

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PATELUNAS TO  
INTERROGATORY OF PARCEL SHIPPERS ASSOCIATION  
(PSA/USPS-T15-1) AND MOTION FOR LATE ACCEPTANCE

The United States Postal Service hereby provides the responses of witness Patelunas to the following interrogatory of Parcel Shippers Association: OCA/USPS-T15-1, filed on August 28, 1997. The Postal Service moves for acceptance of this response one day late. Due to the press of other discovery, the response could not be completed in time for filing yesterday.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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September 12, 1997

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Parcel Shippers Association

PSA/USPS-T15-1

Your testimony shows that the attributable costs for First Class Mail have increased from an average of 16.7 cents per piece in the Base Year to 17.096 cents per piece in the Test Year Before Rates; and shows that the attributable costs for Standard (A) Regular have increased from an average of 10.089 cents per piece in the Base Year to 10.662 cents in the Test Year Before Rates. This constitutes a 2.37% increase in attributable costs for First Class Mail versus 5.68% increase in the attributable costs for Standard (A) Regular. Do you have any explanation why the increase in the average attributable costs for Standard (A) Regular are almost two and one-half times the average increase in attributable costs for First Class Mail?

PSA/USPS-T15-1 Response:

Each effect in the rollforward: cost level, mail volume, nonvolume, additional workday, cost reductions and other programs, is performed at the CRA line item level of detail. Thus, each of these effects is applied to First Class Mail at the Nonpresort Letters and Parcels, Presort Letters and Parcels, Single Piece Cards and Presort Private Cards level of detail. Each of these effects is also applied to Standard (A) Regular at the Enhanced Carrier Route and Regular Other level of detail. As such, it could be misleading to discuss test year cost changes solely in terms of total First Class and total Standard (A) Regular.

Attachment I to this response provides the detail that underlies the points raised in your question. As the attachment shows, the First Class Nonpresort Letters and Parcels line item dominates the calculations by comprising nearly three-quarters of the total First Class costs and over half of the total First Class volume. In the case of Standard (A), the split between Enhanced Carrier Route and Regular Other is much different. The Regular Other line item comprises over two-thirds of the total Standard (A) cost and slightly over half of the total Standard (A) volume. These are important

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Parcel Shippers Association

PSA/USPS-T15-1 Response continued:

considerations because the average unit costs for First Class and Standard (A) will change as the individual line items that comprise these items change in terms of both costs and relative volumes.

For example, the 2.36% change in unit cost for First Class Mail was largely the result of the increase in unit cost of Nonpresort Letters and Parcels, although the volume change for nonpresort Letters and Parcels was less than 1% from the base year to the test year. In the case of Standard (A), the volume of the higher unit cost Regular Other increased 13.5%, while the lower unit cost Enhanced Carrier Route increased only 10.83%. This growth in the relatively more costly Regular Other's share of the total volume of Standard (A) from 50.8 to 51.5% had the effect of increasing the overall average unit cost of Standard (A) in total. Thus, examination of the constituent parts of First Class and Standard (A) provides a better means of understanding how the overall class average has changed.

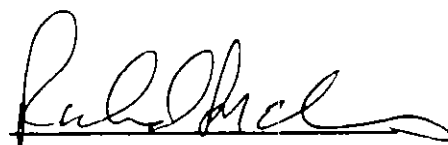
The primary reason for these changes in unit costs that impacted the average unit cost of First Class and Standard (A) is the cost reduction and other programs in the rollforward model. The most important cost reductions rely on LSM and OCR distribution keys that are predominately First Class Mail distribution keys. Most of the impact by class of mail specific cost reduction distributions occurs in Cost Segment 3 mail processing. In Appendix A to my testimony, I present the details of the rollforward processing steps by which the cost reduction amounts are allocated to the various programs and how these programs are distributed to classes of mail. As can be seen in my Appendix A, First Class Mail constitutes a larger portion of these distribution keys than Standard (A). Other programs also impact First Class and Standard (A) at an individual line item level of detail in a process similar to that used for Cost Reductions.

Category	D Report Costs		Volume		Per Piece	Unit Costs		Percent of Total	Percent Change
	BY 96	TY 98 BR	BY 96	TY 98 BR		BY 96	TY 98 BR		
FCM	Letters & Parcels	12,046,631	12,638,882	54,150,759	54,394,310	22.246	23.236	55.13%	4.45%
	Presort Ltr & Pd	3,804,528	4,114,765	39,057,193	41,506,990	9.741	9.913	53.54%	1.77%
	Single Piece Cards	429,135	449,337	3,052,105	3,141,430	14.060	14.304	39.77%	1.73%
FCM	Letters & Parcels	73.43%	72.77%	55.13%	53.54%	55.13%	53.54%	100.00%	4.45%
	Presort Ltr & Pd	23.19%	23.69%	39.77%	40.86%	39.77%	40.86%	100.00%	1.73%
	Single Piece Cards	2.62%	2.59%	3.11%	3.09%	3.11%	3.09%	100.00%	1.16%
FCM	Letters & Parcels	4.92%	4.15%	0.45%	0.27%	1.77%	1.77%	100.00%	4.45%
	Presort Ltr & Pd	8.15%	4.71%	6.27%	2.93%	1.73%	1.73%	100.00%	1.73%
	Single Piece Cards	31.96%	4.71%	30.45%	2.93%	1.73%	1.73%	100.00%	1.73%
FCM	Letters & Parcels	73.43%	72.77%	55.13%	53.54%	55.13%	53.54%	100.00%	4.45%
	Presort Ltr & Pd	23.19%	23.69%	39.77%	40.86%	39.77%	40.86%	100.00%	1.73%
	Single Piece Cards	2.62%	2.59%	3.11%	3.09%	3.11%	3.09%	100.00%	1.16%
FCM	Letters & Parcels	4.92%	4.15%	0.45%	0.27%	1.77%	1.77%	100.00%	4.45%
	Presort Ltr & Pd	8.15%	4.71%	6.27%	2.93%	1.73%	1.73%	100.00%	1.73%
	Single Piece Cards	31.96%	4.71%	30.45%	2.93%	1.73%	1.73%	100.00%	1.73%
Std (A)	Enhanced Car Rte	1,821,927	2,165,716	29,180,737	32,424,240	6.244	6.679	49.18%	6.98%
	Other	4,164,366	4,954,646	30,150,508	34,359,010	13.812	14.420	48.55%	4.40%
	Enhanced Car Rte	30.43%	30.42%	49.18%	48.55%	49.18%	48.55%	100.00%	5.67%
Std (A)	Enhanced Car Rte	5,986,293	7,120,362	59,331,245	66,783,250	10.090	10.662	100.00%	6.98%
	Other	4,164,366	4,954,646	30,150,508	34,359,010	13.812	14.420	50.82%	4.40%
	Enhanced Car Rte	30.43%	30.42%	49.18%	48.55%	49.18%	48.55%	100.00%	5.67%
Std (A)	Enhanced Car Rte	1,821,927	2,165,716	29,180,737	32,424,240	6.244	6.679	49.18%	6.98%
	Other	4,164,366	4,954,646	30,150,508	34,359,010	13.812	14.420	50.82%	4.40%
	Enhanced Car Rte	30.43%	30.42%	49.18%	48.55%	49.18%	48.55%	100.00%	5.67%

Sources: D Report costs: BY 1996, USPS Exhibit-5B and TYBR 1998 USPS Exhibit-15F  
 Volumes: USPS Exhibit-15A page 5 of 6

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Richard Patelunas", written over a horizontal line.

Dated: 9/12/97

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
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