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Docket No. MC96

REGEIVED

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

SPECIAL SERVICES REFORM, 1996

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF NASHUA/MYSTIC (NM/USPS-8-11, 13, 20, 22-27)

In accordance with Presiding Officer's Ruling No. MC96-3/10 (September 11,

1996), the United States Postal Service hereby provides responses to the following

interrogatories of Nashua/Mystic, filed on August 8, 1996: NM/USPS-8-11, 13-20,

22-27.

Each 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

Michael T Tidwell

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 (202) 268–2998; Fax –5402 September 23, 1996



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NM/USPS-8.

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- a. Since Docket No. R94-1, (i) has the Postal Service revised, corrected or updated any previous study dealing with BRM, including but not limited to the study submitted as a library reference in Docket No. R94-1; and (ii) has the Postal Service initiated or commissioned any new study or analysis dealing with BRM?
- b. Unless the answer to both (i) and (ii) above is an unqualified negative, please (i) identify all BRM studies or analyses completed, and submit copies of each completed study so identified as a library reference, and (ii) identify all BRM studies or analyses underway and describe fully the scope and status of any study not yet complete, and state the target schedule for completion of all such studies now in progress (include any studies in the planning stage as well as those actually underway).

RESPONSE:

a.

- (i) No.
- (ii) Yes.

b.

- (i) No studies have been completed.
- (ii) As part of its comprehensive management review of Business Reply Mail, the Postal Service is presently planning to study Business Reply Mail costs. The scope and timing of that study presently are being determined. It is expected to be completed by the end of the calendar year.

NM/USPS-9.

- a. What was the total number of BRM advance deposit accounts in 1994 and Base Year 1995? Please provide data that are comparable to the 64,244 BRMAS accounts [and 128,488 BRM accounts] estimated by USPS witness Mallonee and referenced in interrogatory NM/USPS-17.
- b. Of the total number of BRM advance deposit accounts identified in preceding part (a), please state the number or the percentage that qualified for the BRMAS rate in Base Year 1995, and explain the basis on which the estimate is derived.
- c. For Base Year 1995, please state the total revenues derived from the accounting fee for BRM advance deposit accounts; <u>i.e.</u>, the \$205 per account shown in rate schedule SS-2.
- d. For Base Year 1995, please state the number of BRM permits issued and total revenues derived from the permit fee; <u>i.e.</u>, the \$85 per account shown in rate schedule SS-2.

- a. The number of BRM advance deposit accounts in FY 1994 was approximately 131,917. The number of BRM advance deposit accounts in BY 1995 was approximately 134,369. The number of these accounts which were BRMAS accounts is not available at present. See response to NM/USPS-17.
- b. See response to part a. above.
- c. The total revenue from BRM advance deposit accounting fee for BY 1995 was approximately \$26,603,496. The fee increased during the BY from \$185 to \$205.
- d. For BY 1995, there were approximately 229,151 BRM permits issued, resulting in approximately \$18,720,176 in permit fees. The fee increased from \$75 to \$85 during the BY.

NM/USPS-10.

- a. What was the total volume of BRM in 1994 and Base Year 1995?
- b. What was the number, or percent, of total BRM pieces that paid the pre-barcoded rate of 2 cents per piece for advance deposit accounts in Base Year 1995?
- c. What was the number, or percent, of total BRM pieces that paid the "other" (non-pre-barcoded) rate of 10 cents per piece for advance deposit accounts in Base Year 1995?
- d. What was the number, or percent, of total BRM pieces that paid the rate of 44 cents per piece (when advance deposit accounts were not used) in Base Year 1995?

- a. The total volume of BRM in FY 1994 and BY 1995 is estimated to have been 1,067,614,836 pieces, and 1,250,481,913 pieces, respectively.
- b. 53 percent.
- c. 42 percent. This fee increased during By 1995 from 9 cents per piece to 10 cents per piece.
- d. 5 percent. This fee increased during By 1995 from 40 cents per piece to 44 cents per piece.

NM/USPS-11.

In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at p. 3, fn. 2, stated that

BRMAS participants are required to use different ZIP+4 add-ons depending upon their use of postcards, 1 ounce pieces, or 2 ounce pieces.

Please explain how the BRMAS account holder can control what the sender puts into a BRM envelope and can tell in advance whether a BRM letter will weigh 1 or 2 ounces.

RESPONSE:

BRMAS envelopes are often sent out or provided with questionnaires, cards, etc, statements for enclosure in the reply piece. Many BRMAS mailers solicit specific additional enclosures, such as checks or money orders. Except in unusual cases, the same inserts, cards, or other specifically solicited items are returned to the BRMAS account holder. These items fall within the weight specifications approved for automationcompatible and machinable BRMAS pieces the account holder is expected to receive. While no BRMAS account holder expecting to receive 1-ounce pieces can say with absolute certainty that no incoming piece will exceed this limit, many are able to project with great confidence that pieces exceeding 1 ounce will be very rare. Such is the case for many remittance recipients.

(Response to NM/USPS-11 continued)

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Others BRMAS recipients who expect to receive essentially identical (weight and size) mail pieces (and little else) which weigh between 1 and 2 ounces (ballots in a union election, for instance), also are able to project with great confidence that pieces outside the expected weight range will be very rare.

NM/USPS-13.

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- a. In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at p. 5, stated that "Most sites that utilize BRMAS continue to process BRMAS mail pieces on a separate, unique sort program." Please confirm that witness Mallonee's statement is as true today as when it was written.
- b. If you are unable to confirm, please explain fully and cite all circumstances that have changed with respect to the way BRMAS mailpieces are handled at "most sites."

RESPONSE:

Each site which runs BRMAS continues to have a unique sort program. Since ZIP+4 densities ar taken for each piece, it would be extremely time-consuming if letters other than BRMAS were sorted on this sort program. It would greatly extend the time required to print BRMAS bills. In addition, many sites have unique 5-digit ZIP Codes which, when held out during primary sortations, would not facilitate processing this mail on a non-BRMAS sort program.

NM/USPS-14.

In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at p. 6, explained that

Inaccurate BRM billing occurs when BRMAS customer information is not maintained and kept current. Modifications to customer account characteristics, such as assigning new BRMAS bar codes to reflect the use of postcards as well as letters, [and] removing customers that drop out of the program . . . may affect the counting and rating process.

- a. How many customers dropped out of the BRMAS program in base year 1995?
- b. What form or forms are used to identify and keep track of customers that qualify for and participate in the BRMAS program?
- c. How many BRMAS accounts were added in base year 1995?
- d. In base year 1995, how many BRMAS accounts (i) changed from letters to postcards, or vice-versa; or (ii) started receiving post cards in addition to letters, or vice-versa?
- e. On average, how many times a year must BRMAS software be reprogrammed at local sites?

RESPONSE:

a. The Postal Service has not performed a study that would permit it to estimate how many customers who were participating in BRMAS at the beginning of FY 1995 were not in the program at the beginning of FY 1996. A national survey of all Postal Business Centers and Postage Due Delivery Clerks would be required.

Response to NM/USPS-14 continued)

- No standard forms are used. Attached to this response is a copy of a form used in the Southern Maryland Postal Business Center.
- c. The Postal Service has not performed a study that would permit it to estimate how many BRMAS accounts were added in fiscal year 1995.
- d. The Postal Service has not performed a study which would indicate, for 1995, how many BRMAS accounts (i) changed from letters to postcards, or vice-versa; or (ii) started receiving post cards in addition to letters, or viceversa.
- e. It varies, depending on such factors as the frequency with which customers are added or dropped, or make letter/card changes, and whether multiple changes can be consolidated into a single reprogramming effort. For instance, in Southern Maryland, it is estimated that there are presently 3 new BRMAS customers added every two weeks. It is not known whether this is nationally representative. Whether there is a need to reprogram three times every two weeks at Southern Maryland, for instance, would depend on when the changes took effect in relation to one another and whether consolidation of reprogramming was a feasible option at any given time. Other facilities may input sort

Response to NM/USPS-14 continued)

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program changes several times a week or only several times a month, with the expectation that the changes take effect on specific date.

NM/USPS-15.

In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at p. 7, stated that

While there is a procedure through which the customer presents postage paid mailpieces for reimbursement, the Postal Service sometimes performs these manual counts as a customer service.

- a. Does the Postal Service continue to perform these manual counts as a customer service? If the answer is negative, please explain when the Postal Service discontinued providing manual counts as a customer service.
- b. Does the Postal Service have any policies relating to when it will perform these manual counts as a customer service? If so, please describe them in detail.
- c. Assume (i) that a Postal Service employee is performing a manual count to help a customer obtain a refund for postage paid BRM mailpieces, and (ii) while the employee is so engaged, an IOCS tally is taken on that employee. Would that tally, and the costs associated with that tally, be charged to BRM?

- a. Yes.
- b. No.
- c. Yes.

NM/USPS-16.

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In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at p. 8, stated that

While BRMAS software is now resident on all Postal Service bar code sorters, it does not currently interface effectively with the MMC DBCS software and therefore cannot be used to count and rate BRMAS mailpieces.

- a. Is it still true that BRMAS does not interface effectively with MMC DBCS software?
- b. In Postal Service facilities that are equipped only with MMC machines, please describe how BRMAS mail is handled.

- a. Yes.
- b. Currently, there are very few facilities which have only MMC machines. Many of the sites that received MMC DBCSs also now have MPBCSs which are compatible with the BRMAS software. Although BRMAS software does not work on the MMC machines, these sites could still use the machines to sort BRMAS and use the end-of-run reports to record bin volumes. This would not utilize BRMAS software, but would be an option to avoid manually counting this mail. In some cases, where the volumes are relatively small, the plant may elect to process this mail manually.

NM/USPS-17.

In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at p. 8, fn. 5, stated that

665,010,200 [pieces] divided by 64,244 BRMAS accounts (assuming half of the BRM advance deposit accounts are for BRMAS) divided by 312 days per year (6 days a week) = 33.18 pieces per account/day.

- a. Does the Postal Service have any data that show the distribution of the volume of BRM mail by account? To illustrate the type of data desired, how many BRM accounts received more than 1,000,000 pieces per year; how many accounts received between 100,000 and 1,000,000 pieces per year; and how many received less than 100,000 pieces per year? Please provide all BRM distribution data, whether in the above size ranges or any other size ranges, that are in the possession of the Postal Service for the last three fiscal years. If no such data exist, please so state.
- b. Please provide the basis for witness Mallonee's assumption that "half of the BRM advance deposit accounts are for BRMAS." If any kind of surveys or other data underlie this statement, please identify them and provide copies thereof.

- a. No. A nationwide survey of accounts would be necessary, and one has not been performed.
- b. The estimate evolved from a discussion Mr. Mallonnee had with persons in the Finance Department during the time he was preparing testimony in Docket No. R94-1. No record of the basis for this estimate has been preserved. The basis of the estimate has since escaped his powers of recollection.

NM/USPS-18.

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In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at pp. 8-9, stated that

Seasonal fluctuations in BRM volumes produce a further reduction in volume for some days. Sites may not choose to repeatedly change their distribution, counting and rating procedures as individual BRMAS customer volume fluctuates. Instead these sites would use manual counting of BRMAS mailpieces. (fn. omitted)

- a. Please confirm that the above statement is as true today as when it was written. If you are unable to confirm, please explain fully and cite all circumstances that have changed with respect to the way the Postal Service handles BRM accounts with fluctuating low volume.
- b. What is the volume level (or range of volume) below which sites would generally use manual counting of BRMAS mailpieces?
- c. Is it a correct interpretation of the above-quoted statement that for some BRM accounts the Postal Service may generate automated BRMAS statements on some days of the year, and on other days of the year opt to use manual counting of the BRMAS mailpieces? If so, does the Postal Service nevertheless always charge such accounts the barcoded fee of 2 cents per piece, or does it charge the 10 cents per-piece fee when the volume is so low that it is more economical to count the pieces manually? If the fee does not depend on the way the mail is actually handled, please explain fully all reasons why not.

RESPONSE:

a. The Postal Service has no basis for concluding that this statement applies any differently today than in 1994.
Volumes for "seasonal" BRMAS customer volume normally fluctuate for periods of time. One example would be a college admissions office, which might receive large volumes of mail twice a year for four to six weeks at a

Response to NM/USPS-18 continued)

time. The rest of the year, the account would receive little or no volume. As the volume for a BRMAS account diminishes, it might be removed from the sort program for a period of time and then placed back on the program as volume increases.

- b. That determination is made locally, depending on local mailflows and operating practices and constraints. If a site has a 200-stacker processing machine and 150 BRMAS accounts, it might choose to have all accounts on the machine at all times. Another site may use 50 pieces as a cut-off, since this is the number normally used for firm holdouts on other automation sort programs. Some sites use numbers as low as 20 or 10 pieces. It is not unusual for the volume for a particular BRMAS account to be as low as five pieces per day before action is taken.
- c. A site would not sort an account on a machine three days a week, and then manually for 2 days a week. The account would either be on the sort program for a period of time or off the program for a period of time. These intervals are for weeks or months, not days. Since these accounts have been approved for BRMAS, if Mail Processing chooses

Response to NM/USPS-18 continued)

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to switch the account to manual processing for an interval because of low volume, this does not negate the fact that the customer has been approved for the BRMAS and would be charged accordingly during the period of manual processing. The same is true for that portion of the automation rate mailstream which meets the specifications for automation discounts, pays discounted rates, but ends up getting processed manually or mechanically.

NM/USPS-19.

In Docket No. R94-1, the rebuttal testimony of witness Donald L. Mallonee, Jr., USPS-RT-8, at p. 9, stated that

As plants developed BRMAS sort programs they discovered that many bar code sorter stackers received minimal volumes. Consequently, the BRMAS report generation process, combined with the time used to process BRMAS mail pieces, actually took longer and used more resources than did the manual sorting, counting, and billing system used prior to BRMAS implementation. (fn. omitted)

- a. Please define the term "minimal volumes" as used here.
- b. Please confirm that the above statement is as true today as when it was written. If you are unable to confirm, please explain fully and cite all circumstances that have changed with respect to BRMAS accounts with low or "minimal" volume.
- c. Please explain fully why the Postal Service and the DMM do not require a minimum volume of incoming BRM mail in order to qualify for the BRMAS rate.

- a. "Minimal" varies in relation to the volume experienced at a particular facility. At some facilities, a "minimal" volume could be 50 pieces; at another, 10. At many facilities, BRMAS is used regardless of volume.
- b. The Postal Service has no basis for concluding that this statement applies any differently today than in 1994.
- c. The Postal Service, through the DMM, sought to establish BRM specifications which were not inconsistent with the recommendations of the Commission, which are reflected in the DMCS, and based upon its recommended decisions.

NM/USPS-22.

In Docket No. R94-1, the Postal Service submitted rebuttal testimony of Hien D. Pham, USPS-RT-7. In that testimony, at p. 5, witness Pham stated that

the BRMAS operation performs the counting, rating and billing of BRM pieces, which in fact constitute the special service features of BRM, above and beyond those pertaining to regular First-Class Mail.

- a. Does the BRM special service have any distinguishing features other than counting, rating and billing? If so, please enumerate all other distinguishing features.
- b. Please confirm that the fee which mailers pay for BRM is based on the attributable costs which the Postal Service incurs to count, rate and bill BRM pieces, and which according to witness Pham, "constitute the unique special service features of BRM, above and beyond those pertaining to regular First-Class Mail." If you do not confirm, please explain fully the basis for the per-piece BRM fees.

- a. One of the objectives of the ongoing internal management review of Business Reply Mail is to determine whether there are other additional, previously unaccounted for, service features which, for both costing and pricing purposes, distinguish BRM.
- b. The fees which mailers pay today for non-BRMAS BRM are based upon the Commission's Docket No. R94-1 determination to recommend the "across-the-board" increases in the Docket No. R90-1 fees. The current BRMAS fee is the same fee that was recommended in Docket No. R90-1. Because the Postal Service was unable to persuade the Commission

(RESPONSE to NM/USPS-22 continued)

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in Docket No. R94-1 that a 2-cent BRMAS fee was not appropriate, the Commission concluded in Docket No. R94-1 that it was "constrained to rely on the Docket No. R90-1 analysis." PRC Op. R94-1 at ¶5461. Until the Postal Service is able to complete a comprehensive review of BRM, including a study of costs associated with provision of that service, the Postal Service is unable to state whether "the fee which mailers pay for BRM is based on the attributable costs which the Postal Service incurs to count, rate and bill BRM pieces, and which according to witness Pham, constitute the unique special service features of BRM, above and beyond those pertaining to regular First-Class Mail.'" Answer of United States Postal Service to Nashua Photo Inc. and Mystic Color Lab

NM/USPS-23.

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For Base Year 1995, what was the total cost attributed to BRM?

NM/USPS-23 Response.

The Base Year 1995 (FY 1995 CRA) total cost attributed to BRM

was \$105,393 thousand.

Answer of United States Postal Service to Nashua Photo Inc. and Mystic Color Lab

NM/USPS-24.

a. Does the Postal Service use the IOCS to determine attributable costs of BRM?

b. If the answer to the preceding question is affirmative, please describe the activities tallied as chargeable to BRM, and state the number of tallies used to determine BRM attributable costs in Base Year 1995.

c. Does the Postal Service use any information other than, or in addition to, IOCS tallies to determine BRM attributable costs? If so, please describe fully and state how attributable costs of BRM are determined.

NM/USPS-24 Response.

a. The IOCS is used to determine the attributable costs of BRM in the

CRA.

b. See Library Reference SSR-17, page 218, sections 5 and 6 for the

definition of the tallied activities that are chargeable to BRM. There were 602

unweighted tallies and 39,686 dollar weighted tallies for BRM in Base Year 1995

(FY 1995 CRA).

c. The CRA uses no other basis for BRM other than IOCS.

Answer of United States Postal Service to Nashua Photo Inc. and Mystic Color Lab

NM/USPS-25.

a. With respect to the fees paid by BRM users with an active business reply advance deposit account, in Base Year 1995 did the 10 cent perpiece fee for "other" pieces (<u>i.e.</u>, pieces not pre-barcoded) <u>on average</u> cover all attributable costs of such other pieces?

b. With respect to the fees paid by BRM users with an active business advance deposit account, in Base Year 1995 did the 10 cent per-piece fee for "other" pieces (<u>i.e.</u>, pieces not pre-barcoded) cover all attributable costs of such other pieces <u>when they are handled and counted individually by USPS</u> <u>employees</u>?

c. If the answer to either of the preceding questions is negative, please provide all evidence on which the Postal Service relies to show that BRM fee of 10 cents per piece does not cover attributable cost, either on average or when BRM pieces are handled and counted individually by USPS employees.

d. Was the 10 cent per-piece BRM fee designed to cover all attributable costs when non-barcoded BRM pieces are handled and counted individually? Unless the snswer is an unqualified affirmative, please state the costs that the 10 cent fee was designed to cover.

NM/USPS-25 response.

a. In the CRA, the attributable costs for BRM are not captured

separately for "BRM users with active business reply advance deposit accounts"

nor are the costs captured separately for "pieces not pre-barcoded".

b. In the CRA, the attributable costs for BRM are not captured

separately for "such other pieces when they are handled and counted

individually by USPS employees". See also the response to part a of this

question.

c. Not applicable. See responses to parts a and b of this question.

Answer of United States Postal Service to Nashua Photo Inc. and Mystic Color Lab

NM/USPS-25 Response continued.

d. Confirmed.

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NM/USPS-26.

- a. Is it the Postal Service view that BRM fees derived from the 10 cent per-piece fee for "other" (non-pre-barcoded and/or non-machineable) pieces with advance deposit account should be used to cover attributable costs associated with pre-barcoded pieces?
- b. Unless the answer to the preceding question is an unqualified negative, please (i) state fully all circumstances that justify a higher fee for some BRM to cover attributable costs of other BRM that pays a lower fee, and (ii) explain whether such a practice constitutes good rate design.

RESPONSE:

As the Postal Service moves closer to the completion of its internal management review, it will be able to articulate a view as to whether this is the case and, if so, whether this should continue to be the case.

NM/USPS-27.

With respect to "other" BRM pieces (i.e., pieces not pre-barcoded and/or not machineable), does the Postal Service have in place any established procedures designed to avoid handling and accounting for each BRM piece individually? Unless your answer is an unqualified negative, please describe each such procedure and provide citations to the DMM or a library reference with all applicable instructions for use and implementation of each such procedure by post offices and field personnel.

RESPONSE:

Non-machinable/non-barcoded BRM has to be processed by the Postal Service in mechanized or manual operations. Most incoming cases and racks have a holdout for BRM mail for zone. Incoming Letter and Flat Sorting schemes also have a holdout for BRM. This mail would then have to be manually counted before delivery to the customer. Some plants have entered into local agreements with customers and have established "reverse manifest" procedures; however, there is no national policy which requires uniformity in the precise terms of these agreements. 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.

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Michael T Tidwell

475 L'Enfant Plaza West, S.W. Washington, D.C. 20260–1137 September 23, 1996