

# DOCKET SECTION

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

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8, QUESTIONS 20 - 22  
(December 23, 1997)**

The United States Postal Service hereby files its response to Questions 20 through 22 of Presiding Officer's Information Request No. 8, dated December 17, 1997.

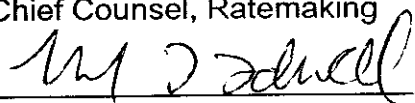
The questions are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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December 23, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO  
THE PRESIDING OFFICER'S INFORMATION REQUEST NO. 8

20. In LR H-106, page VI-8 (Revised 11/2/97), column (1) contains a cost figure of \$1,096,329 for First-Class non-carrier route and carrier route presort. This figure includes the cost of letters, flats, and parcels for First-Class non-carrier route mail and the cost of letters and flats for First-Class carrier route mail. This contrasts with the corresponding cost figure in column (6) of \$1,999,683 which includes the cost of all shapes for non-carrier route First-Class mail but only letter-shape cost for carrier route First-Class mail (See USPS Response to POIR No. 7, question 9, Table 1). Please discuss the reasons for eliminating the attributable cost of carrier route flats in column (6).

Response:

The forecasted cost for First-Class carrier route presort flats for FY 1997 and FY 1998 is zero. This is due to reclassification reform, which eliminated this category from First-Class Mail. See witness Thress, USPS-T-7, at page 190. As a result, the cost for this mail is set to zero as a part of the shape/presort adjustment to reflect the mail mix adjustment at page VI-3 of LR-H-106.

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21. In LR -106, page VI-8 (Revised 11/2/97), the costs in column (1) reflect the base year adjusted to reflect the Workpaper B adjustments, premium pay, and changes in cost reductions and other programs. Column (2) contains the corresponding test year cost which is used to calculate the test year escalation factor. Why did the Postal Service include adjustments for cost reductions and other programs in column (1), instead of allowing an escalation factor based on column (2) to capture all differences (including cost reductions and other programs) between the base year and the test year?

Response:

I included cost reductions and other programs in column (1) to reflect the changes in the cost pool costs between the base year and test year. For instance, RBCS costs double while LSM costs greatly decline as shown in LR H-106, page VI-2, column 3.

Consequently, applying the adjustment ratio reflecting cost reductions and other programs (page VI-2, column 3) has an important impact on the test year unit costs for the cost pools "mods lsm" and "mods LD15" as shown on page II-5 of LR H-106.

Cost reductions and other programs are one of the sources of the change in costs between the base year and test year as indicated by witness Patelunas, USPS-T-15, pages 4 to 6. The escalation factor in column (3) of page VI-8, given the inclusion of cost reductions and other programs in column (1) as I've done, essentially accounts for the rest of the changes aside from cost reductions and other programs.

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22. Assume the Postal Service had chosen to begin the LR H-106 calculations of unit cost by shape with base year unit costs rather than aggregate costs. Would this eliminate the need for the mail mix adjustment incorporated into pages II-5, III-5, and IV-5? It appears that the adjustment is only necessary when working with aggregates since it only reflects changes in aggregate cost brought about by changes in volume. (See LR H-126, the basis for the adjustment, which calculates the Postal Service's target aggregate cost by presort category and shape using Base Year FY 1996 unit costs and FY 1997 volumes.)

Response:

No, calculations by shape with base year unit costs rather than aggregate costs wouldn't eliminate the need for the mail mix adjustment since there are changes in relative unit costs by shape between the base year and test year. For instance, the forecasted growth in the percentage of non-carrier route presort letters which are prebarcoded, between FY96 and FY97, reduces the average unit costs for non-carrier route presort letters in First-Class, Standard A Regular and Standard A Nonprofit. (See LR H-126, page IV-1 to IV-4 which shows FY96 and forecasted FY97 volumes.) Unless other factors have the same relative impact on flats and parcels unit costs, the growth in the prebarcoding of letters leads to a relative change in the unit costs by shape. As a result, volume adjustments alone while accounting for some of the changes reflected in the mail mix adjustment, will not eliminate the need for the mail mix adjustment.

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.

12/23/97  
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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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