

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

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POSTAL RATE AND FEE CHANGES

Docket No. R2000-1

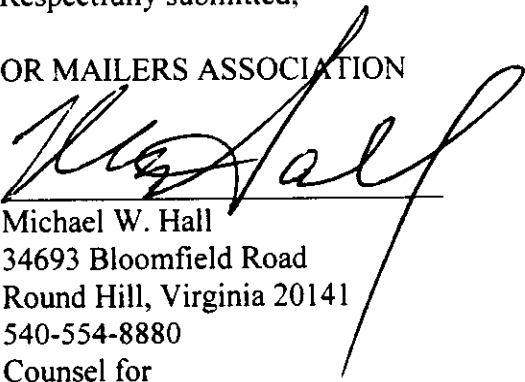
MAJOR MAILERS ASSOCIATION'S
FIRST SET OF INTERROGATORIES AND DOCUMENT PRODUCTION REQUESTS
TO USPS WITNESS MICHAEL MILLER MMA/USPS-T24-1-16

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice, Major Mailers Association herewith submits the following interrogatories and document production requests to United States Postal Service witness Michael Miller. If the designated witness is unable to answer any of these questions, please direct them to the appropriate witness who can provide a complete response.

Respectfully submitted,

MAJOR MAILERS ASSOCIATION

By:


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Dated: Round Hill, VA
February 4, 2000

**Major Mailers Association's First Set Of Interrogatories
And Requests For Production Of Documents
To USPS Witness Michael Miller**

MMA/USPS-T24-1 On page 11 of your prepared testimony, you state that platform costs should be fixed and not related to worksharing. You also note that in Docket No. R97-1, bulk metered mail (BMM) platform costs were .212 cents higher (or 84%) than the platform costs for First-Class non-carrier route presorted letters.

- (a) If this difference is not presort-related, please explain why metered mail platform costs are so much higher than presorted letter platform costs.
- (b) If this cost is not presort-related, doesn't removing this cost from your analysis implicitly assume that the unit labor costs for this operation are the same for non-carrier route presorted and BMM letters. Please explain your answer.
- (c) If your answer to part (b) is no, then please explain how any other factors which affect costs will not undermine your entire CRA-derived unit costs for the five First-Class mail categories included in Appendix I, pages I-7 through I-11.
- (d) If these costs were, in fact, not related to worksharing, and if, in fact, these costs were the same for each of the two categories of mail, then wouldn't inclusion of these costs have no impact on the derived cost differences between the unit labor costs? If no, please explain.

MMA/USPS-T24-2 On page 12 of your prepared testimony, you set the value of the cancellation and metered mail preparation cost pool (1Cancmmp) to zero in order to further isolate the costs for bulk metered mail ("BMM") letters from those for metered letters.

- (a) Please provide copies of all Postal regulations that are applicable to the entry requirements for BMM.
- (b) In deciding to set the 1Cancmmp cost pool to zero, did you assume that postal service personnel perform no acceptance procedures to insure that BMM letters tendered to the Postal Service meet all applicable entry procedures, including confirmation that the mailer has affixed the proper postage to the BMM letters? If yes, how can you justify a zero cost? If no, please justify your answer?

- (c) Are the model costs for BMM in all other respects (other than the 1Cancmmp cost pool), the same as for non-bulk metered mail? If not, please explain.
- (d) Do postal personnel ever pick up BMM at the mailer's place of business? If not, please provide copies of the relevant Postal regulations which prohibit postal service personnel from picking up BMM at the mailer's place of business.
- (e) Do you assume that BMM and non-bulk metered mail exhibit all of the same cost characteristics, except that the former is brought to the post office in trays whereas the latter is not? If not, please explain.
- (f) What was the cost figure for 1Cancmmp before you assumed it to be zero?

MMA/USPS-T24-3 On page 12 of your prepared testimony, you state that BMM is "the mail most likely to convert to worksharing."

- (a) What is the average unit weight for First-Class metered letters?
- (b) What portion of metered First-Class letters is prebarcoded?
- (c) What portion of First-Class BMM letters is prebarcoded?
- (d) What volume of First-Class letters was entered as BMM during the base year?
- (e) What was the average volume per BMM mailing during the base year?
- (f) What incentives are there for BMM mailers to drop their trayed letters at a local post office?
- (g) Are there any address requirements for BMM, similar to those in effect for Automation First-Class Letters?
- (h) When a First-Class mailer includes reply envelopes in outgoing BMM letters, is there a requirement that such reply envelopes be prebarcoded and machineable, the requirement applicable for reply envelopes included in outgoing Automation First-Class Letters?
- (i) Before volumes of nonpresorted letters were able to convert to presorted letters by virtue of being commingled with other First Class letters by a presort bureau, were such letters brought to the post office in trays, similar to BMM? Please explain your answer.

- (j) Are presort bureaus the major source for new First-Class Automation letter volumes which convert from First-Class Single Piece letters?
- (k) Assuming that the presort discount offered by the Postal Service were lower than a mailer's incremental cost to qualify for presort rates, would you expect that the mailer would still take his letters to the post office in trays and enter them as BMM? Please explain your answer.

MMA/USPS-T24-4 On page 12 of your prepared testimony, you indicate that the 1.83-cent average unit cost difference between BMM and First Class nonpresorted letters is "relatively narrow".

- (a) Confirm that the comparable cost difference in Docket No. R97-1 was 1.16 cents. (See USPS Response to Presiding Officer's Information Request Nos. 5, 19G) If you cannot so confirm, please explain.
- (b) Do you agree that, all things being equal, the following factors affect the average unit cost difference between BMM and First Class nonpresorted letters in the manner described below? If you disagree, please explain.
 - (1) Increase in labor rate—increases the difference;
 - (2) Technological advances in mail processing—decreases the difference.
 - (3) Redefining labor costs into three categories rather than two—decreases the difference;
 - (4) Utilizing marginal productivities that assume costs do not vary 100% with volume—decreases the cost difference;
 - (5) Increase in the number of prebarcoded reply envelopes returned by nonpresort mailers—decreases the cost difference;
 - (6) Cost model results that overstate (as opposed to understate) actual (CRA) costs—decreases the cost difference;
 - (7) Please list any other factor(s) that you can think of and state the effect such factor(s) has on the apparent cost difference.
- (c) Confirm that it is not appropriate to compare directly the 1.83-cent average unit cost difference between BMM and First Class nonpresorted letters developed by you in this case and the 1.16 cents average unit cost difference developed in the Docket No. R97-1 proceeding, because of the changes in methodology that you have implemented in your cost models in this case. If you cannot so confirm, please explain.

- (d) How much of this cost difference is due solely to your assumption in this case that mail preparation costs for BMM are zero?

MMA/USPS-T24-5 Please refer to your Appendix I, p. I-43.

- (a) Please confirm that for manual operations, your cost variability factor is 73.5%. If you cannot confirm, please explain.
- (b) Please confirm that for manual operations, USPS witness Hatfield's cost variability factor in Docket No. R97-1 was 80%. (See LR-H-113, p. 100). If you cannot confirm, please explain.
- (c) Please confirm that for automated operations, your cost variability factor is 89.5%. If you cannot confirm, please explain.
- (d) Please confirm that for automated operations, USPS witness Hatfield's cost variability factor in Docket No. R97-1 was 94%. (See LR-H-113, p. 100) If you cannot confirm, please explain.
- (e) Do you agree that, as compared to USPS witness Hatfield's findings in Docket No. R97-1, (i) your marginal productivities for manual and automated operations have increased, and (ii) the amount of labor costs attributed by the Postal Service for manual and automated operations has decreased? If you cannot confirm, please explain.
- (f) Do you believe it is fair to compare the results from USPS Witness Hatfield's cost models in the last rate case directly to the results of your cost models in this case? Please explain your answer.
- (g) Do you believe it is fair to compare the results from the Commission's cost models in the last rate case directly to the results of your cost models in this case? Please explain your answer.

MMA/USPS-T24-6 In Appendix I, p. I-7 you derive the CRA First-Class letter mail processing unit costs for BMM letters by dividing up the individual cost pools into the following three cost classifications: (1) worksharing related and related to volume, (2) worksharing related but fixed, and (3) non-worksharing related but fixed.

- (a) For each of the following cost pools, please provide the standard definition or description of the specific processing operations covered by such cost pool and explain in detail why you claim that the particular cost is worksharing related but unrelated to volume:
- (1) MODS 22 10PBULK;
(2) MODS 23 10PPREF;

- (3) MODS 25 1POUCHING;
- (4) MODS 41 LD49;
- (5) NONMODS 46 AUTO/MECH; and
- (6) NONMODS 49 MANL.

Please provide all documents that define or describe each of the foregoing cost pools and how costs are assigned to such cost pool.

- (b) For each of the following cost pools, please provide the standard definition or description of the specific processing operations covered by such cost pool and explain in detail why you claim that the particular cost is non-worksharing related and unrelated to volume.

- (1) MODS 24 1PLATFRM;
- (2) MODS 26 1SACKS H;
- (3) MODS 43 1SUPP F1;
- (4) MODS 44 1SUPP F4;
- (5) NONMODS 45 ALLIED; and
- (6) NONMODS 51 MISC.

Please provide all documents that define or describe each of the foregoing cost pools and how costs are assigned to such cost pool.

- (c) Since your new methodology of classifying costs in various cost pools in the manner described above disaggregates costs down to a lower level of cost measurement, what further analyses did you perform to insure that the individual cost pool costs are, in fact, accurate? Please explain your answer in detail and provide any documents, or references to portions of the Service's filing in this case, you relied upon in formulating your response.

MMA/USPS-T24-7 Please refer to Appendix I, pages I-1, 7 and 16 where you derive CRA and cost model unit variable labor costs for First-Class metered mail letters.

- (a) Does the cost model on Appendix I, p. I-16 for "First-Class Metered" letters represent the processing costs for bulk metered mail (BMM) letters? If not, please explain.
- (b) Please confirm that the mail processing work-sharing related unit cost figure of 8.330 cents for BMM letters shown on Appendix I, p. I-1, is derived from your analysis of CRA costs for BMM letters, as shown on page I-7 (Unnumbered Total Line (6.979 cents + 1.351 cents)), with no CRA adjustment. If you cannot confirm, please explain.

- (c) Please explain how the cost model unit variable cost of 5.269 cents for "FIRST-CLASS METERED" shown on Appendix I, p. I-16, Column (10) was utilized in your testimony.
- (d) What is the relationship between the CRA variable unit cost of 6.979 cents derived on Appendix I, p. I-7 for BMM, and the 5.269 cent variable unit cost for "metered" letters derived from your cost model on page I-16, Column (10)?
- (e) Please explain why your cost-model derived unit variable cost for BMM letters (5.269 cents shown on Appendix I, p. I-16) is 25% lower than your CRA-derived unit variable cost for such letters (6.969 cents shown on Appendix I, p. I-7).
- (f) Please confirm that you did not use a CRA Adjustment factor for Bulk Metered Mail in your testimony. If you cannot confirm, please explain.

MMA/USPS-T24-8 Please refer to Appendix I, pages I-8, 18, 20 and 22 where you derive CRA and cost model unit variable labor costs for First-Class non-automation presorted letters.

- (a) What is the relationship between the CRA variable unit cost of 7.700 cents, derived on Appendix I, p. I-8 for non-automation presorted letters, and cost-model variable unit costs derived for letters that are
 - (1) non-automation OCR upgradable: 4.872 cents (Appendix I, p. I-18);
 - (2) non-automation OCR upgradable: 5.790 cents (Appendix I, p. I-20);
 - (3) non-automation non-OCR not upgradable: 7.947 cents (Appendix I, p. I-22)?
- (b) Please explain why your cost-model derived weighted average unit variable cost for non-automation presorted letters (6.296 cents shown on Appendix I, p. I-4) is 18% lower than your CRA-derived unit variable cost for such letters (7.700 cents shown on Appendix I, p. I-8).
- (c) Please explain how the weighted average cost-model derived unit variable cost of 6.296 cents for non-automation presort letters (shown on Appendix I, p. I-4) is used in your testimony.

MMA/USPS-T24-9 Please refer to Appendix I, pages I-5, and 9 where you derive CRA and cost model unit variable labor costs for First-Class automation presorted letters.

- (a) Please explain why your cost-model derived weighted average unit variable cost for automation letters (2.866 cents shown on Appendix I, p. I-5) is 12% higher than your corresponding CRA-derived average unit variable cost for such letters (2.553 cents, as shown on Appendix I, p. I-9).
- (b) To your knowledge, has any cost model presented by any other Postal Service witness ever resulted in a derived unit cost that was higher than the corresponding CRA cost?
- (c) Please confirm that within the RBCS operation, as depicted by your cost models,
 - (1) the ISS culls, faces, cancels and reads an address using an optical character reader;
 - (2) the RCR and REC operations obtain and place a barcode on a letter through other, more costly means;
 - (3) the OSS sorts the mail by using a barcode sorter; and
 - (4) the LMLM operation places a label on the letter onto which a barcode can be applied.

If you cannot confirm, please further explain.

MMA/USPS-T24-10 Please refer to interrogatories MMA/USPS-T24-7(e), MMA/USPS-T24-8(b) , and MMA/USPS-T24-9(a). Compared to the CRA costs, why are your model costs are lower for BMM and non-automation presort, but higher for automation non-carrier route presort. Does this inconsistency cause you any alarm? Please explain.

MMA/USPS-T24-11 Please refer to your cost models in Appendixes I and II.

- (a) Please confirm that you use identical productivities by operation in all of your models for both First-Class letters and Standard Mail (A) letters.
- (b) Assuming you confirm part (a), please explain why it is appropriate to use the same productivities by operation for First-Class letters and Standard Mail (A) letters.

MMA/USPS-T24-12 Please refer to the total worksharing related unit costs summarized in Appendix I, page I-1 and the corresponding unit costs found in USPS LR-I-147 PRC VERSION, page I-1, using the Commission's cost methodology.

- (a) Please explain (in general terms) why the modeled unit costs under the PRC cost methodology are higher than the modeled unit costs under the USPS cost methodology.

- (b) Please confirm that under the Commission's cost methodology, the cost model derived weighted average unit variable cost for non-automation presort letters (7.788 cents shown in USPS LR-I-147 PRC VERSION, page, I-4), is almost identical to the CRA-derived unit variable cost for non-automation presort letters (7.750 cents shown in USPS LR-I-147 PRC VERSION, page, I-8)
- (c) Please explain why your Non-automation CRA Proportional Adjustment factor (1.223 shown in Appendix 1, p. I-4) is 23% higher than the corresponding factor derived under the Commission's cost methodology (.995 shown in USPS LR-I-147 PRC VERSION, page, I-4).
- (d) Please explain how your Non-Automation CRA Proportional Adjustment factor of 1.223 is used in your testimony.

MMA/USPS-T24-13 Please refer to Appendix I, pages I-7 and I-9 to your prepared testimony. In those analyses you have removed non-worksharing related (fixed) labor costs for Bulk Metered Mail Letters (2.141 cents) and Automation Non-Carrier Route Presorted Letters (.843 cents) from the cost differences that you derive.

- (a) Please confirm that had these costs not been removed, the derived cost differences would be as much as 1.3 cents higher (the difference between the unit costs for Bulk Metered Mail Letters (2.141 cents) and Automation Non-Carrier Route Presorted Letters (.843 cents). If you cannot confirm, please explain.
- (b) If this difference is not related to worksharing characteristics, what causes this very significant difference?

MMA/USPS-T24-14 In order to qualify for automation rates, First-Class mailers are required to meet strict address requirements to make sure that the addresses are correct and current.

- (a) Do you agree that mailers' compliance with such address requirements causes mailers to incur extra costs and reduces forwarding and return costs for the Postal Service? If you do not agree, please explain.
- (b) Are the savings to the Postal Service that result from mailers' compliance with these address requirements incorporated in First-Class Automation presort cost savings you have derived? Please explain any affirmative answer.
- (c) For the latest year for which the data are available, please provide:

- (1) the volume of First-Class Presorted Letters that were forwarded or returned;
- (2) the volume of First-Class Nonpresorted Letters were forwarded or returned;
- (3) the unit cost to forward or return a First-Class Presorted Letter;
- (4) the unit cost to forward or return a First-Class Nonpresorted Letter

MMA/USPS-T24-15 In order to qualify for automation presorted rates, First-Class mailers who want to include reply envelopes in their outgoing letters are required to use envelopes that are prebarcoded and automation-compatible.

- (a) Do you agree that such a requirement causes mailers to incur extra costs and reduces the costs incurred by the Postal Service for processing and delivering nonpresorted letters? If you do not agree, please explain.
- (b) Are these savings to the Postal Services incorporated in your derivation of First-Class Automation presort cost savings? Please explain.
- (c) For the base year, what volume of First-Class Automation Letters included a prebarcoded reply envelope?
- (d) What percent of the reply envelopes distributed via First-Class Automation Letters was returned as First-Class Single Piece letters?

MMA/USPS-T24-16 On page I-9 of your Appendix I you provide the CRA cost derivation for automation non-carrier route presort. On that table you show that certain costs are considered non-worksharing related and fixed.

- (a) For each of the following MODS cost pools, please confirm that in Docket No. R97-1, the Commission treated these costs as worksharing related and variable.

- (1) 1CANCMMP
- (2) 1EEQMT
- (3) 1SCAN
- (4) 1SUPPORT

If you cannot confirm please explain.

- (b) For each of the following MODS cost pools, please confirm that in Docket No. R97-1, the Commission treated the costs as worksharing related and fixed.

- (1) 1PLATFRM
- (2) 1SACKS H

(3) 1SACKS M

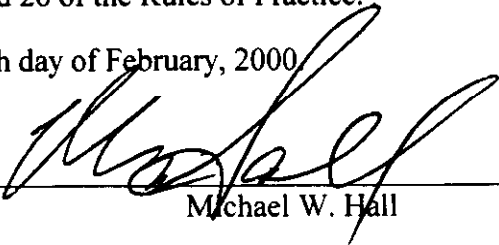
If you cannot confirm, please explain.

- (c) Please confirm that, for each of the MODS cost pools referenced in parts (a) and (b), you classified the particular costs as “unrelated to worksharing and fixed” and removed such costs from your unit cost differences you derived. If you cannot confirm, please explain.**
- (d) For each of the MODS cost pools referenced in parts (a) and (b), is it your objective not to reflect these particular costs in your theoretical mail flow models?**
- (e) For each of the MODS cost pools referenced in parts (a) and (b), please indicate what changes, if any, you made since Docket No. R97-1 in your theoretical mail flow models, to insure that the particular cost pools cited would not be reflected in those mail flow models.**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon the United States Postal Service, Ted P. Gerarden, Director of the Office of the Consumer Advocate, and the representatives of parties requesting copies of discovery requests and related documents in accordance with Rules 12, 25, and 26 of the Rules of Practice.

Dated at Round Hill, VA this 4th day of February, 2000



Michael W. Hall