

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2006-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

(Issued May 22, 2006)

The United States Postal Service is requested to provide the information described below to assist in developing a record for the consideration of the Postal Service's request for a recommended decision on proposed rates, fees and classifications. To facilitate inclusion of the required material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers. The answers are to be provided by June 5, 2006.

1. In USPS-LR-L-67, witness Kelley refers to an IOCS SAS dataset called TALLY05V2.SAS7BDAT stating that this dataset was filed in USPS-LR-L-9. The Postal Service has not filed TALLY05V2.SAS7BDAT as part of its Library Reference USPS-LR-L-9. Please provide a PC-executable copy of TALLY05V2.SAS7BDAT, the contents of which should match the number of observations and variables the Postal Service has already filed as PRCSAS05.ZIP in USPS-LR-L-9.
2. On page 5 of USPS-T-30, witness Kelley states, "I assume that ten percent of DPS letters do require casing ... ." In the workbook UDCInputs.USPS tab "Inputs" the source for this figure is listed as "DAR." Does this refer to a Decision Analysis Report? If so, please provide the germane pages. If not, please

otherwise define "DAR" and provide supporting documentation for the assumption that 10% of DPS letters require casing.

3. A number of SAS programs and their Excel output spreadsheets have been listed in USPS-LR-L-67. A printout of the SAS programs is also included in the same library reference. Please provide PC-executable copies of the SAS programs and the related spreadsheets listed on page 6 of USPS-LR-L-67 since these files were not included in the initial filing. Please provide documentation of all variables not already included in USPS-LR-L-9, and either provide program flow charts using new file names, or provide a chart showing the correspondence of old file names with the new PC-executable file names.
4. Please refer to both USPS-LR-L-123 and USPS-LR-L-124. All amounts are in thousands of dollars.
  - a) The TYAR revenue for Certified Mail is listed as 698,854. In witness O'Hara's testimony, Exhibit USPS-31B, the value is listed as 698,435. Please reconcile the difference.
  - b) The TYBR revenue for Money Orders is listed as 215,027. In witness O'Hara's testimony, Exhibit USPS-31A, the value is listed as 230,401. Please reconcile the difference.
  - c) The TYBR revenue for P.O. Boxes is listed as 864,612. In witness O'Hara's testimony, Exhibit USPS-31A, the value is listed as 866,319. Please reconcile the difference.
  - d) The TYAR revenue for P.O. Boxes is listed as 951,849. In witness O'Hara's testimony, Exhibit USPS-31B, the value is listed as 953,886. Please reconcile the difference.
  - e) The TYAR revenue for Registered Mail is listed as 60,607. In witness O'Hara's testimony, Exhibit USPS-31B, the value is listed as 60,573. Please reconcile the difference.

- f) The TYBR revenue for Stamped Envelopes is listed as 12,350. In witness O'Hara's testimony, Exhibit USPS-31A, the value is listed as 9,585. Please reconcile the difference.
  - g) Please provide an itemized listing of the revenue items included in "other special services" in witness O'Hara's testimony, Exhibits USPS-31A and USPS-31B.
5. The following question refers to USPS-LR-L-126, workbook "R2006-1 Outside County.xls." Please refer to worksheets "RR TYAR," "NP TYAR," and "CR TYAR." In these worksheets the base year to test year volume forecast ratio was applied to the volumes from worksheet "Test Year BR w 24pc Adjustm't." Please explain the reasons for using the test year before-rates volumes instead of the base-year volumes.
6. The following question refers to USPS-LR-L-126, workbook "R2006-1 Within County.xls." Please refer to worksheet "TYAR BD" cell B23. In this cell the base-year to test-year volume forecast ratio was applied to the test year before-rates volume of Ride-Along pieces. Please explain the reasons for using the test year before-rates volume for Ride-Along pieces instead of the base-year volume as used in cells B5, B6, and B9 through B21.

Questions 7-17 refer to the updated window service variability study and testimony prepared by witness Bradley contained in USPS-LR-L-80, USPS-LR-L-81, and USPS-T-17.

7. Please provide the following files referred to on page 6 of USPS-LR-L-80.
- a. Calculating.Variabilities.xls, and
  - b. Calculating.Variabilities.addendum.xls.

8. Please provide the file entitled, "Average Product Times.R2006.xls" referred to on page 3 of USPS-LR-L-81.
9. USPS-LR-L-80 at page 3 states that "various variables are created using EViews 'GENR' function. Each created value is self documented including the formula used to create it." Please provide a listing and description of each formula for every variable created in EViews and subsequently used in USPS-LR-L-80 and USPS-LR-L-81.
10. Please provide an Excel spreadsheet of the input data (prior to deletion of any observations) used to produce "First Estimation: Calculating Residuals for Analysis," on page 9, USPS-LR-L-80.
11. Please provide an Excel spreadsheet with the variable PMRESIDS sorted with the corresponding observation for BKSTID.
12. This question seeks clarification of the variables contained in USPS-LR-L-80, wscleanpos.11.3.05.xls. Please confirm whether the variable "length" is identical to the variable "TIME" on p. 4 of USPS-LR-K-80, USPS-LR-L-80 (Bradley).doc. If not, please explain the meaning of "Length" and provide an Excel spreadsheet with the variable "Time" sorted with the corresponding observation for BKSTID.
13. This question seeks clarification of the manner in which EViews treats blank cells imported from Excel. The spreadsheet, wscleanpos.11.3.05.xls, tab "Final" in LR-L-80 contains cells with 0s and blank cells. How were blank cells treated by EViews?
  - a. Does EViews consider blank cells to be missing values or are blank cells automatically equated with 0s?
  - b. Were blank cells transformed to zero values?

14. These questions seek information on how variables in USPS-LR-L-80 were calculated and regressions performed.
- a. How was the variable “Credit” calculated? Which categories of the variable “tender-type” (tentype in worksheet, wscleanpos.11.3.05.xls, Tab “Overview”) were used to construct this variable?
  - b. How was the variable “OWR” calculated? Is OWR equal to “Other” in wscleanpos.11.3.05.xls, tab “Final?”
    - i. If OWR can be calculated from variables already contained in wscleanpos.11.3.05.xls, please explain how OWR is calculated.
    - ii. If OWR cannot be calculated from variables already contained in wscleanpos.11.3.05.xls, please provide an Excel spreadsheet that links the values of OWR to the corresponding value of the variable “bkstid” in wscleanpos.11.3.05.xls.
  - c. Please provide a table linking the variable “locID” provided in wscleanpos.11.3.05.xls, tab “Final” with the corresponding dummy variable numbers used in the various regressions presented in this library reference.
  - d. Please confirm that with the exception of the regression entitled, “Including Only A Single Intercept” on page 15, all regressions were run through the origin.
  - e. Please confirm that the identification of high positive and negative residuals referred to on page 25 of USPS-T-17 was made after outlier values for transaction time, stamped envelopes per transaction, priority mail per transaction and non-bulk stamp transactions were removed.
  - f. Please confirm that “Other SS1” listed on page 19 of USPS-LR-L-80 is the same as OSS as defined on p.5 of the same library reference. If not, please explain the differences between the two variables, and provide an

Excel spreadsheet that links the values of “Other SS1” to the corresponding value of the variable “bkstid” in wscleanpos.11.3.05.xls.

15. USPS-LR-L-80 at page 19 states that “ $\beta(0)$  is calculated as the average value for the site-specific intercepts, the payment variables and the item variable.”
  - a. Please identify the payment variables, and provide the coefficients used to make this calculation.
  - b. Please confirm that “the average of the payment variables” refers to the average of their coefficients estimated in the Recommended Model on page 7.
  - c. If you don’t confirm, please describe the means by which you calculated these values and provide the values of the payment variables used in the calculation of  $\beta(0)$ .
  
16. USPS-T-37 at page 12 states, “... there is no empirical measure of the derivative of total transactions with respect to the transactions volume for product k.”
  - a. Please identify the data that would have had to have been collected to perform this calculation.
  - b. Wouldn’t a transformation of any cells in wscleanpos.11.3.05.xls, tab “Final” that contain multiple quantities of items to the value “1” allow a regression of total transactions against the transactions volume for each product that could produce the desired derivative?
  - c. If not, please explain why not?
  
17. USPS-T-15 at page 15 states,  $\frac{\partial n_{SISQ_k}}{\partial X_k}$  “... can be approximated by assuming that the rate of change in SISQ transactions of a particular type is equal to their representation in the current population of transactions. The rate of change in

SISQ transactions for a particular item is thus approximated by the proportion of those transactions in all transactions. 
$$\frac{\partial n_{SISQ_k}}{\partial X_k} = \frac{n_{SISQ_k}}{n}$$

- a. Please identify the economic conditions under which the last mathematical expression would be true.
  - b. Please explain why you believe these conditions are approximately true.
18. Please refer to USPS-LR-L-46. The addendum on page 75 states, "After results of the initial models were incorporated into the analysis of the downstream witnesses, errors were discovered in the calculations of the Parcel Post, Bound Printed Matter, and Media/Library Mail cost estimates."
- a. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Inputs." All of item 17 except a and k, and all of item 19 use cost figures from USPS-LR-L-46. Please update these figures with data from the USPS-LR-L-46 workbook "Parcel Post REV.xls"
  - b. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-41\_BPM.xls," sheet "Inputs." Items 12d, 12e, 13b, and 13c on this sheet use cost figures from USPS-LR-L-46. Please update these figures with data from USPS-LR-L-46, workbooks "Bound Printed Matter REV.xls," and "Parcel Post REV.xls."
  - c. Please refer to USPS-LR-L-41, workbook "R2006\_USPS-LR-L-46\_Media and Library Spreadsheets.xls," sheet "Inputs." Items 9-11 use cost figures from USPS-LR-L-46. Please update these figures with data from USPS-LR-L-46, workbooks "Media – Library Mail REV.xls," and "Parcel Post REV.xls."
19. Please refer to USPS-LR-L-82, excel workbook "WP-ParcelPost.xls," sheet "Inputs."

- a. Item 6l shows the estimated TYBR PRS growth, with the Note section saying, “Assumed PRS growth between FY 2006 and TY 2008.” Please explain the basis for this assumption.
  - b. Item 13 shows the share of Parcel Select using no-fee Delivery Confirmation. The Notes section says this value is an assumption. Please describe the basis for this assumption.
  - c. Item 17k shows the Electronic Delivery Confirmation cost per piece. The Notes section says this is an estimated value. Please provide workpapers showing how this figure is derived.
20. Please refer to USPS-LR-L-82, excel workbook “WP-ParcelPost.xls” sheets that show Billing Determinants information for Intra-BMC, Inter-BMC, and Parcel Select (WP-PP-4 to WP-PP-6). It appears there are mistakes with several of the “Percent Nonmachinable Pieces” figures. The following table list the figures given in USPS-LR-L-82 as compared with the figures that are listed in USPS-LR-L-77, which is the library reference that shows the 2005 Billing Determinants:

<b>Service</b>	<b>LR-82 % Non-Mach Pieces</b>	<b>LR-77 % Non-Mach Pieces</b>
Intra-BMC	18.920615%	19.02391%
Inter-BMC	13.216375%	13.31049%
DBMC	6.4011060%	6.4029%

Please explain these differences and make any necessary corrections.

21. Please refer to USPS-LR-L-82, workbook “WP-ParcelPost.xls,” sheet “Cube-Weight Relationships.” Please confirm that the note on the bottom of this sheet should refer to USPS-LR-L-89, not to USPS-LR-L-47.
22. Please refer to USPS-LR-L-82, workbook “WP-ParcelPost.xls,” sheet “TYBR Volumes,” to the notes section at the bottom of the sheet. The part of note [2] explaining the derivation of pounds 1 and 2 for Intra-BMC volumes appears to be incorrect. Please confirm that the methodology used to compute these values is the same methodology used to compute Intra-BMC volumes for pounds 3 – 70

pounds, not the methodology referred to in note [2]. (It appears the note refers to the methodology used in R2001-1, which is not used in this case.)

23. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Balloon Costs." The per piece excess cost of balloon parcels is equal to the balloon transportation cost minus the 15 pound transportation cost plus the balloon weight-related non-transportation cost minus the 15 pound weight related non-transportation cost (rows 11, 16, 21, 26, 31). The proposal in this case asks that the balloon rate class maximum weight requirement be pushed up to 20 pounds (from 15) and that likewise it be charged the 20 pound rate. Why was the 15 pound costs used in the formula instead of the 20 pound costs?
24. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," to the sheets that show the constrained rates (WP-PP-25 – WP-PP-27.) It appears that the numbered notes on the bottom of the page do not correspond with the numbers that appear with the data. Please make the necessary corrections and provide a revised version.
25. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "RDU Savings Calculations," note [1]. Please confirm that the note should show that the nonmachinable surcharge should be added for pounds 36 – 70, not pounds 1 – 35.
26. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Parcel Post Financials," note [Ab]. Please confirm that the note should show that the formula for [Ab] is:  $(\text{Input 14a}) + (\text{Total Dimensional Wt. Volume})$ . (The note currently shows [Ab] is equal only to Input14a.)
27. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "PRS Revenue Impacts," note [2]. Please confirm that the section of note [2] that

shows the methodology for 36 pounds to 70 pounds should not show the subtraction of the Intra-BMC Nonmachinable surcharge, as the actual formula used does not perform this step.

28. Please refer to USPS-LR-L-82, workbook "WP-ParcelPost.xls," sheet "Dim-Wt Migrants Unit Costs," section [3] (Total Costs including Basic per piece cost). Please explain why the balloon costs for Intra-BMC (WP-PP-18 cell M13) are added to each cell as opposed to the balloon cost for Inter-BMC (WP-PP-18, cell M18).
  
29. Please refer to USPS-LR-L-82, workbook WP-ParcelPost.xls. Throughout this workbook there appear to be multiple inaccuracies with references that refer to information found in "Inputs." The actual numbers used in these instances are correct, but the references do not refer to the actual numbers used. Please confirm, with respect to references to items from "Inputs," that on sheet:
  - a. "TYBR Volumes" note 2 should refer to item 6c, note 3 should refer to item 6f, note 4 should refer to 6 (k, j, and i) and note 4 should refer to 6p and 6o;
  - b. "TYBR Adjusted Revenue" notes should refer to item 6 instead of 7 (with 6f instead of 7j for note [Bx]), 8 instead of 9, 9 instead of 10, 4 instead of 5, 10 instead of 11, 11 instead of 12, and 5 instead of 6;
  - c. "Cubic Foot Costs" notes should refer to item 16 instead of 19;
  - d. "Wt.-Related Non-Transp. Costs" note [3] should refer to item 17 instead of 20;
  - e. "Oversized Costs" notes should refer to item 17 instead of 20;
  - f. "Leakages and Surcharges" notes should refer to item 6 instead of 7, 8 instead of 9, 9 instead of 10, 10 instead of 11, 11 instead of 12, and 17 instead of 20;

- g. “Per Piece Costs and Charges” notes should refer to item 15 instead of 18, 12 instead of 14, 6 instead of 7, 17 instead of 20, and 13 instead of 15;
- h. “Preliminary Intra-BMC Rates” and “Preliminary Inter-BMC Rates” notes should refer to item 17 instead of 20;
- i. “Preliminary Parcel Select Rates” notes should refer to item 17 instead of 20 and 9 instead of 10;
- j. “Constrained Intra-BMC Rates,” “Constrained Inter-BMC Rates,” and “Constrained Parcel Select Rates” notes should refer to item 17 instead of 20;
- k. “TYAR Volumes” notes should refer to item 14 instead of 17 (with 14j instead of 17n, 14m instead of 17k, and 14l instead of 17m);
- l. “RDU Savings Calculation” notes should refer to item 23 instead of 26, 16 instead of 19, 19 instead of 22, 14m instead of 17n, 9 instead of 10, and 6 instead of 7;
- m. “RBMC Savings Calculation” and “PRS Oversize Cost Savings” notes should refer to item 19 instead of 22, 16 instead of 19, and 23 instead of 26.

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