

DOCKET SECTION

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

RECEIVED

MAR 6 4 39 PM '98

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14
ITEMS 1-4
(March 6, 1998)

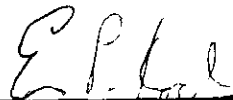
The United States Postal Service hereby provides its responses to the above items of Presiding Officer's Information Request No. 14, issued February 27, 1998. The questions are stated verbatim and are followed by the answer, with declarations from the witnesses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Rate-making


Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2970; Fax -5402
March 6, 1998

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

1. USPS LR-H-126 calculates the changes in mail processing labor costs for First-Class and Standard (A) Mail stemming from reclassification reform and other mail volume mix changes that occurred between BY 1996 and FY 1997. It is stated that a number of changes in these cost adjustments were made too late to be included in the cost roll forward; however, it is indicated the library reference does reflect those changes (LR H-126 at II-3).

a. A comparison of table II-4 of LR H-126 which shows the calculated cost changes and witness Patelunas Workpaper B, table A6, page 83, which shows the cost adjustment implementation in the roll forward, does show differences. The amount of the adjustment in LR H-126 is \$-66.0 million and the amount in witness Patelunas Workpaper B is \$-77.5 million. Additionally, the First-Class cost adjustment in LR H-126 applies to presort letters and presort cards. The adjustment in witness Patelunas Workpaper B applies to single-piece letters and presort cards.

Please indicate which volume mix adjustment, LR H-126 or witness Patelunas Workpaper B, is the correct adjustment. If the adjustment shown in witness Patelunas Workpaper B is correct, please provide a revised LR H-126.

b. On page II-8, the unit mail processing labor cost for post-reclassification enhanced carrier route prebarcoded letters is 1.126 cents. The source for this number is given as page III-6. The unit cost for enhanced carrier route prebarcoded letters given on page III-6 is .2007. Please reconcile these numbers and provide the correct unit cost and cite for use in section II-8.

c. On page II-10, the unit mail processing labor cost for post -reclassification nonprofit enhanced carrier route prebarcoded letters is 1.092 cents. The source for this number is given as page III-8. The unit cost for enhanced carrier route prebarcoded letters given on page III-8 is .2197. Please reconcile these numbers and provide the correct unit cost and cite for use in section II-10.

d. Refer to page III-20. Please provide specific cites and any necessary calculations for the column (1) Total Cost figures.

e. Refer to chapter 8, section I, page 5. Please provide specific cites for column 2 (Bundle Sort Cost). If these costs are derived from the First-Class bundle sorting costs on page 4 of chapter 11, please provide all necessary calculations.

Response:

a. The volume mix adjustment shown in LR-H-126, corrected as indicated in part d, below, is the correct adjustment. Revised pages for LR-H-126 are being filed separately. The revised mail mix adjustment for Standard A Regular is \$34.673 million reduction instead of the originally reported reduction of \$32.499 million. The overall

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

amount of the adjustment as shown on the revised page II-4 is \$-68.216 million, as compared with \$-66.042 million originally filed in LR-H-126.

b. The enhanced carrier route presort prebarcoded letter cost of 1.126 cents is the sum of the .2007 cents on page III-6 and the FY1996 mail processing unit cost for third-class carrier route presort letters of .925 cents from LR-H-106, Page V-2. The additional costs for prebarcoded carrier route presort (on page III-6) reflects the delivery point sequencing of this mail.

c. The nonprofit enhanced carrier route presort prebarcoded letter cost of 1.092 cents is the sum of the .2197 cents on page III-8 and the FY1996 mail processing unit cost for third-class nonprofit carrier route presort letters of .872 cents from LR-H-106, Page V-2. The additional costs for prebarcoded carrier route presort (on page III-8) reflects the delivery point sequencing of this mail.

d. Columns 1 and 3 of page III-20 are incorrect since they are inconsistent with page IX-3. In addition, in reviewing the calculation of the costs on page IX-3 it was determined that the October 1, 1997 revision to LR-H-134, Section 6, page 3 on bundle sorting costs also needed to be made to the bundle sorting costs shown on page IX-4 of LR-H-126. Revised pages for LR-H-126 reflecting the revised bundle sorting costs and the correct costs on page III-20 are being filed with the Commission.

e. The calculations for the Pre-reclassification reform bundle sorting costs for First-Class presort and Nonprofit Third-Class flats are being supplied as additional pages for Chapter XI of LR-H-126.

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.

Marc A. Smith
Marc A. Smith

3-6-98
Date

RESPONSE OF POSTAL SERVICE WITNESS THRESS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

2. Refer to witness Thress Testimony (USPS-T-7), pages 224 through 230 and LR H-295, Spreadsheet SF_R97AR.WK4, page SHARE FORECASTS, cells AN9 through AN27 and cells BE9 through BE27.

a. In this docket, the Postal Service proposes that Standard (A) regular automation 5-digit letters be priced 0.4 cents below ECR basic letters and, as a result, witness Thress projects that 29.643 percent of regular ECR basic letter volume will migrate to automation 5-digit letters in the test year. Please provide the formula and calculate the percentage of regular ECR basic letters that will migrate to automation 5-digit letters in the test year under the following rate scenarios: (1) automation 5-digit letters are priced 0.2 cents below ECR basic letters; (2) automation 5-digit letters and ECR basic letters have the same price; and (3) automation 5-digit letters are priced 0.2 cents above ECR basic letters.

b. In this docket, the Postal Service prices Standard (A) nonprofit automation 5-digit letters 0.6 cents below nonprofit ECR basic letters in the test year and, as a result, witness Thress projects that 25.788 percent of nonprofit ECR basic letter volume will migrate to automation 5-digit letters in the test year. Please provide the formula and calculate the percentage of nonprofit ECR basic letters that will migrate to automation 5-digit letters in the test year under the following rate scenarios: (1) automation 5-digit letters are priced 0.3 cents below ECR basic letters; (2) automation 5-digit letters and ECR basic letters have the same price; and (3) automation 5-digit letters are priced 0.3 cents above ECR basic letters.

RESPONSE:

The shares cited above, 29.643 percent of regular ECR letters and 25.788 percent of nonprofit ECR letters are the "shares of ECR letters that could potentially qualify for automation 5-digit letters." (USPS-T-7, p. 226, ll. 3-4) In other words, in my testimony, I calculate that, without any change in mailer behavior, 29.643 percent of regular ECR letters and 25.788 percent of nonprofit ECR letters qualify, in principal at least, as both automation 5-digit letters and ECR basic letters. I then assume that mailers will choose to pay the lowest possible rate for their mail.

Consequently, the level of the rate difference is not assumed to matter in this case, only the existence of a rate difference. That is, as long as automation 5-digit letters are

RESPONSE OF POSTAL SERVICE WITNESS THRESS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

priced below ECR basic letters, my methodology would predict that 29.643 percent of regular ECR basic letters and 25.788 percent of nonprofit ECR basic letters would be sent instead as automation 5-digit letters.

On the other hand, if no discount is offered for barcoding (e.g., for mail that is not eligible for the automation ECR letters rate, ECR basic letters are priced less than automation 5-digit letters), then I would not expect any mailers to enter mail that would qualify for the ECR basic letter rate at the more expensive automation 5-digit letter rate.

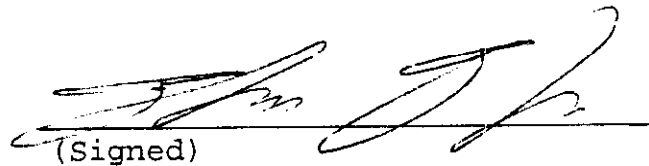
If the rates charged by the Postal Service were set equal for automation 5-digit letters and ECR basic letters, I could not say with any degree of certainty how mailers would choose to enter this mail. Basically, I would expect mailers to send their mail in whichever of these two categories required the least amount of work of the mailer. It may be the case, however, that mailers would choose to enter some of this mail as automation 5-digit letters and some of this mail as ECR basic letters. However, within the volume forecasting spreadsheet, the exact share of this mail sent via these two categories is irrelevant, as all of this mail would face the same price.

Hence, to summarize my answers to your specific questions:

- a. (1) 29.643 percent, as derived in my testimony at pages 224 through 226.
 - (2) Indeterminate (and irrelevant) number between 0 percent and 29.643 percent
 - (3) 0 percent
- b. (1) 25.788 percent, as derived in my testimony at pages 224 through 226.
 - (2) Indeterminate (and irrelevant) number between 0 percent and 25.788 percent
 - (3) 0 percent

DECLARATION

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


(Signed)

3/6/98
(Date)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

3. Refer to witness O'Hara's response to POIR No. 8, Item 15.

b. Witness Plunkett's Workpaper 14 (USPS LR H-207) referred to be witness O'Hara in his response to POIR NO. 8, item 15, details cost adjustments to Special Services, without explaining the \$1,711,000 increase in Other Income from TYBR to TYAR "due to growth in fees." Please provide all of the sources of the \$1,711,000 increase in Other Income and show, in detail, how this increase is calculated.

RESPONSE:

b. My citation to witness Plunkett's Workpaper WP-14, which was originally introduced in the 8-22-97 revision to my Workpaper II, footnote **, is incorrect. The \$1,711,000 increase in Other Income is based on the differences between TYBR and TYAR revenues for (a) four special services (correction of mailing lists, furnishing address changes to election boards, on-site meter setting, and ZIP Coding of mailing lists), as presented in witness Needham's Workpaper WP-17, and (b) merchandise return permit fees and permit imprint fees, as presented in witness Plunkett's Workpaper WP-13. These six differences add up to \$1,711,000.

DECLARATION

I, Donald J. O'Hara, 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.

3-6-98
Date


Donald J. O'Hara

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS NEEDHAM
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

3. Refer to witness O'Hara's response to POIR No. 8, Item 15.

a. Please explain why the income figures for Correction and ZIP Coding of Mailing Lists, Meter Setting Fee, and Permit Imprint Fee in FY 1996 Billing Determinants, Section N, differ from the 1996 income balances of accounts 43381, 43330, and 43383 shown in the attachment to the response to POIR No. 8, Item 15.

RESPONSE:

a. When the FY 1996 Billing Determinants, Section N was prepared, final adjustments for the government fiscal year, for the income balances of accounts 43381, 43330, and 43383, were not available. This also applies to account 43370, Furnishing Address Changes to Election Boards and Registration Commissions.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS NEEDHAM
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 14

4. Witness Needham (USPS-T-39) proposes an increase in the fee for Carrier Sequencing of Address Cards without providing the volume and revenue for this service. Please provide the volume and revenue for FY 1996, TYBR and TYAR, and also identify where the revenue and cost for this service are included in witness O'Hara's summaries of finances.

RESPONSE:

An unknown portion of the Correction of Mailing Lists revenue and volume is for Carrier Sequencing of Address Cards. Therefore, although not broken out specifically, the FY 1996, TYBR, and TYAR Carrier Sequencing of Address Cards revenue and volume is included in USPS-T-39 WP-6. Consequently, the revenue for Carrier Sequencing of Address Cards is included in the "Other" special services line in Exhibit USPS-30A, revised 9-19-97.

DECLARATION

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

Susan W Needham

Dated: March 6, 1998

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.



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
March 6, 1998