

DOCKET SECTION

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 LION TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T24-78-86)

The United States Postal Service hereby provides responses of witness Lion to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T24-78-86, filed on September 11, 1997.

Two new library references have been generated to respond to these interrogatories, LR-H-278 and LR-H-280. The former is being filed contemporaneously with these responses; the Postal Service is experiencing logistical trouble in finalizing the latter, so if it is not filed today, it will be in a day or so.

On a further note, the declaration attached to this set of interrogatories has been modified to reflect that it is also intended to apply to witness Lion's responses to OCA/USPS-T24-73-77, which were filed without a declaration attached.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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September 25, 1997

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.



Kenneth N. Hollies

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September 25, 1997

OCA/USPS-T24-78. Please refer to your testimony at page 20, lines 5-8.

- a. Please confirm that total TYBR attributable costs for post office boxes is \$607,733,000 (see response of witness Patelunas to OCA/USPS-T15-3). If you do not confirm, please explain.
- b. Please confirm that total TYBR attributable All Other costs for post office boxes is \$104,575,000 (see response of witness Patelunas to OCA/USPS-T15-2b, revised 8/20/97). If you do not confirm, please explain.
- c. Please confirm that the total TYBR attributable All Other costs for post office boxes at page 20, line 7 of your testimony is \$104,580,000. If you do not confirm, please explain.
- d. Please show the derivation of the figure \$104,580,000 at page [sic], line 7 of your testimony. Please show all calculations, and provide citations to any figures used.
- e. Please confirm that the total TYBR attributable Space Support costs for post office boxes is \$279,928,000. If you do not confirm, please explain.
- f. Please confirm that the total TYBR attributable Space Provision costs for post office boxes is \$223,226,000. If you do not confirm, please explain.
- g. Please confirm that the sum of TYBR attributable Space Support and Space Provision, and the total of All Other costs from part b. above, is \$607,729,000 (\$279,928,000 + \$223,226,000 + \$104,575,000). If you do not confirm, please explain.
- h. Please show the derivation of, and reconcile any discrepancies between, the figure \$607,734,000 at page 20, line 8 of your testimony and the sum of Space Support, Space Provision and All Other costs referred to in part g. above. Please show all calculations, and provide citations to any figures used.
- i. Please show the derivation of, and reconcile any discrepancies between, the TYBR attributable costs for post office boxes of \$607,733,000, referred to in part a. above, and the sum of Space Support, Space Provision and All Other costs referred to in part g. above.

RESPONSE:

- a. Confirmed. However, I used the figure "\$607,734,000" in my calculations. This error amounts to -0.00016 percent.
- b. The total provided (by OCA) in interrogatory OCA/USPS-T15-2b is incorrect. Specifically, the total leaves out \$3,000 in Cost Segment 12 and \$1,000 in Cost Segment 20.2. See witness Patelunas' revised response to OCA/USPS-T24-25b, filed September 19, 1997. The correct total is \$104,579,000.

c. Confirmed.

d. $\$104,580,000 = \$607,734,000 - \$279,928,000 - \$223,226,000$.

The source of the first number on the right side of this equation is explained in the response to part a. The other two numbers on the right side of the equation are confirmed in the responses to part e and part f, respectively.

e. Confirmed.

f. Confirmed.

g. Confirmed. However, using the correct "All Other" figure, the total is \$607,733,000.

h-i. See the responses to parts a-g.

OCA/USPS-T24-79. Please refer to your response to OCA/USPS-T24-10e.

- a. Please provide by CAG the number of post offices that contain no city routes, no rural routes and no highway contract routes.
- b. Please provide by CAG the number of finance numbers that contain no city routes, no rural routes and no highway contract routes.
- c. Please provide by CAG the number of ZIP Codes that contain no city routes, no rural routes and no highway contract routes.
- d. Please provide by CAG the number of facilities that contain no city routes, no rural routes and no highway contract routes.
- e. For parts a. - d., please provide copies of underlying source documents if they are not already on file with the Commission.

RESPONSE:

- a-c. The data to produce these results are contained in file DSFAUG97 in USPS-LR-H-222. Note that the response to parts a and b is the same, since a post office is defined by its finance number. Note also that each record in this file is for a unique 5-digit ZIP Code, so that the number of records in a category equals the number of ZIP Codes in that category.

d.	<u>CAG</u>	<u>Nondelivery Facilities</u>
	A	3
	B	1
	C	6
	D	2
	E	18
	F	59
	G	197
	H	412

J	874
K	2,622
L	714
<u>NA</u>	<u>37</u>
Total	4,945

Source: Address List Management System (September 1997).

- e. The source files are being filed as USPS LR-H-280.

OCA/USPS-T24-80. Please refer to your response to OCA/USPS-T24-62, where it is stated,

No actual customers experienced such [fee] increases, but the estimates of customers in the respective groups did change. This constitutes an improvement of (or correction to) our previous analysis. Any "movement" of post office box customers from one group to another is only an improved estimate of the correct numbers.

- a. Please confirm that the net increase in revenue for post office boxes in the TYAR is the result of two changes: 1) the increase in fees for post office boxes, and 2) the improvement of (or correction to) the Postal Service's previous analysis of the number of post office boxes in Docket No. MC96-3. If you do not confirm, please explain.
- b. In the absence of the improvement referred to in the quote above, please confirm that the TYAR net increase in revenue for post office boxes as proposed in Docket No. R97-1 would be smaller. If you do not confirm, please explain.
- c. What would the total net revenue for post office boxes be in the absence of the improvement referred to in the quote above?

RESPONSE:

- a. Not confirmed. The net increase in revenue estimates for post office boxes from TYBR to TYAR is the result of the increase in fees for post office boxes (as proposed in Docket No. R97-1). My use of a better definition of the delivery and fee groups is reflected in all the revenue estimates presented in my testimony, including the "Pre-MC96-3" estimates.
- b. Not confirmed. The "net increase in revenue for post office boxes as proposed in Docket No. R97-1" is about \$67 million. The net increase if the former method of defining fee groups were used would be about the same. The TYBR and TYAR revenues using the new definitions are both about the same amount higher than those using the old definitions. The effect of the new definitions is to increase the "Pre-MC96-3" revenue projections by that amount.

c. The data to produce this result are part of the record of this proceeding, including

(1) Boxes in use counted according to the former definitions

(Reference: Response to OCA/USPS-T24-63d),

(2) Expansion factors

(Reference: Table 3, USPS-T-24, page 7),

(3) Allocation factors for estimating the number of free boxes

(Reference: Table 5, USPS-T-24, page 9),

(4) Elasticities with respect to increased rates

(Reference: Tables 7A-D, USPS-T-24, pages 12-15),

(5) Growth factor = 1.9 percent

(Reference: USPS-T-24, page 16, line 6).

OCA/USPS-T24-81. Please refer to the table below, and your testimony at 8-15.

Boxes in Use, Pre MC96-3						
"Source" Delivery Groups	"Destination" Delivery Groups					Total
	City-A	City-B	City-other	Non-city	Nondelivery	
City-A	78,010					78,010
City-B		165,053				165,053
City-other			8,307,648		83,915	8,391,563
Non-city				5,239,271	411,367	5,650,638
Nondelivery				954,238	408,959	1,363,197
Total	78,010	165,053	8,307,648	6,193,509	904,241	15,648,461

Please confirm that the table above correctly summarizes your shifts of boxes between fee groups to account for customers who are and are not eligible for carrier delivery. The figures in the *column* labeled "Total" are taken from USPS-T-24, Table 4. The numbers in the *row* labeled "Total" are taken from USPS-T-24, Table 7. If you do not confirm, please provide a correct shift matrix.

RESPONSE:

Confirmed, except that the numbers in the first five data columns apply to "fee groups" rather than to "destination delivery groups", and thus should be labeled A through E. The numbers in the E column (your "Nondelivery" column) are respectively 1 percent, 7.3 percent, and 30 percent of the totals in the last ("Total") column, as indicated in Table 5 of my testimony.

OCA/USPS-T24-82. Please refer to your testimony at page 20, lines 5-8.

- a. Please confirm that 82.8 percent ($(\$279,928 + \$223,226) / \$607,734$) of total TYBR attributable post office box costs are space related. If you do not confirm, please explain.
- b. Please confirm that attributable Space Provision costs constitute 36.7 percent of total TYBR attributable post office box costs. If you do not confirm, please explain.
- c. Please confirm that attributable All Other costs constitute 17.2 percent of total TYBR attributable post office box costs. If you do not confirm, please explain.

RESPONSE:

- a-c. Confirmed, with the understanding that the figures cited are accurate to only three significant digits (0.1 percent).

OCA/USPS-T24-83. Please refer to your testimony at page 1, lines 19-22.

- a. Please confirm that city delivery offices provide postal and city carrier delivery service in urban and rural locations. If you do not confirm, please explain.
- b. Please confirm that rural delivery offices provide postal and rural carrier delivery service in urban and rural locations. If you do not confirm, please explain.
- c. Please confirm that nondelivery offices provide postal services in rural locations. If you do not confirm, please explain.

RESPONSE:

- a-c. I have not studied this issue and the descriptors "postal," "urban," and "rural" are imprecise. However, I would not be surprised if all three types of offices were found in what could be considered urban and rural areas.

OCA/USPS-T24-84. Please refer to Table 12 (revised August 11, 1997), and your testimony at page 20, lines 19-21, where it states that "since Space Provision costs include rent paid for leased space or imputed rent for owned space, they vary also with location . . ."

- a. Please explain the basis for the statement that "rent paid for leased space or imputed rent for owned space . . . vary . . . with location." What factors or conditions would cause rent paid or imputed rent to vary between locations? Is population density a factor?
- b. Is it your testimony that an average rent of \$23.49 per square foot paid for postal leased space or imputed rent for postal-owned space is found in locations where population density is high? Fully explain your answer.
- c. Is it your testimony that an average rent of \$6.00 per square foot paid for postal leased space or imputed rent for postal-owned space is found in locations where population density is low? Fully explain your answer.
- d. Are you aware of postal leased space or imputed rent for postal-owned space with an average rent of \$6.00 per square foot in areas of high population density? If you answer in the affirmative, please provide a list of finance numbers and ZIP Codes for the facilities so identified.
- e. Are you aware of postal leased space or imputed rent for postal-owned space with an average rent of \$23.49 per square foot in areas of low population density? If you answer in the affirmative, please provide a list of finance numbers and ZIP Codes for the facilities so identified.

RESPONSE:

- a-e. The basis for the cited quotation is the common-sense observation that rents paid are higher in some locations than in others. The postal rents we used actually do vary with location, thus reflecting a market driven by supply and demand. Population density and level of business activity are both factors that may affect supply and demand. I have not studied how high and low population density areas, or level of business activity, are related to postal rental rates.

OCA/USPS-T24-85. Please refer to your testimony at page 20, lines 19-21.

- a. Please confirm that CAG A-C post offices tend to be located in higher rent areas. If you do not confirm, please explain fully, and provide the basis for your contrary view.
- b. Please confirm that CAG K and L post offices tend to be located in lower rent areas. If you do not confirm, please explain and provide the basis for your contrary view.

RESPONSE:

- a-b. I have not studied nonpostal rental rates. I can confirm that the average postal rental rates in CAGs A, B, and C are higher than the average postal rental rates in CAGs K and L.

OCA/USPS-T24-86. Please refer to your testimony at page 7, table 3.

- a. Please provide the number of boxes installed from the entire DSF 97 by CAG for Delivery Groups City-A, City-B, City-other, Non-city and Nondelivery. Please provide in an electronic file the data used to develop this information.
- b. Please provide the expansion factors by CAG for the Delivery Groups City-other, Non-city and Nondelivery. Please provide in an electronic file the data used to develop this information.

RESPONSE:

- a-b. This information can be calculated from the data provided in USPS LR-H-278.

DECLARATION

I, Paul M. Lion, declare under penalty of perjury that the foregoing answers, as well as my answers to OCA/USPS-T24-73-77, filed September 19, 1997, are true and correct, to the best of my knowledge, information, and belief.

Paul M Lion

Dated: Sept 25 1997