

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

RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS MILLER TO INTERROGATORIES OF ABA&NAPM

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of American Bankers Association and National Association of Presort Mailers, which were filed on February 18, 2000:

ABA&NAPM/USPS-T24-1, 2, 3, 5, 6, 7(a), 8, 11, 12, 13, 14, 16-21, 22(b),(c), 23 and 24.

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

An objection to ABA&NAPM/USPS-T24-10 was filed on February 29, 2000.

Interrogatory ABA&NAPM/USPS-T24-4 has been redirected to witness Bozzo for response.

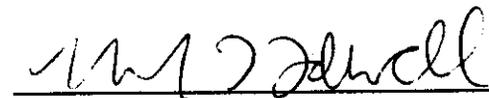
The following interrogatories have been redirected to the Postal Service for response: ABA&NAPM/USPS-T24-7(b), 9, 15 and 22(a).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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ABA&NAPM/USPS-T24-1 For Table 1, please reproduce the data using:

- a. the same methods that the Postal Service used in R97-1;
- b. the same methods used by the Commission in R97-1.

RESPONSE:

a. b. *The data inputs for the cost models used in my testimony have been developed to accommodate the many improvements that have been made to the cost methodology used in this docket (see USPS-T-24, page 3, lines 7-13). In many cases, these data are not compatible with the models that were used in Docket No. R97-1. Therefore, it is not possible to simply "reproduce" Table 1 using the cost models and methodology from past dockets. In addition, it is not advisable to conduct such an undertaking, as the improvements have been made to more closely reflect the current mail processing environment and accurately measure costs.*

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ABA&NAPM/USPS-T24-2

- a. Please confirm that your "non-worksharing fixed" costs are listed as mail processing costs in the audited version of the annual CRA.
- b. Please confirm that these costs were included in the calculation of discounts by the USPS and the Commission in R97-1.
- c. Please confirm that there have been no substantive changes to the technology of mail processing for workshared letters since R97-1.

RESPONSE:

a. It can be confirmed that the "non-worksharing related fixed" costs are included in the Test Year CRA mail processing unit cost estimates for various categories, as included in the testimony of Postal Service witness Smith (USPS-T-21, Attachment 17). However, it should be noted that these mail processing unit cost estimates include costs above and beyond those found solely in Cost Segment 3.1, "Mail Processing Direct Labor." The CRA mail processing unit cost estimates also contain indirect ("piggyback") costs that are found in other cost segments (see USPS-T-21, page 16).

b. Confirmed.

c. Not confirmed. The term "substantive changes" is subjective. I consider the letter automation projects that the Postal Service has implemented, and continues to implement, to be substantive (see USPS-T-10, Section II.A.4 "Automation Update" and Section II.A.5 "Description of Future System").

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ABA&NAPM/USPS-T24-3

- a. Are the volume variability factors you adopt from USPS-T-17 less than 100% volume variability for mail processing labor?

RESPONSE:

a. The volume variability factors that I use to calculate the marginal productivities (MODS productivity / Volume Variability Factor) can be found in Appendices I (page I-43, column 1), II (page II-30, column 1), and III (page III-30, column 1) of my testimony. In most cases, these factors are less than 100%. However, the factors related to the Remote Encoding Centers (REC) and Letter Mail Labeling Machine (LMLM) operations are both 1.005, or 100.5%, which is greater than 100%.

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ABA&NAPM/USPS-T24-5 By cost pool, how, if at all, do the piggyback, premium pay, and MODS productivities/BCS accept rates factors "associated with your testimony" (page 2, line 22) vary quantitatively from those used by USPS in R97-1? For each difference, list the difference, the cost pool, and explain why the piggyback, premium pay, or MODS productivities/BCS accept rates factors have changed from those used in R97-1.

RESPONSE:

In general, the inputs used in my cost models consist of average data or, where possible, data by subclass (e.g., premium pay factors). The CRA proportional adjustment factors are applied to the cost model results in order to compensate for: 1.) the fact that average data are used, and 2.) the fact that simplified processing assumptions (e.g., no circular mail flows) are used.

Piggyback Factors: The operation specific piggyback factors associated with my testimony are taken from the testimony of witness Smith (USPS-T-21, Attachment 14). In general, the factors used in Docket No. R97-1 are close in magnitude to those used in this docket. I made one significant change regarding piggyback factors in my testimony. In Docket No. R97-1, the Mail Processing Bar Code Sorter (MPBCS) piggyback factor was used for all automation operations. In reality, both the Delivery Bar Code Sorter (DBCS) and MPBCS are used to process automation mail. For example, the DBCS is now used to process roughly 96% of the mail in the outgoing primary operations (871/891). The DBCS, however, is used to a lesser extent for operations that are further "downstream." Therefore, I have developed weighted MPBCS/DBCS piggyback factors based on the volume of mail that is processed on each machine for each operation (see USPS-T-24, page 9, lines 20-29). As a result, some automation piggyback factors have changed significantly in this docket.

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The Letter Mail Labeling Machine (LMLM) piggyback factor also changed significantly (44.72%) in this docket. This change has occurred because the LMLM piggyback factor is basically a new factor. In Docket No. R97-1, the same piggyback factors were used for both the Remote Encoding Center (REC) and the LMLM. In this docket, separate factors have been calculated to reflect the fact that LMLM machines are located at plants and not at REC sites.

<u>Piggyback Factor</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
Outgoing ISS	2.001	2.095	- 0.094	- 4.70%
Outgoing REC	1.516	1.450	0.066	4.35%
Outgoing OSS	1.757	1.719	0.038	2.16%
Outgoing LMLM	2.623	1.450	1.173	44.72%
Outgoing Prim Auto	2.263	1.719	0.544	24.04%
Outgoing Prim Man	1.360	1.372	- 0.012	- 0.88%
Outgoing Sec Auto	1.236	1.719	- 0.483	-39.08%
Outgoing State Man	1.360	1.372	- 0.012	- 0.88%
Incoming ISS	2.001	2.095	- 0.094	- 4.70%
Incoming REC	1.516	1.450	0.066	4.35%
Incoming OSS	1.621	1.719	- 0.098	- 6.05%
Incoming LMLM	2.623	1.450	1.173	44.72%
Incoming MMP	2.151	1.719	0.432	20.08%
Incoming ADC Man	1.396	1.372	0.024	1.72%
Incoming SCF/Prim Auto	2.024	1.719	0.305	15.07%
Incoming SCF/Prim Man	1.360	1.372	- 0.012	- 0.88%
Incoming 5-Digit BC Sort	2.024	N/A	N/A	N/A
Incoming Sec Auto Carrt	2.063	1.719	0.344	16.67%
Incoming Sec Auto 3-Pass DPS	1.854	1.948	- 0.094	- 5.07%
Incoming Sec Auto 2-Pass DPS	2.290	2.434	- 0.144	- 6.29%
Incoming Sec Man Plant	1.360	1.372	- 0.012	- 0.88%
Incoming Sec Man DU	1.360	1.372	- 0.012	- 0.88%
Box Section DPS	1.396	1.366	0.030	2.15%
Box Section Other	1.396	1.366	0.030	2.15%
Tray Bundle Sort (FCM)	1.542	1.607	- 0.065	- 4.22%
Tray Bundle Sort (STDA)	1.528	1.600	- 0.072	- 4.71%

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RESPONSE to ABA&NAPM/USPS-T24-5 (Continued)

Premium Pay Factors: The premium pay factors that support my testimony can be found in the testimony of witness Smith (USPS-T-21, Attachment 15). These factors are nearly identical to those used in Docket No. R97-1.

<u>Premium Pay Factor</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
First-Class Mail	1.023	1.011	0.012	1.17%
Standard (A) Regular	0.961	0.958	0.003	0.31%
Standard (A) Non Profit	0.961	0.958	0.003	0.31%

MODS Productivities: The MODS productivities associated with my testimony can be found in USPS LR-I-107. The values listed below are the MODS values only; they are not the "marginal productivities" that have been adjusted using volume variability factors (where appropriate). The unadjusted MODS productivities are being compared here because the volume variability methodology between dockets has also changed. I have made one significant change regarding the productivities in my testimony. In this docket, the productivities have been de-averaged by operation.

For example, in Docket No. R97-1, an average productivity was used for the Input Sub System (ISS) operations. In this docket, separate productivities have been calculated for both the outgoing and incoming ISS operations. As a result, the outgoing ISS productivity (6,847) is higher than the average value used in Docket No. R97-1 (5,779), while the incoming ISS (4,370) productivity is lower than that used in Docket No. R97-1.

The REC productivity used in this docket is lower than that used in Docket No. R97-1 because that figure represented the "images lifted" per Data Conversion

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Operator (DCO) hour. In other words, the impact from the Remote Computer Read (RCR) system was imbedded in the productivity value. In this docket, the RCR finalization rate has been considered separately. This change has been made to enhance model flexibility because the RCR finalization rate continues to increase as image recognition technology improves. Therefore, the finalization rate itself can be changed to reflect different processing scenarios. As a result, the REC productivity that is being used in this docket is the "images keyed" per DCO hour, rather than the "images lifted" per DCO hour.

The Output Sub System (OSS) productivities in this docket are lower than those used in Docket No. R97-1. This may be the result of DBCS-OSS deployments. The productivity used in Docket No. R97-1 was based on the MPBCS-OSS operation numbers only. In this docket, the DBCS-OSS operation numbers have also been included. The DBCS is generally considered to have higher machine throughputs than the MPBCS, but the number of bins and machine configuration result in a greater amount of sweeping time.

The BCS automation operations have all been de-averaged in a manner similar to that described previously for the ISS. Some operation productivities are therefore lower, while others are higher, than the average value used in Docket No. R97-1. In addition, these productivities may be lower overall because the DBCS is carrying a greater workload burden for non-incoming secondary operations than it did in the past.

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The manual productivities that have changed may be due to the fact that the specific MODS operation numbers used in this docket do not always match those used in Docket No. R97-1.

Finally, the last four productivity values listed below have not changed at all because Docket No. R97-1 data have also been used in this docket.

<u>MODS Productivity</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
Out ISS	6,847	5,779	1,068	15.60%
Inc ISS	4,370	5,779	- 1,409	- 32.24%
REC	673	816	- 143	- 21.25%
LMLM	3,871	4,999	- 1,128	- 29.14%
Out OSS	8,976	11,321	- 2,345	- 26.13%
Inc OSS	8,118	11,321	- 3,203	- 39.46%
Out BCS Primary	5,729	7,054	- 1,325	- 23.13%
Out BCS Secondary	8,323	7,054	1,269	15.25%
Inc BCS MMP	5,565	7,054	- 1,489	- 26.76%
Inc BCS SCF/Primary	5,896	7,054	- 1,158	- 19.64%
Inc BCS Sec Carrt	5,214	6,266	- 1,052	- 20.18%
Inc BCS Sec DPS	8,737	7,929	808	9.25%
Inc CSBCS Sec DPS	13,334	17,124	- 3,790	- 28.42%
Manual Out Primary	486	527	- 41	- 8.44%
Manual Out Secondary	477	551	- 74	- 15.51%
Manual MMP	601	605	- 4	- 0.78%
Manual Inc SCF/Prim	638	714	- 76	- 11.91%
		448	190	29.78%
Manual Inc Sec MODS	511	515	- 4	- 0.78%
Manual Inc Sec Non-MODS	1,143	1,143	0	0.00%
P.O. Box Sort DPS	2,341	2,341	0	0.00%
P.O. Box Sort Other	1,171	1,171	0	0.00%
Tray Open Bundle Sort	160	160	0	0.00%

BCS Accept Rates: The BCS accept rates can also be found in USPS LR-I-107.

In general, the BCS accept rates changed very little between Docket No. R97-1 and Docket No. R2000-1. The biggest change, in percentage terms, occurred in the non-Delivery Point Sequencing (DPS) incoming secondary operation (a 6.45% increase).

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<u>BCS Accept Rate</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
Out BCS Primary	95.20%	95.00%	0.20%	0.21%
Out BCS Secondary	95.80%	95.00%	0.80%	0.84%
Inc BCS MMP	95.80%	95.00%	0.80%	0.84%
Inc BCS SCF/Primary	95.70%	95.00%	0.70%	0.73%
Inc BCS Sec Carrt	96.10%	89.90%	6.20%	6.45%
Inc BCS Sec DPS Pass1	97.50%	95.00%	2.50%	2.56%
Inc BCS Sec DPS Pass 2	97.50%	95.00%	2.50%	2.56%
Inc CSBCS Sec DPS Pass1	98.90%	98.50%	0.40%	0.40%
Inc CSBCS Sec DPS Pass2,3	98.90%	99.00%	- 0.10%	- 0.10%

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ABA&NAPM/USPS-T24-6 On page 3, lines 11 and 12, you assert you have excluded certain costs from mail processing unit costs because they are "non-worksharing related costs."

- a. State why, in your opinion, these costs are "non-worksharing related" costs.
- b. Were these costs excluded by the Postal Service in its R97-1 calculation of mail processing costs? If your answer is "No.", explain why.
- c. Were these costs excluded by the Postal Service in MC95-1, or in earlier rate cases? If your answer is "No." explain why for each case.
- d. Were these costs excluded by the Commission in its O & RD in R97-1, in MC951, in R94-1, in R90-1?
- e. Have you similarly excluded any cost pools in this case for Standard Mail A in connection with setting worksharing discounts for that class of letter mail. If not explain, why not.

RESPONSE:

- a. See my response to ABA&NAPM/USPS-T24-12.
- b.c.d. These questions do not always afford a "yes" or "no" response because the cost methodology being used has been changing over time. For example, the use of cost pools, as well as the number of cost pools, has changed.
- e. The cost pools that have been classified as "non-worksharing related fixed" for the Standard (A) Regular and Standard (A) Non Profit CRA mail processing unit cost categories have also been excluded from the worksharing related savings calculations.

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ABA&NAPM/USPS-T24-7

a. Do you agree that a "hybrid" cost methodology (page 3, line 3) is in principle inferior to a pure cost methodology, for example a CRA that measured actual rather than modeling mp costs by rate category? If not, explain fully why not.

b. Referencing line 23 of page 4 in your testimony, has the USPS ever tried to upgrade the CRA to rate category level? Please list all information as to why the USPS has not made such an effort, or if it has, why the work was not completed.

RESPONSE:

a. No, I do not agree. As per PRC Op. MC95-1 paragraph 4214, it may be more appropriate to use a specific cost methodology under specific circumstances. For, example, when new discounts are offered, "clearly capturable cost avoidance" methodologies are often used, rather than "hybrid" or "full cost difference" methodologies. In addition, I would think that the In-Office Cost System (IOCS), as with any work sampling system, would always have limitations in terms of how various data can be grouped and categorized. Therefore, I could see where it would not always be possible to calculate CRA mail processing unit costs, for example, at the rate category level.

b. Redirected to the Postal Service.

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ABA&NAPM/USPS-T24-8 On page 4, line 9-10, you state that your definition of fixed cost pools include costs that do not vary directly as a result of the "specific worksharing options chosen by a given mailer."

- a. Which of your fixed costs vary indirectly, if not directly, with specific worksharing options chosen?
- b. Do your fixed costs vary with the volume of mail workshared at rate category levels combined, or are they fixed regardless of volume?

RESPONSE:

a. See the cost pools classified as "Other Worksharing Related (Fixed) Mail Process Cost Pools" in USPS-T-24, Appendices I (pages 7-15), II (pages 5-6) and III (pages 5-6).

b. In my testimony, I do not use the term "fixed cost" to refer to costs that do not vary with volume, as that term is used in economics. The "fixed" cost pool classification means that those costs are assumed to be the same for the rate categories that are being de-averaged using cost models.

For example, the automation basic, 3-digit, and 5-digit letter cost models are used to de-average the CRA mail processing unit costs for "First-Class automation non-carrier route presort letters." The "LD 49" (Computerized Forwarding System) cost pool is classified as "worksharing related fixed." This classification simply means that the costs are affected by worksharing and are assumed to be the same for all three rate categories.

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ABA&NAPM/USPS-T24-11

a. Please list the actual mail processing wage rates for USPS automation plants, including separately a wage rate for each category of labor, including overtime and premium pay schedules, experience rating schedules by actual number of employees, geographic differences, and all schedules current in effect at RBCS/RCR/REC centers.

b. Please explain how your choice of only two wage rates in your analysis can accurately measure mail processing costs for the full variety of wages actually paid, as detailed above in a. above.

RESPONSE:

a. The total mail processing unit cost estimates and the worksharing related savings calculations found in my testimony are based on average nationwide data. These data are used because the rates would also be administered on a nationwide basis. Therefore, I have not undertaken a data collection exercise to obtain wage information at the facility level. Such an undertaking would be extremely time consuming and would not offer any advantages, given that the cost models are tied to average CRA mail processing unit cost data that reflect costs on a nationwide basis.

b. The letter and card cost models are affected by three wage rate categories: REC Data Conversion Operators (DCO), mail processing clerks, and manual clerks. The DCO wages are lower than those found in a plant; therefore, that wage rate has been disaggregated from the "other mail processing" wage rate. In my experience, the wages paid to mail processing clerks and manual clerks do not differ substantially. Therefore, I use one average wage rate for both manual and automated letter and card mail processing operations. In any event, the CRA proportional adjustment factors are applied to the final model cost results to compensate for the fact that average data are often used.

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ABA&NAPM/USPS-T24-12 Please identify every component of mail processing costs included in the annual CRA, and which components you have excluded from your own measures of mail processing costs for the purpose of measuring worksharing savings. For each excluded CRA component, justify the basis for your exclusion of the CRA measure.

RESPONSE:

In this docket, I have used a more conservative hybrid cost methodology to calculate the worksharing related savings for each rate category when compared to that used in Docket No. R97-1. Rather than assuming that all cost pools are affected by mailer worksharing (prebarcoding and presorting) activities, I have only included those cost pools that contain presort letter/card piece distribution and/or package distribution costs. The remaining cost pools have been classified as "non-worksharing related fixed" cost pools. The rationale behind the cost pool classifications is as follows:

1. BMC NMO FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains costs for processing Non Machinable Outside (NMO) parcels at Bulk Mail Centers (BMC) and should not be affected by mailer worksharing activities related to letters and cards.

2. BMC OTHR FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to allied labor at BMCs. First-Class Mail is not processed at BMCs and would therefore be classified as indicated. Standard (A) Mail is processed at BMCs, but this cost pool does not involve piece distribution or package distribution activities. Therefore, it has been classified as indicated.

3. BMC PLA FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to platform operations at BMCs. First-Class Mail is not processed at BMCs and is therefore classified as indicated. Standard (A) Mail is processed at BMCs, but this cost pool does not involve piece distribution or package distribution activities. Therefore, it has been classified as indicated.

4. BMC PSM FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Parcel Sorting Machines (PSM) at BMCs and should not be affected by mailer worksharing activities for letters and cards.

5. BMC SPB FCM: Non-Worksharing Related Fixed
 STDA (Nonauto): Worksharing Related
 Proportional
 STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) operations at BMCs. First-Class Mail is not processed at BMCs and would therefore be classified as indicated. The SPBS, however, is used to process Standard (A) bundles at BMCs. Standard (A) nonautomation presort letter trays can contain bundles and bundle sorting costs are included in the cost models; therefore a "worksharing related proportional" classification is used. Standard (A) automation presort letter trays should not contain bundles. In this instance the classification "worksharing related fixed" is used. Automation letters are still classified as "worksharing related" in order to maintain the proper cost relationship between nonautomation and automation presort letters. However, a "fixed" classification is used so that the cost relationships between the automation rate categories themselves are not skewed when cost models are used to de-average CRA mail processing unit costs.

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6. BMC SSM FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Sack Sorting Machines (SSM) at BMCs. First-Class Mail is not processed at BMCs and is therefore classified as indicated. Standard Mail (A) is processed at BMCs, but this cost pool does not involve piece distribution or package distribution activities. Therefore, it has been classified as indicated.

7. MODS BCS/ FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to Bar Code Sorter (BCS) operations at MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

8. MODS OCR/ FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to Optical Character Reader (OCR) operations at MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

9. MODS FSM/ FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Flat Sorting Machines (FSM) at MODS facilities. This cost pool does not include costs related to the piece distribution

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or package distribution of letters or cards. Therefore, it has been classified as "non-worksharing related fixed."

10. MODS LSM FCM: Worksharing Related Proportional
 STDA: Worksharing Related Proportional

This cost pool contains the costs related to Letter Sorting Machine (LSM) operations at MODS facilities. As witness Kingsley indicated in her testimony (USPS-T-10, page 3, line 27 to page 4, line 3), very few LSMs remain in the field. The cost models do not include LSM operations as a result of this fact. Despite the assumption that LSMs are no longer used, this cost pool has been classified as "worksharing related proportional" to reflect the fact that some sites may still be using the LSM for piece distribution of letters and cards.

11. MODS MECPARC FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to mechanized parcel sorting operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

12. MODS SPBS OTH FCM: Non-Worksharing Related Fixed
 STDA (Nonauto): Worksharing Related
 Proportional
 STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) bundle sorting operations at MODS facilities. The SPBS is not typically used to process First-Class Mail letter bundles. It is, however, used to process Standard (A)

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letter bundles. Standard (A) nonautomation presort letter trays can contain bundles and bundle sorting costs are included in the cost models; therefore a "worksharing related proportional" classification is used. Standard (A) automation presort letter trays should not contain bundles. In this instance the classification "worksharing related fixed" is used. Automation letters are still classified as "worksharing related" in order to maintain the proper cost relationship between nonautomation and automation presort letters. However, the "fixed" classification is used in order not to skew the relationships between the three automation rate categories that are being de-averaged using cost models.

13. MODS SPBS PRIO FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) priority mail sorting operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

14. MODS 1SACKSM FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to mechanized sack sorting operations at MODS facilities. On occasion, these sorting machines may be used to process letter trays. However, these operations are not related to piece distribution or package distribution of letters or cards. Therefore, the "non-worksharing related fixed" classification is used.

15. MODS MANF FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to manual flat sorting operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

16. MODS MANL FCM: Worksharing Related Proportional
 STDA: Worksharing Related Proportional

This cost pool contains the costs related to manual letter sorting operations in MODS facilities. These costs are included in both the First-Class Mail and Standard (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

17. MODS MANP FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to manual parcel sorting operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

18. MODS PRIORITY FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to manual priority mail sorting operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

19. MODS LD15 FCM: Worksharing Related Proportional
 STDA: Worksharing Related Proportional

This cost pool contains the costs related to Labor Distribution Code (LDC) 15 operations in MODS facilities. This LDC contains the costs related to REC keying operations and LMLM operations. These costs are included in both the First-Class Mail

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and Standard (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

20. MODS 1BULKPR FCM: Worksharing Related Fixed
STDA: Worksharing Related Fixed

This cost pool contains the costs related to tray sortation (based on the next operation) once presort mail has been accepted and verified by the Bulk Mail Entry Unit (BMEU). These costs have therefore been classified as worksharing related. However, it is assumed that these costs are identical for rate categories that use cost models to de-average a CRA mail processing unit cost category. As a result, the "worksharing related fixed" classification is used.

21. MODS 1CANCMMP FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to cancellation and meter mail preparation operations in MODS facilities and should not be affected by mailer worksharing activities related to presort letters and cards.

22. MODS 1OPBULK FCM (Nonauto): Worksharing Related Proportional
FCM (Auto): Worksharing Related Fixed
STDA (Nonauto): Worksharing Related Proportional
STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to opening units and package sorting operations in MODS facilities. For both the First-Class Mail and Standard Mail (A) nonautomation presort rate categories, these costs are classified as "worksharing related proportional" because package sorting costs are included in the cost models.

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For the automation presort rate categories, these cost pools are still classified as "worksharing related" in order to maintain the proper cost relationships between the nonautomation presort rate categories and the automation presort rate categories. However, a fixed classification is used so that the cost relationships between the automation rate categories themselves are not skewed when the cost models are used to de-average CRA mail processing unit costs.

23. MODS 10PPREF FCM (Nonauto): Worksharing Related Proportional
FCM (Auto): Worksharing Related Fixed
STDA (Nonauto): Worksharing Related Proportional
STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to opening units and package sorting operations in MODS facilities. For both the First-Class Mail and Standard Mail (A) nonautomation presort rate categories, these costs are classified as "worksharing related proportional" because package sorting costs are included in the cost models. For the automation presort rate categories, these cost pools are still classified as "worksharing related" in order to maintain the proper cost relationships between the nonautomation presort rate categories and the automation presort rate categories. However, a fixed classification is used so that the cost relationships between the automation rate categories themselves are not skewed when the cost models are used to de-average CRA mail processing unit costs.

24. MODS PLATFORM FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to platform operations at MODS facilities. These operations do not involve piece distribution or package distribution activities. Therefore, the cost pool has been classified as indicated.

25. MODS POUCHING FCM (Nonauto): Worksharing Related Proportional
FCM (Auto): Worksharing Related Fixed
STDA (Nonauto): Worksharing Related Proportional
STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to package sorting operations in MODS facilities. For both the First-Class Mail and Standard Mail (A) nonautomation presort rate categories, these costs are classified as "worksharing related proportional" because package sorting costs are included in the cost models. For the automation presort rate categories, these cost pools are still classified as "worksharing related" in order to maintain the proper cost relationships between the nonautomation presort rate categories and the automation presort rate categories. However, a fixed classification is used so that the cost relationships between the automation rate categories themselves are not skewed when the cost models are used to de-average CRA mail processing unit costs.

26. MODS 1SACKSH FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to manual sack sorting operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

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27. MODS SCAN FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool includes the costs for activities related to the Air Contract Data Collection System (ACDCS) that is used to route First-Class air shipments. These operations do not involve piece distribution or package sorting activities. In addition, the costs are affected by whether mail is local or non-local, rather than whether mail is prebarcoded and/or presorted. As a result, it has been classified as "non-worksharing related fixed."

28. MODS BUSREPLY FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs for postage due activities. In a sense, its title is a misnomer. Some Business Reply Mail (BRM) costs (e.g., accounting) will fall into this cost pool. However, the automation and manual BRM sorting operations do not have their own operation numbers. As a result, some BRM costs will be found in other cost pools (e.g., BCS/, MANL). In any event, these costs are not related to the piece distribution or package distribution of presort letters and cards. Therefore, a non-worksharing related fixed classification has been used.

29. MODS EXPRESS FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to express mail operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

30. MODS MAILGRAM FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to mailgrams and should not be affected by mailer worksharing activities related to letters and cards.

31. MODS REGISTRY FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to registered mail operations and should not be affected by mailer worksharing activities related to letters and cards.

32. MODS REWRAP FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to rewrap operations and should not be affected by mailer worksharing activities related to letters and cards.

33. MODS 1EEQMT FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to empty equipment operations and should not be affected by mailer worksharing activities related to letters and cards.

34. MODS INTL FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to international mail sorting operations and should not be affected by mailer worksharing activities related to letters and cards.

35. MODS LD41 FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to automated distribution at Customer Service MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification is used.

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40. MODS LD48SSV FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to special service operations at Customer Service MODS facilities and should not be affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification is used.

41. MODS LD49 FCM: Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Computerized Forwarding System (CFS) operations at MODS facilities. These costs are worksharing related in the sense that First-Class presort mailers are required to meet strict addressing standards. However, these costs are not included in the cost models. As a result, this cost pool is classified as "worksharing related fixed." For Standard Mail (A), this cost pool is classified as "non-worksharing related fixed" as this mail is not forwarded.

42. MODS LD79 FCM: Worksharing Related Fixed
STDA: Worksharing Related Fixed

This cost pool contains the costs related to Bulk Mail Entry acceptance and verification at MODS facilities. These costs are obviously worksharing related, but they are not included in the cost models. As a result, the "worksharing related fixed" classification is used.

43. MODS 1SUPPF1 FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to support operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

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44. MODS 1SUPPF4 FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to support operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

45. NONMODS ALLIED FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to allied and platform operations at Non-MODS facilities. This cost pool does not involve piece distribution or package distribution activities and has therefore been classified as indicated.

46. NONMODS AUTO/MECH FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to automation and mechanization operations at Non-MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

47. NONMODS EXPRESS FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs for express mail operations at Non-MODS facilities and is classified as "non-worksharing related fixed" for the same reasons specified for cost pool number 29 (EXPRESS).

48. NONMODS MANF FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to registered mail operations at Non-MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

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ABA&NAPM/USPS-T24-13 On page 4, line 20, of your testimony please confirm that the platform cost pool referenced is a worksharing related fixed cost pool, as you state, and explain why.

RESPONSE:

Not confirmed. The "1PLATFORM" cost pool was classified as a "non-worksharing related fixed" cost pool. For an explanation regarding this classification, see the response to MMA/USPS-T24-1.

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ABA&NAPM/USPS-T24-14

- a. On page 5, lines 22-23, please confirm that you have used Standard A mail characteristics as a benchmark for your calculation of First-Class workshared model costs from your spreadsheets.
- b. How exactly did you use entry profile data from Standard A letter mail in analyzing certain mail processing costs of First-Class workshared mail? Explain why you used this Standard A data for First-Class workshared mail.

RESPONSE:

- a. Not confirmed.
- b. Standard (A) mail characteristics are not used to support the First-Class Mail cost models. The Standard (A) mail characteristics data are used to support the Standard (A) Regular and Non Profit cost models.

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ABA&NAPM/USPS-T24-16 What is the justification for using only one month's mail volume data from a single accounting period as the sole basis for estimating certain piggyback factors, and hence certain indirect costs, as you claim to do at page 9, line 25? Is one month's data statistically reliable for this estimation?

RESPONSE:

Over time, the Delivery Bar Code Sorter (DBCS) has been increasingly relied upon to process mail in operations that are "upstream" from the incoming secondary operations. The AP 11 FY 1999 MODS volume data are used to determine the percentage of mail that is processed in these operations using the DBCS versus the Mail Processing Bar Code Sorter (MPBCS). This specific AP was chosen because it *was the most recent data available at the time the models were constructed.*

Therefore, the data reflected the most current mail processing environment. The results show that the DBCS shoulders a greater portion of the processing burden for outgoing operations than it does for operations that are further downstream. These findings are consistent with current field practices.

The data have not been evaluated in purely statistical terms. However, the usage of these data to de-average indirect cost "piggyback" factors is an improvement over the methods that were used in Docket No. R97-1, when no such analysis was performed. In addition, CRA adjustment factors are applied to compensate for the many assumptions that must be made in developing cost models.

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ABA&NAPM/USPS-T24-17 On page 11, lines 8-12, are you claiming that the platform costs for BMM are the same as for First-Class non-carrier route presort? Are they in fact higher for BMM? If so, how much higher?

RESPONSE:

In the passage referenced, I do not claim that "1PLATFORM" costs for BMM letters are identical to those for First-Class non-carrier route presort letters. This passage references data from Docket No. R97-1. I state that the "1PLATFORM" cost for BMM letters in that docket was 0.465 cents (USPS-T-24, page 11, line 10). The "1PLATFORM" cost for non-carrier route presort letters in that docket was 0.253 cents (USPS-T-24, page 11, line 11).

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ABA&NAPM/USPS-T24-18 You acknowledge that platform costs are lower for non-carrier route presort than for BMM, yet you assert this has nothing to do with worksharing (NON-WORKSHARING RELATED) at page 11, lines 8-12. Please explain fully what accounts for the difference in costs.

RESPONSE:

See the response to MMA/USPS-T24-1(a).

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ABA&NAPM/USPS-T24-19 On line 8 of page 11 you appear to equate what the Postal Service asserts is a "fixed" mail processing cost with "non-worksharing related" costs.

a. Why are fixed costs necessarily non-worksharing related in mail processing? Don't private sector groups that process mail encounter fixed as well as variable costs in their worksharing activities?

b. Please confirm that you put your term for fixed costs in quotation marks because these costs are not really fixed, and explain why they are not truly fixed as that term is defined in economic analysis.

RESPONSE:

a. In economics, my understanding is that "fixed" and "variable" costs are terms that relate to volume. Fixed costs are not affected by volume. Variable costs are affected by volume. The terms "proportional" and "fixed" as they are applied to the cost pool classifications in my testimony are not synonymous with the economic terms "fixed" and "variable." See my response to ABA&NAPM/USPS-T24-12 for an explanation as to why the "non-worksharing related fixed" cost pools have been classified as such.

b. Not confirmed. The term "fixed" is placed in quotation marks because that is the terminology that was used in Docket No. R97-1.

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ABA&NAPM/USPS-T24-20 Please cite all cost data that you used to develop BMM mail processing unit costs. Note each and every instance in which the cost pool is not based on a direct measurement of BMM mail, but is based on a proxy for that cost pool. Give a complete description for each proxy used.

RESPONSE:

The BMM letters mail processing unit cost estimate that I use in my testimony can be found in LR-I-81. The CRA cannot be used to isolate the costs for BMM letters. As a result, the mail processing unit costs by cost pool for all metered letters are used as an estimate. The one exception is the "1CANCMMP" cost pool, which is set to zero. This cost pool is set to zero to reflect the assumption that BMM letters are entered in trays. These letters would therefore bypass the operations associated with isolating, facing, and traying mail. The costs for these operations are contained in the "1CANCMMP" cost pool. Therefore, that cost pool is set to zero.

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ABA&NAPM/USPS-T24-21

- a. Cite any data or studies you have which supports the assertion that BMM is the mail most likely to convert to worksharing in First-Class.
- b. Does any Standard A mail convert to First-Class? What amounts?

RESPONSE:

- a.b. Volume forecasts can be found in the testimony of witness Tolley (USPS-T-6). However, to the best of my knowledge, no such studies have been conducted that are specific to First-Class Bulk Metered Mail (BMM) letters.

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ABA&NAPM/USPS-T24-22

- a. Cite any data or other quantitative measurements you have of the amount and percentage of BMM entered in full trays.
- b. Please confirm that the cost difference between single piece letters as a whole and the BMM subset could be due to BMM mail not being entered in full trays.
- c. Why should the delivery costs for BMM be assumed to be the same as the nonautomation presort category rather than single piece letters? Without a direct measurement of such costs for BMM, how can you assume one proxy over the other?

RESPONSE:

- a. Redirected to the Postal Service.
- b. Not confirmed.
- c. The average delivery unit cost for First-Class single-piece letters is 5.362 cents (USPS-T-28, Table 5, page 26). In order to determine the delivery unit cost for BMM letters using witness Daniel's methodology (USPS-T-28), this figure would have to be de-averaged for the many mail types that can be found within the single-piece rate category. In order to accomplish this task, it would have been necessary to develop cost models and calculate Delivery Point Sequencing (DPS) percentages for all single-piece mail types.

As an alternative, the delivery unit costs for nonautomation presort letters (5.229 cents) and BMM letters are assumed to be identical. It should be noted, however, that the DPS percentage from the metered letters cost model (70.39%) is much higher than the corresponding weighted percentage from the nonautomation letters cost models (52.90%).

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Given the relatively small difference between the delivery unit costs for single-piece letters and nonautomation presort letters ($5.362 - 5.229 = 0.133$), it is not unreasonable to expect that a delivery unit cost estimate for BMM letters based on de-averaging might have been lower than the estimate used in my testimony. In that case, the worksharing related savings results for rate categories that use BMM letters as a benchmark would be lower than those found in my testimony. If anything, the assumption I have made has probably led to conservative results.

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ABA&NAPM/USPS-T24-23

a. Referencing page 16, line 29, list the specific technology improvements for First-Class prebarcoded letter mail that have been made since R97-1, with associated increases in productivity for each change. Be specific by machine type and operation.

b. Do the same for BMM and First-Class single-piece letter mail.

RESPONSE:

The technology improvements that affect the three mail types are listed below.

The number of technology changes that affect Bulk Metered Mail (BMM) letters and single-piece letters are greater than the number that affect prebarcoded presort letters.

This is the reason why I stated that the worksharing related savings associated with the presorting and/or prebarcoding of letters and cards may be decreasing, or at the very least, may be surpressed over time (USPS-T-24, page 16, lines 23-29).

a. The technology improvements that affect prebarcoded presort letters are listed below:

1. DBCS Enhancements (USPS-T-10, page 5, line 13 to page 6, line 5)

Many DBCS have been expanded to include more bins. This change would affect the density tables (Miller Workpaper 1). I have not attempted to quantify the impact that this enhancement would have on the mail processing costs for specific mail types.

b. The technology improvements that affect BMM letters and First-Class single-piece letters are listed below:

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RESPONSE to ABA&NAPM/USPS-T24-23 (Continued)

1. AFCS Deployments (USPS-T-10, page 3, lines 15-26)

Since Docket No. R97-1, this program has been fully deployed. It is my understanding that some additional Advanced Facer Canceler System (AFCS) may be purchased in the future. I have not studied the productivity impact associated with the increased usage of the AFCS.

2. MLOCR Enhancements (USPS-T-10, page 4, lines 4-15)

The enhancements discussed in witness Kingsley's testimony (e.g., co-directory) would affect BMM letters and single-piece costs. These changes would probably not affect the productivity so much as they would affect the acceptance rates. I have not attempted to quantify the impact that these enhancements have had on mail processing costs for specific mail types.

3. Low Cost MLOCR Deployments (USPS-T-10, page 4, lines 16-24)

This machine has been initially deployed to SLOCR sites. This change would affect costs in terms of: improved acceptance rates, less reprocessing of mail in downstream operations (due to an increase in the number of bins), and increased machine throughput. I have not attempted to quantify the impact that these changes have had on mail processing costs for specific mail types.

4. RBCS Enhancements (USPS-T-10, page 9, lines 24-25)

The Remote Computer Read (RCR) finalization rate continues to improve. In Docket No. R97-1, the finalization rate was built into the Remote Encoding Center (REC) productivity used in the cost models (although cost models have not typically been developed for BMM letters or single-piece letters). The finalization rate at that

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time was thought to be roughly 25%. In this docket, the finalization rate is a separate cost model input and is assumed to be 69.03% (USPS LR-I-164). Mail that is finalized by RCR would bypass the REC keying operation and avoid mail processing costs.

5. DBCS Enhancements (USPS-T-10, page 5, line 13 to page 6, line 5)

Many DBCS have been expanded to include more bins. This change would affect the density tables (Miller Workpaper 1). In addition, many machines have been retrofitted to be an Output Sub System (OSS). This change would affect the OSS accept rates, productivities, and density tables as mail is moved from an Mail Processing Bar Code Sorter-OSS to a DBCS-OSS. I have not attempted to quantify the impact that these changes have had on mail processing costs for specific mail types.

6. ID Code Sortation (USPS-T-10, page 6, line 29 to page 7, line 8)

For unreadable bar codes, it will be possible to sort mail pieces using the information contained in the Remote Bar Code System (RBCS) ID tag. These deployments have already begun. I have not specifically studied the impact that this change will have on mail processing costs by mail type.

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ABA&NAPM/USPS-T24-24

a. Please refer to "Bulk Metered Mail" ("BMM") letters as you use that term at page 10 of your testimony. Please state as best you can how you would define such BMM letters if you were to draft a FCLM rate category for such mail.

RESPONSE:

a. As a cost witness, such an activity would be well beyond the scope of my testimony.

DECLARATION

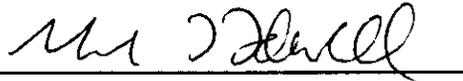
I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Michael W. Miller", written over a horizontal line.

Dated: 3/3/2000

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 cursive script, appearing to read "Michael T. Tidwell", is written over a horizontal line.

Michael T. Tidwell

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March 3, 2000