DOCKET SECTION

RECEIVED
SEP 26 3 42 PM '97
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

Postal Rate and Fee Changes | Docket No. R97-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 4

(September 26, 1997)

The Postal Service is requested to provide the information described below to assist in developing a record for the consideration of its request for changes in rates and fees. In order to facilitate inclusion of the requested material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearings. The answers are to be provided within 14 days.

1. In a short-run analysis, economists typically consider a fixed production plant, i.e., a plant with a fixed capacity, and consider the costs of operating at various volume levels. Moving from one volume level to another can be said to involve changing the utilization rate of capacity. Such movements might occur for many reasons, including seasonality. If there is substantial fixity in the plant's operations, the marginal costs would be expected to be low, as would the volume variability of the costs. In a long-run analysis, consideration would be given to how the costs would respond to a larger volume, given that the capacity of the plant could be adjusted to accommodate that larger volume.

An analysis of postal operations using accounting period data would seem to focus on changes in the utilization rate. On the other hand, using data that reflect increases in volume throughout the year (in each season), would seem to include the effect of changes in capacity.

a. Please discuss which cost effects, short-run or longer-run, are more relevant for rate purposes.

b. Assuming the analysis should focus on longer-run volume adjustments, please discuss whether this information can be obtained from an analysis based on accounting period data.

2. Please identify the statistical properties that are assumed in the "errors in variables" analysis presented by witness Bradley in USPS-T-14 at pages 80-84; e.g., requirements for the distribution of the measurement errors. Please confirm that each assumption is satisfied and provide the rationale for the confirmation.

3. The analyses of the manual operations in Workpaper 1 of USPS-T-14 demonstrate that the variabilities obtained when running the pooled regression model, with various combinations of variables, produces variabilities in the neighborhood of one. Whereas, introduction of the fixed effects model, plus the AP and lag variables, substantially reduces variabilities and provides results obtained by witness Bradley. Additionally, witness Bradley demonstrates in USPS-T-14, pages 39-43, the importance of site specific effects.

a. Please provide results such as the variabilities given in Table 1 of USPS-T-14, page 9, that distinguish the impact of the fixed effects model from the impact of the other variables. In particular, please provide results obtained for the following cases: (1) a regression analysis involving only the variables "hours worked" (HRS) and "Total Pieces Handled" (TPH) and a constant term when using the pooled model and a fixed effects model; (2) case (1) with the lag variable added; and (3) case (1) with all other variables added.

b. Please discuss in detail why the introduction of the "manual ratio" (MANR) and time variables in the analyses presented in USPS-T-1 Workpaper 1 do not seem to demonstrate a substantial impact on the variability until the use of the fixed effects

model. Also, please provide a discussion of the way in which the fixed-effects model helps estimate the desired variabilities without confounding volume-related cost differences between facilities with cost differences caused by other factors. In the course of answering this question, please explain in operational terms how the interpretation of the variabilities in the simple pooled regression model differs from the interpretation of the variabilities in the fixed-effects models.

4. Please discuss the apparent contradiction in the response of witness Moden to TW/USPS-T4-7 regarding the Postal Service's ability to size staff precisely with witness Bradley's explanation presented at USPS-T-14, at pages 57-58, that certain mail processing operations have low variabilities because they perform "gateway" or "backstop" functions.

5. Does witness Bradley's selection of TPH as the cost driver for mail processing labor costs assume that the TPH for each cost pool activity in each facility is proportional to the volume of mail processed by the activity? If so, how important is the assumption of proportionality? Please discuss whether the ratio of TPH to volume for the cost pools has changed over the nine-year period examined by witness Bradley (due to changes in such things as mail mix and processing technology), whether the ratio varies significantly across facilities for the cost pools, or whether it varies significantly for a cost pool within a facility. To what degree do such variations conflict with the assumption of proportionality, and what are the implications for witness Bradley's analysis? Does witness Bradley's selection of TPH as the cost driver for mail processing labor costs assume that system TPH is proportional to system volume?

6. Please provide the source for cells C51 and C52 of the "Discount" worksheet of witness Taufique's (USPS-T-34) Workpapers as shown in spreadsheet 2C_RR_X9.xls.

7. Parcel Post

a. DSCF Entry Cubic Feet

The piece volume of DSCF parcels is 7.1071 percent of the piece volume of DBMC parcels excluding OMAS (USPS-T-37, Workpaper 1.F, page 3). These DSCF parcels are treated as zone 1/2 parcels (USPS-T-16, Appendix II, page 2). The cubic-foot volume of the DSCF parcels is developed on USPS-T-16, Appendix II, page 9, by multiplying the total DBMC cubic feet by 7.1071 percent.

Would it be more appropriate to develop the cubic-foot volume of DSCF parcels as follows:

(1) Determine the piece volume of DSCF parcels by multiplying the piece volume of DBMC parcels by 7.1071 percent.

(2) Express the piece volume of DSCF parcels as a proportion of the piece volume of zone 1/2 DBMC parcels.

(3) Multiplying the proportion found in (2) by the cubic-foot volume of zone 1/2 DBMC parcels.

If not, please explain.

b. Local Zone Parcels

USPS-T-16, Appendix III, page 7, shows local-zone parcels incurring, on average, $0.4788 of intermediate transportation costs. Basically, intermediate costs involve transporting parcels between BMCs and SCFs. The charge of $0.4788 appears to be based on some local-zone parcels being transported from an SCF to a BMC and then to another SCF (within the same BMC area). Please explain the handling procedures that result in local-zone parcels receiving this transportation service. If the charge shown is not the correct one, please supply revised figures.

c. Air Transportation

(1) Please confirm that Christmas network costs are included in the "loose sack and container rate" air costs ($1,217) shown on USPS-T-16, Appendix I, page 11, the distance-related portion for these costs being shown in footnote 2 as 36.41 percent.

In Workpaper B-14, Worksheet 14.0.7a, the distance-related portions for "loose sack and container" and Christmas network are developed

separately. Would it also be appropriate to identify and treat separately the "loose sack and container" and Christmas network on USPS-T-16, Appendix I, page 11? If not, please explain why not.

(2) Distribution of air costs

Air transportation costs are distributed to the subclasses of mail on the basis of pound-miles. Then within parcel post, the distance-related portion of air costs is distributed on the basis of cubic-foot-miles and the nondistance portion on the basis of cubic feet, as done in prior dockets. Please explain why the parcel post air costs should not be distributed on the basis of pound-miles and pounds.

8. Alaskan Bypass Mail

a. Witness Mayes identifies the 1996 Intra-BMC Alaska Bypass volume (USPS-T-37, Workpaper 1.A, page 1) and revenues (USPS-T-37, Workpaper 1.D, page 7).

(1) Please provide the Bypass transportation costs which are included in the Alaskan nonpriority air costs.

(2) Please identify and provide any clerk and mailhandling costs for processing Bypass mail.

b Pickup Volumes

(1) In the development of the parcel post revenue adjustment factors (USPS-T-37, Workpaper 1.D, page 7), a portion of the pickup fee revenue is subtracted from the Intra-BMC RPW revenue with the remainder from the Inter-BMC RPW revenue. Are DBMC and Alaska Bypass eligible for pickup services? Please confirm that DBMC and Alaska Bypass revenues are not adjusted for any portion of the pickup revenues.

(2) The TYBR pickup volumes are developed (USPS-T-37, Workpaper 1.1, page 1) using the ratio of total TYBR parcel volume to total BY parcel post volume. Should the DBMC and Alaskan Bypass volumes be excluded in development of the parcel post pickup volumes? If not, please explain.

c. Avoided Costs

Please confirm that the FY 1996 Parcel Post volume entered upstream of BMC/ASF (112,738,474) on USPS-T-28, Exhibit C, includes the Alaskan Bypass volume.

If confirmed, please explain why the Bypass volume should be included in calculating the outgoing mail processing costs avoided by DBMC parcel post at non-BMC facilities. Also, provide the processing costs incurred by the Bypass mail.

9. USPS-T-16, Appendix I, page 13, shows that 4.48 percent of inter-BMC parcels are entered at an origin BMC. These parcels avoid one local transportation leg and one intermediate transportation leg. Please present any information available on the proportion of inter-BMC parcels that are entered at an origin SCF, which would thereby avoid one local transportation leg If this proportion is unavailable, please discuss whether the proportion is likely to be negligible.

10. USPS-T-16, Appendix I, page 13, shows that 7.11 percent of DBMC parcels are entered at a destination SCF. Please discuss the conditions under which and the extent to which these parcels would be permitted currently to pay (1) the DBMC rate or (2) the local rate.

In answering this question, please clarify the definition of local zone found in DMM G030.2.1, which appears to distinguish between post offices serving one 3-digit area from those serving more than one 3-digit area. For example, the Washington, D.C., post office appears to service ZIP Codes 202, 203, 204, and 205. Would a parcel for ZIP Code 203 brought to the Washington post office be eligible for the local rate? If not, is there some office other than the Destination Delivery Unit to which this parcel could be brought in order to qualify for the local rate?

Edward J. Gleiman
Presiding Officer