

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

CUSTOMIZED MARKET MAIL MINOR
CLASSIFICATION CHANGES

Docket No. MC2003-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS HOPE TO INTERROGATORY OF THE OFFICE OF CONSUMER
ADVOCATE REDIRECTED FROM WITNESS ASHE (USPS-T-1)
(OCA/USPS-T1—29)**

The United States Postal Service hereby provides the response of witness Hope to the following interrogatory of the Office of Consumer Advocate redirected from witness Ashe (USPS-T-1): OCA/USPS-T1—29, filed on April 2, 2003.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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OCA/USPS-T1-29:

The following refers to Tables 5 and 6 of USPS-LR-J-58, Docket No. R2001-1.

- a.) Please confirm that the Test Year cost difference per piece for a Standard Mail parcel and a flat is \$0.936. If you are unable to confirm, please explain fully.
- b.) Please confirm that the Test Year average per piece cost difference between flats and parcels due to differences in presorting and entry profiles is \$0.095 per piece. If you are unable to confirm, please explain fully.
- c.) Please confirm that Docket No. R2001-1, Test Year cost difference upon which the Residual Shape Surcharge is based is \$.841 (\$.936-\$0.095). If you are unable to confirm, please explain fully and provide the correct values, cite all sources relied upon, provide copies of all source documents and show the derivation of all calculated numbers.
- d.) Please confirm that the Residual Shape Surcharge of \$0.23 passes through approximately 27 percent (rounded) of the cost difference between flats and residual-shaped pieces (\$0.23/\$0.841). If you are unable to confirm, please explain fully and provide the correct values, cite all sources relied upon, provide copies of all source documents and show the derivation of all calculated numbers.
- e.) Given that CMM is a new product offering, please explain fully why you believe passing through only 27 percent of the costs associated with the per piece Residual Shape Surcharge is sufficient to ensure that other non-CMM mailers are not burdened with subsidizing CMM mail pieces.

RESPONSE:

- a.) Confirmed, per revision to USPS-LR-J-58 of 12/17/01.
- b.) Confirmed that \$0.095 cent per piece is the cost difference due to differences in presorting and entry profiles in USPS-LR-J-58.
- c.) Confirmed.
- d.) Confirmed, using the methodology employed by the Commission in its Docket No. R97-1 Recommended Decision (PRC Op., R97-1, paragraphs 5485-86). It should be noted, however, that it is my understanding that approximately

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53 cents of that 84.1 cents difference takes place in mail processing, much of which CMM will bypass, and approximately 10.3 cents in air/highway/water/rail transportation, all of which would be bypassed by CMM (see worksheets 3REG Parcels (detailed) and 3REG Flats (detailed) in USPS-LR-J-58). I should also note that many of the underlying flats mail processing and probably all of the underlying flats transportation costs would also be avoided, further compounding the cost difference between CMM and other residual shapes.

Note that the decision to pass through 27 percent of the cost difference between flats and parcels as the RSS was made independently of and prior to the development of the proposal for CMM.

e.) There are many factors to consider in answering this question. As noted in my response to subpart (d), the decision in Docket No. R2001-1 to pass through 27 percent of the cost difference between flats and parcels as the RSS was made prior to the development of the proposal for CMM. The determination of the appropriate passthrough for the RSS was not revisited for purposes of developing the CMM proposal. Overall, the goal described in my testimony was to identify the rate categories for which eligibility could be reasonably expanded to accommodate Customized MarketMail (CMM). (As noted in my response to OCA/USPS-T1-1(b), specific costs for accepting and handling CMM pieces at Destination Delivery Units were not calculated.)

In my testimony, I explain why CMM best fits within the Standard Regular and Nonprofit subclasses and the Basic Nonletter rate category combined with

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the residual shape surcharge (see USPS-T-2, page 6, line 11 through page 7, line 15). I specifically discuss the Residual Shape Surcharge (RSS) on page 7, lines 13 -15:

The residual shape surcharge is appropriate because CMM in most incarnations would not be (1) prepared as either a letter or a flat or (2) satisfy the specifications of letter or flats as prescribed in the Domestic Mail Manual.

Application of the RSS is a component of the overall rate application strategy for CMM, which differs from parcels in many respects. To begin with, parcels tend to be heavier than letter-or flat-sized mail. In the Standard Mail Regular subclass, in FY 2002, the weight of the average RSS piece was 9.33 ounces; in Standard Nonprofit it was 7.50 ounces. Pieces more than 0.75 inch thick are considered parcels. No Standard Regular RSS pieces are required to be drop-shipped to DDUs; in fact, the majority of pieces are not drop-shipped at all.

This contrasts significantly with CMM as proposed. The physical characteristics of a CMM piece are well-defined: irregularly-shaped, maximum dimensions of 12 inches in height and 15 inches in width; 0.75 inch thick; 3.3 ounces or less, whereas Standard Mail parcels can be thick and bulky. Also, since non-rectangular Standard Mail over 0.25 inch thick is already mailable, it is likely that most CMM pieces will be 0.25 inch thick or less.

The characteristics of CMM as compared to Standard Regular parcels are quite different, and the handling and processing would be different as well. Thus,

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comparing CMM costs to an all-inclusive measurement of parcel costs is not appropriate. To begin with, as noted above, all CMM pieces must be entered at a Destination Delivery Unit (DDU), in contrast to other Standard Regular parcels, which are often not drop-shipped, or which are drop-shipped to either the Destination Bulk Mail Center (DBMC) or Destination Sectional Center Facility (DSCF). Since all CMM pieces would be subject to the Carrier Release Program, no carriers would make second trips to active addresses; thus, no pieces will be returned to the office for pickup by the customer, in contrast to many parcels that are subject to the RSS (see response to OCA/USPS-T2-1).

Also, as noted in my testimony on page 4, lines 14-15, no forwarding or return services would be permitted for undeliverable CMM pieces. These exclusions do not apply to other residual shapes for which forwarding or return is elected, again highlighting the differences between the handling of CMM and other residual shapes and strongly implying that the handling costs of CMM will be less than those for other residual shapes.

This does not mean that the RSS is not applicable to CMM. It merely demonstrates that looking at the currently-available test year cost estimates on which the RSS is based – which represent a passthrough of approximately 27 percent of the cost difference between flats and residual shape pieces (as noted in response to subpart (d), above) – is not particularly helpful in evaluating the precise costs of handling CMM as compared to the costs of handling existing Standard pieces paying the residual shape surcharge, especially given that some

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parts of components of the cost difference that serves as the basis for the surcharge would not apply to CMM. (For example, as explained in my response to subpart (d), CMM will bypass much of the mail processing costs and all of the air/highway/water/rail transportation costs that are included in the base figure from USPS-LR-J-58 of 84.1 cents.)

Merely because some type of mail is logically assigned to a particular rate category does not mean that it takes on the average cost characteristics of that category. Many categories, especially ones that contain a variety of shapes, like RSS categories, have a potentially wide spectrum of pieces with distinct cost characteristics. If anything, application of the RSS to CMM is likely to lower the overall average unit costs in the RSS pool, which includes parcels, rather than to raise them, as is suggested by the above question(s).

As I state in my response to OCA/USPS-T1-13, the CMM product was designed logically. The approach the Postal Service has taken in the CMM proposal is to expand eligibility in existing rate categories to accommodate this low-volume, specialized marketing product. I am very confident that the CMM proposal has achieved this, even though we are unable to quantify the costs, because of the careful manner in which the proposal was designed, using the current rate structure and keeping in mind the conditions under which CMM will be accepted and processed by the Postal Service.