

# DOCKET SECTION

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

RECEIVED

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6  
(Questions 2-6)  
(November 28, 1997)

The United States Postal Service hereby provides its responses to the above items of Presiding Officer's Information Request No. 6, issued November 13, 1997. The questions are stated verbatim and are followed by the answers, with declarations from witnesses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Rate-making

  
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November 28, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 6

Question 2.

Witness Taufique (USPS-T-34) and Kaneer (USPS-T-35) propose a new approach to developing the pound rate for editorial (defined as non-advertising) matter in Regular, Nonprofit, and Classroom Periodicals. One justification for this new approach focuses on an interest in keeping the implicit cost coverage on editorial matter from being below 100 percent. This coverage, however, is heavily influenced by *both* the editorial pound rate and the editorial per-piece benefit. Accordingly, please discuss the justification for proposing to elevate this coverage by adjusting only the editorial pound rate.

RESPONSE

I agree that the implicit cost coverage on editorial matter is heavily influenced by both the editorial pound rate and the per-piece discount for editorial matter, and would acknowledge that both of these elements eventually may need to be adjusted to achieve a 100 percent implicit cost coverage for editorial matter. The proposed rate design change in the calculation of the editorial pound rate results not only in a straightforward methodology to eventually achieve 100 percent implicit cost coverage for editorial pounds, but also provides a better allocation of distance related transportation cost to the zones. This methodology avoids the additive scalar of the residual distance-related transportation cost as was done in the past rate design for Periodicals.

Given the relatively low cost coverage proposed for Periodicals, and a desire to avoid large increases in any rate cells, the Postal Service decided to propose an editorial pound rate that is 90 percent of the calculated pound rate needed to achieve the 100 percent implicit cost coverage for editorial pounds.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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Question 2 Continued. Page 2 of 2

The Postal Service also proposes to increase the editorial per-piece discount at the rate of the overall increase for the class. The alternative would be a smaller increase, or no increase at all, in the editorial per-piece discount, which would bring the implicit cost coverage for editorial matter closer to 100 percent. The Postal Service chose to propose a change in the editorial pound rate methodology, but avoided a smaller piece rate adjustment to mitigate the impact on high editorial content pieces. The Postal Service wants to move toward the cost coverage goal for editorial matter but at the same time mitigate the impact of these changes on high editorial content pieces given the relatively low cost coverage proposed for Periodicals in this docket.

Witness Kaneer has read this response and is in agreement with it, as it relates to Nonprofit and Classroom Periodicals.

## DECLARATION

I, Altaf H. Taufique, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
ALTAF H. TAUFIQUE

Dated: NOVEMBER 28, 1997

**Response of Witness Mayes to Presiding Officer's Information Request No. 6**

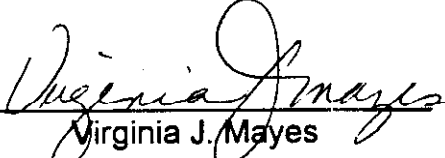
3. Due in part to variations in proposed average rate increases, the base year to test year volume changes are markedly different for each of the three parcel post components, intra-BMC, inter-BMC, and DBMC. As explained in USPS-T-37 (including Workpapers I.O and II.C), Alaskan Bypass is part of the intra-BMC component and the Official Mail Accounting System (OMAS) is part of the inter-BMC and DBMC components. In view of the different volume changes, please explain why the ratios of (a) Alaskan Bypass revenue to total parcel post revenue and of (b) OMAS revenue to total parcel post revenue are each the same in the test year as in the base year. Also, please discuss whether it would be appropriate, as an alternative, to project the revenues of Alaskan Bypass and OMAS as fixed proportions of the parcel post components in which they are included.

**Response:**

The Alaska Bypass and Official Mail Accounting System (OMAS) volumes do not exhibit the same weight per piece or distance characteristics as other subcategories of Parcel Post. Therefore, the projected revenue accruing from these types of Parcel Post was tied to the total Parcel Post revenue. In the absence of additional information regarding the behavior of these categories of mail, it would not be inappropriate to tie the projected Alaska Bypass revenues to the intra-BMC revenues, and the projected OMAS revenues to the inter-BMC and DBMC revenues proportionally to the shares of inter-BMC and DBMC in OMAS. An examination of the most recent five years of data demonstrated that the Alaska Bypass revenues exhibited slightly higher correlation with the non-Alaska Bypass Intra-BMC revenues (0.939) than with the total Parcel Post revenues (0.921). Inter-BMC OMAS revenues seemed to be more closely tied to total Parcel Post revenues (0.552) than with non-OMAS Inter-BMC revenues (-0.117). DBMC OMAS revenues were highly negatively correlated with both total Parcel Post revenues (-0.953) and non-OMAS DBMC revenues (-0.892).

## DECLARATION

I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
Virginia J. Mayes

Dated: 11-28-97

**Response of United States Postal Service Witness Alexandrovich  
to  
Presiding Officer's Information Request No. 6**

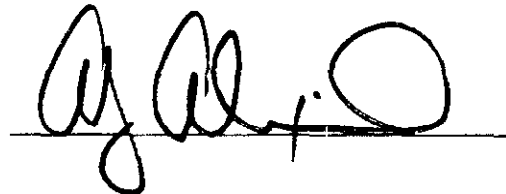
4. WS 7.0.4.2, line 75, "Summary - Accrued Costs, Load" is the sum of lines 50d, "Total Distributed Load Costs Minus Time at Stop," 33h, "Accrued Reg. Box Load," and 33i, "Load - EM Box." Please confirm that it should be the sum of lines 50d, 33h, and 33g, "Accrued EM Box Load."

**Response**

Not confirmed. The following explanation may reduce any confusion. Line 33h, "Accrued Reg Box Load," does not include fixed time at a stop, whereas line 33g, "Accrued EM Box Load" does include fixed time at a stop. Line 33i, "Load - EM Box" does not include fixed time at a stop. Line 75, "Summary - Accrued Costs, Load," is the sum of all accrued load cost elements minus time at a stop (which is part of access costs); therefore, line 75 correctly equals the total of 50d, 33h, and 33i.

# DECLARATION

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

A handwritten signature in black ink, appearing to read 'Joe Alexandrovich', is written over a horizontal line.

Dated: 11/28/97



RESPONSE OF UNITED STATES POSTAL SERVICE TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

5. Please provide pages II-2 and II-2A of LR H-301.

RESPONSE:

The attachment to this response consists of the requested pages which were printed out from file MPPG98MM.XLS on diskette 2 included in LR H-301.

SUMMARY OF MAIL PROCESSING OPERATION SPECIFIC COSTS

Line No.	CATEGORY	(\$000)								
		Mail Processing	Superv. Admin. Clk.	Facility Costs - Sq. Ft. Based	Imputed Rents	Equipment Capital	Maintenance	Parts & Supplies	Total Cost	Piggyback Factors
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	COMPUTER FORWARDING SYSTEM	381,215	103,408	22,625	14,560	9,050	16,569	8,498	555,926	1.458301
2	BULK MAIL ACCEPTANCE UNIT	37,519	10,517	13,493	9,170	503	187	562	71,951	1.917721
3	PLATFORM - BMC	126,484	36,947	64,951	33,598	8,167	4,453	3,735	278,333	2.200537
4	PLATFORM - NON-BMC	609,145	174,918	304,979	157,670	8,159	3,043	8,132	1,267,047	2.080040
5	OPTICAL CHARACTER READERS (OCRs)	369,678	113,935	29,558	19,073	153,730	108,694	16,753	811,421	2.19494
6	MAIL PROCESSING BARCODE SORTERS (MPBC)	496,536	144,069	39,221	25,106	43,263	83,666	14,975	846,836	1.705489
7	DELIVERY BARCODE SORTERS (DBCSs)	414,316	132,702	70,142	45,049	158,699	144,223	19,302	984,432	2.376043
8	CARRIER SEQUENCE BARCODE SORTERS (CSB)	118,274	33,928	17,607	12,951	26,057	14,421	3,795	227,032	1.91953
9	LETTER SORTING MACHINE (LSMs)	179,086	60,353	20,147	12,781	5,465	86,646	2,685	367,163	2.050208
10	FLAT SORTING MACHINE (FSMs)	793,787	219,068	41,853	27,033	57,448	62,390	14,903	1,216,483	1.532505
11	PARCEL SORTING MACHINE & NMO MACHINE	189,044	55,174	28,349	18,719	27,411	29,571	13,841	362,109	1.915475
12	FACER/CANCELER - LETTERS	112,252	44,543	24,692	15,727	48,819	97,031	9,772	352,836	3.14325
13	FACER/CANCELER - FLATS	40,076	11,043	3,491	2,094	991	2,562	740	60,996	1.522015
14	CULMING	29,887	9,379	14,678	9,420	3,462	5,799	561	73,205	2.449400
15	SACK SORTING MACHINE (SSMs) - BMC	43,890	13,917	11,938	7,653	11,654	12,770	2,619	104,441	2.379582
16	SACK SORTING MACHINE (SSMs) - NON-BMC	31,393	9,816	8,498	5,447	6,729	8,185	1,417	71,485	2.277090
17	SMALL PARCEL AND BUNDLE SORTER	316,620	88,540	31,080	19,176	36,933	28,102	12,854	533,303	1.684363
18	MULTISLIDE	52,331	14,117	7,440	4,641	701	261	785	80,276	1.533998
19	AIR CONTRACT DATA COLLECTION SYSTEM	39,345	10,813	4,163	2,675	867	2,069	1,453	61,384	1.580164
20	CENTRAL BANDING OPERATION - LETTERS & FL	63,154	18,887	8,944	5,761	3,656	13,227	2,137	115,768	1.833091
21	SORTING TO LETTER CASES	2,858,786	755,189	87,533	60,114	38,264	14,270	42,829	3,854,984	1.349413
22	SORTING TO FLAT CASES	1,064,533	283,267	70,940	49,169	14,258	5,318	15,960	1,503,444	1.412304
23	SORTING TO HANGING SACKS	326,234	87,589	37,808	24,967	4,370	1,630	4,891	487,489	1.494291
24	SORTING TO ROLLING CONTAINERS	854,232	228,773	87,130	60,835	11,442	4,267	12,807	1,259,486	1.474407
25	SORTING TO PALLETS	13,391	3,696	3,622	2,106	179	67	201	23,261	1.737082
26	OTHER SORTING OPERATIONS	705,668	186,730	25,481	18,121	9,452	3,525	10,579	959,555	1.359783
27	TOTAL MISCELLANEOUS MAIL PROCESSING	669,793	178,983	60,187	40,841	8,971	3,346	10,042	972,163	1.451439
28	RBCS	1,032,589	277,554	23,421	25,766	64,669	39,937	18,743	1,482,679	1.435888
29	POWERED TRANSPORT EQUIPMENT	375,420	103,747	5,807	4,004	26,244	35,206	11,264	561,692	1.496167
	TOTAL	12,342,677	3,307,853	1,163,971	730,221	763,367	796,229	256,589	18,985,486	1.538198

PAGE II-2A

DIVISION OF PSM AND NMO COSTS & FSM 881 AND FSM 1000 COSTS																	
CATEGORY	Mail		Superv.,		-- Facility Costs --		Imputed		Capital		Equipment		Parts & Supplies		Total Cost		Payback Factors (9)
	(1) Processing Labor	(2) Admin. Ck., Benefits	(3) Sq. Ft. Based	(4) Rents	(5) Imputed	(6) Capital	(7) Maintenance	(8) Supplies	(8) Total Cost		(8) Total Cost		(8) Total Cost				
PSM	171,192	50,258	26,486	17,486	24,916	28,564	13,212	332,102	1,839,944								
NMO	17,862	4,916	1,864	1,233	2,496	1,017	628	30,006	1,880,630								
TOTAL	189,044	55,174	28,349	18,719	27,411	29,571	13,841	362,109	1,916,476								
Division of FSM 881 and FSM 1000:																	
FSM 881	746,308	206,466	37,527	24,268	46,733	67,821	14,177	1,130,089	1,516,286								
FSM 1000	48,479	13,803	4,326	2,766	11,714	4,770	727	86,384	1,781,876								
TOTAL	793,787	219,068	41,853	27,033	57,448	62,390	14,903	1,216,483	1,532,606								
Source:																	
	PAGE II-3 Col. 8	PAGE II-17 Col. 4	PAGE II-8 Col. 10 & C11	Col. 12	Col. 9 PAGE II-12 & 13	Col. 10	Col. 11	SUM C1..C7	Col. C1								

RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

6. In USPS-LR-H-207 "Diskette of Witness Plunkett's (USPS-T-40) Testimony and Workpapers," WP-6 "Merchandise Return Permits," witness Plunkett forecasts the sale of 1,307 permits for the test year, but does not present any Merchandise Return transactions. Please provide the Merchandise Return transactions and the revenue generated by these transactions for the test year.

6. Response:

The Postal Service volume and revenue measurement systems do not capture Merchandise Return transaction data, or corresponding revenues. Consequently there are no base year transaction volumes on which to base forecasts. It is my understanding moreover, that neither the Postal Service nor the Commission has in any prior rate case used an estimate of Merchandise Return transactions or presented revenues for Merchandise Return service other than permit fee revenues. Of course this does not mean that there is no revenue derived from the Merchandise Return transaction fee, only that this revenue is being accrued in accounts which result in it being mixed in with the revenue for other products.

## DECLARATION

I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
MICHAEL K. PLUNKETT

Dated: NOVEMBER 28, 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.

  
\_\_\_\_\_  
Susan M. Duchek

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
November 28, 1997