

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SMITH TO INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION, INC.
(DMA/USPS-T21-1-4,6-7)

The United States Postal Service hereby provides the responses of witness Smith to the following interrogatories of the Direct Marketing Association, Inc.: DMA/USPS-T21-1-4,6-7, filed on January 28, 2000. Interrogatory DMA/USPS-T21-5 was redirected to witness Daniel.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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February 11, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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DMA/USPS-T21-1. Standard (A) Regular unit attributable cost increased approximately seven percent from FY 1997 to FY 1998 (from 13.5 cents per piece to 14.5 cents per piece) while the unit cost for all mail remained stable over the same period.

Is there an operational explanation for why the unit cost for Standard (A) Regular increase so dramatically from FY 1997 to FY 1998? If so, please provide it.

Response:

With regard to the unit cost changes between FY 1997 and FY 1998, you are correct. It should be noted that there was a decline in the Standard (A) Regular unit cost between FY1996 and FY 1997. As a result, Standard (A) Regular unit volume variable cost increased approximately five percent from FY 1996 to FY 1998 (from 13.8 cents per piece to 14.5 cents per piece). The FY 1996 costs referred to are from the base year FY 1996, from Docket No. R97-1.

Concerning operational explanations, see my responses to DMA/USPS-T21-2, DMA/USPS-T21-3 and DMA/USPS-T21-6.

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DMA/USPS-T21-2. The unit clerks and mailhandlers cost for Standard (A) Regular mail increased from 5.2 cents per piece in FY 1997 to 5.7 cents per piece in FY 1998 while the unit clerks and mailhandlers cost for First-Class Letters and Parcels and for mail as a whole dropped from FY 1997 to FY 1998.

Please provide unit clerks and mailhandlers costs for First-class letters for FY 97 and FY 98.

By what percent did the unit clerks and mailhandlers cost for Standard (A) Regular flats increase from FY 1997 to FY 1998? What was the unit clerks and mailhandlers cost for Standard (A) Regular flats in FY 1997? What was it in FY 1998?

Is there an operational reason for this large increase?

Did flat sorting productivity (expressed in piece handlings per labor hour) decrease from FY 1997 to FY 1998?

If so, why did it decrease? (Migration of flats from higher-productivity FSM-881s to lower-productivity FSM-1000s? Decrease in FSM-881 productivity from FY 1997 to FY 1998? Decrease in productivity on FSM-1000s from FY 1997 to FY 1998? Increase in allied operation unit costs? If there is a combination of reasons, please explain what the major reasons are.)

If flat sorting productivity is decreasing, what is the Postal Service doing to reverse the negative trend in flat sorting productivity?

Please provide nationwide MODS productivity figures (expressed in piece handlings per labor hour) for flats by sorting method (i.e., FSM-1000, FSM-881, small parcel and bundle sorter, and manual flat sorting) and year for 1996, 1997, and 1998.

By what percent did the unit clerks and mailhandlers cost for Standard (A) Regular letters increase from FY 1997 to FY 1998? What was the unit clerks and mailhandlers cost for Standard (A) Regular letters in FY 1997? What was it in FY 1998?

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Response:

a. The unit clerks and mailhandlers costs for First-Class letters for FY 97 and FY 98 are as follows. The unit costs I am providing are for the "letters" subclass, consisting of both First-Class single-piece and presort categories for all shapes combined as reported in the FY 1997 and FY 1998 CRAs. The total cost segment 3 unit costs for FY 1997 and FY 1998 are 7.23 cents and 7.1 cents respectively, a decline of 1.8 percent. The mail processing unit costs (component 3.1) for FY 1997 and FY 1998 are 6.28 cents and 6.11 cents, respectively, a decline of 2.6 percent.

b. The unit mail processing clerks and mailhandlers labor cost for Standard (A) Regular flats increased by 15.2 percent from FY 1997 to FY 1998. It was 6.19 cents in FY 1997. It was 7.13 cents in FY 1998. Also please note that the FY 1997 unit cost was below the FY 1996 Standard (A) Regular flats mail processing labor cost, which was 6.53 cents. During the period FY 1996 to FY 1998, these unit costs increased 9.1 percent. Wage increases of 5.4 percent accounted for the major share of this increase.

c. An analysis of the change in costs by cost pools shows that the increase in unit costs is from the FSM, Non-MODS, and SPBS cost pools. The increase in the FSM cost pool cost per piece results from the deployment of the FSM 1000

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as well as the decline in FSM 881 productivity as reported below. I am told that the decline in FSM 881 productivity is likely a result of the increased focus on providing service and the difficulty in maintaining separate barcoded and non-barcoded mailstreams. There does not appear to be a commensurate decrease in manual flat sorting costs, which I am told is partly due to the expected lag (about 2 months) between equipment deployment and work hours savings. In addition, I am told that increased bundle breakage may have lead to more sortations for both mechanized and manual.

d. Flat sorting productivities (manual, FSM 1000 and FSM 881 combined) declined from 594 pph in FY 1997 to 575 pph in FY 1998, as shown in Attachment 1. Please note that MODS productivities only reflect the processing in the plant. See also the individual productivities by machine type given below.

e. As shown in Attachment 1, the decline reflects a decline in the FSM 881 productivity and an increase in the FSM 1000 productivity. I am told that the decline in the FSM 881 productivity may reflect the increase focus on service. The growth in productivity for the FSM 1000 would likely reflect improvement as operational experience was obtained. The deployments of FSM 1000 helped offset the declines in the FSM 881 productivity as well.

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f. I am told that the Postal Service is addressing these concerns beyond the base year, through the deployment of the OCRs to the FSM 881 and the deployment of the AFSM 100. The AFSM 100s will initially reduce manual work hours and, as deployment proceeds, start replacing FSM 881s. In the interim, the OCRs on the FSM 881s will eliminate the need to maintain separate barcoded and non-barcoded mailstreams, a requirement that proved operationally cumbersome. The OCRs on the FSM 881s will also reduce costs by reductions in operator keying time.

Other efforts to reduce costs are to improve FSM utilization and manual flats sorting productivity as described in LR-I-126, page 18. I am told that Operations management has responded to the flats sorting productivity challenge by making reduced manual work hours and increased FSM utilization key performance indicators for mail processing.

g. Nationwide MODS productivities for FY 1996, FY 1997 and FY 1998, for the requested operations are provided in Attachment 1.

h. The unit mail processing clerks and mailhandlers labor cost for Standard (A) Regular letters increased 3.5 percent from FY 1997 to FY 1998. This unit cost was 3.3 cents in FY 1997. It was 3.42 cents in FY 1998.

**ATTACHMENT 1 TO
DMA/USPS-T21-2**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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National MODS Productivities

	Volumes (in 000s)	Workhours	Productivity(PPH*)
FY96			
FSM 881	17,107,575	23,673,307	723
Manual Flats	9,577,819	20,503,382	467
SPBS	2,588,396	9,587,770	270
FY97			
FSM 881	17,744,305	25,627,752	692
FSM 1000	807,122	1,441,892	560
Manual Flats	9,744,406	20,594,264	473
Total of Above	28,295,833	47,663,908	594
SPBS	2,879,063	11,416,212	252
FY98			
FSM 881	17,231,906	27,055,773	637
FSM 1000	4,024,661	6,753,932	596
Manual Flats	8,031,254	17,110,578	469
Total of Above	29,287,820	50,920,283	575
SPBS	3,100,251	12,827,226	242

Note: Productivity is Volume/Workhour. Volume is Total Pieces Fed (TPF) for all operations except manual flats, for which it is Total Pieces Handled (TPH). FY96 FSM and manual flats data from Docket No. R97-1, USPS-LR-H-113, pages 101-102. FY 98 FSM and manual flats developed in USPS-LR-I-107. FY97 data, including SPBS productivities based on methods used in USPS-LR-I-107.

*PPH is Pieces Per Hour.

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DMA/USPS-T21-3. The Standard (A) Regular unit city carrier in-office cost increased ten percent from FY 1997 to FY 1998: from 1.6 cents per piece to 1.8 cents per piece. Please confirm that this increase occurred while the unit city carrier in-office cost for all classes of mail as a whole barely changed (a one-percent increase).

Is there an operational reason for the ten percent increase in the Standard (A) Regular unit cost from FY 1997 to FY 1998? Would you expect unit city carrier in-office costs to decrease because of the increasing use of delivery point sequencing by the Postal Service?

Response:

I confirm both the calculation of the increase in the Standard (A) Regular city carrier in-office unit cost and the small change in in-office unit cost for all classes as a whole.

A possible operational reason for the ten percent increase in the Standard (A) Regular unit [city carrier in-office] cost from FY 97 to FY 98 is as follows. As described by witness Kingsley, (USPS-T10, page 26, lines 1 to 9), WSS bundles must frequently be cased. This resulted from an arbitration with the NALC, the "Snow award" in 1997. I am told that carriers generally find it more efficient overall to case this mail first, so the non-carrier-route flats are then cased into a case that is already partially full, with concomitant loss of efficiency for this mail.

Yes, *ceteris paribus*, DPS should lead to a decline in costs. However, in 1997 - 1998, the loss of workload due to DPS may have been overshadowed by the increase in flats casing costs. See Witness Daniel's response to DMA/USPS-T21-5.

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DMA/USPS-T21-4. How does the Postal Service measure city carrier in-office productivity? Based on this measure, did city-carrier in-office productivity decrease between FY 1997 and FY 1998? If so, by what percentage? If not, why did the unit cost for the Standard (A) Regular subclass increase so much?

Response:

I am informed that the primary Postal Service measure of city carrier in-office productivity is the Office Efficiency Indicator (OEI), defined as the number of *delivery points served by an office divided by the in-office workhours, i.e.* deliveries per hour. The OEI improved from 138.33 in FY 97 to 141.83 in FY 98. Standard (A) Regular costs increased nonetheless because of the shift in workload from letters to flats, as explained in my response to DMA/USPS-T21-3.

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DMA/USPS-T21-6. Standard (A) Regular unit costs for several support (or piggyback) cost segments (e.g., supplies and services – 23 percent; custodial and maintenance services – 11 percent; supervisors – 9 percent) increased significantly between FY 1997 and FY 1998. Are there operational reasons for these increases?

Response:

The reasons for the increases in these unit costs are as follows. The 23 percent increase in supplies and services (cost segment 16) unit costs for Standard (A) Regular is mostly due to the increase in "Other Miscellaneous," component 16.3.4. This is due to an increase in costs for contractual services and general supplies. In addition, the share of these costs borne by Standard (A) Regular rose due to the increase in costs for Standard (A) Regular in mail processing labor (component 3.1) and city carrier in-office costs (cost segment 6). (The processing and city carrier labor cost increases are discussed in my responses to DMA/USPS-T21-2, 3 and 4 and witness Daniel's response to DMA/USPS-T21-5.) The distribution of these component 16.3.4 costs is proportional to the all labor costs. See USPS-LR-I-1, page 16-5.

The 11 percent increase in custodial and maintenance services (cost segment 11) unit costs for Standard (A) Regular is primarily due to the increase in "Operating Equipment Maintenance," component 11.2 for Standard (A) in particular. This is due to increases in the DBCS, FSM, powered transport equipment, and SPBS maintenance labor costs. The IOCS tallies used in distributing these costs (see Attachment 4 of my testimony, USPS-T-21) indicate

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significant growth in the Standard (A) Regular processing in these operations.

The 9 percent increase in supervisors (cost segment 2) unit costs were for increases in mail processing and city carrier supervisors costs. These increases stem from the increased costs for Standard (A) Regular in mail processing labor (component 3.1) and city carrier in-office costs (cost segment 6). This is because the distribution of supervisor costs is proportional to the craft labor supervised. See USPS-LR-I-1, pages 2-2 and 2-4 for description of the development of supervisor costs.

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DMA/USPS-T21-7. While the Standard (A) Regular unit cost increased seven percent from FY 1997 to FY 1998, the Standard (A) ECR unit cost dropped two percent. Why did these two subclasses behave so differently?

Response:

See my responses to DMA/USPS-T21-2, 3, 4 and 6 and witness Daniel's response to DMA/USPS-T21-5. In general, Standard (A) ECR mail processing costs would not include much piece distribution costs and probably does not have as much bundle handling costs. As a result, its processing costs are probably not going to be affected by the factors described in DMA/USPS-T21-2 for Standard (A) Regular flats.

DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R2000-1 interrogatory responses are true to the best of my knowledge, information, and belief.

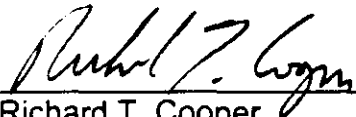


Marc A. Smith

2/11/2000
Date

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.


Richard T. Cooper

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February 11, 2000