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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA/USPS–T24-1, 2(b,c,e,f), 4-11, 13, 14(a,b), 15(a,b) and 16)

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of Major Mailers Association: MMA/USPS–T24-1, 2(b,c,e,f), 4-11, 13, 14(a,b), 15(a,b) and 16, filed on February 7, 2000. Each interrogatory is stated verbatim and is followed by the response.

The following interrogatories have been redirected to the Postal Service for response: MMA/USPS–T24-2(a, d), 3(a-j), 12, 14(c), 15(c,d).

The following interrogatory has been redirected to witness Fronk for response: MMA/USPS–T24-3(k).

Respectfully submitted,

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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-I 1.

(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.

RESPONSE:

(a) CRA mail processing unit costs for Bulk Metered Mail (BMM) letters are not available. As a result, the CRA mail processing unit costs for all metered letters are used as an estimate. One modification is made to reflect the assumption that BMM letters are entered in full trays; the costs for the "1CANCMMP" cost pool are set to zero. Therefore, the collection costs normally associated with isolating, facing, and traying metered letters are ignored. However, some costs that are related to collections (e.g., loading and unloading trucks at the dock) are still imbedded in the "1PLATFORM" cost pool. As a result, were it possible to isolate the platform costs for BMM letters, those costs would likely be lower than the platform costs for all metered letters (which is the value contained in the estimate).

RESPONSE to MMA/USPS-T24-1 (Continued)

In addition, if mailer presortation were a primary cost driver for the "1PLATFORM" cost pool, it is unlikely that the costs for the BMM letters estimate (0.761 cents) would be nearly identical to those for the nonautomation presort letters category (0.752 cents). One might suspect that other factors, such as mail piece weight, might be affecting these costs. (BMM letters and nonautomation presort letters can weigh up to 13 ounces, but automation presort letters are limited to 3.3362 ounces.)

(b) No. The exclusion of platform costs from the worksharing related savings calculations means that those costs should not be affected by worksharing. It does not mean that the platform costs for different mail types should be identical. For example, the weight limitations for BMM letters (13 ounces) and automation presort letters (3.3362 ounces) are not identical. Therefore, one would not expect the mail processing unit costs to be identical.

(c) The mail processing unit cost estimates and worksharing related savings estimates contained in my testimony are developed using the best data available. There are many limitations associated with the development of any cost estimate. Cost is obviously an important factor, but Postal Service pricing witnesses consider all nine factors specified by U.S.C. §3622(b) when proposing rates and fees.

(d) As stated in (b), the platform costs for different mail types would not necessarily be the same. Therefore, the inclusion of these costs could erroneously affect the worksharing related savings results, even though these costs are not affected by mailer worksharing activities.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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?

RESPONSE:

(a) Redirected to the Postal Service.

(b) No. The "1CANCMMP" cost pool contains the costs for culling, facing, and canceling single-piece mail. Bulk Metered Mail (BMM) letters are assumed to be entered in bulk, similar to presort letters. Therefore, this mail would bypass these cancellation and metered mail preparation operations. This is the reason why the "1CANCMMP" costs are set to zero.

Like all metered letters, BMM letters must be "deposited in locations under the jurisdiction of the licensing post office," as per DMM 55, Section D100.2.1. In terms of

RESPONSE to MMA/USPS-T24-2 (Continued)

postage payment, BMM letters are subject to the same postage and payment method requirements that are specified for all metered letters in DMM 55 Section P030.

(c) No. The CRA cannot be used to isolate the mail processing unit costs for BMM letters. As a result, those costs are assumed to be identical to the mail processing unit costs for all metered letters (bulk and non-bulk), with the exception that the "1CANCMMP" cost pool has been set to zero.

(d) Redirected to the Postal Service.

(e) I assume that BMM letters exhibit the same cost characteristics as all metered letters, with the exception that BMM letters are entered in trays. In developing the cost estimate, this assumption is used because the CRA does not provide mail processing unit costs specific to BMM letters.

(f) The "1CANCMMP" cost pool value is 0.300 cents as shown in LR-I-81 for "F-C Single Piece Metered Letters."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T24-3 On page 12 of your prepared testimony, you state that BMM is "the 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) Answering 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.

RESPONSE:

(a),(b),(c),(d),(e),(f),(g),(h),(i),(j) Redirected to the Postal Service.

(k) Redirected to witness Fronk.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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 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?

RESPONSE:

(a) Not confirmed.

RESPONSE to MMA/USPS-T24-4 (Continued)

As stated in my testimony in footnote 17, the comments and cost comparison on page 12 reference PRC Op., R97-1, paragraph 5098 where the Commission states:

> "In recommending the adoption of BMM as the benchmark, the Commission notes some concern over the narrow difference in the mail processing unit cost of single-piece and BMM (14.10 cents versus 12.58 cents)."

This cost difference (14.10 – 12.58) is equal to 1.52 cents. In this docket, the cost difference is 1.83 cents, which is also relatively narrow. Given the Commission's concern in Docket No. R97-1, I thought I would directly address this issue and offer some reasons in my testimony as to why this might be occurring.

(b1) I agree, given that the labor rates increase and there are no simultaneous changes related to any of the other factors. However, I do not think that it is realistic to expect one factor to change without seeing changes in other factors simultaneously.

(b2) In general, technological advances reduce mail processing costs. However, I can neither agree nor disagree with this question because it is focusing a general term ("technological advances") on the cost difference between two specific mail types. A technology change could affect one or both mail types and, as a result, the cost difference could either decrease or increase. It depends on the specific change.

(b3) I assume this question refers to the three CRA cost pool classifications described on page 4 of my testimony. I agree given that the non-worksharing related fixed cost pools are excluded from the savings calculations, which has not been the case in past dockets.

(b4) I can neither agree nor disagree with this question. It would be necessary to

RESPONSE to MMA/USPS-T24-4 (Continued)

complete an entirely separate analysis based on a specific change to the volume variabilities because the variabilities do not solely affect the marginal productivities; they also affect the CRA mail processing unit costs and corresponding CRA adjustment factors.

(b5) I do not agree with this statement. An increase in the volume of prebarcoded Courtesy Reply Mail (CRM) will affect the mail processing unit costs for the single-piece rate category. However, CRM is not the only mail type within that rate category. A change to the mail mix between the various mail types is what would actually have an impact on the average single-piece mail processing unit costs.

(b6) I do not agree. The cost difference between single-piece letters and BMM letters that is referenced on page 12 of my testimony was based solely on CRA mail processing unit costs. It did not rely on cost modeling.

(b7) Any operational change or change to the sampling systems that would enhance the Postal Service's ability to isolate the CRA mail processing unit costs for BMM letters would also affect the cost difference. Such an improvement would probably increase the difference, but it is difficult to say what the magnitude of that increase might be.

(c) Not confirmed. As stated in (b6), cost models were not used to calculate the mail processing unit costs for single-piece letters or BMM letters in either docket. Those costs are CRA-based mail processing unit costs.

(d) The "1CANCMMP" cost pool that was set to zero is not directly related to the single-piece letters mail processing unit costs. The specific cost pool in question can

RESPONSE to MMA/USPS-T24-4 (Continued)

be found in a subset of single piece letters referred to as "F-C Single Piece Metered Letters," as specified in LR-I-81. In that library reference, the mail processing unit costs for "F-C Single Piece Metered Letters" are 10.770 cents. When the "1CANCMMP" cost pool (0.300 cents) is set to zero, the mail processing unit costs decrease to 10.470 cents (10.770 cents – 0.300 cents). This value is referred to as "F-C Single Piece Bulk Entered Metered Letters" in LR-I-81 and is what I use as a BMM letters mail processing unit cost estimate in my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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 to the results of your cost models in this case? Please explain your answer.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e-i) For manual operations, I do not agree. It depends on the specific operation.

Some marginal productivities have remained virtually the same in this docket, whiles

others have either increased or decreased.

RESPONSE to MMA/USPS-T24-5 (Continued)

Operation Description	--Marginal Productivity-- (LR-I-113) Docket No. R97-1	(LR-I-107) Docket No. R2000-1
Manual Outgoing Primary	662	661
Manual Outgoing Secondary	691	649
Manual MMP (State Distr.)	759	818
Manual Incoming SCF/Prim	896/562	868
Manual Incoming Secondary	646	695

For automation operations, I do not agree. In Docket No. R97-1, average marginal productivities were used for some operations. In this docket, the marginal productivities are de-averaged by operation in a manner similar to the manual marginal productivities. Some of the automation productivities are therefore higher than the averages that were used in Docket No. R97-1, while some are lower.

Operation Description	--Marginal Productivity-- (LR-H-113) Docket No. R97-1	(LR-I-107) Docket No. R2000-1
Outgoing OSS	11,984	10,029
Incoming OSS	11,984	9,070
Outgoing BCS Primary	7,467	6,401
Outgoing BCS Secondary	7,467	9,299
Incoming BCS MMP	7,467	6,218
Incoming BCS SCF/Prim	7,467	6,588
Incoming BCS Sec Carrt	6,633	5,826
Incoming BCS Sec DPS	8,393	9,762
Incoming BCS Sec CSBCS	17,424	14,898

(e-ii) I do not agree. For example, the attributable costs for the "/BCS" and "/MANL" cost pools have increased in Docket No. R2000-1 for Bulk Metered Mail (BMM) letters.

RESPONSE to MMA/USPS-T24-5 (Continued)

CRA Category	Cost Pool	(LR-H-106) Docket No. R97-1 (Cents)	(LR-I-81) Docket No. R2000-1 (Cents)
BMM Letters	/bcs	1.766	1.973
BMM Letters	/manl	1.646	1.681

(f) I believe it is fair in the sense that Postal Service pricing witnesses used witness Hatfield's results as a cost basis for establishing discount proposals in Docket No. R97-1 and have now used my results as a cost basis for establishing discount proposals for the same rate categories in Docket No. R2000-1.

(g) I believe it is fair in the sense that the Commission used their results as a cost basis for their discount recommendations in Docket No. R97-1 and Postal Service pricing witnesses have now used my results as a cost basis for establishing discount proposals for the same rate categories in Docket No. R2000-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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, (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 1OPBULK;
(2) MODS 23 1OPPREF;
(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 1PLATFORM;
(2) MODS 26 1SACKSH;
(3) MODS 43 1SUPPF1;
(4) MODS 44 1SUPPF4;
(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 pools 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.

RESPONSE:

First of all, I would like to clarify that cost pool classification (1) as specified in the

RESPONSE to MMA/USPS-T24-6 (Continued)

question should have used the term "worksharing related proportional," not "worksharing related and related to volume."

(a1,2,3) The MODS operation numbers and corresponding descriptions for these cost pools can be found in LR-I-106 ("1OPBULK" - page I-21, "1OPPREF" - pages I-21 to I-22, and "1POUCHING" - pages I-22 to I-23).

These cost pools contain the costs for some package sorting activities. Therefore, I classified them as worksharing related because I wanted to maintain the proper cost relationships between the Bulk Meter Mail (BMM) letters benchmark (which can contain packaging), the nonautomation presort letters rate category (which can contain packaging), and the automation presort letters rate categories (which should not contain packaging).

In addition, these cost pools also contain the tray sortation costs typically associated with opening units. I therefore classified them as fixed, rather than proportional, because the latter classification would have skewed the cost relationships between the three automation presort letters rate categories (basic, 3-digit, and 5-digit). Opening unit costs for these rate categories are avoided based on whether a mail piece is entered at the destinating facility. These costs are not necessarily avoided based on the level of presortation. Therefore, I have assumed that the "1OPBULK" costs for these rate categories are roughly the same and classified them as "worksharing related fixed."

RESPONSE to MMA/USPS-T24-6 (Continued)

(a4) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("LD49" - page I-28). This cost pool contains the costs for Computer Forwarding System (CFS) operations. Therefore, I wanted to maintain the appropriate cost relationships between BMM letters (which do not have to meet specific addressing standards) and the presort letters rate categories (which do have to meet specific addressing standards).

This cost pool is classified as fixed, rather than proportional, because the level of presortation should not affect these costs. For example, automation basic, 3-digit, and 5-digit presort letters must meet the same addressing standards. Therefore, one would expect that the CFS costs for these three rate categories would be roughly the same. As a result, a fixed classification is used.

(a5,6) These cost pools are non-MODS cost pools developed using dollar-weighted tallies as specified in LR-I-106, page I-2. In addition, it is assumed that these cost pools have been erroneously included in this question as they have been classified as "worksharing related proportional" in my testimony.

(b1) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("1PLATFORM" - page I-22). I classified this cost pool as "non-worksharing related fixed" for the reasons discussed in the response to MMA/USPS-T24-1.

(b2) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("1SACKSH" - page I-23). I classified this cost pool as "non-worksharing related fixed" because letter mail processing is predominantly tray

RESPONSE to MMA/USPS-T24-6 (Continued)

based. The MODS operation numbers mapped to this cost pool are all related to manual sack sortation, not tray sortation.

(b3,4) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("1SUPPF1" and "1SUPPF4" are subsets of "1SUPPORT" - page I-25). These costs pools contain the costs for clerical activities (e.g., mail processing stewards) that are not related to mailer presorting and prebarcoding activities. Therefore, this cost pool has been classified as non-worksharing related fixed.

(b5,6) These cost pools are non-MODS cost pools developed using dollar-weighted tallies as specified in LR-I-106, page I-2. They contain the same types of activities for non-MODS facilities that are found in the "1PLATFORM" and "1SUPPORT" cost pools for MODS facilities. Since I classified these cost pools as "non-worksharing related fixed" for MODS facilities, I also classified them as such for non-MODS facilities.

(c) As an input to my cost studies, I assume that the mail processing unit costs by cost pool are accurate. The discussion regarding how mail processing unit costs are developed at the cost pool level can be found in LR-I-106.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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.

RESPONSE:

(a) The cost model on page I-16 of Appendix I in my testimony relies upon accept and upgrade rates from Docket No. R97-1 LR-H-130 for all metered letters. Therefore, it does not contain cost data specific to Bulk Metered Mail (BMM) letters.

(b) Confirmed. No CRA adjustment is required because the CRA mail processing unit costs themselves are used to develop the estimate.

(c) The cost model on page I-16 in Appendix I of my testimony is not used to

RESPONSE to MMA/USPS-T24-7 (Continued)

support any of the total mail processing unit cost estimates or worksharing related savings estimates related to BMM letters on page I-1. This model was developed for comparison purposes only as a second means to evaluate the relationship between metered letter mail processing unit costs and nonautomation presort letter mail processing unit costs. It was created because the separation of the CRA "nonautomation presort mail processing unit costs" from the "automation non-carrier route presort mail processing unit costs" had a significant impact on the cost results, when compared to the cost relationships in Docket No. R97-1.

(d) As stated in (c), the cost model on page I-16 has been created for comparison purposes only. I did not intend to compare the model cost result (5.269 cents) to the worksharing related proportional mail processing unit costs for BMM letters on page I-7 (6.979 cents). Cost models are used to de-average a CRA mail processing unit cost benchmark when that benchmark contains costs for more than one rate category. In this instance, there is no other category or mail type other than metered letters. The application of CRA adjustment factors based on the CRA data on page I-7 and the one cost model on page I-16 would lead to the same BMM letters results as shown on page I-1.

(e) The cost models rely on average data inputs and simplified processing assumptions such that the weighted model cost results will not always be equal to the CRA mail processing worksharing related proportional costs. The CRA worksharing related proportional adjustment factors are applied to the final model cost results to compensate for this fact.

RESPONSE to MMA/USPS-T24-7 (Continued)

(f) Confirmed. The total mail processing unit costs and worksharing related savings calculations that are related to BMM letters and found on page I-1 of Appendix I in my testimony are CRA-based numbers and do not rely on cost modeling methodology.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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 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.

RESPONSE:

(a) (c) The cost models found in Appendix I, pages I-18, I-20, and I-22 of my testimony are not used to support the total mail processing unit cost estimates or worksharing related savings estimates related to nonautomation presort letters on page I-1. These models are developed for three reasons.

The first is to provide a DPS percentage for the nonautomation presort rate category to witness Daniel (USPS-T-28). The weighted DPS percentage can be found in Appendix I, page I-4, column (2) of my testimony.

These models are also developed as a second means to evaluate the relationship between metered letters mail processing unit costs and nonautomation presort letters mail processing unit costs as described in response to MMA/USPS-T24-7(a). The weighted average model cost for the nonautomation presort letters rate category can be found in Appendix I, page I-4, column (3).

RESPONSE to MMA/USPS-T24-8 (Continued)

The third reason is to provide a "nonautomation CRA proportional adjustment factor" (1.223) to witness Campbell (USPS-T-29). This factor is calculated to be the 7.700 cents (worksharing related proportional costs) on page I-8, divided by the weighted model cost of 6.296 cents on page I-4.

(b) The cost models rely on average data inputs and simplified processing assumptions such that the weighted model cost results will not always be equal to the CRA mail processing worksharing related proportional costs. The CRA worksharing related proportional adjustment factors are applied to the final model cost results to compensate for this fact.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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.

RESPONSE:

(a) The cost models rely on average data inputs and simplified processing assumptions such that the weighted model cost results will not always be equal to the CRA mail processing worksharing related proportional costs. The CRA worksharing related proportional adjustment factors are applied to the final model cost results to compensate for this fact.

(b) Yes. The cost model results from witness Daniel in Docket No. R97-1 for Standard Mail (A) Nonprofit letters resulted in a CRA proportional adjustment factor that was less than 1. (See Docket No. R97-1, USPS-T-29, Appendix III, page 1.)

(c1) The Advanced Facer Canceler System Input Sub System (AFCS-ISS)

RESPONSE to MMA/USPS-T24-9 (Continued)

culls, faces, applies RBCS ID tags, lifts images, cancels mail, and sorts mail into one of four bin types (rejects, prebarcoded FIM A and C, script, and all other). The AFCS-ISS, however, is not included in the cost model as these models are used primarily to calculate the costs for presort rate categories that should bypass the cancellation operation.

The Multi Line Optical Character Reader Input Sub System (MLOCR-ISS) applies RBCS ID tags, detects POSTNET barcodes, reads addresses, applies POSTNET barcodes, lifts images, and sorts mail as dictated by the sort plan. The MLOCR-ISS is the ISS that is included in my cost models.

(c2) Mail pieces that cannot be finalized on the ISS have their images forwarded to the Remote Computer Read (RCR) and/or the Remote Encoding Center (REC). These mail pieces require additional processing steps and therefore incur additional costs. The RCR and REC, however, do not "obtain and place" a barcode on the mail piece.

The RCR is a computer system that uses image recognition technology to finalize the images lifted from the ISS. If the RCR software is able to determine the appropriate depth-of-sort ZIP Code, then the result is sent to another computer system, the Decision Storage Unit (DSU).

Mail pieces that the RCR cannot finalize are then sent over T-1 (telephone) lines to the REC. At the REC, a Data Conversion Operator (DCO) keys the address image data for a given mail piece as seen on a Video Display Terminal (VDT) until the

RESPONSE to MMA/USPS-T24-9 (Continued)

appropriate depth-of-sort ZIP Code is obtained. The result is then also sent back to the DSU at the plant.

(c3) The Mail Processing Bar Code Sorter Output Sub System (MPBCS-OSS) and the Delivery Bar Code Sorter Output Sub System (DBCS-OSS) can detect POSTNET barcodes, read RBCS ID tags, access the corresponding depth-of-sort ZIP Code from the DSU, apply the appropriate POSTNET barcode, and sort mail as dictated by the sort plan.

(c4) The Letter Mail Labeling Machine (LMLM) can be used to place a label on the back of a mail piece so that a "clean" ID tag can be applied. The LMLM can also be used to place a tag on the front of a mail piece so that a "clean" POSTNET barcode can be applied.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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 lower for BMM and non-automation presort, but higher for automation non-carrier route presort. Does this inconsistency cause you any alarm? Please explain.

RESPONSE:

In the postal mail processing network, many different rate categories and/or mail types are mixed together and processed through the same operations. It would be very expensive and difficult to calculate separate input data for those same rate categories and/or mail types. As a result, it is often necessary to use average data (for all rate categories and/or mail types) when developing cost models. For example, I use average marginal productivities in my cost models.

It therefore does not surprise nor alarm me that some weighted model costs would be higher than the corresponding CRA worksharing related proportional mail processing unit costs, while other weighted model costs would be lower. In fact, this is the very reason that I use CRA proportional adjustment factors: to lessen the impact that the many data inputs and model assumptions have on the final result.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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.

RESPONSE:

(a) Confirmed.

(b) The Postal Service does not maintain separate MODS operation numbers that can be used to distinguish Standard (A) letters mail processing from First-Class letters mail processing. In addition, these classes of mail are sometimes processed through the same operations at the same time (e.g., DPS incoming secondary processing). It would be very expensive and difficult to calculate separate input data for those same rate categories and/or mail types. As a result, it is often necessary to use average data (for all rate categories and/or mail types) when developing cost models. For example, I use average marginal productivities in my cost models. The worksharing related proportional CRA adjustment factors are applied to the model cost results as a means to compensate for the fact that average data must, on occasion, be used.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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.

RESPONSE:

(a),(b),(c),(d) Redirected to the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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 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?

RESPONSE:

(a) This can be confirmed for the automation basic presort letters rate category, which is the only automation First-Class Mail presort letter rate category that used BMM letters as the benchmark when calculating the worksharing related savings. The remaining automation First-Class Mail presort letter rate categories use other automation rate categories as benchmarks and would not be affected.

(b) The majority of this cost difference is due to the "1PLATFORM" and "ALLIED" cost pools [(0.761 +0.435) - (0.293 +0.185) = 0.718 cents). These cost pools represent 55% [0.716/(2.141-0.843)] of the difference between the non-worksharing related fixed mail processing cost pools for BMM letters and the corresponding cost pools for automation non-carrier route presort letters. They also contain the costs for platform type operations at MODS and non-MODS facilities. Platform costs are discussed in detail in the response to MMA/USPS-T24-1. As discussed in that interrogatory, BMM letters can weigh up to 13 ounces while automation presort letters must weigh 3.3362 ounces or less. As a result, weight could also be a factor that is influencing the cost differences that exist between cost pools.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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 addressing 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 calendar 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 that were forwarded or returned;

(3) the unit cost to forward or return a First-Class Presorted Letter;

(4) the unit costs to forward or return a First-Class Nonpresorted Letter.

RESPONSE:

(a) I possess no knowledge as to how mailer compliance with addressing requirements affects total mailer costs. I also have not specifically studied the effect of mailer address hygiene on Postal Service forwarding costs. However, the effect that mailer address hygiene has on forwarding costs should be reflected in the worksharing related savings calculations because the impacted cost pools (e.g., "/bcs," "manl," and "LD49") are classified as either "worksharing related proportional" or "worksharing related fixed."

(b) Yes. As stated in (a), the costs pools that would be affected by a change to Postal Service forwarding costs have been classified as either "worksharing related proportional" or "worksharing related fixed," and would therefore have been included in

RESPONSE to MMA/USPS-T24-14 (Continued)

the worksharing related savings calculations found in USPS-T-24, Appendix I, pages I-1 and I-2. For example, the costs for the Computer Forwarding System (CFS) cost pool "LD49" have been classified as "worksharing related fixed."

(c1) Redirected to the Postal Service.

(c2) Redirected to the Postal Service.

(c3) Redirected to the Postal Service.

(c4) Redirected to the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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 Service 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?

RESPONSE:

(a) I possess no knowledge as to how reply envelope requirements affect total mailer costs. I have collected data pertaining to reply envelopes in the past (e.g., Docket No. R97-1, USPS-RT-17, Exhibit USPS-RT-17A), but have never specifically studied the address quality of mailer-provided reply envelopes. To the extent that these envelopes meet all the requirements specified in DMM 55, I would expect that they reduce First-Class single-piece letters mail processing unit costs, when the mailers' customers elect to use them over CRM alternatives (e.g., handwritten envelopes, electronic bill payment).

(b) No. Courtesy Reply Mail (CRM) envelopes enter postal facilities as part of the First-Class single-piece letters mail stream. The cost characteristics related to CRM would therefore be imbedded in the CRA mail processing unit costs for First-Class single-piece letters found in LR-I-81.

(c) Redirected to the Postal Service.

(d) Redirected to the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

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

(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) 1PLATFORM
(2) 1SACKSH
(3) 1SACKSM

(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.

RESPONSE:

(a) Confirmed, but the term used was "proportional," not "variable."

(b) Confirmed.

(c) Confirmed. These costs were classified as "non-worksharing related fixed" and were not included in the worksharing related savings calculations in my testimony.

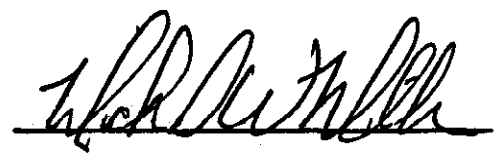
(d) (e) The cost models have focused on piece distribution costs and have not included the costs for those activities listed in (a) and (b). The cost models used in

RESPONSE to MMA/USPS-T24-16 (Continued)

Docket Nos. MC95-1 and R97-1 also focused on piece distribution costs and did not include the costs for those activities listed in (a) and (b). Therefore, no changes have been made.

DECLARATION

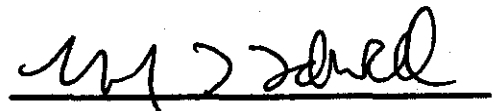
I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: 2/22/2000

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.



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