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 VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC. (VP-CW/USPS-T28—1-15)

The United States Postal Service hereby provides the responses of witness Daniel to the following interrogatories of Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc: VP-CW/USPS-T28—1-15, filed on February 23, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF U.S. POSTAL SERVICE WITNESS DANIEL TO
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VP-CW/USPS-T28-1. Please refer to your testimony at page 5, lines 13-24, where you describe your analysis of mail processing cost segment 3.1.

a. Did you conduct any weight-related analysis for any individual MODS cost pools, or for any subsets of MODS cost pools within segment 3.1? If so, please provide and explain the results of those analyses.
b. Do you have any *a priori* theories or expectations about how weight would affect the various MODS cost pools, such as platform and acceptance? If so, please state how you would expect weight to affect the cost of various operations within cost segment 3.1.
c. For any individual MODS operations, such as platform work, did you conduct any inter-class analyses that compared the effect of weight on cost? For instance, did you attempt to analyze and compare the effect of weight on platform cost for First-Class Mail, Periodicals, and Standard A Mail? If so, please provide all such studies. If not, please explain why you did not attempt any such comparative analyses.

RESPONSE:

(a). The mail processing weight-related analysis was conducted at the cost pool level, consistent with how USPS witness Van-Ty-Smith allocates costs to shape. Total costs by weight increment and cost pool can be found in USPS LR-I-94.

(b). Since weight is related to cube and more cube implies more containers, it is expected that weight would affect container-related operations such as platform and other allied operations; however, a doubling of cube does not necessarily mean a doubling of containers. Also, I was aware of the Docket No. MC95-1 engineering studies referred to in the interrogatory MMA/USPS-T28-5; therefore, I expected weight may influence letter automation cost pools.

(c) No. Please see my response to interrogatory VP-CW/USPS-T28-2.

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VP-CW/USPS-T28-2. Based on your analysis of the effect of weight on cost, what are the principal MODS cost pools, or activities that are most affected by weight? If your answer varies by class or subclass of mail, please so indicate and explain, to the extent that you are able, why this is so.

RESPONSE:

I have not analyzed the effect of weight on costs on a cost pool basis. Appropriate volume data to unitize cost pool costs are not available. Even if cost pool-specific volumes were available, differing degrees of worksharing and other mail characteristics by ounce increment would affect each cost pool differently, and that would make such an analysis meaningless.

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VP-CW/USPS-T28-3. Please refer to Table 1 at page 11 of your testimony.

a. Do the data in the first three rows reflect volume, pounds and cubic feet for the Test Year? If not, what time period do they represent?
b. Please provide specific citations to the page(s) and table(s) in USPS-LR-I-91 which support each entry in the first three rows of Table 1.
c. For the various points plotted in the diagram at the bottom of page 11, did you compute a regression line similar to that which you computed for Tables 4a and 4b?
d. If so, please provide the intercept and slope.
e. If not, please provide a detailed explanation of why you did not do so.

RESPONSE:

(a). Data in the first three rows are Base Year volumes, weight and cubic feet inflated by a Test Year to Base Year volume ratio. This is consistent with volume, weight and cubic feet distribution assumptions in the roll-forward in witness Kashani's testimony (USPS-T-14).

(b). First-Class Single-Piece Base Year volume and weight data is converted to Test Year volume and weight on pages 8 and 9 of Section 1 in USPS LR-I-91. First-Class Single-Piece Test Year cubic feet are calculated and distributed to weight increment on pages 10 and 11 of Section 1 in USPS LR-I-91.

(c). No, not with final data.

(d). N/A

(e). This type of analysis was not required by the First-Class rate design witness.

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VP-CW/USPS-T28-4. At page 10 of your testimony (lines 24-26), you state that "[t]he total costs for pieces in excess of the first ounce cost are divided these [sic] by 'postage ounces,' i.e., the total number of additional ounces purchased." The footnote explains that postage ounces differ from actual ounces because weight is rounded up to the next ounce in calculating rates.

a. To the extent that weight causes an increase in cost, is it actual weight or "postage" weight that causes the increase in cost? Please explain the cost driver and the causal relationship as you perceive it.
b. For the data in Table 1, did you compute the incremental cost divided by the incremental number of actual ounces? If so, please provide this datum. If not, why not?

RESPONSE:

(a) To the extent weight causes an increase in costs, actual weight, not "postage" weight would be the driver. "Postage" weight is used for rate design purposes.

(b) This number can be computed by dividing the "cost of pieces in excess of first ounce cost" by the number of pounds in weight increments "1 to 2," "2 to 3"..."10 to 11+" which results in $0.1043.

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VP-CW/USPS-T28-5. At page 13 (lines 16-17), your testimony states that "there are 7.337 billion pieces weighing more than one ounce in First-Class Mail Single-Piece in the TY. . . "

a. What is the source of the 7.337 billion pieces referred to here?
b. Please reconcile the 7.337 billion pieces referred to here with the data shown in row 1 of Table 1. That is, total volume of 53.214 billion less 45.917 pieces that weigh between 0-1 ounce leaves 7.297 billion pieces weighing more than one ounce.

RESPONSE:

(a-b) The number should be 7.297 billion. Please see errata filed on 3/1/00.

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VP-CW/USPS-T28-6. Your Table 1 shows that the total volume of Single-Piece First-Class Mail as 45.917 billion pieces.

a. What is the total cost of these 45.917 billion pieces?
b. The cost of pieces in excess of one ounce ($2,236,175,478) represents what percent of that total cost?

RESPONSE:

Table 1 shows the total volume of First-Class Mail Single-Piece is 53.214 billion pieces and the volume of First-Class Mail Single-Piece weighing less than one ounce is 45.917 billion.

(a) The total cost of First-Class Mail Single-Piece is $13.003 billion (see errata filed on 3/1/00). The total cost of First-Class Mail Single-Piece weighing less than one ounce is $9.285 billion (see errata filed on 3/1/00).

(b) The cost of First-Class Mail Single-Piece pieces in excess of one ounce ($2,236,175,478) divided by the total cost of $13.003 billion is 17.2%.

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VP-CW/USPS-T28-7. Footnote 5 on page 12 states that "[t]he estimated unit cost of a Single-Piece flat weighing less than one ounce is 94 cents." On page 13 (lines 2-3), you state that "lightweight flats appear to be consistently more costly to handle than the average weight flat. . ."

a. For your estimated cost of a one-ounce flat (94 cents), did you compute or develop any statistical measure of the reliability of that estimate, such as standard deviation, coefficient of variation, etc.? If so, please provide each such measure, and provide the range at the 95 percent confidence level. If not, please explain why not and state how much credibility and weight can be given to your estimated cost by the Commission.
b. How many direct IOCS tallies did you have for First-Class flats weighing less than one ounce? In what MODS cost pools or operations were those tallies observed?
c. Can lightweight (under one ounce) flats be sorted on the FSM 1000?
d. Are lightweight (under one ounce) First-Class flats systematically segregated from other heavier flats and sent to manual processing?
e. Aside from IOCS tally data described in your testimony, can you offer any explanation for the high cost of flats weighing less than one ounce compared to heavier-weight flats?

RESPONSE:

(a). I did not compute any estimates of statistical reliability for costs by shape; however, see witness Ramage's response to interrogatory ANM/USPS-T2-13 for estimates of statistical reliability for costs presented in Table 1.

(b). There were 1,299 mail processing tallies and 232 city carrier in-office tallies for First-Class Single-Piece Flats weighing less than one ounce. There were 271 mail processing tallies and 70 city carrier in-office tallies for First-Class Presort Flats weighing less than one ounce. The cost pools in which these tallies were observed can be determined by examining the data contained in the file "LR99SEC5DIR.xls" in USPS LR-I-99 "Underlying Mail Processing and Window Cost Data for Weight Studies." Direct reweighted tallies are presented by cost pool, shape and weight increment.

(c). It is my understanding that Operations has had success with flimsy flats. The minimum thickness for flats at least 5" long is .009", which could conceivably include those under one-ounce.

(d). Pieces that are just over 6 1/8" in height are technically flats even though to some they may look like letters. It is my understanding that these pieces tend to be

pulled out of the letter mail stream and are sent to the manual flats cases. Since these pieces are not as large as typical flats, they sometimes are sent to the letter case. This is the only instance I am aware of where flats may be segregated and sent to manual processing.

(e). Please see my testimony page 12 lines 19-20.

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VP-CW/USPS-T28-8. At page 13 (lines 17-18), you state that "there are only 1.649 billion pieces weighing more than one ounce in First-Class Mail Presort in the TY."

a. What is the source of the 1.649 billion pieces referred to here?
b. Please reconcile this number with the data shown in the first row of Table 2 on page 14. That is, total volume of 47.012 billion less 45.353 billion pieces weighing between 0-1 ounce leaves 1.659 billion pieces weighing more than one ounce.

RESPONSE:

(a-b). Please see errata filed on 3/1/00. The correct number is 1.695 billion pieces. The total number of First-Class Presort pieces, 47,047,898,126, less the number of pieces between 0 and 1 ounce, 45,353,264,962, is 1,694,633,164.

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VP-CW/USPS-T28-9. Please refer to Table 2 at page 14 of your testimony.

a. Do the data in the first three rows reflect volume, pounds and cubic feet for the Test Year? If not, what time period do they represent?
b. Please provide specific citations to the page(s) and table(s) in USPS-LR-I-91 which support each entry in the first three rows of Table 2.
c. For the points plotted in the diagram at the bottom of the page, did you compute a regression line similar to that which you computed for Tables 4a and 4b?
d. If so, please provide the intercept and slope.
e. If not, please explain why not.

RESPONSE:

(a). Data in the first three rows are Base Year volumes, weight and cubic feet inflated by a Test Year to Base Year volume ratio. This is consistent with volume, weight and cubic feet distribution assumptions in the roll-forward in witness Kashani's testimony (USPS-T-14).

(b). First-Class Presort Base Year volume and weight data is converted to Test Year volume and weight on pages 8 and 9 of Section 2 in USPS LR-I-91. First-Class Mail Single-Piece Test Year cubic feet data are calculated and distributed to weight increment on pages 10 and 11 of Section 2 in USPS LR-I-91.

(c). No, not with final data.

(d). N/A

(e). This type of analysis was not required by the First-Class rate design witness.

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VP-CW/USPS-T28-10. For First-Class Presort, did you compute the actual number of incremental pounds (and ounces) from the data in Table 2?

a. If so, please provide that datum, along with the incremental cost per actual ounce.
b. If not, why not?

RESPONSE:

(a-b) This number can be computed by dividing the "cost of pieces in excess of first ounce cost" by the number of pounds in weight increments "1 to 2," "2 to 3"..."10 to 11+" which results in $0.1154.

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VP-CW/USPS-T28-11. Your Table 2 shows that the total volume of Presort First-Class Mail amounted to 45.353 billion pieces weighing between 0 to 1 ounce.

a. What is the total cost of these 45.353 billion pieces?
b. The incremental cost of pieces in excess of one ounce ($388,874,405) represents what percent of that total cost?

RESPONSE:

Please see errata filed on 3/1/00. Table 2 shows the total volume of First-Class Mail Presort is 47.048 billion pieces and the volume of First-Class Mail Single-Piece weighing less than one ounce is 45.353 billion.

(a) The total cost of First-Class Mail Presort is $5.104 billion (see errata filed on 3/1/00). The total cost of First-Class Mail Single-Piece weighing less than one ounce is $4.545 billion.

(b) The cost of First-Class Mail Presort pieces in excess of one ounce, $389,997,819 (see errata filed on 3/1/00), divided by the total cost of $5.104 billion, is 7.6%.

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VP-CW/USPS-T28-12. At page 15 (lines 9-10), you state that "the overall pattern for Presort parcels appears to be similar to that of Single-Piece parcels."

a. To what "pattern" are you referring? To the distribution by weight shown in the bottom row of Figures 1 and 2? Otherwise, please provide a specific citation and also explain what you mean by "overall."
b. Footnote 8 at page 12 states that "[t]he estimated unit cost of a Single-Piece parcel weighing less than one ounce is $1.89." Is this also the case for Presort parcels, and is this part of the "overall pattern" to which you refer? If not, please explain.

RESPONSE:

(a). This passage refers to the distribution of costs for parcel by weight shown on page 21 in Section 1 and 2 of USPS LR-I-91. The pattern is similar though the level is different.

(b). The estimated unit cost of a First-Class Mail Presort parcel is $6.523, which is higher than the costs in the higher weight increments, thus forming the u-shaped pattern to which I was referring.

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VP-CW/USPS-T28-13. At page 13 (lines 18-20), you state that "The First-Class Mail Presort data therefore do not appear as stable as the First-Class Single-Piece data in the heavier ounce increments." Did you compute any statistical measures of reliability (such as standard deviation or coefficient of variation) for the cost estimates at each weight increment? If so, please provide such measures. If not, please explain why not and state how much credibility and weight can be given to your cost estimates by the Commission.

RESPONSE:

I did not compute any statistical measures of reliability for the cost estimates at each weight increment; however, please see witness Ramage's response to interrogatory ANM/USPS-T2-13 for calculation of coefficients of variation associated with the weight increment cost estimates presented in Table 2 of my testimony.

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VP-CW/USPS-T28-14. Please refer to Figures 1, 2 and 3 at pages 12, 15 and 16, respectively. For each figure, please provide specific references to where the data can be found in USPS-LR-I-102 that support each entry in your Figures 1, 2 and 3.

RESPONSE:

The entries in Figure 1 are supported by the data in Section 1 of USPS LR-I-91 pages 8 and 9 under the heading "Data for USPS-T-28, Figure 1." These data refer back to USPS LR-I-102 Table 10. The entries in Figure 2 are supported by the data in Section 2 of USPS LR-I-91 page 8 and 9 under the heading "Data for USPS-T-28, Figure 2." These data refer back to USPS LR-I-102 Table 10. The entries in Figure 3 are supported by the data in USPS LR-I-92 page 8 under the heading "Data for USPS-T-28, Figure 3." These data refer back to USPS LR-I-102 Table 13.

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VP-CW/USPS-T28-15.

a. When estimating the weight-cost relationship for First-Class Mail, why did you use TY estimated volumes and costs, rather than actual volumes and costs in Base Year 1998?
b. Does the use of estimated volumes and costs, rather than actual volumes and costs, increase the uncertainty and unreliability of the weight-cost relationships that you finally develop?
c. Please explain why estimated TY data are better than actual data for the purpose of developing the weight-cost relationship.

RESPONSE:

a. Test Year estimated volumes and costs were used for the convenience of the First-Class Mail rate design witness.

b-c. No. The base year costs and volumes formed the basis of the calculations for the TY estimates, which were rolled forward in a manner consistent with the presentation of costs in witness Kashani's testimony (USPS-T-14) and used by the rate design witness.

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
SHARON DANIEL

Dated: 3/8/00

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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March 8, 2000