

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 THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6, QUESTION 1
(November 20, 1997)**

The United States Postal Service hereby files its response to Question 1 of
Presiding Officer's Information Request No. 6, dated November 13, 1997.

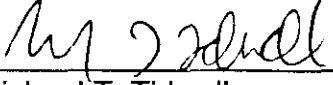
The question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Michael T. Tidwell

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November 20, 1997

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
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1. Please refer to USPS LR-H-111, Dropship Savings in Periodicals and Standard Mail (A), Appendix F, which has five pages. Refer also to the spreadsheet showing the actual calculations behind this appendix. The first column on the first page shows productivities in "units per manhour." The second column shows deflated productivities under the heading "with variability." The spreadsheet shows these deflated productivities to be equal to the multiplicative product of the column 1 productivities and witness Bradley's (USPS-T-14) cost variabilities. Apparently, the deflated productivities are meant to reflect the lower levels of volume variable costs that result from witness Bradley's lower cost variabilities for mail processing. On pages 3 and 4 the wage rate (with adjustments) is divided by the deflated productivities to obtain dollars per unit, which is further converted into dollars per piece. A wage rate divided by a deflated productivity yields a larger cost savings. However, the effect of reduced cost variabilities should be smaller cost savings. The Postal Service is asked to provide a rationale for the sequence of manipulations that leads to inflated cost savings due to reduced cost variabilities.

RESPONSE:

An examination of Appendices F and G, concerning Periodicals Regular and Nonprofit dropship nontransportation cost avoidances indicates that the application of witness Bradley's variabilities was done incorrectly. I concur that the effect of reduced cost variabilities should be smaller cost savings, as compared to the cost savings with 100 percent cost variability. The calculations which are shown in the original LR-H-111 (now incorporated into USPS-ST-46) , as indicated in the question, have in fact increased the cost savings due to the application of the variabilities. As a consequence, the originally filed cost avoidances were, regrettably, significantly

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overstated. Correcting this error leads to a large downward revision in the cost avoidances. Revised pages for the USPS LR H-111 (now incorporated into USPS-ST-46) are being filed to reflect these changes. The following tables summarize the nontransportation dropship cost avoidances, as originally filed and as revised.

Costs Avoided for Periodicals Regular Dropshipping (Nontransportation)

<u>Point of Dropshipment</u>	<u>As Filed 7/10</u>	<u>Revised 11/20</u>
Destination SCF	\$0.0522	\$0.0204
Destination Delivery Unit	\$0.0984	\$0.0390

Cost Avoided for Periodicals Nonprofit Dropshipping (Nontransportation)

<u>Point of Dropshipment</u>	<u>As Filed 7/10</u>	<u>Revised 11/20</u>
Destination SCF	\$0.0477	\$0.0189
Destination Delivery Unit	\$0.0904	\$0.0361

One other substantive change to USPS-LR- H-111 is being filed today in conjunction with the November 17, 1997, response to ANM/USPS-ST46-1. In responding to this question, it was determined that the destination entry profile for Nonprofit mail (from Table 18 of LR-H-195) had been erroneously omitted from the top portions of Tables 1,2, and 3 in USPS L H-111, Appendix E. Only the destination entry profile data for Regular from Table 18 of LR-H-105 had been incorporated. Revised Tables 1, 2, and 3 of Appendix E in LR H-111 lead to revisions in the costs associated with container

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handling costs as calculated in Appendix D. This occurs due to changes in the probability associated with each operation (column one of the pages in Appendix D) change. The results of the changes in Appendix D are reflected in the revised pages of Appendix C. The impact of this change on the cost avoidances is very small. The impact is that the Destination SCF cost avoided declines from 11.05 cents per pound to 11.04 cents per pound and Destination Delivery Unit cost avoided declines from 13.79 to 13.78 cents.

DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

11/20/97
Date

Marc A. Smith
Marc A. Smith

CERTIFICATE OF SERVICE

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


Michael T. Tidwell

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