

DOCKET SECTION

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

RECEIVED

OCT 1 4 50 PM '97

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

UNITED STATES POSTAL SERVICE NOTICE
OF FILING SECOND REVISED
RESPONSE TO
OCA/USPS-T24-65
(October 1, 1997)

The United States Postal Service hereby gives notice of the filing of a second revised response to OCA/USPS-T24-65. The revised response is accompanied by a summary sheet describing and explaining the changes. The entire question and answer, including un-revised pages and a new declaration, are attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

K N Hollies

Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3083; Fax -5402
October 1, 1997

**ERRATA
RESPONSE TO OCA/USPS-T24-65
DOCKET NO. R97-1**

1. page 2, part c now reads:

<u>"Group</u>	<u>Rent</u>	<u>Unit Cost</u>	<u>Coverage</u>
A	- 4.5 %	-2.0 %	+1.5 %
B	- 2.0 %	-0.3 %	+0.7 %
C	- 2.2 %	-0.3 %	0.0 %
D	- 0.0 %	+0.5 %	0.0 %
E	0.0 %	+0.5 %	0.0 % "

should read:

<u>"Group</u>	<u>Rent</u>	<u>Unit Cost</u>	<u>Coverage</u>
A	- 4.5 %	-2.0 %	+2.0 %
B	- 2.0 %	-0.3 %	-0.3 %
C	- 2.2 %	-0.3 %	+0.3 %
D	- 0.0 %	+0.5 %	-0.5 %
E	0.0 %	+0.4 %	0.0 % "

2. p. 5, replace Table I with new Table I (attached). The changes in this table are due to the fact that the rental rates for delivery groups were incorrectly used, instead of rental rates for fee groups.

3. p. 5, replace Table II with new Table II (attached). The changes in this table are due to the fact that the rental rates for delivery groups were incorrectly used, instead of rental rates for fee groups.
4. p. 6, replace Table III with new Table III (attached). The changes in this table are due to the fact that the rental rates for delivery groups were incorrectly used, instead of rental rates for fee groups.
5. p. 6, replace Table IV with new Table IV (attached). The changes in this table are due to the fact that the rental rates for delivery groups were incorrectly used, instead of rental rates for fee groups.
6. p. 7, replace Table V with new Table V (attached). The changes in this table are due to the fact that the rental rates for delivery groups were incorrectly used, instead of rental rates for fee groups.

OCA/USPS-T24-65. Please refer to your responses to OCA/USPS-T24-42, -44, and -47.

- a. In your response to part f of interrogatory 44, you appear to justify the equal weighting of rental rates at different-size facilities on the ground that the result conforms to "intuitive" preconceptions regarding relative *nonpostal* retail rental rates across geographic areas associated with fee groups. Is this a correct interpretation of your response? If not, why not?
- b. Are you recommending that space provision costs be allocated on a basis that differs from the actual incurrence of costs by the Postal Service? If not, what is the relevance of *nonpostal* retail rental rates to the choice of distribution key?
- c. In your response to part b of interrogatory 42 you appear to justify the inclusion of rental rates from facilities with no post office boxes on the ground that "they are valid *postal* rental rates" (Emphasis added.) Have you examined whether postal rental rates differ systematically between facilities with and without post office boxes? If so, what was the result of your examination? If not, what is the basis for your statement?
- d. Please confirm that if postal rental rates do not differ systematically between facilities with and without post office boxes, then it makes no difference whether they are included in the development of a distribution key. If you do not confirm, please explain.
- e. Please confirm that if postal rental rates *do* differ systematically between facilities with and without post office boxes, then inclusion of rental rates from facilities without post office boxes runs the risk of biasing the distribution key. If you do not confirm, please explain.
- f. Please confirm that inclusion of rental rates from facilities that do not have post office boxes means that your distribution key allocates space provision costs to fee groups and box sizes on a basis other than actual incurrence of costs by the Postal Service. If you do not confirm, please explain.
- g. In your response to part q of interrogatory 47 you state that your allocation method satisfies three conditions:
 - (1) Space provision costs are proportional to average rent.
 - (2) Space provision costs are proportional to equivalent capacity.
 - (3) Total space provision costs are equal to a specified total.Please explain why conditions (1) and (2) are desirable.
- h. Please list all other features of your distribution key that commend it over a key based on actual cost incurrence.
- i. Please confirm that an allocation method using weighted average rent by fee group (where the weights were equivalent capacity by facility) would satisfy all conditions and criteria that you have so far identified as justifying your allocation method using unweighted average rent by fee group. If you do not confirm, please explain. In any event, please provide all reasons you are aware of for favoring an unweighted average rent over a weighted average rent when allocating space provision costs.

RESPONSE:

- a. No. The justification for the equal weighting of rental rates at different facilities is that it provides the best estimate of group-wide rental rates. The interrogatory response you cite (OCA/USPS-T24-44f) simply establishes that the results are confirmed by common sense, which is reassuring. The methodology propounded by the OCA does not generate similarly reassuring results, for the reason stated in part i below.
- b. No. "Nonpostal retail rental rates" were not used in our methodology. However, since postal rents are part of the more general market, postal rents should be correlated generally with market rates.
- c. Yes. Exclusion of rental rates from facilities with zero boxes increases average rental rates for all fee groups except Group A. The effect can be seen by comparing Tables I and II in my response to part i below. Percentage differences for key variables are as follows:

<u>Group</u>	<u>Rent</u>	<u>Unit Cost</u>	<u>Coverage</u>
A	- 4.5 %	-2.0 %	+2.0 %
B	- 2.0 %	-0.3 %	-0.3 %
C	- 2.2 %	-0.3 %	0.3 %
D	- 0.0 %	+0.5 %	-0.5 %
E	0.0 %	+0.4 %	0.0 %

d-e. A comparison of Tables I and II in response to Part i, below, shows that postal rental rates do differ systematically between facilities with and without post office

boxes, but that the effects on unit costs and coverages are negligible. For example, for the three largest fee groups (C, D, and E), changes in the unit cost are equal to or less than one half of one percent, and changes in coverage are zero (to two digits).

- f. Not confirmed. The purpose of including all facilities at equal weights in the average was to develop the most accurate measure possible (from postal data) of the average group-wide rental rates. Subsequently in the process, the allocation takes into account the number of boxes and the distribution of box sizes (though the concept of “equivalent capacity”). These three factors --average rent, number of boxes, and distribution of box sizes -- then determine the relative costs in each fee group. These relative factors are then applied to “actual incurred” costs.
- g. Space Provision costs increase as average rent increases and as equivalent capacity increases. Thus these assumptions reflect reality.
- h. The question has a false premise, since the “distribution key” is based on actual rental costs (as well as the other factors cited in part f).
- i. Confirmed. A variety of allocation methods conform to the requisite conditions, and their respective effects on average rents, unit costs and coverages are demonstrated in Tables I through V, which follow. Table I shows my method (unweighted rents), based on Tables 12 and 13 from my testimony. Table II shows unweighted rents excluding zero-box facilities. Table III shows rents weighted by number of boxes. Table IV shows rents weighted by equivalent capacity. Table V shows the OCA's suggested method, i.e. $\text{group rent} = \text{total rent dollars} / \text{total area}$.

Each of the first four methods allocates about 60 percent of Space Provision costs to Group C and about 30 percent to Group D. The last method allocates about 53 percent to Group C and about 37 percent to Group D, in effect shifting 7 percent from city to non-city post office box customers.

The method used to obtain Table V is equivalent to weighting rental rates by interior floor area. Most of this interior area is used for purposes unrelated to post office boxes (e.g., mail processing), and the result therefore distorts the group-average rental costs for post office box space.

The basis for the rental calculations in Tables I-V below are provided in USPS LR-H-254. The other entries in the table can be calculated by entering these rental values in Spreadsheet "Cost98.xls" in USPS LR-H-188.

Response to OCA/USPS-T24-65(i), Table I: Original Method (Unweighted Rents)							
Group	Average Rent (\$/sq. ft.)	Unit Costs: Group Average			Unit Costs: Size/Box		
		Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$23.49	\$37.44	\$58.66	1.31	\$33.53	\$53.23	1.32
B	\$16.74	\$32.56	\$56.97	1.35	\$23.90	\$43.60	1.38
C	\$ 7.71	\$15.90	\$41.38	1.46	\$11.01	\$30.71	1.47
D	\$ 6.19	\$11.48	\$35.06	0.69	\$ 8.84	\$28.54	0.63
E	\$ 6.70	\$12.46	\$36.11	0.00	\$ 9.56	\$29.27	0.00

Response to OCA/USPS-T24-65(i), Table II: Unweighted Rents, excluding Zero-box Facilities							
Group	Average Rent (\$/sq. ft.)	Unit Costs: Group Average			Unit Costs: Size/Box		
		Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$22.43	\$36.28	\$57.50	1.34	\$32.49	\$52.19	1.34
B	\$16.40	\$32.36	\$56.78	1.35	\$23.76	\$43.46	1.38
C	\$ 7.54	\$15.78	\$41.26	1.46	\$10.92	\$30.62	1.47
D	\$ 6.19	\$11.65	\$35.23	0.68	\$ 8.97	\$28.67	0.63
E	\$ 6.70	\$12.63	\$36.27	0.00	\$ 9.69	\$29.39	0.00

Response to OCA/USPS-T24-65(i), Table III: Rents Weighted by Number of Boxes							
Group	Average Rent	Unit Costs, Group Average			Unit Costs, Size 1 Box		
		Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$24.28	\$36.19	\$57.41	1.34	\$32.41	\$52.12	1.34
B	\$17.65	\$32.10	\$56.52	1.36	\$23.56	\$43.26	1.39
C	\$ 8.29	\$15.99	\$41.47	1.45	\$11.07	\$30.77	1.46
D	\$ 6.58	\$11.41	\$35.00	0.69	\$ 8.78	\$28.49	0.63
E	\$ 7.06	\$12.28	\$35.93	0.00	\$ 9.43	\$29.13	0.00

Response to OCA/USPS-T24-65(i), Table IV: Rents Weighted by Equivalent Capacity							
Group	Average Rent	Unit Costs, Group Average			Unit Costs, Size 1 Box		
		Space Provision	Total	Coverage	Space Provision	Total	Coverage
A	\$20.61	\$32.20	\$53.42	1.44	\$28.84	\$48.54	1.44
B	\$19.11	\$36.43	\$60.85	1.26	\$26.74	\$46.44	1.29
C	\$ 7.74	\$15.64	\$41.13	1.47	\$10.83	\$30.53	1.47
D	\$ 6.48	\$11.78	\$35.36	0.68	\$ 9.07	\$28.77	0.63
E	\$ 6.91	\$12.60	\$36.24	0.00	\$ 9.67	\$29.37	0.00

Response to OCA/USPS-T24-65(i)

Table V: OCA Method (Group Rent - Total Dollars/ Total Square Feet)

Group	Average Rent (\$ / sq. ft.)	Unit Costs, Group/Average			Unit Costs, Size/Box		
		Space Provisions	Total	Coverage	Space Provisions	Total	Coverage
A	\$ 8.39	\$16.12	\$37.33	2.06	\$14.43	\$34.13	2.05
B	\$13.91	\$32.60	\$57.02	1.35	\$23.93	\$43.63	1.38
C	\$ 5.60	\$13.92	\$39.40	1.53	\$ 9.63	\$29.34	1.53
D	\$ 6.36	\$14.21	\$37.80	0.64	\$10.94	\$30.64	0.59
E	\$ 6.58	\$14.75	\$38.39	0.00	\$11.32	\$31.02	0.00

DECLARATION

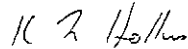
I, Paul M. Lion, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Paul M Lion

Dated: 10/1/97

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.



Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 1, 1997