.

- a. Please define the term "consistent" as you use it here, and explain in more detail what you mean when you state that unit costs are consistent with revenues.
- b. In your opinion, when computing implicit coverages for subdivisions of Standard ECR Mail (e.g., by shape or weight) is it generally important, or at least desirable, for cost data in the denominator to be consistent with revenue data in the numerator? Please explain fully any negative answer.
- c. If the Standard ECR unit cost data which you supplied to witness Hope are not consistent with her unit revenue data, would you recommend that she rely on your unit cost data when computing implicit coverages above and below the 3.3 ounce breakpoint and relying on those coverages for policy decisions about rate design for Standard ECR Mail? Please explain your reasoning.
- d. Is it your opinion that above and below the 3.3 ounce breakpoint, (i) the unit costs you supplied to witness Hope, or (ii) the unit costs in Attachment A of your response to VP/USPS-T43-7 are consistent with revenues in all respects? If your answer is affirmative, please explain all factors that you investigated or considered to ascertain that this is in fact the case.

RESPONSE:

- a. By "consistent," I mean that the unit costs and unit revenues used by witness Hope represent the same underlying groups of mail to the extent possible, given data limitations.
- b. In my opinion, it is desirable for the cost data in the denominator to be consistent with revenue data in the numerator to the extent possible, given data limitations.
- c. I recommended to witness Hope that she use the unit cost data from USPS-LR-58 to compute implicit coverage factors because these were the best data available for her analysis. In the event that there were some inconsistency

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.
AND VAL-PAK DEALERS' ASSOCIATION, INC.**

between the cost and revenue data, whether or not witness Hope should employ the data would depend on the materiality of the inconsistency.

- d. Given that the costs and revenues involve statistical estimation, it is presumably not possible for the data to be consistent in "all respects." For example, sampling variation in the data used to develop the costs may result in costs being distributed to subclass "A" instead of subclass "B," which would lead to an inconsistency of a sort, albeit one that is statistically immaterial. It is my opinion that the unit cost data I supplied to witness Hope and provided in Attachment A are consistent with unit revenues used to the extent possible, and represent the best available data for the implicit cost coverage calculations.

SUPPLEMENTAL RESPONSE TO SUBPART C:

Witness Hope, in her Supplemental Response to subparts (d) and (g) of VP/USPS-T31-8, presents an alternative method for calculating the implicit coverages for Standard ECR mail. The following table provides the unit costs used by witness Hope in that Supplemental Response. The definitions used in these calculations are the same as those described by witness Hope in her Supplemental Response.

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Standard ECR TY03 Unit Costs Derived Using Alternative Method (Supplement to VP/USPS-T43-10 Response)	
Category	Unit Costs* (Alternative Method)
Total ECR Letters For 3.0 Ounce Breakpoint (Letter-shaped pieces below 3.0 ounces)	\$0.0655
Total ECR Nonletters For 3.0 Ounce Breakpoint (Letter-shaped pieces equal to or above 3.0 ounces and all nonletter-shaped pieces)	\$0.0754
Total ECR Letters For 3.5 Ounce Breakpoint (Letter-shaped pieces below 3.5 ounces)	\$0.0659
Total ECR Nonletters For 3.5 Ounce Breakpoint (Letter-shaped pieces equal to or above 3.5 ounces and all nonletter-shaped pieces)	\$0.0752
ECR Nonletters below 3.0 ounces	\$0.0693
ECR Nonletters equal to or above 3.0 ounces	\$0.0826
ECR Nonletters below 3.5 ounces	\$0.0702
ECR Nonletters equal to or above 3.5 ounces	\$0.0838

*Source: USPS-LR-J-58, LR58AECD_revised.xls, sheets ECR all (detailed), ECR Letters (detailed), ECR Flats (detailed), and ECR Parcels (detailed).

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12. The following questions refer to costs shown in Tables 1 and 2 in USPS-LR-J-58.

(a) Using either the "bootstrap" method or the generalized variance function (GVF) applied by witnesses Bozzo (Docket No. R2000-1, Tr. 44/19472-4) and Ramage (id. At 4/1116), please calculate the coefficients of variation (CVs) and 95% confidence intervals of the total cost estimates for each of the following groups of First-Class Mail:

- single-piece mail weighing up to one ounce
- single-piece mail weighing more than one ounce
- presort mail weighing less than one ounce
- presort mail weighing more than one ounce.

(b) In light of the CVs provided in response to part (a), please comment on the reliability of the estimated average costs per additional ounce for First-Class single-piece (13.90 cents) and presort (13.75 cents).

RESPONSE:

(a) Coefficients of variation (CVs) for the mail processing, window service, and city carrier in-office cost estimates, as well as for the total of these cost estimates, for each of the groups of First-Class Mail listed above are provided in the attachment. These CVs were calculated using the generalized variance function (GVF). This method was applied only to these costs, and not other costs modeled in USPS-LR-J-58, because only these costs are distributed to ounce increment using IOCS tallies. Also provided in the attachment are 95 percent confidence intervals.

(b) As shown in the attachment, the CV for total First-Class presort costs for pieces over 1 ounce is only 2.5 percent, and the CVs for all other total costs is even less. These results show that the cost estimates for First-Class single piece and presort mail exhibit relatively low sampling errors.

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Attachment to #12: GVF CVs for Weight Groups -- First-Class Mail Base Year

			Broad Weight Groups		
			0-1 Ounces	1+ Ounces	Total
Mail Processing (CS 3.1)	Single-Piece	Total Cost	3,243,715	1,661,059	4,904,773
		CV	0.8%	1.1%	0.7%
		95% lower limit	3,193,120	1,626,010	4,841,297
		95% upper limit	3,294,310	1,696,107	4,968,250
	Presort	Total Cost	1,142,300	206,398	1,348,697
		CV	1.3%	2.8%	1.2%
		95% lower limit	1,113,759	195,231	1,317,433
		95% upper limit	1,170,842	217,562	1,379,961
Window Service (CS 3.2 direct labor)	Single-Piece	Total Cost	42,791	42,848	85,640
		CV	4.5%	4.5%	3.2%
		95% lower limit	38,991	39,045	80,238
		95% upper limit	46,592	46,651	91,041
	Presort	Total Cost	7,292	1,228	8,520
		CV	10.8%	26.1%	10.0%
		95% lower limit	5,742	599	6,842
		95% upper limit	8,842	1,856	10,197
City Carrier In-Office (CS 6.1 direct labor)	Single-Piece	Total Cost	884,274	227,426	1,111,700
		CV	1.0%	2.0%	0.9%
		95% lower limit	866,644	218,566	1,091,902
		95% upper limit	901,905	236,286	1,131,498
	Presort	Total Cost	448,743	54,981	503,724
		CV	1.4%	4.0%	1.3%
		95% lower limit	436,241	50,666	490,468
		95% upper limit	461,245	59,296	516,980
Total (3.1, 3.2, and 6.1)	Single-Piece	Total Cost	4,170,780	1,931,333	6,102,113
		CV	0.7%	1.0%	0.6%
		95% lower limit	4,112,355	1,893,023	6,030,137
		95% upper limit	4,229,205	1,969,643	6,174,090
	Presort	Total Cost	1,598,335	262,605	1,860,940
		CV	1.1%	2.5%	1.0%
		95% lower limit	1,563,800	249,773	1,823,402
		95% upper limit	1,632,871	275,437	1,898,479
The GVF parameters are:	Mail Processing	intercept	3.86972437		
		x-var	-0.9029249		
	Window Service	intercept	4.33263651		
		x-var	-0.9865837		
	City Carrier In-Office	intercept	4.33263651		
		x-var	-0.9865837		
	Total (3.1, 3.2, and 6.1)	intercept	3.89300471		
		x-var	-0.903665		

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6**

1. Please refer to the following cells from USPS-LR-J-107, file 'OC01.xls,' Worksheet 'Discounts'.

Cell	Value
D33	6.070
D40	4.201
D41	4.418
D59	6.070
D60	4.862
D61	4.031

The source cited for these values is USPS-LR-J-117, Table 1. However, these values do not appear on Table 1 of USPS-LR-J-117. Please provide the source of these figures.

RESPONSE:

The following table provides the sources for the cited data.

Cell	Value	Source
D33	6.070	USPS-LR-J-58, file LR58ADJ.xls, worksheet 'Summary', Cell G57
D40	4.201	USPS-LR-J-60, file STANDARD.xls, worksheet 'Savings', Cell G18
D41	4.418	USPS-LR-J-60, file STANDARD.xls, worksheet 'Savings', Cell G19
D59	6.070	USPS-LR-J-58, file LR58ADJ.xls, worksheet 'Summary', Cell G57
D60	4.862	USPS-LR-J-58, file LR58ADJ.xls, worksheet 'Summary', Cell G58
D61	4.031	USPS-LR-J-58, file LR58ADJ.xls, worksheet 'Summary', Cell G59

The data shown above for cells D40 and D41 (that is, the delivery costs for Basic nonautomation letters and 3/5 Digit nonautomation letters) are the delivery costs reported in the original version of USPS-LR-J-60, filed on September 24,2001. A second revised version of USPS-LR-J-60 was filed on November 15,2001. The delivery costs for Basic nonautomation letters and 3/5 Digit nonautomation letters

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presented in the second revised version of USPS-LR-J-60 are 4.206 and 4.417, respectively. These revisions do not affect the rate design presented by witness Taufique in USPS-T-34, which relies in part on these data.

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10. In LR-J-58, attributable costs from Files: LR58AREG_revised.xls and LR58AEER_revised.xls are used in File: LR58STDCBS_revised. "Other Weight" costs in the first two files are calculated as the difference between TYBR total attributable costs for the applicable subclass and the sum of the attributable costs for cost segments 3, 6, 7, 8, 10, and 14, where segments 3, 6, 7, 8, and 10 include applicable piggyback costs.
- (a.) For Regular subclass, File: LR58AREG_revised.xls, sheet: 3CREG all (detailed), Cell Y21 uses \$8,953,582 as the TYBR total attributable cost, but USPS Exhibit 12F, p. 7 shows \$8,949,042 as the TYBR attributable amount. The corresponding amounts for ECR do match. Please reconcile the difference.
 - (b.) The figure used for TYBR total ECR attributable cost in File: LR58STDCBS_revised.xls matches the figure (\$2,677,343) in USPS Exhibit 12F, page 7, but the corresponding figures for Regular subclass do not. Please reconcile the difference.
 - (c.) Please provide a PRC version of LR58STDCBS_revised.xls. As noted above, the cost figures in this file come from Files: LR58AREG_revised.xls and LR58AEER_revised.xls. The latter files contain cost distributions by cost component and ounce interval, however costs by ounce increment are not required for LR58STDCBS_revised.xls. Accordingly, if the Service can produce a version of the requested file using a shorter procedure, it would be acceptable to the Commission assuming the procedure, supporting sources, and documentation are also provided.

RESPONSE:

- (a.) The total CRA costs were inadvertently not revised to reflect the final test year before rates roll forward from witness Patelunas. These costs have been revised, as provided in the second revision of USPS-LR-J-58, filed on December 17, 2001.
- (b.) See the response to part (a.) above.
- (c.) See USPS-LR-J-199.


FOLLOW-UP RESPONSES FROM UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO ORAL CROSS-EXAMINATION QUESTIONS
FROM COMMISSIONER GOLDWAY

QUESTION (Tr. 5/945-46): What is the meaning of the term "closeness" used in the discussion of standard errors on page 5 of USPS-LR-J-113?

RESPONSE:

The survey design for the Parcel Post Weight Study includes two certainty strata ("PSA" and "NonPSA Certainty") that represent a very large percentage of the population of permit imprint Parcel Post mail. By design, all mailers that fall in these certainty strata are sampled. That is, there is not a random selection of mailers within the certainty strata. If all mailers in the certainty strata were to respond to the survey, then, by definition, the certainty strata would not contribute to the sampling variation of the resulting estimates. This would imply that the resulting estimates would have low variance, since a large share of the total volume of permit imprint Parcel Post mail is sampled with certainty. However, due to large non-response in the certainty strata, I cannot claim that the estimates are so precise. Furthermore, I cannot compute the variance among the respondents because most of the respondents (14 of the total 21 respondents) do not come from a random selection process. The random selection of smaller mailers in other strata would contribute to the variance of the estimates. However, this contribution is very small given the share of pieces in these strata.

There is a possibility that a low response rates in a certainty strata could produce a bias in the estimates. A "self-selection bias" would exist if the decision of a mailer to participate in the survey was correlated with the weight distribution of the mailer's mail. There is no *a priori* reason to expect such a correlation. Also, the closeness of the sample's average weight estimates compared to the average weight estimates from



FOLLOW-UP RESPONSES FROM UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO ORAL CROSS-EXAMINATION QUESTIONS
FROM COMMISSIONER GOLDWAY

RPW reinforces the position that there is little bias in the estimates. That the average weight estimates are close to RPW estimates is a subjective comparison and is based on my professional experience in this area. Two other points reinforce my opinion that the estimates are reliable. First, the source data for each mailer are the same data that are used to produce their postage statements and, in turn, are used to compute RPW estimates. Second, in spite of the low response rates, the inflation factors in the various strata are reasonably small. That is, those mailers that did respond represent a good share of the volume in their respective strata.

FOLLOW-UP RESPONSES FROM UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO ORAL CROSS-EXAMINATION QUESTIONS
FROM COMMISSIONER GOLDWAY

QUESTION (Tr. 5/943-44)

Doesn't the difference in volumes by destination entry discount between the respondent mailers and the universe for the NonPSA Certainty stratum indicate that there are problems with the weight distributions resulting from this study (e.g., that there is bias in the resulting weight distributions)?

RESPONSE:

The distribution of sample pieces across the three rate categories within any stratum is not used to infer the distribution of total pieces by weight step. Each of the three rate categories (DBMC, DSCF, DDU) can in a sense be thought of as a separate survey. For example, sampled DBMC pieces are used to derive a weight distribution to be applied to a Billing Determinants estimate of DBMC pieces only. The response rate of mailers that mostly mail DBMC pieces is different than the response rate of mailers that mostly mail DDU pieces. This produces a different piece distribution of sampled pieces across rate categories compared to total stratum pieces. However, as in my response to the previous question, there is no reason to believe there is a correlation between mailers' participation in the survey and the weight distribution of their mail. Therefore, the fact that the distribution of pieces for the 11 NonPSA Certainty stratum respondent mailers *across* rate category differs from the distribution *across* rate category for all 20 mailers in the stratum does not indicate that there is any bias in the weight distributions *within* each rate category, as reported in USPS-LR-J-113.

United States Postal Service

**Thomas M. Scherer
(USPS-T-30)**

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO DOUGLAS F. CARLSON INTERROGATORIES**

DFC/USPS-T30-1. For Priority Mail, please provide available data from the most-recent year for which data are available that show, by ounce, the volume of Priority Mail for each type of Postal Service-supplied mailing envelope or container.

RESPONSE:

I am informed that Priority Mail volume data by weight increment are not available for the various types of Postal Service-supplied mailing envelopes and containers. The distribution by ounce increment of flat-rate-envelope volume in GFY 2000 is available, however. Applying this distribution to total estimated flat-rate-envelope volume in GFY 2000 of 121,962,784 pieces (see Attachment A, page 1 of my testimony) results in the following:

Weight	Volume Distribution	Distributed Volume
0-1 Ounces	2.44%	2,979,408
1-2 Ounces	17.49%	21,326,196
2-3 Ounces	11.17%	13,622,183
3-4 Ounces	7.60%	9,266,982
4-5 Ounces	5.92%	7,225,323
5-6 Ounces	5.02%	6,117,798
6-7 Ounces	4.23%	5,158,869
7-8 Ounces	3.66%	4,464,899
8-9 Ounces	3.08%	3,761,862
9-10 Ounces	3.04%	3,712,707
10-11 Ounces	2.64%	3,216,218
11-12 Ounces	2.39%	2,918,409

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO DOUGLAS F. CARLSON INTERROGATORIES


Weight	Volume Distribution	Distributed Volume
12-13 Ounces	2.39%	2,917,509
13-14 Ounces	2.45%	2,982,174
14-15 Ounces	2.34%	2,859,749
15-16 Ounces	2.42%	2,957,062
16-17 Ounces	2.13%	2,598,043
17-18 Ounces	2.00%	2,439,282
18-19 Ounces	1.97%	2,405,114
19-20 Ounces	1.39%	1,693,356
20-21 Ounces	1.40%	1,710,879
21-22 Ounces	1.17%	1,423,205
22-23 Ounces	1.09%	1,333,876
23-24 Ounces	1.01%	1,227,045
24-25 Ounces	0.97%	1,187,180
25-26 Ounces	0.79%	968,175
26-27 Ounces	0.81%	991,927
27-28 Ounces	0.64%	775,991
28-29 Ounces	0.60%	729,237
29-30 Ounces	0.50%	605,418
30-31 Ounces	0.54%	659,642
31-32 Ounces	0.48%	586,900
Over 32 Oz.	4.21%	5,140,167

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-3. Priority Mail market share, in terms of total pieces, declined from 62.7 percent in FY 1997 to 61.8 percent in FY 1998. Please provide the market share for Priority Mail for FY 1999, FY 2000 and FY 2001 and provide the source for your response.

RESPONSE:

Priority Mail's share of total pieces in the "Second-Day and Third-Day Air Letters and Packages" market from 1996 to 2001, as estimated by The Colography Group, Inc., is provided in Attachment H to my testimony. The yearly totals represent calendar years, not fiscal years.



**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-4. Please indicate whether the Priority Mail market share in terms of revenue has continued to remain static at about 45 percent for FY 1999, FY 2000 and FY 2001 and provide the source for your response.

RESPONSE:

According to The Colography Group, Inc., Priority Mail's share of total revenue in the "Second-Day and Third-Day Air Letters and Packages" market was 45.4 percent in calendar year 1999. The market share dipped to 43.7 percent in 2000 and rose to 44.9% in the first two quarters of 2001.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-5. Please confirm that for GFY 2000, the unzoned 2- to 5-pound volumes represent approximately 56 percent (677,864,390/1,222,454,421) of the total Priority Mail volume. If you are unable to confirm, please explain and provide the derivation of the correct amount, and include specific cites to your source documents.

RESPONSE:

Not confirmed. The stated fraction is correct, but it rounds to 55 percent, not 56 percent.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-6. At page 17 of your testimony, you state that, "All rate impacts over 5 pounds are [] constrained to a maximum of +18.5%, 5 percentage points above the subclass average rate increase of 13.5%[]."

(a) Please confirm that for GFY 2000 the amount of Priority Mail weighing over 5 pounds is approximately 5 percent (63,962,394/1,222,454,421) of the total Priority Mail volume. If you are unable to confirm, please explain and provide the derivation of the correct amount and include specific cites to source documents referenced.

(b) Who made the decision that all rate impacts over 5 pounds would be constrained to a maximum of 18.5 percent?

(c) Why was the decision made to limit the rate impacts to a maximum of 18.5 percent for those Priority Mail pieces weighing over 5 pounds?

(d) Please explain why you decided it was acceptable to allow the prices for the previously unzoned Priority Mail pieces in the 2- to 5-pound category to increase to approximately 62 percent for a 3 pound zone 8 Priority Mail piece, and 56 percent for a 5 pound zone 8 Priority Mail piece.

(e) For GFY 2000, of the 2 to 5 pound Priority Mail mailers, what volume represents: (1) households to households; (2) non-households to households; (3) households to non-households; (4) non-households to non-households. Please cite your source, show the derivation of all calculated numbers and provide a copy if one has not been previously filed in this docket.

RESPONSE:

(a) Confirmed that approximately 5 percent of total Priority Mail volume in GFY 2000 weighed more than 5 pounds. Not confirmed that the number of such pieces equaled 63,962,394. Those were only the weight-rated pieces over 5 pounds. A small number of flat-rate envelopes – estimated from a "Special Weight Report" to be 145,149, or 0.12% of the flat-rate total – also weighed more than 5 pounds.

(b) I did.

(c) First, I followed the example of Witness Robinson in Docket No. R2000-1, who chose a "5 percent band around the average rate change for Priority Mail as a whole" (USPS-T-34, p. 18, lines 5-6.). Second, I considered 5

RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES

Response to OCA/USPS-T30-6(c) (Cont.)

percentage points above the subclass average rate increase of 13.5% to be a "nice round number." Third, I preferred a cap of 5 percentage points to a higher one, such as 10 percentage points, because in the previous omnibus rate case, Docket No. R2000-1 (after Modification), approximately two dozen rate cells (weight increment x zone) over 5 pounds experienced a rate increase in excess of 20 percent (against a subclass average rate increase of 17.2 percent). I therefore believed some mitigation of rate impacts over 5 pounds was warranted in the present omnibus rate case, in accordance with §3622 pricing criterion (b) (4).

(d) The objective in my rate design for pounds 2-5 was to de-average, i.e., to set rates that vary with underlying costs. Mitigating the rate impacts – which include approximately + 64% for a 3-pound piece to Zone 8 and +58% for a 5-pound piece to Zone 8 (see Attachment F, page 16 of my testimony) – would have defeated the purpose of de-averaging. While it would be possible to constrain the rate increases and defer full recognition of the impacts of de-averaging to a future rate case, I did not consider such an approach advisable given the extent to which "nearby-zone" volume is eroding. This erosion of relatively low-cost volume, as explained on page 18, lines 14-18 of my testimony, is putting added rate pressure on all remaining Priority Mail customers.

The extent of the erosion of nearby-zone volume was made clear in Table 2 of my testimony, but the rate of erosion was not. To put the latter in

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Response to OCA/USPS-T30-6(d) (Cont.)

perspective: Nearby-zone volume has been eroding since GFY 1996. In that year, volume in Zones L-3 accounted for 50% of total Priority Mail volume. By GFY 2000, that share had fallen dramatically to 41%.

(e) The requested disaggregation of 2-5 pound volume is not available. However, the same disaggregation for all Priority Mail volume in GFY 2000 was provided in the Postal Service's responses to UPS/USPS-T9-10 through 13.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**


OCA/USPS-T30-7. At page 18 of your testimony, you state:

Customers will not have to pay as much for shorter hauls that cost less, but will be asked to pay more for longer hauls that cost more. Rate incentives will no longer favor any one zone over another.

Please explain the apparent discrepancy in the two sentences cited. (For example: Under your new zoned 2-5 pound Priority Mail pricing proposal, a customer who pays less for a shorter haul is "favored" over a customer who pays more for a longer haul.)

RESPONSE:

There is no discrepancy between the two sentences cited from my testimony. The first sentence simply says that zoned rates are higher, the more distant the zone. The second sentence follows from the statement at page 18, lines 2-4 of my testimony that "[c]ompetitors are charging zoned rates that, compared to Priority Mail's unzoned rates, are relatively more attractive to customers for shorter hauls and relatively less attractive for longer hauls." As a result of this disparity in rate structure, Priority Mail rates are higher in comparison to competitors' rates, the closer in the zone. This favors consumer use of Priority Mail more for the distant zones and less for the closer-in zones, and has resulted in the "nearby-zone" volume erosion documented in my testimony. Under my proposed zoned rate structure for pounds 2-5, the distant zones will no longer be favored. Indeed, the new consistency in implicit cost coverage across zones for these weight increments (see my testimony's Attachment F, page 17) implies that all zones will get equal treatment.



**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Response to OCA/USPS-T30-7 (Cont.)

I should also point out that relative to costs, it is not true that "a customer who pays less for a shorter haul is 'favored' over a customer who pays more for a longer haul." Consider the analogy of airline fares. Passengers who pay, say, \$300 for a roundtrip ticket from Washington, DC to Chicago would generally not be considered "favored" over those who pay, say, \$500 for a roundtrip ticket from Washington, DC to Los Angeles. That's because the airline's cost of providing the Los Angeles flight is higher (e.g., more fuel consumption, more labor hours, more wear and tear on the aircraft).

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-8. In your testimony at page 18, you indicate that the rate for a UPS Ground service 2-pound parcel to Zone 2 is \$3.18 and \$3.72 to Zone 4 with a \$1.05 per-piece surcharge for residential deliveries.

- (a) Please confirm that the rates quoted are the UPS published delivery rates.
- (b) Please confirm that the rates quoted are applicable to individual consumers or businesses who choose to mail a package with UPS, but are not reflective of UPS negotiated service agreements.

RESPONSE:

- (a) Confirmed.

(b) Confirmed that the rates quoted apply to UPS's customers. The online rate schedule from which I obtained the rates (cited in footnote 10 of my testimony) is labeled "Rates for Customers Who Receive A Daily UPS Pickup." I am unable to confirm that UPS offers "negotiated service agreements," but it is my understanding that it is commonplace for private-sector package-delivery services such as UPS to offer discounts (e.g., to high-volume accounts) off of published rate schedules such as the one from which the rates quoted were obtained.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-9. On page 18 of your testimony, you indicate that "[c]ompetitors are charging zoned rates that, compared to Priority Mail's unzoned rates, are relatively more attractive to customers for shorter hauls and relatively less attractive for longer hauls."

(a) Who besides UPS are the competitors you are referring to?

(b) Other than UPS, what competitor's rates have you compared USPS's rates to? Please provide all rate charts consulted in making this comparison.

RESPONSE:

(a) I was not referring to any competitors in particular, including UPS. I had been informed by USPS Marketing that zoned pricing is the package-delivery industry norm, as stated at page 20, line 8 of my testimony.

(b) I did not attempt a detailed comparison of Priority Mail rates to competitors' rates because I knew that ultimately my proposed rates would be cost-based, not market-based. However, I was informed by some rate comparisons to UPS, FedEx, and Airborne, which confirmed for me that alternatives to Priority Mail are available at published rates that are very competitive in the nearby zones (generally Zones 1-4). These rate comparisons are included among the materials being supplied by the Postal Service in response to OCA/USPS-60(a).

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-10. For those Priority Mail pieces weighing less than 5 pounds, please provide the ODIS statistics on the percentage that are (a) flats and (b) parcels.

RESPONSE:

The requested data are not available from ODIS, which doesn't include weight factors. However, I am able to derive the following from an RPW extract file. In GFY 2000, 71.4% of all weight-rated Priority Mail pieces under 5 pounds were parcels, 27.3% were flats, and 1.4% were letters. Flat-rate envelopes, 99.88% of which in GFY 2000 were under 5 pounds (see response to OCA/USPS-T30-6a), must also be considered. Assuming they are all flats (though technically flat-rate envelopes can be stuffed to greater than ¾" thick and therefore some, most likely, are parcels), 63.8% of all Priority Mail pieces under 5 pounds in GFY 2000 were parcels, 34.9% were flats, and 1.3% were letters.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-11. In your testimony at pages 23-24, you discuss potential commercial mailers' responses. In preparing your testimony, did you consider the impact your proposal to zone rates for Priority Mail weighing 2-5 pounds would have on non-commercial mailers? If so, please discuss fully the considerations given to non-commercial mailers. If any documents reflect such consideration, please provide them. If you did not consider the impact on non-commercial mailers, then explain why not.

RESPONSE:

The discussion of commercial mailers at pages 23-24 of my testimony was in reference to the migration from two pounds to the flat-rate envelope that is likely to occur as a result of my proposed pegging of the flat rate to the one-pound rate, not to my proposed rezoning of rates in the 2-5 pound weight increments. Earlier in my testimony, at pages 17-21, where I discuss the rezoning proposal, I did not consider impacts separately on commercial or noncommercial mailers. The impacts discussed and presented in the testimony's attachments (e.g., rate changes in Attachment F, page 16) apply equally to commercial and noncommercial mailers.


**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-12. The following refers to Attachment C page 3, column (c) of your testimony. Please explain the full rationale and derivation for each of the various percentages shown when determining the migration of volumes from 2-pound rates to flat rates for the TYAR. Explicitly state all assumptions made and all sources relied upon. (Give citations to sources used, and copies if these sources are not on file with the Commission).

RESPONSE:

No sources could be relied upon for the percentages in Attachment C, page 3, column (c) because there is no precedent for a Priority Mail migration from 2 pounds to the flat-rate envelope pursuant to detaching the flat rate from the two-pound rate and attaching it to a lower one-pound rate.

Rather, I could only "posit" the migration factors shown in that column (c). This was acknowledged at page 24, line 9 of my testimony. In addition, the footnote to column (c) in Attachment C, page 3 makes clear that the percentages follow from assumptions. Those assumptions were outlined in my testimony from page 23, line 10 to page 24, line 7.



**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-13. The following refers to Attachment B pages 4 and 5, and Attachment C pages 6 and 7 of your testimony. For the following weight increments: flat rate, 1 pound and 2 pounds, you calculate the average weight of a Priority Mail piece. However, you do not treat weight increments greater than 2 pounds similarly. For example, consider the 3-pound Priority Mail weight category. An average weight for Priority Mail Pieces weighing between 2 to 3 pounds is not calculated.

(a) Please explain fully the reasons for determining differently the "average weights" of the flat rate, 1 pound and 2 pound Priority Mail pieces on the one hand, and all other weight increments up to and including the 70 pound maximum on the other.

(b) For weight increments 3 to 5 pounds, which represents approximately 20 percent of the GFY 2000 volumes(244,438,319 /1,222,454,421), please explain why you did not calculate and use an average weight of a Priority Mail piece in the costing of the 3, 4 and 5 pound weight increments.

RESPONSE:

(a) I followed Postal Rate Commission and Postal Service precedent.

(b) I followed Postal Rate Commission and Postal Service precedent.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-14. Please refer to USPS-T-30 at 5, I. 4-9. Please provide Priority Mail's lower market share (Zones 1-4) when ground services such as UPS Ground are considered.

RESPONSE:

This market share calculation is not available. The Colography Group, Inc. has traditionally supplied the Postal Service with share information for separate air and ground transportation markets. See, for example, the "Domestic Quarterly Market Growth and Competitor Share Reports" in USPS-LR-J-201. Recalculating market shares based largely on service standard rather than mode of transportation would require a market research study.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-15. Please refer to USPS-T-30 at 15, I. 18-19. What is the reason for the anomaly described?

RESPONSE:

In Attachment E, page 3, column (j), the total cost per pound is understated for Zone 7 in relation to Zones 6 and 8 because of differences in the distributions of total postage pounds by zone and total pounds flown by zone in the TYBR. Total TYBR postage pounds – shown at the bottom of Attachment B, page 5 – are calculated as TYBR volume (Attachment B, page 3) times average weight per piece (Attachment B, page 4). Total TYBR volume, in turn, was forecast by Witness Musgrave (USPS-LR-J-28, Section C1, page 12), with the distribution by weight increment and zone following from the GFY 2000 Billing Determinants.

Total pounds flown by zone are from an entirely different source: USPS-LR-J-96, page 13. That distribution is for GFY 2000 and is scaled up to the TYBR – using volume – in my testimony's Attachment E, page 1, column (e). The relationship in that column of total pounds flown in Zone 7 (177,510,000) to total pounds flown in Zones 6 and 8 (241,651,000 and 413,015,000, respectively) is less than the relationship in Attachment B, page 5 of total Zone 7 postage pounds (196,627,299) to total Zone 6 and Zone 8 postage pounds (248,520,696 and 371,786,972, respectively). These different distributions result in relatively lower Zone 7 air transportation costs per postage pound as a constituent of total cost per postage pound in Attachment E, page 3, column (j). In fact, this effect

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Response to OCA/USPS-T30-15 (Cont.)

more than offsets the effect of greater average distance flown in Zone 7 than in Zone 6 on total distance-related air costs in Attachment E, page 1, column (h) (carried over to Attachment E, page 3, column (b)), producing the anomaly of a lower total cost per postage pound (Attachment E, page 3, column (j)) in Zone 7 than in Zone 6.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-16. Please refer to USPS-T30 at 16, I. 20-21 - p. 17, I. I-3 and I. 17 - 21. Please explain fully why you mitigate the over-five-pound rates by constraining an increase in these weights to 18.5 percent, but you do not mitigate the re-zoned below-five-pound rates. These are not constrained and, under your proposal, are permitted to increase as much as 64.4 percent. There are numerous examples of dramatic increases in the re-zoned Priority Mail rates, e.g.:

- 2 pounds, zone 7 increases by 36.7 percent
 - 2 pounds, zone 8 increases by 45.6 percent
 - 3 pounds, zone 7 increases by 51 percent
 - 3 pounds, zone 7 increases by 64.4 percent
 - 4 pounds, zone 7 increases by 46.5 percent
 - 4 pounds, zone 8 increases by 60.5 percent
 - 5 pounds, zone 7 increases by 42.8 percent
 - 5 pounds, zone 8 increases by 57.8 percent
- (a) Give all reasons for deciding not to mitigate the rate shock associated with such dramatic increases.
- (b) Refer to page 17, I. 7-10. Why did you constrain over-five-pound rates to such a degree that \$72.3 million must be recovered from pounds 1-5? Explain fully.

RESPONSE:

My proposed rate design had two entirely different objectives for pounds 2-5 and pounds 6-70. The objective for pounds 2-5 was to rezone/de-average, as discussed in my response to OCA/USPS-T30-6d. While this led to some large individual rate increases as cited above, the average rate increase at pounds 2-5 – shown in the last column of my testimony's Attachment F, page 16 – exceeded the 18.5% cap for pounds 6-70 in only one case: 3 pounds (21.0%).

The objective for pounds 6-70, which are already zoned, was to pass along pro-rated cost increases while considering the impact, including potential rate shock, on mailers. As discussed in my response to OCA/USPS-T30-6c, some rate cells over 5 pounds had already experienced relatively large rate increases in Docket No. R2000-1. Some mitigation of the back-to-back impacts

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Response to OCA/USPS-16 (Cont.)

of Docket Nos. R2000-1 and R2001-1 seemed appropriate to me. In addition, as discussed in my testimony at page 16, lines 2-20, the rate pressure on heavyweight pieces is resulting from the shift to a significantly more transportation-intensive cost structure. Such a significant change in cost structure merits, I believe, the smoothing of rate impacts over more than one rate case – not only to avoid rate shock, but also to avoid dislocating rate effects between rate cases if the change turns out not to be permanent.

(a) Please see my response to OCA/USPS-T30-6d.

(b) The reasons for mitigating rate impacts on pounds 6-70 are explained above. That the resulting \$72.3 million revenue shortfall was recoverable from pounds 1-5 (and the flat-rate envelope) is evidenced by the average rate increases for pounds 1-5 (and the flat-rate envelope) shown in the last column of my testimony's Attachment F, page 16: they are not excessive in comparison to the 18.5% cap for pounds 6-70.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-19. Please refer to witness Spatola's response to POIR No. 5, Question 8. For each of the city pairs listed, give the:

- (a) number of air miles traveled
- (b) the Priority Mail zone
- (c) the number of miles between the originating facility and the destinating facility
- (d) Confirm that, under your proposal, the Priority Mail rate paid by each of the pairs listed in response to Question 5 will be based on the zone for the pairs, not the air miles traveled. If you do not confirm, explain fully.
- (e) Confirm that the zone basis for the rate generally reflects the distance between the originating facility and the destinating facility. If you do not confirm, explain fully.
- (f) Confirm that, in general, the distance between the originating and destinating facilities (as represented by zones) will, in many instances, be a poor approximation of the air miles traveled (for pieces transported by Fedex). If you do not confirm, explain fully.
- (g) Given the statements posited above in this interrogatory, explain why you did not choose to eliminate any rate differentials based upon zones, for those zones whose pieces are carried entirely (or almost entirely) by Fedex air.
- (h) Alternatively, given the statements posited above in this interrogatory, explain why you did not choose to keep rate differentials based upon zones, for those zones whose pieces are carried entirely (or almost entirely) by Fedex air, much narrower than the differentials you propose.

RESPONSE:

(a) Redirected to the Postal Service.

(b) Redirected to the Postal Service.

(c) Redirected to the Postal Service.

(d) Confirmed.

(e) Confirmed, "generally." Zones are based on the distance between units of area thirty minutes square containing the Sectional Center Facilities (SCFs) of origin and destination. See 39 CFR Chapter III, Part 3001, Subpart C, Appendix A, Sections 4010 and 4020.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

Response to OCA/USPS-T30-19 (Cont.)

(f) Confirmed that the distance between the originating and destinating facilities will in some instances not be a good approximation of the air miles traveled (for pieces transported by FedEx).

(g) I was informed that the extent to which, in the Test Year, the FedEx network will be used to transport Priority Mail in each zone is not known. Therefore, there was no way of knowing if the FedEx network will be used to transport Priority Mail "entirely (or almost entirely)" in any zone.

(h) Again, I had no way of knowing if the FedEx network will be used to transport Priority Mail "entirely (or almost entirely)" in any zone. In any case, my proposed rate differentials between zones already take into account that "air miles traveled" are not relevant in the FedEx transportation contract. These differentials result from distance-related air transportation costs and distance-related surface transportation costs (see Attachment E to my testimony). The factor used to calculate distance-related air transportation costs, 16.9% (of total air transportation costs), derives, I am informed, only from the line-haul costs of commercial (passenger) air transportation, not in any way from the FedEx transportation contract. See USPS-LR-J-43 at 12. Therefore, no narrowing of the proposed rate differentials between zones is warranted.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO OCA INTERROGATORIES**

OCA/USPS-T30-20. Please refer to the testimony of another Postal Service witness in this proceeding - witness Kiefer. At page 22 of USPS-T-33 he describes intra-BMC transportation as having a "hub-and-spoke nature."

- (a) Is this an apt description of the nature of the Fedex air transportation of Priority Mail? If not, explain fully.
- (b) Are you aware that witness Kiefer uses a very narrow range of Zoning Factors (described at POIR No. 2, Question 1); i.e., 0.99 for zones 1 & 2, 1.00 for zone 3, 1.02 for zone 4, and 1.05 for zone 5, to establish rate differentials for Zones 1 - 5?
- (c) By contrast, you propose much larger rate differentials by zone. For example, you propose a rate differential for 2-pound Priority Mail, between zones 6 and 7, of 6.9 percent; you propose a rate differential for 5-pound Priority Mail, between zones 6 and 7, of 11.7 percent; and a rate differential for 5-pound Priority Mail, between zones 7 and 8, of 10.5 percent. Why didn't you attempt to keep the differences narrow, as witness Kiefer did? Explain fully.

RESPONSE:

- (a) Redirected to the Postal Service.
- (b) Witness Kiefer confirms that this is the case.
- (c) Unlike intra-BMC Parcel Post transportation costs, which Witness Kiefer says "bear no readily identifiable relationship to the distances between the origin and destination ZIP codes" (see USPS-T-33 at 22), the costs that drive my proposed Priority Mail rate differentials between zones – distance-related air and surface transportation costs (as explained in my response to OCA/USPS-T30-19h) – do bear identifiable relationships to the distances between origin and destination. In the case of distance-related air transportation costs, that is because they are attributable solely to commercial (passenger) air transportation, which is not of a "hub-and-spoke nature," in contrast to the FedEx transportation network as confirmed in the Postal Service's response to OCA/USPS-T30-20a. Therefore, no narrowing of my proposed rate differentials between zones, which reflect actual differences in transportation costs, is warranted.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO UPS INTERROGATORY**

UPS/USPS-T30-4. What will the Postal Service policy be for handling Priority Mail flat-rate envelopes that exceed one pound?

RESPONSE:

It is my understanding that the Postal Service does not have a handling "policy" for Priority Mail flat-rate envelopes. In any event, it is also my understanding that the Postal Service will (in the Test Year) handle Priority Mail flat-rate envelopes weighing more than one pound no differently than flat-rate envelopes weighing less than one pound.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO UPS INTERROGATORIES**

UPS/USPS-T30-5. Refer to your response to interrogatory DFC/USPS-T30-1. Confirm that in GFY 2000, 21.7% of all flat rate Priority Mail envelopes weighed more than 1 pound. If not confirmed, provide the correct percentage.

RESPONSE:

Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO UPS INTERROGATORIES**

UPS/USPS-T30-6. How many pieces in the flat rate envelope category does the Postal Service estimate will weigh more than one pound in TY2003? Explain any assumptions that you make to arrive at this calculation.

RESPONSE:

In the Test Year Before Rates, the number of flat-rate envelopes weighing more than one pound is 27,224,996. This figure is derived in Attachment B, page 2, column (e) of my testimony.

In the Test Year After Rates, the number of flat-rate envelopes weighing more than one pound is 59,727,748. This is derived by applying the GFY 2000 proportion of flat-rate envelopes weighing more than one pound (21.7%, as confirmed in my response to UPS/USPS-T30-5) to the total number of flat-rate envelopes in the TYAR before the modeled migration from the two-pound rate category to the flat rate envelope (117,603,146, as specified in Attachment C, page 5, column (a) of my testimony), and adding the migrated pieces (34,198,694, also specified in Attachment C, page 5, column (a)), all of which weigh more than one pound.

**RESPONSE OF POSTAL SERVICE WITNESS SCHERER
TO UPS INTERROGATORIES**

UPS/USPS-T30-7. Confirm that on page 3 of Attachment C to your testimony, USPS-T-30, you estimate that 34,198,694 pieces will migrate from the two pound rate category to the flat rate envelope in TY2003 under the Postal Service's proposed change to the pricing of the flat rate envelope. If not confirmed, provide the correct number.

RESPONSE:

Confirmed.

United States Postal Service

**Robert L. Shaw
(USPS-T-1)**

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PRESIDING
OFFICERS INFORMATION REQUEST NO.6 QUESTION 4**

Question 4 The following questions refer to USPS LR-J-84 (rev. 11/15/01).

- (a) In both fcmrev2.xls and stdrev.xls, the sheet labeled "PRODUCTIVITY" presents the MODS productivity of "Manual Incoming Secondary, MODS Site" as 468, and that of "Manual Incoming Secondary Non MODS Sites" as 1,143. Please describe any operational differences between these activities and explain why the non-MODS sites are more than twice as productive as the MODS sites.
- (b) In fcmrev2.xls and stdrev.xls the variability factors listed in column (1) of the sheet labeled "PRODUCTIVITY" are identical with the exception of "Tray Opening Unit Bundle Sorting." If this discrepancy is an error, please provide the correction. If it is not an error, please explain why this pool has different variability factors depending on the class of mail.

RESPONSE:

- (a) Smaller, non-MODS sites tend to be closer to the delivery points where carriers reside and therefore have a greater wealth of "scheme" knowledge associated with specific ZIP Codes, when compared to the larger MODS facilities. Consequently, the manual productivities at non-MODS sites tend to be higher, compared to the manual productivities at MODS sites.

In addition, the volume estimation methods used in MODS and non-MODS facilities differ. MODS facilities use conversion factors based on weight. Non-MODS facilities typically use conversion factors based on "feet of mail." The difference in volume estimation methodologies could also impact the manual productivities.

- (b) Bundle sorting operations are often performed in operations that are mapped to either cost pool "1OPPREF" or "1OPBULK." The operation numbers mapped to "1OPPREF" are for First-Class Mail processing. The operations mapped to "1OPBULK" are for Standard Mail processing. These two cost pools have different volume variability factors. Consequently, different factors for each class were used, although the values of those factors are nearly identical.

**RESPONSE OF UNITED STATES POSTAL SERVICE TO PRESIDING
OFFICERS INFORMATION REQUEST NO. 6**

6. Please refer to USPS-LR-J-10 and J-55.
- a) Do the activity codes in the fields F9805 and F9806 of the USPS-LR-J-10 SAS data set PRCOO reflect international activity codes as the labels for these two fields imply they do?
- (b) Please confirm that the activity codes stored in F9806 are the result of applying "Encirclement Rules" as described in Appendix E of USPS LR-J-10, R2001-1. If confirmed, please explain why these rules are again applied in a SAS program named ENCIRCLE in USPS-LR-J-55, encircle.txt.
- (c) In USPS-LR-J-55, the field ACTV in SAS program ENCIRCLE is defined by selecting activity codes from both fields F9805 and FY9806. Please explain the rationale for creating the field ACTV by selecting pre-encircled activity codes associated with F9805.

RESPONSE:

- (a) (By Shaw) The field F9806 contains the same activity code as field F262, except for tallies with international mail. For international mail tallies, field F9806 contains the detailed international activity code, whereas field F262 contains a less detailed categorization of international activities. A similar relationship exists between fields F9805 and F244; they contain pre-encircled activity codes. Please see library reference USPS-LR-J-10/R2001-1, In-Office Cost System (IOCS) Statistical and Computer Documentation, pages 41 through 43.

