

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268

Postal Rate and Fee Changes

Docket No. R2005-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

(Issued May 27, 2005)

The United States Postal Service is requested to provide the information described below to assist in developing a record for the consideration of the Postal Service's 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. The answers are to be provided within 14 days.

1. Please confirm that in Fee Schedule 1000, Miscellaneous Fees, Attachment A, page 83 of the Postal Service Request, the line identifying current and proposed fees for a Periodicals Original Entry application should read as follows:

	<b>Current</b>	<b>Proposed</b>
Periodicals		
A. Original Entry	375.00	395.00

2. Please provide Base Year volume by zone and weight group for the three categories of Express Mail (Post Office to Post Office, Post Office to Addressee, Custom Designed). Also, please provide the weight adjustment factor used to conform weight estimates to the EMRS reported weight and an explanation of how that factor is determined.

3. Library Reference K-59 provides the worksheets for the calculation of final adjustments. Within the worksheets are the forecasted volumes by rate category which include forecasted transactions of various special services. The volumes forecasted for Delivery and Signature Confirmation for the Test Year After Rates, when added together do not equal the combined transactions shown in the worksheet. Please confirm the number of transactions for both Delivery Confirmation and Signature Confirmation in the Test Year After Rates and either confirm or correct the combined transactions for Delivery and Signature Confirmation.
  
4. This question addresses the practice of day-to-day adjustments in routes, which involve pivoting or off-loading volume to other carriers with under time.
  - a. Is this the same or similar to the process described by witness Lewis on page 7, lines 13-16 of his USPS-T-30 testimony?
  - b. Please confirm that pivoting occurs regularly on city carrier routes and provide an estimate of how frequently this process occurs in terms of the percent of routes affected on a typical day?
  - c. Did any such pivoting route adjustments occur on any of the routes that were chosen to participate in the City Carrier Street Time Study?
  - d. If so, how many route days were affected? Please describe the steps taken, if any, to maintain the route integrity of scanned time and reported volumes by carriers delivering mail on such routes.
  
5. Refer to USPS-T-14. Please confirm that the SAS code in the file entitled "Estimating Delivery Equations, found in LR-K-81, should have included the variable "mspr" in the location shown below where it is underlined, bolded and enlarged.

- a. `data elascal1; merge coef1 regmean (drop=_TYPE_);`  
`pdelt=intercept+let*mlet+let2*mlet*mlet+cf*mcf+cf2*mcf*mcf+seq*mseq+se`  
`q2*mseq*mseq+spr*mspr+spr2*mspr*mspr+cv*mcv+cv2*mcv*mcv+dp*md`  
`p+dp2*mdp*mdp+dens*mdens+dens2*mdens*mdens+lf*mlet*mcf+lse*mlet*`  
`mseq+lcu*mlet*mcv+lspr*mlet*mspr+ldp*mlet*mdp+fse*mcf*mseq+fvc*mcf*`  
`mcv+fspr*mcf*mspr+fdp*mcf*mdp+scv*mseq*mcv+sspr*mseq*mspr+sdp*m`  
`seq*mdp+cspr*mcv*mspr+cdp*mcv*mdp+spdp*mspr*mdp+ldns*mlet*mden`  
`s+fdns*mcf*mdens+sdns*mseq*mdens+cdns*mcv*mdens+spdns*mspr*md`  
`ens+dpdns*mdp*mdens;`
- b. `data elascal2; merge coef2 regmean`  
`(drop=_TYPE_);pdelt=intercept+let*mlet+let2*mlet*mlet+cf*mcf+cf2*mcf*mc`  
`f+seq*mseq+seq2*mseq*mseq+spr*mspr+spr2*mspr*mspr+cv*mcv+cv2*`  
`mcv*mcv+dp*mdp+dp2*mdp*mdp+dens*mdens+dens2*mdens*mdens;`

If confirmed, please provide a corrected SAS program, output, and log.

6. The response to Interrogatory OCA/USPS-T14-5 provides values and SAS code for the marginal delivery time for each shape for the “regular full and restricted quadratic delivery models.” The response to interrogatory ADVO/USPS-T14-2, also provides a copy of the SAS Log for the program “Estimating Delivery Equations.” Please provide the values of the marginal and average delivery times for each shape (including large parcels and accountables) for each of the alternate models requested in Interrogatory OCA/USPS-T14-11 and discussed in Section G of witness Bradley’s testimony in USPS-T-14. Also, provide the SAS Logs showing the calculations of the reported marginal and average costs. For the Translog specification, please provide the values of the aggregate marginal delivery time and the SAS Log of those calculations. Please elaborate on the significance of marginal cost estimates for these models, especially in the cases where a negative marginal cost is calculated.

7. Please refer to the response to POIR 3, Question 1 (revised May 24, 2005), including Table 1A of the attachment to the response.

Table 1. Comparison of Incremental and Cumulative Passthroughs

Rate Category	USPS Worksharing Cost	Postage Rate	Traditional Approach Incremental			USPS Proposed Approach Cumulative		
			Cost Avoidance	Discount	Passthrough	Cost Avoidance	Discount	Passthrough
A (no w/s)	20	30						
B (some w/s)	13	25	7	5	71%	7	5	71%
C (more w/s)	12	22	1	3	300%	8	8	100%

Table 1 above presents Postal Service costs, discounts and the resulting incremental and total passthroughs for hypothetical rate categories A, B, and C. While both methods reveal the inefficiency of the discount for category B, the cumulative approach results in a passthrough of 100 percent for category C, implying that the discount for category C sends a price signal that will encourage efficient mailer behavior. In contrast, the incremental approach results in a 300 percent passthrough for category C, suggesting that the discount will potentially encourage inefficient mailer behavior. A demonstration of how this inefficiency can occur is presented in Table 2.

Table 2. Demonstration of Result of Hidden Inefficient Signal

Rate Category	Mailer Expenses			Society Costs		
	Mailer Worksharing	Postage Rate	Total	Mailer Worksharing	USPS Worksharing	Total
A (no w/s)	0	30	30	0	20	20
B (some w/s)	4	25	29	4	13	17
C (more w/s)	6	22	28	6	12	18

In this example, a mailer can do the work necessary to qualify for category B for 4 cost units, or can instead incur 6 cost units (perhaps by hiring a presort consolidator) to do the work necessary to qualify for category C. All else being equal, this mailer will choose to use category C for the lowest combined expense of 28 cost units. However, this choice leads to a higher total cost for society (18)

than if the mailer utilized category B (at a cost of 17) instead. Therefore the discount for category C is clearly not efficient – a fact concealed by the cumulative passthrough approach.

- a. Please discuss the advantage, described in the response to POIR 3, of keeping the passthrough at each level independent of the passthroughs at the previous levels, as compared with disadvantage of presenting passthrough percentages that can potentially conceal inefficient price signals of the type demonstrated in Table 2 above.
  - b. Please discuss the relative merits for each First-Class Mail automation presort category of using bulk metered mail as the benchmark versus using the next-least presorted category as the benchmark. For example, which is the mail more likely to convert to automation 5-digit presort letters: bulk metered mail or automation 3-digit presort letters? Include a discussion of the choices mailers may make with respect to preparing (and sorting) mailings in-house or using the services of a third-party mail consolidator to achieve a greater depth-of-sort.
8. As noted on page 10 of USPS-LR-K-56, “The Postal Service provides the data on IBM 3480-compatible cartridge tapes. The [Installation Master File] IMF data were provided by AP for PFY 1999-2003, and on a monthly basis starting in PFY 2004.” For the MODS Operation Groups, variables, and time period (FY 1999-2004) used in USPS-T-12:
- a.) Please provide MODS data disaggregated by postal accounting period (AP) for PFY 1999-2003.
  - b.) Please provide MODS data disaggregated by month for the same MODS Operation Groups and variables used in USPS-T-12 for PFY 2004.

George Omas  
Presiding Officer