

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 DANIEL TO INTERROGATORIES OF MAJOR MAILERS  
ASSOCIATION  
(MMA/USPS-T28—1-8)**

The United States Postal Service hereby provides the responses of witness Daniel to the following interrogatories of Major Mailers Association: MMA/USPS-T28—1-8, filed on February 7, 2000.

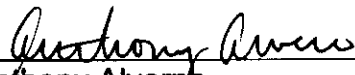
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
\_\_\_\_\_  
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February 22, 2000

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**MMA/USPS-T28-1.** In its R97-1 Opinion and Recommended Decision, the Commission stated:

In repeated Opinions, the Commission has urged the Postal Service and other parties to address the cost of processing additional ounces of First-Class Mail. Regrettably, the Service has again failed to respond to this request. (Op 97-1 at 301 (citations omitted)).

On page 1 of your prepared testimony, you note that the purpose of your testimony is to “[a]nalyze the relationship between weight and cost to support rate design in First-Class, Standard Mail (A), and Periodicals.”

- (a) Does your testimony represent the Postal Service’s response to the Commission’s specific request to “address the cost of processing additional ounces of First-Class Mail”? If your answer is yes, please explain in detail how your testimony provides the required information.
- (b) Please explain the impact of the second ounce on postal costs for processing a First-Class letter.
- (c) Please explain the impact of the second ounce on postal costs for processing a Standard A letter.
- (d) Is the purpose of your testimony to provide cost support for a constant rate per additional ounce up to 13 ounces for First-Class? If your answer is affirmative, please explain how your study meets that objective.
- (e) Is the purpose of your testimony to support a constant rate per piece for letters weighing up 3.5 ounces for Standard Mail A? If your answer is affirmative, please explain how your study meets that objective.

**RESPONSE:**

- (a) Yes. A detailed analysis of costs by shape and ounce increment is presented in USPS LR-I-91 as referred to on page 12 of my testimony.
- (b) The data in USPS LR-I-91 currently show the second ounce of “First-Class Single Piece letters-only” costs 13.4 cents more than the first ounce. However, the First-Class Single-Piece window service costs

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in USPS LR-I-91 do not match those in USPS LR-I-99. An errata to USPS LR-I-91 will be filed shortly which will show the second ounce of "First-Class Single Piece letters-only" costs 13.1 cents more than the first ounce. Data in USPS LR-I-91 also show the second ounce of "First-Class Presort letters-only" costs 15.1 cents more than the first ounce.

- (c) The data in USPS LR-I-92 show the second ounce of Standard Mail (A) Regular letters-only cost 0.4 cent more than the first ounce. Data in USPS LR-I-92 also show the second ounce of Standard Mail (A) ECR letters-only cost 0.7 cent more than the first ounce.
- (d) The purpose of my testimony is to prepare and analyze cost data for witness Fronk, the First-Class Mail rate design witness. The evaluation of constant rate per additional ounce is conducted within the rate design analysis.
- (e) The purpose of my testimony is to prepare and analyze cost data for witness Moeller, the Standard Mail (A) rate design witness. The evaluation of these data is conducted within the rate design analysis.

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**MMA/USPS-T28-2.** Please refer to page 2 of your testimony where you state that Sections V through VII present “the results of the relationship between weight and [Test Year unit] cost in First-Class Mail, Standard Mail (A), and Periodicals.”

- (a) Please confirm that your testimony does not provide the specific impact of weight on cost for First-Class letter-shaped mail. If you cannot confirm, please explain the specific impact of weight on cost, by ounce increment, for letters weighing up to four ounces. Please provide all documents that support your answer.
  
- (b) Please confirm that your testimony does not provide the specific impact of weight on cost for Standard A letter-shaped mail. If you cannot confirm, please explain the specific impact of weight on cost, by ounce increment, for letters weighing up to four ounces. Please provide all documents that support your answer.

**RESPONSE:**

- (a) The purpose of my testimony is to provide cost data to the pricing witness at a level of detail appropriate for rate design. Since First-Class Single-Piece Mail does not have shape-based rates, it was unnecessary to provide shape-specific data in my testimony; however, shape-specific data for First-Class Mail is provided in USPS LR-I-91.
  
- (b) Data by ounce increment and shape for Standard Mail (A) are provided in USPS LR-I-92; however, as I note in my testimony on page 3, these data “are intended to guide rate design by providing a *general* indication of the effect weight has on total volume variable costs. They are not necessarily intended to be an *exact* quantification of costs for every individual weight increment.”

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**MMA/USPS-T28-3.** Please provide the average unit weight for:

- (a) a First-Class nonpresorted letter;
- (b) a First-Class presorted letter; and
- (c) a Standard A Regular Rate letter.

For each of the pieces for which you provide the average unit weight, please provide all documents, or references to the appropriate portions of the USPS' filing in this case, that show the source data used by you to determine the average unit weight.

**RESPONSE:**

- (a) Using the data in USPS LR-I-102, Table 10A, the average weight per piece for First-Class Single Piece letters is 0.48 ounces.
- (b) Using the data in USPS LR-I-102, Table 10A, the average weight per piece for First-Class Presort letters is 0.62 ounces.
- (c) Using the data in USPS LR-I-102, Table 13, the average weight per piece for Standard Mail (A) Regular letters is  $1,126,778/21,223,935 \times 16 = 0.85$  ounces.

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**MMA/USPS-T28-4.** On page 3 of your prepared testimony, you state:

Isolating the effect of weight on cost is very difficult because weight is rarely the only characteristic that varies between different mail pieces. The shape, origin/destination combination, cube, and level of presorting and dropshipping of mail can affect the cost of mail.

- (a) Please explain the extent, if any, to which the Postal Service has tried to isolate the effect of weight on cost since the last rate proceeding.
- (b) When did you come to the conclusion stated above?

**RESPONSE:**

- (a) Data are not available to normalize for, among other things, differing mail make-up practices, differing origin/destination characteristics or differing cube. Some data are available to normalize for changing shape-mix and differing levels of dropshipping, presorting and barcoding across weight increments. Thus, weight cannot be completely isolated for. However, the cost studies presented in USPS LR-I-91 through LR-I-93 account for the differences in shape mix, which changes dramatically over weight increments, as shown on pages 15 and 16 of my testimony. Furthermore, the cost study presented in USPS LR-I-93 accounts for the effect of different presorting and prebarcoding levels across weight increments.
- (b) My statement is intuitive; it is based on a basic knowledge of postal cost drivers as evidenced to a large degree in rate design. This was evident to me when I began to work on postal costing issues while assisting in the preparation of Docket No. MC95-1.

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**MMA/USPS-T28-5.** On page 12 of your prepared testimony, you state that for First-Class nonpresorted letters,

Letter costs rise over the first four ounces before leveling off for pieces over four ounces. This result is consistent with the results of previous engineering studies presented in Docket No. MC95-1 that showed throughput on letter automation equipment declined as weight increased to 4 ounces. (Citation omitted).

(a) Please confirm that your observation is very general in nature and that you cannot conclude directly from your study that letters weighing between one and two ounces cost more to process than letters weighing under one ounce. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this case, relied upon by you in formulating your response.

(b) Please confirm that your observation is very general in nature and that you cannot conclude directly from your study that letters weighing between two and three ounces cost more to process than letters weighing under two ounces. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this case, relied upon by you in formulating your response.

(c) Please confirm that the MC95-1 engineering studies to which you refer indicated that throughput rates decrease only gradually as a letter's weight increases to about 2.5 ounces and that throughput rates decrease at a faster rate as a letter's weight increases from 2.5 ounces to 4.5 ounces. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this or any earlier case, relied upon by you in formulating your response.

(d) Please confirm that the MC95-1 engineering studies to which you refer indicated nothing about how decreased throughput would specifically affect costs. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this or any earlier case, relied upon by you in formulating your response.

(e) Please confirm that only a small fraction of First-Class letters could be considered "heavy" as that term was used in the MC95-1 engineering studies to which you refer and that such engineering analyses studied test runs made up exclusively of "heavy" letters. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this or any other case, relied upon by you in formulating your response.

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(f) Please confirm that the MC95-1 engineering studies to which you refer indicated that when "heavier mailpieces" constituting 3% of total pieces were intermixed with typical #10 envelope pieces, then throughput decreased by only 2%. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this or any earlier case, relied upon by you in formulating your response.

(g) Please confirm that the MC95-1 engineering studies to which you refer studied letters in packets of 1000 pieces that weighed between 2.0 ounces and 3.5 ounces. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this or any earlier case, relied upon by you in formulating your response.

(h) Please confirm that the MC95-1 engineering studies to which you refer did not study letters that weigh between one and two ounces. Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this or any earlier case, relied upon by you in formulating your response.

**RESPONSE:**

- (a) I confirm that my observations are very general in nature, but the data in LR-I-91 show that First-Class Mail letters between one and two ounces cost more to process than letters weighing under one ounce.
- (b) I confirm that my observations are very general in nature, but the data in LR-I-91 show that First-Class Mail letters between two and three ounces cost more to process than letters weighing under two ounces.
- (c) "Gradually" is a subjective term. The results of the engineering tests filed in response to MMA/USPS-T2-12 in Docket No. MC95-1 showed the following:



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**MMA/USPS-T28-5c (continued).**

Summary of EDC's Throughput Testing of Heavier Mailpieces on the  
Automation Equipment

1.75 oz.	24,710 pieces/hour
2.00	22,640
2.25	22,120
2.50	17,820
2.75	16,910
3.00	15,530
3.25	15,500
3.50	13,380
4.50	10,900

	Heavy-Weight Mail Test				
	ECA	B&H	PB	ECA	BURR
2.00	21,686	16,530	22,523	25,025	29,550
2.25	20,930	15,334	20,393	23,272	24,873
2.50	19,849	10,147	18,886	24,276	23,278
2.75	17,647	9,972	17,800	19,149	21,822
3.00	16,071	9,900	15,652	18,369	18,164
3.25	15,532	9,819	15,393	17,173	16,913
3.50	15,027	7,080	14,258	12,390	17,328

- (d) I confirm that the MC95-1 engineering studies do not specifically address costs.
- (e) The Heavy-Weight Mail Test tests filed in response to MMA/USPS-T2-12 in Docket No. MC95-1 analyzed letters between 2.0 ounces and 3.5 ounces. Based on the volumes by weight increment presented in USPS LR-I-102, the proportion of letters falling within this range represented 0.9 percent of First-Class Single-Piece letters in FY98 and 0.3 percent of First-Class Presort letters.
- (f) Confirmed.
- (g) Confirmed for the test entitled "Heavy-Weight Mail Test," the results of which are presented in the response to interrogatory MMA/USPS-T28-5(c) above.
- (h) Confirmed. Letters between one and two ounces were not studied.

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**MMA/USPS-T28-6.** In its R87-1 Opinion and Recommended Decision, the Commission concluded that "letters up to two ounces for the most part can be processed on the new automation [sic] at a cost no higher than a one ounce letter." (Op. R87-1 at 448). In its R94-1 Opinion and Recommended Decision, the Commission stated, "letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces." (Op. R94-1 at V-9).

- (a) Is your study in this case intended to respond to the Commission's stated position in the R87-1 and R94-1 proceedings regarding the cost of processing letters up to two ounces?
- (b) If your answer to part (a) is yes, do the results of your study support or refute the Commission's stated position in the R87-1 and R94-1 proceedings regarding the cost of processing letters up to two ounces?
- (c) If your answer to part (a) is no, has the Postal Service performed any studies on the impact of weight on mail processing costs for letters weighing two ounces or less?
- (d) If your answer to part (c) is yes, please provide copies of any such studies.

**RESPONSE:**

- (a) The quoted passages do not appear to me to be a "stated position" of the Commission; rather, they seem to be observations based on data available at that time. Nevertheless, yes, the study in USPS LR-I-91 does address the subject matter of the quoted material from the Commission Opinion in that it develops unit costs for First-Class Mail letters by weight increment.
- (b) The study in USPS LR-I-91 presents data that support conclusions that are contrary to those in the passage quoted in this question. See my responses to MMA/USPS-T28-1(b) and MMA/USPS-T28-5(a-b).
- (c) N/A
- (d) N/A

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**MMA/USPS-T28-7.** Please refer to the relevant portions of the record in Docket No. R97-1.

- (a) Please confirm that in Docket No. R97-1, you and USPS witness Hatfield intended to use the exact same productivities for the same operations in your cost models for Standard Mail (A) and First-Class letters, respectively. If you cannot so confirm, please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in the R97-1 case, relied upon by you in formulating your response.
- (b) Assuming your answer to part (a) is affirmative, did you and USPS witness Hatfield assume the exact same productivities, and therefore costs, to process First-Class letters on the one hand, and heavier Standard Mail (A) letters on the other hand? Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in the R97-1 case, relied upon by you in formulating your response.

**RESPONSE:**

- (a) Confirmed.
- (b) No. Using the same productivities does not imply that witness Hatfield and I assumed the same costs in Docket No. R97-1. The cost models for First-Class Mail letters used a higher premium pay factor than for Standard Mail (A) letters (see Docket No. R97-1 USPS-T-25 Appendix I page 37 and USPS-T-29 Appendix I page 42). Furthermore, modeled costs were tied to subclass-specific CRA costs pools that were deemed worksharing-related using a proportional factor and a fixed adjustment (see Docket No. R97-1 USPS-T-25 Appendix V and Exhibit USPS-25A and Exhibit USPS-29A). Finally, the models used subclass-specific entry profiles, coverage factors, and accept and upgrade rates resulting in unique mailflows for each subclass of mail (see Docket No. R97-1 USPS-T-25 Appendix I pages 15, 17, 19, 22-23, 26-27, 30-31, 33 and 35, and USPS-T-25 Appendix IV and USPS-T-29 Appendix I pages 2, 4, 6, 8, 10, 12-14, 16-18, 20-22, 24-26, 28-30, 32-34, 35-40).

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**MMA/USPST28-8.** Please refer to LR-I-92, Section 1, page 1 (sic) which is a table entitled "Std. A Regular Letters Test year Unit Costs by Detailed (1/2 ounce) Weight Increments". Please refer also to a corresponding table in LR-I-91 for presorted letters, Section 2, page 1 (sic), which is entitled "Presort Letters Test year Unit Costs by Detailed (1/2 ounce) Weight Increments."

- (a) Do you agree that, based on your study, the overall average cost to process each incremental ounce for Standard A Regular letters is virtually zero for between 0.5 and 3.5 ounces? Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this case, relied upon by you in formulating your response.
  
- (b) Do you agree that based on your study, the overall average cost to process each incremental ounce for First Class presort letters increases significantly as weight increases between 0.5 and 3.5 ounces? Please explain any negative response and provide all documents, or references to the appropriate portions of the USPS' filing in this case, relied upon by you in formulating your response.
  
- (c) Please explain the disparity of results exhibited in the overall average costs to process each incremental ounce of First-Class presort letters and Standard A letters.

**RESPONSE:**

- (a) No. The data in USPS LR-I-92, Section 1 page 13 not page 1, estimate that the cost of a 3.5 ounce Standard Mail (A) Regular letter is 17.5 cents and a 0.5 ounce letter is 11.0 cents. This represents a 59% increase, which is not "virtually zero" as this question implies.
  
- (b) The data in USPS LR-I-91, Section 2 page 13 not page 1, estimate the costs of a 0.5 ounce First-Class Presort letter and a 3.5 ounce First-Class Presort letter are 11 cents and 87 cents, respectively; however, there may be a significant component of the difference due to sampling error since there are only 10.25 million pieces in the 3.0 to 3.5 ounce First-Class Presort increment. Thus, while I agree that the difference is large, the entire difference is not necessarily statistically significant.

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Furthermore, the average rate of increase is lower if calculated with either of the adjacent weight increments, particularly the 2.5 to 3.0 ounce increment where the cost is estimated to be 29.8 cents.

- (c) Data provided in USPS LR-I-91 Section 2 pages 25-26 and USPS LR-I-92 Section 1 pages 25-26 provide unit costs by weight increments for each of the major components (mail processing, window, delivery, transportation, etc.). Some components, such as transportation, are deemed completely weight-related in these analyses. Transportation costs per pound are four times higher for *First-Class Mail Presort* letters than for *Standard Mail (A) Regular*. This compounds the cost differences by ounce increment.

Clearly, the majority of cost differences is mail processing-related. An examination of the data at the cost pool level show that change in unit costs between the first and second ounce is consistently higher for *First-Class Presort* than for *Standard Mail (A) Regular* across all major cost pools.

Some of the increases in *First-Class Presort* mail processing costs by weight increment are due to a premium pay (night and Sunday pay differentials) factor greater than one (1.023) versus a premium pay factor less than one (.961) for *Standard Mail (A) Regular*. This implies is that, other things held equal, costs for *First-Class Mail Presort* letter would be 6.5% higher than for *Standard Mail (A) Regular* letters.

Also, as stated on page 3, lines 21 through 26, of my testimony, the data referenced in this interrogatory do not solely reflect the effect of increasing weight-per-piece on cost, but reflect the cost of all characteristics that may vary as weight increases. There are differences in presorting and barcoding by ounce increment for the two subclasses.

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Standard Mail (A) letters are given rate incentives to dropship, but no data exist to quantify the dropship or origin/destination characteristics of First-Class presort by weight increment. These non-weight related factors may also contribute to the differences in costs by weight increments between the two classes.

Finally, though Standard Mail (A) Regular letters and First-Class Mail Presort letters are not small mail categories, the volumes of heavier-weight pieces are rather small relative to lighter weight pieces in both subclasses. Thus, the usual caveats regarding relatively high sampling errors for small subclasses or mail categories apply (see also my response to MMA/USPS-T28-8b).

**DECLARATION**

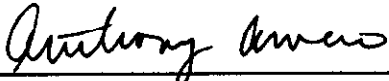
I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
SHARON DANIEL

Dated: 2/22/00

## 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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February 22, 2000