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 DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS (ANM/USPS-T28—5-14)

The United States Postal Service hereby provides the responses of witness Daniel to the following interrogatories of the Alliance of Nonprofit Mailers: ANM/USPS-T28—5-14, filed on February 22, 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

Anthony Alverno
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax –6187
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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

ANM/USPS-T28-5. Please refer to your testimony from page 15, line 12, through page 17.

(a) Do IOCS direct tallies for Standard A Mail under the 3.3 ounce breakpoint record the weight of pieces by ounce or half-ounce increment?

(b) Did you develop any weight-cost relationship(s) by ounce increment either for all Standard A Mail, or for any subclasses or subsets (e.g., flats or letters) of Standard A Mail?

(c) If your answer to preceding part (a) is negative, please provide a detailed explanation why you did not use the available data to develop any such estimate (as you did for Periodicals and, to some extent, for First-Class Mail).

(d) If your answer to preceding part (a) is affirmative, please provide all such weight-cost relationships which you developed, including the incremental cost per ounce which you believe best represents the weight-cost relationship for all Standard A mail and for each subclass of Standard A Mail.

RESPONSE:

(a) See page 4 line 27 of my testimony. IOCS records the weight of pieces by ½ - ounce increments for pieces weighing up to four ounces.

(b) The analyses contained in Sections 1, 3 and 4 pages 10-22, and Section 2 pages 10-23 of USPS LR-I-92 (see Table of Contents for specific pages for each shape and subclass) allocate the costs by detailed ½-ounce increment and ounce increment and by combined ounce increments by shape, separately for letters, flats, and parcels, for all four subclasses of Standard Mail (A).

(c) N/A

(d) All weight-cost analyses developed for Standard Mail (A) are contained in USPS LR-I-92. Average incremental "cost per ounce" figures for all of Standard Mail (A) or for each subclass were not developed.

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ANM/USPS-T28-6. Please refer to Table 3 at page 17 of your testimony.

(a) Other than IOCS tallies, have you any facts or hypotheses to explain why nonprofit ECR parcels weighing less than either 3.0 to 3.5 ounces should cost over $4 per piece, while heavier nonprofit ECR parcels weighing more than either 3.0 to 3.5 ounces cost about $2 per piece?

(b) Other than IOCS tallies, have you any hypotheses to explain why nonprofit ECR parcels weighing less than either 3.0 to 3.5 ounces cost over $4 per piece, while commercial ECR parcels of the same weight cost less than $1 per piece?

(c) The average cost of all nonprofit parcels is $2.4946, while the average cost of commercial parcels is only $0.8242. Other than IOCS tallies, have you any facts or hypotheses to explain why nonprofit ECR parcels cost 3 times as much, on average, as commercial parcels?

(d) Did you compute any statistical measures of reliability for these results? If not, how credible are your results and how much weight should they be given?

(e) Please produce all studies, analyses, reports and other documentation that support your responses to parts (a) through (d).

RESPONSE:

(a-b) There are few NPECR parcels (less than 2 million in FY98), so the difference could be attributed to the difficulties associated with estimating and calculating unit costs for small volume categories.

(c) According to witness Crum's response to interrogatory PSA/USPS-T27-5(a), Nonprofit ECR parcel costs have been historically high; however, the very high unit cost reported in Table 3 at page 17 of my testimony and in witness Crum's USPS-T-27 Attachment F could be the result of a variance due to the difficulties associated with estimating and calculating unit costs for small volume categories.

(d) The purpose of my testimony was not to compute the unit costs of nonprofit and commercial parcels, but to provide cost data by appropriate weight increments to guide rate design. See witness Crum's response to interrogatory PSA/USPS-T27-5 for a discussion of the reliability of parcel unit cost estimates. Also, please see

witness Ramage's response to interrogatory ANM/USPS-T2-13 for a calculation of coefficients of variation associated with the weight increment cost estimates developed in my testimony.

(e) Please see witness Crum's response to interrogatory PSA/USPS-T27-5 as well as witness Ramage's response to interrogatory ANM/USPS-T2-13. I am unaware of any other studies, analyses, or reports responsive to this subpart.

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ANM/USPS-T28-7. Please refer to Table 3 at page 17, section on Flats. Regardless of whether you use the 3.0 or 3.5-ounce breakpoint, lighter weight Regular flats cost less [sic] than heavier weight flats. At the same time, the table reports that exactly the reverse holds for ECR, NP and NPECR flats.

(a) Please confirm that the reported cost-weight relationship for Regular flats is anomalous or counterintuitive. If you fail to confirm without qualification, provide a detailed explanation for your answer, and produce all data and analyses on which you rely.

(b) Aside from IOCS tallies, do you have any facts or hypotheses to explain the weight-cost relationship that you have developed for Regular flats? If so, please state the hypotheses and produce any supporting data.

(c) Please confirm that the data in your Table 3, if credited by the Commission, would support the inference that the pound rate for the Regular Subclass should equal zero, with all costs recovered from the piece rate. If you fail to confirm without qualification, please explain in detail and produce all data on which you rely.

RESPONSE:

According to Table 3 at page 17 of my testimony, lighter weight Regular flats cost more, not less as this question stated, than heavier weight flats.

(a-b).Not confirmed. Please see my testimony page 12 line 17 through page 13 line 2. There has historically been a u-shaped pattern for flats of all classes. This is even the case in ECR, NP and NPECR flats, though the curve is not as steep, causing the average above and below 3.0 or 3.5 ounces to be different. Light-weight flats can cause problems in processing. In addition, the costs in Table 3 have not been adjusted for the effects of presorting, prebarcoding or dropshipping; therefore, if heavier weight Regular flats are dropshipped, presorted and/or prebarcoded in greater proportions than lighter weight Regular flats, one might expect heavier flats to cost less than lighter flats.

(c). The purpose of my testimony is to supply cost information to rate design witnesses. I do not have an opinion as to whether Table 3 should support a zero pound rate, as I understand that a variety of factors are considered in the rate design by the pricing witnesses.

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ANM/USPS-T28-8. At page 18 you describe how you adjusted for differences in presorting when studying the weight-cost relationship for Periodicals.

(a) Please confirm that the effect of presort for Standard A Mail is similar to the effect you describe for Periodicals. If you fail to confirm without qualification, please provide a full explanation of all significant differences in the effect on the two classes.

(b) Did you attempt to control for the presort factor, or make any other adjustment when studying the weight-cost relationship for Standard A flats?

(c) If so, provide a detailed explanation of what you did, and produce sufficient documentation to enable third parties to test your conclusions.

(d) If not, why not?

RESPONSE:

(a) Not confirmed. The effect of presort depends on how the presort mix within each weight increment compares with the average presort mix. There is no reason to suspect that the differences in presort mix by weight increment would necessarily be the same for Periodicals as in Standard Mail (A). In fact, lighter weight Standard Mail (A) Regular flats are not significantly less presorted than the average and heavier weight Standard (A) Regular flats are not significantly more presorted than the average, as is the case with Periodicals as seen in the volumes by rate category and weight increment in the attachment.

(b) An attempt to control for the presort factor, as well as prebarcoding and dropshipping, was made in the preliminary stages of the analysis of weight and costs of Standard Mail (A) Regular flats.

(c) Volume data by weight increment were grouped together by presort/prebarcoding rate categories and pound data by weight increment were grouped together by dropship categories. The percent of volume or pounds by rate category of the total within each weight increment was calculated. Next, preliminary cost avoidance estimates were used to calculate the cost differences between prebarcoded and presorted flats from Nonautomation Basic, and between dropshipped and nondropshipped mail. Then the product of the percent of pieces of each

presort/prebarcode rate category within each weight increment and the preliminary estimated cost difference from Nonautomation Basic flats were summed. This "presort cost avoidance" for each weight increment was subtracted from the average calculated "presort cost avoidance" to obtain the difference from the average. To calculate the difference from average dropship costs, the product of the pounds of each dropship rate category within each weight increment and the preliminary estimated cost difference from nondropshipped mail were summed. This number was divided by the number of pieces in the weight increment to get a cost avoidance per piece. Next, this "dropship cost avoidance" for each weight increment was subtracted from the average calculated "dropship cost avoidance" to determine the difference from the average. Finally, the "presort difference from average" was added to the "dropship difference from average" to get a "total difference from average."

All of these steps were performed prior to the completion of all the final inputs and have not been performed with final figures. No analysis has therefore been documented. The process is similar to that performed for Periodicals in Section IV USPS LR-I-94. Volume data by rate category and ounce increment needed for this analysis are provided in USPS LR-I-225. Cost avoidances can be calculated using data in the testimonies of USPS witnesses Yacobucci (USPS-T-25) and Crum (USPS-T-27).

(d) N/A

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ANM/USPS-T28-9. At page 18 you note that "Periodicals rate design generates revenue from per piece elements and per pound elements," even though pieces and total pounds are not the only cost drivers.

(a) Please confirm that a similar statement is applicable to Standard A Mail. If you fail to confirm without qualification, provide a detailed explanation.

(b) For all Standard A Mail, or for any subclass or subset thereof (e.g., flats, letters, parcels), what is the estimated total cost of weight in excess of (i) 3.0 ounces, (ii) 3.3 ounces, and (iii) 3.5 ounces?

(c) For each estimated total cost of weight provided in response to the preceding question, please provide the percent of total cost represented by weight (e.g., similar to the result that you report for Periodicals at page 18, lines 15-16 of your testimony).

RESPONSE:

(a) Confirmed in part. Each Periodicals piece pays both a per-piece and a per-pound rate, whereas in Standard Mail (A), pieces below the breakpoint only pay a per-piece rate.

(b) Since there are relatively few parcels in total and relatively few letters weighing more than 3.0 ounces, and since data are not available to estimate costs for pieces with a 3.3 ounce breakpoint, I have estimated costs for the subset of flats in the Nonprofit, ECR and NPECR subclasses in excess of 3.0 and 3.5 ounces using a methodology similar to that used for First-Class. Since the average cost of Standard Mail (A) Regular flats weighing less than 3.0 or 3.5 ounces is higher than flats weighing more than 3.0 or 3.5 ounces, the analysis is not applicable.

		Cost in Excess of	
Subclass	Shape	3.0 ounces	3.5 ounces
Regular	Flat	N/A	N/A
Nonprofit	Flat	$0.0191	$0.0430
ECR	Flat	$0.0227	$0.0233
NPECR	Flat	$0.0320	$0.0313

(c) Using the analyses in USPS LR-I-92, the percent of total cost represented by weight according to the equations in Section 1 page 16 (y=0.0059x+0.2318,

x=3.69), Section 2 page 17 (y=0.0155x+0.0265, x=3.22), Section 3 page 16 (y=0.0412x+0.095, x=2.60) and Section 4 page 16 (y=0.1195x-0.3412, x=2.12) is 8.6% for Standard Mail (A) Regular flats, 65.4% for ECR flats, 53% for Nonprofit flats and N/A for NPECR flats because the equation has a negative y-intercept. These equations, however, have not been volume weighted and they do not incorporate any adjustments for dropshipping or presorting as was done for Periodicals. Thus, while the results above are derived by a similar methodology as used for Periodicals, they do not use the exact same worksharing-adjusted and volume weighted regression approach.

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ANM/USPS-T28-10. The percentages in the table below are derived from the data in your Table 7. As you can see, Nonprofit Basic letters and nonletters each have mail processing unit costs that are sharply higher than the commercial Standard A Regular counterpart.

(a) Aside from the IOCS tallies that underlie your cost development, do you have any factual explanation, hypotheses or theories to explain why both nonprofit Basic letters and nonletters have a higher unit cost? That is, does nonprofit Basic mail have some characteristics that predictably cause higher unit costs, or are the higher unit costs simply a result of more frequent sampling by the IOCS during FY 1998? Please explain fully, and produce all data, studies and analyses that support your position.

(b) Did you develop any statistical measure of reliability (e.g., standard of deviation, coefficient of variation) for the mail processing unit cost estimates for nonprofit ECR mail? If so, please provide the results, and the range at the 95 percent confidence level.

Standard A Nonprofit ECR Unit Cost Estimates (for discounts) as a Percent of Standard A Regular ECR Unit Cost Estimates (for discounts)

	Mail Processing Costs	Delivery Costs
Letters		
Auto Basic	102.4%	69.6%
Basic	228.6%	69.6%
High density	27.4%	69.6%
Saturation	27.4%	69.6%
Non-Letters		
Basic	185.9%	70.0%
High Density	86.2%	70.0%
Saturation	86.2%	70.0%

RESPONSE:

(a) I have not studied this; however, I note that this could be due to differences in sample size. In FY98, the volume of NPECR letters was 1.8 billion and the volume of NPECR nonletters was 0.8 billion whereas the volume of ECR letters was 13.3 billion and the volume of ECR nonletters was 20.8 billion.

(b) I have not developed any statistical measures of reliability for mail processing unit cost estimates for nonprofit ECR mail.

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ANM/USPS-T28-11. Please refer to Table 3 at page 17. Provide specific citations (page number, table, etc.) to where the supporting data can be found in USPS LR-I-92.

RESPONSE:

		REG	ECR	NP	NPECR
All Shapes	>< 3.0 oz >< 3.5 oz	Sec. 1 p.10 15th page	Sec. 2 p.10 46th page	Sec. 3 p.10 78th page	Sec. 4 p.10 108th page
	average	Sec. 1 p.11 16th page	Sec. 2 p.11 47th page	Sec. 3 p.11 79th page	Sec. 4 p.11 109th page
Letters	>< 3.0 oz >< 3.5 oz	Sec. 1 p.13 18th page	Sec. 2 p.14 50th page	Sec. 3 p.13 81st page	Sec. 4 p.13 111th page
	average	Sec. 1 p.14 19th page	Sec. 2 p.15 51st page	Sec. 3 p.14 82nd page	Sec. 4 p.14 112th page
Flats	>< 3.0 oz >< 3.5 oz	Sec. 1 p.16 21st page	Sec. 2 p.17 53rd page	Sec. 3 p.16 84th page	Sec. 4 p.16 114th page
	average	Sec. 1 p.17 22nd page	Sec. 2 p.18 54th page	Sec. 3 p.17 85th page	Sec. 4 p.17 115th page
Parcels	>< 3.0 oz >< 3.5 oz	Sec. 1 p.19 24th page	Sec. 2 p.20 56th page	Sec. 3 p.19 87th page	Sec. 4 p.19 117th page
	average	Sec. 1 p.20 25th page	Sec. 2 p.21 57th page	Sec. 3 p.20 88th page	Sec. 4 p.20 118th page
Flats& Parcels	>< 3.0 oz >< 3.5 oz	Sec. 1 p.16 21st page	Sec. 2 p.17 53rd page	Sec. 3 p.16 84th page	Sec. 4 p.16 114th page
	average	Sec. 1 p.17 22nd page	Sec. 2 p.18 54th page	Sec. 3 p.17 85th page	Sec. 4 p.17 115th page

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ANM/USPS-T28-12. What cost segments are included in the cost data shown in your Table 3? Please explain how the data in this table are developed.

(a) Are transportation costs included?
(b) Are carrier in-office costs included?
(c) Are carrier route costs included?
(d) Are indirect costs included?
(e) Which piggybacks are included?

RESPONSE:

As stated on page 3 lines 11-14 of my testimony, "[t]he results, which are presented in Tables 1 through 3, were derived by analyzing subclass volume-variable costs in the mail processing, window service, delivery, transportation, vehicle service and "other" cost components individually by shape and in total over all shapes." In addition, as stated on page 16 lines 7 - 8 of my testimony, the costs in this table were developed using the detailed data found in USPS LR-I-92. Sections III-IV on pages 3 through 10 of my testimony explain how the data in the library reference were developed.

(a) Yes. Please see Section IV.E on pages 9 and 10 of my testimony.
(b) Yes. Please see Section IV.C.1-3 on pages 7 and 8 of my testimony.
(c) If the question's reference to "carrier route costs" is intended to refer to carrier street costs including route costs, then the answer is yes. Please see Section IV.C.4 on pages 8 and 9 of my testimony.
(d-e) Yes, indirect costs are included by using piggyback factors. Mail Processing, Window Service, City and Rural Carriers, and Vehicle Service driver piggybacks are included. Please see my testimony Section IV.A.2 on page 5 for Mail Processing, Section IV.B.2 on pages 6-7 for Window Service, Section IV.C.2-4 pages 7-9 for City Carriers, Section IV.C.5 page 9 for Rural Carriers, and Section IV.D also page 9 for Vehicle Service.

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ANM/USPS-T28-13. Please refer to your testimony at page 18, lines 6-9. Explain what you mean by the term "these costs" as it appears on lines 7 and 8. To what does the relative pronoun refer? Do you mean "costs" (as in line 5), TY costs by ounce increment (as in line 3), piece related costs, mail processing costs, or something else?

RESPONSE:

The costs referred to on page 18 line 6 of my testimony are the costs of light-weight Periodicals pieces which are less presorted than average. The costs referred to on page 18 line 8 of my testimony are the costs of heavier Periodicals pieces, which are more presorted than average.

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ANM/USPS-T28-14. Please refer to Tables 4a and 4b at pages 19a and 19b. For each table, provide specific citations (page number, table, etc.) to where the supporting data can be found in USPS LR-I-93.

RESPONSE:

Table 4a is the first page of USPS LR-I-93. Table 4b is on page 13 of USPS LR-I-93. These two tables are derived from the table on pages 11-12 of USPS LR-I-93 entitled "Regular and Nonprofit Periodicals All Shapes Test Year Unit Costs by Detailed (1/2 ounce) Weight Increments." The inputs to this table are on pages 2-10 of USPS LR-I-93 and the formulae used to derive the costs are found at the bottom left-hand side of page 11.

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: 3/7/00

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.

Anthony Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax –6187
March 7, 2000