

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, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF
THE MCGRAW-HILL COMPANIES, INC.
(MH/USPS-1)

The United States Postal Service hereby provides its response to the following interrogatory of The McGraw-Hill Companies, Inc.: MH/USPS-1, filed on March 23, 2000.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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April 13, 2000

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INTERROGATORY OF MCGRAW HILL

MH/USPS-1: With respect to domestic air transportation costs for Periodicals mail:

- a. Please confirm that in R97-1, the 1998 TYAR costs were determined to be \$17.425 million. If you do not confirm, please state the correct amount of the TYAR costs determined in R97-1, and specify your source.
- b. Please confirm that in this proceeding, the 1998 BY costs are estimated to be \$23.778 million. If you do not confirm, please state the correct amount of the estimated BY costs in this proceeding, and specify your source.
- c. Please explain fully all reasons (operational and otherwise) why the BY 1998 domestic air transportation costs attributed to Periodicals mail in this proceeding are 36.5 percent higher than the TYAR 1998 domestic air transportation costs attributed to Periodicals mail in R97-1, and why air transportation is being used for Periodicals mail to this extent, and provide all documents that discuss such reasons.

RESPONSE

- a. Not confirmed. In R97-1, the Postal Rate Commission determined Periodicals domestic air transportation costs to be \$17.458 million. \$17.425 million is the domestic air costs excluding Alaskan Air. See page 13 of Appendix J to its Opinion and Recommended Decision, Docket No. R97-1.
- b. Not confirmed. According to witness Meehan's B workpapers, the Base Year domestic air transportation costs for Periodicals are \$23.954 million. \$23.778 million is the Periodicals domestic air costs excluding Alaskan Air.
- c. Periodicals' share of non-Alaska air transportation costs was higher for BY 1998 than for TY 1998. Since most of this share is determined by TRACS, the Postal Service concludes that a higher percentage of the pound miles of mail flown in FY 1998 were flown by Periodicals than in BY1996. (BY 1996 is the source of the distribution keys implicit in TY 1998.) In short, Periodicals

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INTERROGATORY OF MCGRAW HILL

appeared to use more air transportation in 1998 than was predicted in Docket No. R97-1. The shares of Periodicals costs in the Commercial Air, Eagle, Western, and Christmas cost pools were all higher for BY 1998 than they were for TY 1998. About 80 percent of the Periodicals air costs derive from the passenger air cost pool. The distribution factor for this cost pool implicit in the TYAR result is 1.67 percent. For BY 1998, the factor is 2.26 percent, a 37.4 percent increase. This share increase is thought to be the result of a commingling of Periodicals flats with First-Class and other mail normally routed on air transportation. This commingling may occur when the mail in flat sorting operations is not adequately separated between Periodicals and other mail. The separation can be accomplished by such additional activities as sweeping flat sorting machines between the processing of Periodicals and other mail that normally receives air transportation. Beginning in FY 1999, the Postal Service undertook an effort to move Periodicals off of air transportation. There are no documents describing the above reasoning. There is also the possibility that the difference in shares is partly explained by random variations in the TRACS distribution keys. The Postal Service has no estimate of whether or to what extent statistical variance may have affected the result.

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.

A handwritten signature in black ink, appearing to read "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

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