

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 THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T24-2(a,d), 3(a-j), 12, 14(c), 15(c,d))

The United States Postal Service hereby provides its responses to the following interrogatories of Major Mailers Association: MMA/USPS-T24-2(a,d), 3(a-j), 12, 14(c), 15(c,d), filed on February 7, 2000. These interrogatories have been redirected from witness Miller to the Postal Service for response.

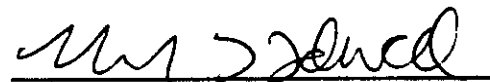
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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February 22, 2000

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

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.
- (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.

RESPONSE:

(a),(d) The entry requirements for Bulk Metered Mail (BMM) letters are the same as those for all First-Class Mail as specified in DMM 55 Section D100.

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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?

RESPONSE:

(a) An estimate for the average weight for a First-Class single-piece metered letter is 0.57 ounces.

(b) An estimate for the proportion of First-Class single-piece metered letters that is prebarcoded is 0.09.

(c),(d),(e) The Postal Service does not collect and maintain volume data specific to Bulk Metered Mail (BMM) letters.

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RESPONSE to MMA/USPS-T24-3 (Continued)

(f) There are currently no rate incentives for BMM letters to deposit their mail at local post offices.

(g) There are no formal addressing standards for BMM letters like those for the First-Class automation presort letters rate categories.

(h) The extent to which BMM letters mailers would enclose a reply envelope in an outgoing mailing is not known. However, there are no formal standards requiring that reply envelopes enclosed in BMM letters be prebarcoded and machinable.

(i) The percentage of the mail volume that is currently processed by presort bureaus but used to be entered as BMM letters in trays is not known.

(j) The Postal Service does not maintain data which would enable it to answer this question.

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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) The term "modeled unit costs" is defined to be the results in the "MODEL COST" cells on pages I-16, 18, 20, 22, 24, 26, 28, 30, 32, 34, and 36. The model costs in LR-I-147 are higher than those on the corresponding pages found in USPS-T-24 Appendix I because the marginal productivities found in LR-I-147 page I-43 are, in general, lower (with the exception of the REC and LMLM productivities, which are higher). The changes to the marginal productivities in LR-I-147 resulted from changes that were made to the volume variability factors. **Note:** Marginal Productivity = MODS Productivity / Volume Variability Factor

(b) Confirmed.

(c) This adjustment factor is equivalent to the total worksharing related proportional costs found on page I-8 divided by the nonautomation weighted

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RESPONSE to MMA/USPS-T24-12 (Continued)**

model cost found on page I-4. The costs are shown below:

USPS-T-24: $1.223 = 7.700 \text{ cents} / 6.296 \text{ cents}$

LR-I-147: $0.995 = 7.750 \text{ cents} / 7.788 \text{ cents}$

The factor developed in LR-I-147 is 23% lower because the change to the volume variability factors had a more significant impact on the weighted model costs (due to the change to the marginal productivity values) than it did on the CRA mail processing unit costs for First-Class nonautomation presort letters.

(d) This factor is not used to support any cost estimates in the testimony of witness Miller (USPS-T-24). It was taken from USPS-T-24, Appendix I, page I-4 and was used by witness Campbell (USPS-T-29) in calculating a Qualified Business Reply Mail (QBRM) cost avoidance. The nonautomation presort CRA adjustment factor is used by witness Campbell as a proxy for a single-piece CRA adjustment factor (see USPS-T-29, page 39, footnote 7). The PRC version of the QBRM cost avoidance (found in LR-I-146) uses the corresponding non-automation presort CRA adjustment factor of 0.995 found in LR-I-147, page I-4.

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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.

(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:

(c1) For calendar year 1999, the estimated volume of First-Class Presorted Letters that were forwarded or returned is 753 million. The percentage is therefore 1.74% (753 million / 43,292 million)

(c2) For calendar year 1999, the estimated volume of First-Class Nonpresorted Letters that were forwarded or returned is 589 million. The percentage is therefore 1.21% (589 million / 48,634 million).

(c3,4) A test year weighted cost per piece estimate for forwarding mail (\$23.063) can be found in LR-I-110, Table 5.1.1. This figure has not been de-averaged by class and/or mail type.

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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.

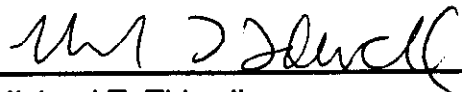
- (c) For the base year, what volume of First-Class Automation Letters included a prebarcoded reply envelope?
- (d) What percent of the reply envelopes distributed via First-Class Automation Letters was returned as First-Class Single Piece letters?

RESPONSE:

- (c) See the response to OCA/USPS-30.
- (d) The Postal Service does not collect and maintain the requested data.

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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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