

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

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POSTAL RATE AND FEE CHANGES

Docket No. R2000-1

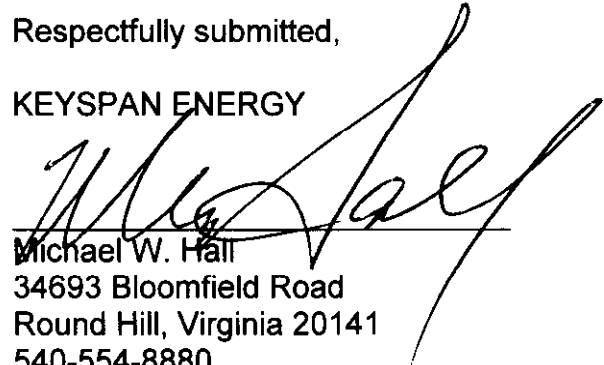
KEYSPAN ENERGY'S
FIRST SET OF INTERROGATORIES AND DOCUMENT PRODUCTION REQUESTS
TO USPS WITNESS CHRIS F. CAMPBELL

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice, KeySpan Energy submits the following interrogatories and document production requests to United States Postal Service witness Chris F. Campbell: **KE/USPS-T29-1-22**. 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,

KEYSPAN ENERGY

By:


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Dated: Round Hill, VA
February 14, 2000

**KeySpan Energy's First Set Of Interrogatories
And Requests For Production Of Documents
To USPS Witness Chris F. Campbell**

KE/USPS-T29-1 On page 7 of your prepared testimony you indicate that, when BRM letters are held out after the incoming primary sort, they are sent either to the BRMAS operation or to a manual sortation operation that is usually performed in the postage due unit or box section.

- (a) On page 16 you note that the "1997 BRM Practices Study showed that 19.3% of QBRM pieces receive final piece counts from a BCS EOR report". Do these pieces receive their final piece counts in the BRMAS operation or the postage due unit or box section? Please explain your answer.
- (b) On Section B, p. 2 of USPS LR-I-160, you show four methods for the finest depth of sortation of BRM. Please explain fully what "Other" means and state where this "Other" sort takes place.

KE/USPS-T29-2 On page 8 of your prepared testimony, you show the flow of advanced deposit BRM through the incoming facility. On page 9 of your prepared testimony, you state, "[a]t facilities without BRMAS operations, QBRM is counted, rated and billed using a variety of methods, both manual and automated" and identify the two most commonly used counting methods: manual and of end-of-run (EOR) report counts.

- (a) Please define "manual counts" and "end-of-run (EOR) report counts" as you have used those terms in your testimony.
- (b) Please identify and describe all the "variety of methods" used to count QBRM, indicate for each method whether it is used primarily for high volume QBRM recipients or low volume QBRM recipients, provide copies of all operating manuals, guidelines, or similar documents that describe how and under what circumstances the particular counting method is to be applied, and provide, for the Base Year in this case, the volume of QBRM counted by use of each counting method.
- (c) Do postal personnel ever weigh trays of QBRM for large recipients in order to facilitate the counting of pieces? Please explain.
- (d) If the reply letters of high volume QBRM recipients are weighed in order to facilitate the counting function, does this take place in the BRMAS operation, other barcode sorter operation, or the manual sort operation?
- (e) What operational factors or other considerations determine whether the QBRM reply mail is processed by a BRMAS operation, other barcode sorter operation, or the manual sort operation?

- (f) Have any studies or analyses been conducted to determine the typical processing method for high volume QBRM recipients in the delivery facility and how it might differ from the typical processing method for low volume QBRM recipients? If such studies or analyses have been performed, please provide copies of all such documents. If not, please explain why such studies or analyses were not performed.

KE/USPS-T29 On page 10 of your prepared testimony, you state, "Rating and billing functions are typically performed manually or through the PERMIT system or other software."

- (a) Please fully describe the "PERMIT system" and "other software" that is used for the rating and billing functions.
- (b) What factors determine whether the rating and billing function is performed manually or through the PERMIT system or other software? Of these factors, what is most important?
- (c) What is the start-up cost for implementing the PERMIT system or other software at a Postal facility?

KE/USPS-T29-4 On pages 12 and 13 of your testimony you state that the low volume QBRM cost methodology is similar to that provided by USPS witness Schenk in Docket No. R97-1, whereas the high-volume QBRM cost methodology "has been modified to reflect certain fixed costs associated with large QBRM mailer volume".

- (a) For low-volume QBRM, did you utilize the Schenk methodology for deriving the unit cost of counting, the unit cost of rating, or both?
- (b) Please describe exactly what changes you made to the Schenk methodology to reflect the USPS proposal for a reduced per piece fee and a quarterly fee for high volume QBRM.
- (c) Please confirm that you used the same breakout of counting techniques, i.e., 14.2% BRMAS, 19.3% BCS EOR and 66.5% manual, for high volume QBRM recipients and for low volume QBRM recipients. If you cannot confirm, please explain why not.
- (d) Please confirm that you assumed the Postal Service will incur the same unit cost for counting QBRM reply pieces delivered to high volume QBRM recipients that it will incur for counting QBRM reply pieces delivered to a low volume QBRM recipient. If you cannot confirm, please explain how your methodology differentiates between the unit costs incurred in counting high volumes of QBRM and those incurred in counting low volumes of QBRM.

KE/USPS-T29-5 On page 13 of your prepared testimony you mention three marginal productivities for BRMAS processing, BRMAS productivity for postage due activities, and manual sortation productivity for postage due activities.

- (a) Are these productivities the actual MODS productivities or were they adjusted to reflect the Postal Service's proposal that labor costs do not vary 100% with volume?
- (b) If the actual MODS productivities were adjusted, please show exactly what adjustments were performed to derive each of the three marginal productivities.
- (c) Please explain why the postage due unit activity was assumed to be 100 percent variable as stated on page 17 of your testimony.

KE/USPS-T29-6 On page 16 of your testimony you state that, for QBRM pieces received in high volume, "[t]he only incoming secondary cost subtraction incorporated into the methodology is for those QBRM pieces that are manually sorted and counted".

- (a) Please confirm that, when subtracting out the .88 cents "Cost avoidance (Inc. Secondary for manual pieces)," you assume that these manually sorted pieces incur the exact same cost as an average First-Class Basic automation-compatible letter? If you cannot confirm, please explain.
- (b) Do you assume that QBRM reply pieces will be sorted manually in the BRM processing sortation, but would have been sorted on barcode equipment in the incoming secondary if these same pieces were mail pre-paid with a stamp applied rather than as BRM? Please explain your answer.
- (c) What is the unit cost for sorting these high volume QBRM pieces manually in the incoming secondary?

KE/USPS-T29-7 On page 17 of your prepared testimony, you mention that you corrected understated postage due productivities from USPS witness Schenk's Docket No. R97-1 methodology. Please explain this refinement.

KE/USPS-T29-8 On page 15 of your testimony you determine a unit fixed cost for a high volume QBRM account, in part, by assuming an average of 15 transactions per accounting period.

- (a) What is the maximum possible number of transactions per account during any given accounting period, and how is that number determined?
- (b) Assuming that the number of 15 transactions per accounting period is less than the maximum possible number of transactions you report in response to part (a), wouldn't it be reasonable in determining the fixed accounting costs per account to use the maximum possible number of transactions per accounting period for high volume QBRM recipients in view of your testimony (at page 14) that "[a] number of mailers consistently receive high QBRM volumes nearly everyday"? If you disagree, please explain.
- (c) Please confirm that 15 transactions per accounting period is based on the actual average number of transactions per account during the FY98 AP1 through AP9 accounting periods for offices which use BRMAS software for sorting QBRM and

use the PERMIT system for rating and billing. If you cannot confirm, please explain.

- (d) For this period, what was the average volume per account transaction?
- (e) Did you make any attempt to obtain the average number of transactions per accounting period for just those QBRM recipients who receive "large" volumes? If you did so, please quantify what you mean by the term "large volumes," describe your efforts, and provide the results. If you did not do so, please explain why not.

KE/USPS-T29-9 Please refer to Section B, p. 2 of USPS LR-I-160, where you determine the Per-Piece Costs for QBRM (high-volume).

- (a) Please confirm that the method of final piece count, indicating that 66.5% of the pieces are counted by manual/other means, was determined prior to your decision to propose a reduced per piece fee for QBRM recipients who receive large volumes.
- (b) Please fully describe the manual/other processing technique for counting QBRM pieces received by large volume recipients.
- (c) Please fully describe the manual processing technique that produced the 951 PPH productivity upon which you rely in your cost analysis provided in LR-I-160, Section B, pages 2 and 3. See 1990 BRM survey data, Docket No. R90-1, USPS-T-23, Exhibit USPS-23F.
- (d) Does the Postal Service find it cost effective to hand count QBRM letters received by one recipient in large volumes? Please explain your answer.
- (e) Does the Postal Service find it cost effective to hand count nonletter-size BRM pieces received by one recipient in large volumes? Please explain your answer.
- (f) Did you attempt to obtain the percentage of pieces processed by the three methods of final piece count separately for QBRM recipients who receive low volumes and QBRM recipients who receive high volumes? If you did attempt to obtain that information, please quantify "high volumes" and explain the results of that effort and provide all documents that discuss that effort. If you did not attempt to do so, please explain why not?
- (g) Do field offices choose the method of counting QBRM pieces based on the anticipated volume received by particular QBRM recipients? If they do not, please explain why not.
- (h) If your answer to part (g) is yes, then why didn't your analysis focus just on high QBRM volume recipients for the purpose of determining the method of final piece counts? If your answer to part (g) is no, please explain why the anticipated volume of QBRM received per recipient is not an important factor in determining the method of final piece counts for high volume QBRM recipients.
- (i) Focusing on "Method of final piece count" and "Method and finest depth of sortation of BRM", please confirm that the percentages shown for manual operations imply

that 41.6% of the pieces were sorted manually to the end recipient, but 66.5% were actually counted manually? If you cannot confirm, please explain what the percentages imply.

- (j) Did you make attempt to independently study how many pieces of QBRM letters returned to a single recipient would be required in order to generate cost savings (compared to QBRM received in "low" volumes)? If not, why not?
- (k) Does the 2.0 cents unit cost reflected on the line entitled "Net direct and indirect weighted per piece cost of BRM processing" represent your estimate for the average unit cost to count QBRM letters? If not, please explain exactly what the 2.0 cents unit cost represents.

KE/USPS-T29-10 On page 16, footnote 5 of your testimony you note that "Field observations confirmed that manual distribution productivity has not changed significantly since 1989".

- (a) Please describe the manual distribution activity that the field observations confirmed.
- (b) Did the manual distribution activity include manual piece counts? If there were other manual techniques, please describe them fully.
- (c) Did the field observations take place in offices that received low volumes per recipient, high volumes per recipient, or both? If you do not know, please so state.
- (d) Has the Postal Service considered wider implementation of weighing techniques for QBRM pieces received in large quantities, in view of the newly implemented classification for nonletter-size BRM received in bulk? Please explain your answer.

KE/USPS-T29-11 Please refer to Section B, p. 2 of USPS-LR-I-160 where you determine the Per-Piece Costs for QBRM (high-volume).

- (a) Please confirm that the percentages you show for "Method of final piece count", as determined from a study in Docket No. R97-1, are intended to be representative of all offices, independent of whether or not they process QBRM pieces received in large quantities for individual QBRM recipients. If you cannot confirm, please explain and provide all documents which discuss this topic.
- (b) Please confirm that the percentages you show for "Method and finest depth of sortation of BRM", as determined from a study in Docket No. R97-1, are intended to be representative of all offices, independent of whether or not they process QBRM pieces received in large quantities for individual QBRM recipients. If you cannot confirm, please explain and provide all documents that discuss this topic.
- (c) Please confirm your analysis assumes that the method employed by an office to determine the QBRM final piece count is not dependent on whether the volume received by an individual recipient is large? If you cannot confirm, please explain and provide all documents that discuss this topic.

KE/USPS-T29-12 Please refer to Section B, p. 3 of USPS-LR-I-160, where you determine the Per-Piece Costs for QBRM (low-volume). Are the footnotes 17 through 25 correct? If not, please provide corrected them.

KE/USPS-T29-13 In Docket No. MC99-2, USPS witness Ellard performed a special study to "determine the level of interest in new accounting methods and fees for nonletter-size Business Reply Mail (BRM)". See USPS-T-4, p. 1. In that study, he attempted to find out what mail recipients would be interested in such a classification and how much mail could be expected to be returned under the newly proposed BRM nonletter fee. Did you perform any similar study with respect to QBRM received in high volumes? If yes, please provide the results of your study? If not, please explain why you did not perform such a study?

KE/USPS-T29-14 Please refer to LR-I-160, Section K, where you derive the unit cost for weighing and counting nonletter-size BRM.

- (a) Please describe how you obtained an average daily volume of 8,288 pieces.
- (b) Is the average daily quantity of 8,288 pieces representative for the entire universe of nonletter-size BRM? Please explain your answer.
- (c) If the average daily volume fluctuates considerably on the high side, say to 25,000 pieces per day, will the derived per piece costs go down? Please explain your answer.
- (d) If the average daily volume fluctuates considerably on the low side, say to 100 pieces per day, will the derived per piece costs go up? Please explain your answer.
- (e) Will the per piece costs change if the shapes of the BRM were letter-size? If so, why? If so, how? Please explain your answer.
- (f) Does the average number of pieces weighed per hour productivity of 7,272.3 (line 4) assume that labor costs vary 100% with volume? Please explain your answer.

KE/USPS-T29-15 On page 39 of your testimony you discuss the derivation for QBRM cost savings. You note the differences between your methodology in this case and the methodology you employed in Docket No. R97-1.

- (a) Why did you expand the model to incorporate mail processing costs through the incoming secondary operation?
- (b) Aren't QBRM pieces usually returned to a business? If so, why do you assume that the QBRM mail flow densities will be the same as for all First-Class mail, as stated in footnote 8 on page 40 of your prepared testimony?
- (c) Referring to footnote 8 on page 40 of your prepared testimony, did you assume for purposes of your cost models that the densities for QBRM and handwritten addressed letters were identical? Please explain.

- (d) Why did you choose to use the CRA adjustment factor for “non-automation presort” in this case, rather than the “automation non-carrier route presort” CRA adjustment factor that you used in Docket No. R97-1?
- (e) If you had used the “automation non-carrier route presort” CRA adjustment factor, as you did in Docket No. R97-1, wouldn't that have implied that your model-derived unit costs overstated the actual costs? Please explain your answer.
- (f) If QBRM letters are prebarcoded and automation-compatible, why do you claim that operations for non-automation presort mail more closely resemble those for QBRM letters? Aren't these pieces more similar to automation letters? Please explain.
- (g) Did your models capture additional costs that QBRM save and handwritten letters do not, such as bin capacity constraints, barcoding limitations, REC keying errors, system failures and REC Productivity? (See Docket No. R97-1, USPS-T-23, p. 9) If so, how? If not, how did you account for these factors?
- (h) Why did you assume that 100% of the QBRM would flow from the incoming MMP operation to the SCF-Incoming Primary operation, as stated in footnote 8?
- (i) What is the basis for your statement on page 40 that improvements in RBCS character recognition have lowered the cost associated with handwritten single-piece processing? Please provide copies of all studies or other documents that discuss the impact of improvements in RBCS character recognition on the cost of processing handwritten single-piece letters.

KE/USPS-T29-16 Please refer to LR-I-160, Section L, p. 2 and Docket No. R97-1, Exhibit USPS-T-23D, where you estimate unit costs for processing handwritten-addressed letters through the outgoing RBCS operation.

- (a) Please confirm that your cost models indicate that it costs an average of 3.626 cents to process a handwritten letter in the outgoing RBCS operation in Docket No. R97-1, but will cost only 2.567 cents in the test year in the current proceeding? If you cannot confirm, please provide the correct cost figures and explain the derivation of those unit costs.
- (b) Please explain why, in spite of an 11% increase in the wage rate (from \$25.45 to \$28.24), the unit labor cost through the RBCS operation for handwritten letters decreased by 29% (from 3.626 to 2.567 cents). If you cannot confirm the unit costs in part (a), please answer this question using the new figures you provide in response to part (a).
- (c) Why did the number of handwritten letters processed through the REC decrease from 9,606 in Docket No. R97-1 to 3,213 in this case. Please support your answer.
- (d) When handwritten letters are sent through the outgoing RBCS operations, will they always be given an 11-digit barcode? Please explain your answer.
- (e) Why are there no handwritten letters sent to the incoming RBCS operations, as

shown in USPS LR-I-160, Section L, p. 2?

(f) Please provide the derivation of the RCR unit cost of .486 cents.

KE/USPS-T29-17 Please refer to LR-I-160, Section L, p. 3 and Docket No. R97-1, Exhibit USPS-T-23D, where you estimate unit costs for processing QBRM letters through the outgoing primary operation.

- (a) Please confirm that your cost models indicate that it cost an average of .942 cents to process a QBRM letter in the outgoing primary operation in Docket No. R97-1, but will cost 1.2905 cents in the test year in the current proceeding? If you cannot, please provide the correct cost figures and explain the derivation of those unit costs.
- (b) Please explain why the unit model cost for handwritten letters going through the outgoing RBCS and outgoing primary operations went down 33% (from 4.408 cents in Docket No. R97-1 to 2.933 cents in this case), while the unit model cost for QBRM letters going through the outgoing primary operation went up 37% (from .942 cents in Docket No. R97-1 to 1.2905 cents in this case).

KE/USPS-T29-18 Please refer to LR-I-160, Section L, pp. 2 and 3, where you estimate unit costs for processing QBRM and handwritten letters through the incoming primary operation.

- (a) Please confirm that the unit costs to process QBRM and handwritten letters through the incoming primary operations are 1.5382 cents (.3693+.1578+.7602+.2509 cents) and .9576 cents (.1902+.1644+.4002+.2028 cents), respectively. If you cannot confirm, please provide the correct unit costs and an explanation of how they are derived.
- (b) Why do your analyses show that the costs to process handwritten letters are so much lower than costs to process QBRM letters in the incoming primary operations? In your answer, please explain why, compared to QBRM letters, so many handwritten letters can bypass this operation.

KE/USPS-T29-19 The standard method of BRM counting, rating and billing is to individually weigh each piece, compute the appropriate postage, set up a worksheet tally to keep track of the number of pieces and postage per recipient, and then calculate the postage due for each customer.

- (a) Do you agree that these steps essentially cover the manual method for processing BRM letters? If not, please explain.
- (b) Do you agree that while such processing might be cost effective for BRM recipients who receive small volumes, it would not be appropriate for BRM recipients who receive large volumes?

If you do not agree with part (b), please explain the circumstances where it would be cost effective to individually count and weigh each BRM piece, determine the applicable

postage for each piece, maintain a tally worksheet, and then calculate the total postage due for that customer.

KE/USPS-T29-20 In Campbell WP II you show the derivation of your manual productivity PPH of 951 for "counting and distribution of BRM."

- (a) Please confirm that this PPH was derived from data collected in 1989 and presented by USPS witness Pham in Docket No. R90-1 (Pham Study). If you cannot confirm, please provide the source information for the derivation of this PPH.
- (b) Please confirm that of the 7,763.48 hours recorded for counting and distributing BRM in the Pham Study, 2,217.90 or 28.6% came from one office, which had almost 10,000 individual advance deposit BRM accounts?
- (c) Please confirm that, for the 15 offices studied over a two week period in 1989, the computed productivities ranged from a low of 465 PPH to a high of 1,977 PPH. If you cannot confirm, please provide the correct range of productivities and explain how they were derived.
- (d) Why didn't you modify the derived 951 PPH as you did other manual operations to compute a marginal productivity that is consistent with the Postal Service's position that labor costs do not vary 100% with volume? See, for example, LR-I-160, Section L, p. 12, where you divided the MODS Productivity for manual operations by .735 to compute the marginal productivities.
- (e) Please confirm that in Docket No. R97-1, USPS witness Schenk adjusted the manual BRM sortation productivity in the postage due unit by dividing the 951 PPH from the R90-1 Pham Study by .797 to compute the marginal productivity. See USPS-T-27, p. 11 and Exhibit USPS-27C, footnote 7. If you cannot confirm, please explain.

KE/USPS-T29-21 In Docket No. R97-1, USPS witness Schenk noted that a new version of the BRMAS program was being contemplated by the Postal Service. See USPS-T-27, pages 7-8.

- (a) Has the new version of the BRMAS program been developed? If not, why was that project stopped?
- (b) If your answer to part (a) is yes, please describe how the new BRMAS program will improve upon the old program and provide all documents discussing the benefits of this new BRMAS program.
- (c) If your answer to part (a) is yes, please provide the date on which the new BRMAS program was implemented or, if it has not yet been implemented, the Postal Service's plans for implementing the new version of the BRMAS program.

- (d) If your answer to part (a) is yes, how did you take this information into account in your derivation of QBRM unit costs?

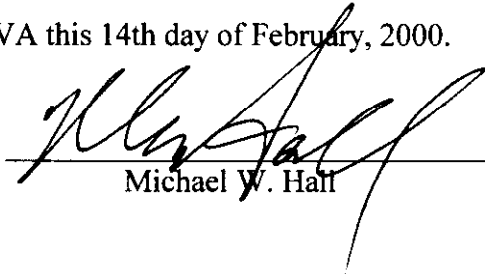
KE/USPS-T29-22 In Docket No. R97-1, USPS witness Schenk noted that Prepaid Reply Mail (PRM) service "would be advantageous for some high-volume BRMAS-qualified BRM recipients. If there is migration of BRMAS-qualified volumes to PRM, the BRMAS coverage factor would change, which would affect the cost of BRMAS-qualified BRM". (USPS-T-27, p. 13).

- (a) Please confirm that USPS witness Schenk determined the unit cost for QBRM by using an adjusted BRMAS coverage factor of 5.87 percent, which was intended to take into account USPS witness Fronk's projection that 66 percent of BRMAS-qualified BRM volume would migrate to PRM. If you cannot confirm, please explain.
- (b) Did you make any adjustment in your development of QBRM unit costs, similar to the adjustment made by USPS witness Schenk in R97-1, to reflect the possible migration of QBRM volumes from paying the proposed 6-cent fee to the newly proposed 3-cent per piece fee (with fixed quarterly fee)? If yes, please explain exactly what kind of adjustment you made. If you did not make such an adjustment, please explain why not?
- (c) Do you agree that a BRM recipient who received large volumes would be the type of Postal customer who would have taken advantage of the proposed PRM service, if it had been implemented, and who will take advantage of the new, 3-cent QBRM fee that the Postal Service proposes in this case? If you do not agree, please explain and provide all documents reviewed by you in connection with the formulation of your response to this interrogatory.
- (d) Please confirm that QBRM letters received by individual recipients in high volumes cost less to count than QBRM letters received by individual recipients in low volumes? If you cannot confirm, please explain why not.
- (e) If you confirm the statement in part (d), wouldn't your derived unit cost for QBRM (high volume) be overstated, while your unit cost for QBRM (low volume) be understated? Please explain your answer.
- (f) Please confirm that nonletter-size BRM pieces received by individual recipients in high volumes cost less to count than nonletter-size BRM pieces received by individual recipients in low volumes? If you cannot confirm, please explain why not.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing discovery request upon the United States Postal Service, Ted P. Gerarden, the Designated Officer of the Commission, and participants who requested service of all discovery documents, in compliance with Rules 12, 25, and 26 of the Commission's Rules of Practice And Procedure.

Dated at Round Hill, VA this 14th day of February, 2000.



Michael W. Hall