

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS CRUM TO AAP INTERROGATORIES
(AAP/USPS-T27-1-12)

The United States Postal Service hereby provides the response of witness Crum to the following interrogatories of the Association of American Publishers: AAP/USPS-T27-1-12, filed on February 23, 2000.

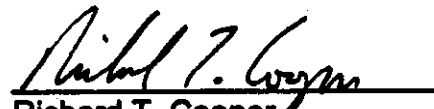
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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March 8, 2000

**U.S. POSTAL SERVICE WITNESS CHARLES L. CRUM
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AAP/USPS-T27-1 On page 1 of your testimony (lines 10-12), you state that USPS-LR-109 was prepared by you or under his supervision. With respect to this statement:

(a) Please provide a full description of your personal involvement in the preparation of LR-109.

(b) Describe the full nature of his activities in preparing any survey forms used to produce LR-109 and in supervising the work needed to complete USPS-LR-109.

RESPONSE

a.-b. When I was planning my analysis, I determined that there was no entry profile data available for Bound Printed Matter and that it would be required to complete my costing work. After some internal discussion, it was decided that a field study might be required to get this and other data and we contracted with Christensen Associates to assist with the sample selection, design, and data collection portion of the analysis. I planned the study in coordination with Christensen personnel and drafted the site survey letters shown on pages 408 and 409 of LR-I-109.

During the study, I responded to questions from field Postal personnel and either answered their question or referred them to the appropriate individual at Christensen Associates. I also visited one of the nearby survey sites to check on the progress of the study and answer any questions that may have arisen.

After the data was collected, I was in frequent contact with Christensen Associates as we interpreted the results. In August 1999, I traveled to Christensen's facility in Madison, Wisconsin to review the collected survey forms and resolve issues

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of how to present the data. Finally, I reviewed the draft library reference and provided comments and suggested changes.

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AAP/USPS-T27-2 On page 13 of your testimony (lines 9-11), you state that "Because of its zoned nature and local/non-local rates, Bound Printed Matter is already entered fairly deep into the system. However, mail is often entered in ways that are inconsistent with current Postal operations." With respect to this statement:

- (a) Please explain whether the entry of BPM in ways that are inconsistent with "current" postal operations was ever consistent with postal operations in any past periods.
- (b) If these entry practices had been consistent with postal operations in the past, please explain the nature and timing of the changes in postal operations that rendered these entry practices inconsistent with current postal operations.

RESPONSE

- a. They were more consistent than they are now. Please also see the response to part (b).
- b. The "Local" zone in Bound Printed Matter was introduced with the subclass in 1939 and substantially predates the use of zip codes. Before zip codes, mail could not be split based on the station/delivery unit. All mail for a given city generally went to the Main Post Office and then was dispersed out to the final delivery Post Office. This was basically the definition of "Local" and all mail deposited in that area received the Local zoned rate.

Today there is generally not transportation between post offices below the plant/SCF level so any mail that must be transferred between them must first go back to the plant and then out to the destination delivery unit. The situation was not ideal in the past because there was not always direct transportation between Local post offices, but

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today there is a means of differentiating individual post offices with the zip code that was not previously available.

The current postal network could be very simply described as a hub and spoke system with the plant acting as the hub and each delivery unit acting as a spoke. Therefore, the least expensive routing involves depositing the mail at the destination delivery unit spoke. The next most expensive routing involves depositing the mail at the destination SCF/plant hub. The next most expensive routing is depositing the mail at a non-destination spoke.

This question gets at the difference between zone-skipping and dropshipping. With zone-skipping, mail is deposited at a facility closer to the final destination for the likely purpose of saving postage costs in a zoned rate structure. With dropshipping, on the other hand, the mail is not just deposited at a closer facility, it is deposited at a facility consistent with the Postal Service's mail processing and transportation networks and in a way the maximizes the efficiency of the postal system.

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AAP/USPS-T27-3 On page 13 of your testimony (lines 15-16), you state that "... Local pieces can have higher costs than similar non-local pieces." With respect to this statement, please provide a detailed example of the most likely situation where local BPM pieces can have higher costs than similar non-local BPM pieces. Please identify and provide all studies, reports, data or other evidence that you relied upon to provide the example.

RESPONSE

A BPM piece is deposited at a post office in a given city and is destined for a different post office in the same city. The piece pays the Local rate. That mail will generally be sent back to its parent SCF/plant. The plant sorts the mail to the appropriate destination delivery unit post office and ships it back to that facility.

A similar BPM piece is deposited at the post office in the SCF/plant and receives the Zone 1/2 rate. It is sorted and sent out to the appropriate destination delivery unit. This piece paid a higher rate and saved one leg of transportation (from the non-destination post office back to the plant).

Please also refer to witness Kingsley's response to AAP/USPS-T10-1(a).

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AAP/USPS-T27-4 On page 13 of your testimony (lines 17-19) you state that "mail is sometimes entered at facilities geographically close to, but outside of the destinating service area of the piece." With respect to this statement, please define the destinating service area and explain whether, the destinating service area would generally be inside or outside the BPM local zone boundary determined by the USPS.

RESPONSE

For a definition of service areas please refer to the Domestic Mail Manual. For SCF service areas please see DMM section L005 and for BMC service areas please see DMM section L601. The referenced part of my testimony is taken out of context. It was not intended to refer to the local zone boundary in any way. I would assume the local zone boundary would usually but not always be inside both the SCF and BMC service areas.

A hypothetical example might better help explain what I was trying to get at with those lines in my testimony. A mailer located in Independence, Missouri with a large customer base in Denver, Colorado might deposit a BPM mailing at a postal facility in west/central Kansas with the goal of paying lower zoned rates. However, the Postal Service will ship those pieces back east to the Kansas City BMC (near the mailer's facility), then sort them and ship them to the Denver BMC who will sort them and ship them to the destinating SCF or directly to the final 5-digit destination for distribution. The extra trip the mailer made to west/central Kansas lowered the rate they paid, but increased the total costs to the Postal Service. Thus, the rates are currently set up in a way that can cause inefficiency in the US economy. The proposed rates, on the other hand, would attempt to create the proper incentive in line with postal costs to either

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deposit the pieces at origin (near or at the Kansas City BMC) or at a destination facility such as the Denver BMC, the destinating SCF, or destinating delivery unit.

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AAP/USPS-T27-5 On page 14 of your testimony (lines 2-4), you state that "Dropship discounts have proven to be popular and appropriate in Periodicals, Standard Mail A, and Standard Mail B Parcel Post." With respect to this statement, please state whether any similar "local" rate zones were eliminated when drop ship discounts were introduced in each of these subclasses.

RESPONSE

No similar "local" rate zones were eliminated when dropship discounts were introduced in those mail classes/subclasses.

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AAP/USPS-T27-6 On page 14 (lines 21-23) and page 15 (line 1) of your testimony, you state "[b]eing consistent with the Postal Service's volume variability assumptions in this case, I estimate that DBMC Bound Printed Matter will save \$.380 relative to non-DBMC entered pieces at Test Year 2001 cost levels. Please explain, in detail, how the cost savings for DBMC-entered BPM is "consistent with the Postal Service's volume variability assumptions in this case."

RESPONSE

Errata filed January 28, 2000 changed the \$.380 figure referenced above to \$.384.

That number is produced in Attachment I, Table 3 of my testimony. Lines B and C of Table 3 refer to Attachment I, Table 1 of my testimony. Column 10 in Table 1 presents the Base Year 1998 volume-variable costs by cost pool. The Postal Service's volume variability assumptions are described in the testimony of witness Bozzo (USPS-T-15) and presented by cost pool on pages 24-25 of witness Van-Ty-Smith's testimony (USPS-T-17). To the extent that the "Pool Volume-Variable Factor(s)" presented on pages 24-25 of witness Van-Ty-Smith's testimony change, the numbers presented in Attachment I, Table 1, column 10 of my testimony would change and my estimate of test year DBMC mail processing cost savings would change.

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AAP/USPS-T27-7 In footnote 1 of Attachment I, Table 2 of your testimony you refer to "Handbook F-45, Appendix B, page 2." Please provide a copy of this reference.

RESPONSE

This has already been provided as USPS LR-I-14.

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AAP/USPS-T27-8 Following Attachment H, Table 2 of your testimony is a document entitled "Appendix H, Table 2.1" which contains certain figures without column headings. Please provide a corrected version of "Appendix H, Table 2.1" that includes column headings and make any other required corrections to this Table.

RESPONSE

The document should be titled Attachment H, Table 2.1. The column headings are the same as in the top section of the table showing the volume by zone. The purpose of Table 2.1 is to show the volume by zone for non-dropshipped mail. Note that the entry points labeled DDU, DSCF, and DBMC volumes by zone are therefore removed. The percentage results at the bottom are used in Attachment K, Table 3, page 2, column 1. I have attached a new version of Table 2.1 that should make the purpose more clear and results easier to read.

ATTACHMENT TO WITNESS CRUM'S RESPONSE TO AAP/USPS-T27-8

Attachment H, Table 2.1
BOUND PRINTED MATTER SURVEY RESULTS: VOLUMES BY ENTRY PROFILE AND ZONE DISTRIBUTION
TRANSPORTATION VERSION

Container Type	(All)
Presort Rate	(All)
Entry Practice	(All)
CR	(All)

Sum of Pieces2	Zone:									
Entry Profile:	Local	1	2	3	4	5	6	7	8	Grand Total
DDU	32,916,229	139,688		10	20					33,055,947
DDU - Destinating 3-Digit ZIP Area	3,221,991	2,752,929		30	1,712					5,978,662
DDU - Destinating BMC Service Area	285,953	2,854,121	3,793,285	403,578	50,036	13,934				7,400,906
Origin AO		1,072,277	4,417,711	8,331,698	31,020,172	22,369,456	2,162,310	2,491,127	1,951,257	73,816,007
SCF	29,733,340	43,810,700	880,202							74,424,242
SCF - Destinating BMC Service Area	148	6,305,068	7,889,265	4,273,346	902,601	5,001				19,375,449
Origin SCF		40,279	2,794,213	8,965,342	10,067,456	11,474,830	8,545,111	4,002,710	2,464,894	46,374,835
Destinating BMC	787,464	88,544,472	58,963,227	25,757,512	7,714,895	121,745				183,889,315
Origin BMC		210,384	850,832	4,052,666	4,829,723	1,217,634	155,248	1,028,125	1,411,419	13,756,030
Destinating ASF		327,020	716,300	486,521	54,285					1,584,126
Origin ASF			252	25,237	51,331	32,391	9,069	2,413	18,396	139,106
Grand Total	66,945,123	147,056,958	81,305,327	50,317,631	54,690,499	35,234,991	10,871,757	7,524,375	5,845,965	458,792,628

NON-DROPSHIPED VOLUME BY ENTRY POINT AND ZONE DISTRIBUTION

	Zone:									
	Local	1	2	3	4	5	6	7	8	Grand Total
DDU										
DDU - SCF area	3,221,991	2,752,929	30	1,712	-	-	-	-	-	5,978,662
DDU - BMC area	285,953	2,854,121	3,793,265	403,578	50,036	13,934	-	-	-	7,400,906
OAO	-	1,072,277	4,417,711	8,331,698	31,020,172	22,369,456	2,162,310	2,491,127	1,951,257	73,816,007
DSCF										
SCF - BMC area	148	6,305,068	7,889,265	4,273,346	902,601	5,001	-	-	-	19,375,449
OSCF	-	40,279	2,794,213	6,985,342	10,067,456	11,474,830	8,545,111	4,002,710	2,464,894	46,374,835
DBMC										
OBMC	-	210,384	850,832	4,052,686	4,829,723	1,217,634	155,248	1,028,125	1,411,419	13,756,030
DASF	-	327,020	716,300	466,521	54,285	-	-	-	-	1,584,126
OASF	-	-	252	25,237	51,331	32,391	9,069	2,413	18,396	139,106
	3,508,092	13,562,098	20,461,888	24,560,099	46,975,604	35,113,246	10,871,757	7,524,375	5,845,965	168,423,124
	2.08%	8.05%	12.15%	14.68%	27.89%	20.85%	8.46%	4.47%	3.47%	
		22.28%								

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AAP/USPS-T27-9 Please explain the differences between the "Mail Processing Version" of Attachment H (Table 1) and the "Transportation Version" of Attachment H (Table 2). Why are the survey results different for the two versions?

RESPONSE

The "Mail Processing Version" describes the entry profile where pieces enter the Postal Service's mail processing network. The "Transportation Version" describes the entry profile where pieces enter the Postal Service's transportation network.

The major difference between the two versions is for plantloaded mail in which the Postal Service (at its own convenience) picks pieces up at the mailer's facility and deposits them at the appropriate postal facility. For example, rather than having a mailer overload a nearby post office or plant with a large amount of mail it is unsuited to accept, the Postal Service accepts the mail at the mailer's plant and drives it to a facility such as the nearby BMC. For purposes of mail processing, the entry point is that nearby origin BMC, but for transportation purposes, the entry point is the closest postal facility to the mailer's plant since that is where the piece enters the postal transportation network. Relating the above example to Tables 1 and 2 of Attachment H, we can see that in the mail processing version (Table 1) origin BMC receives 24.0 percent, origin AO receives 1.2 percent, and origin SCF receives 3.9 percent. Alternately, in the transportation version (Table 2) origin BMC receives 3.0 percent, origin AO receives 16.1 percent, and origin SCF receives 10.1 percent.

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AAP/USPS-T27-10 With respect to the entry profiles shown for BPM on Attachment H of your testimony, please list and explain each BPM entry profile which, in your view, is no longer consistent with current postal operations.

RESPONSE

None of the entry points described are necessarily inconsistent with current postal operations. An individual might choose to deposit their piece at any of those possible entry points. The problem arises when mailers are given improper incentives such that they receive a lower or discounted rate for depositing mail at an entry point that results in higher costs for the Postal Service.

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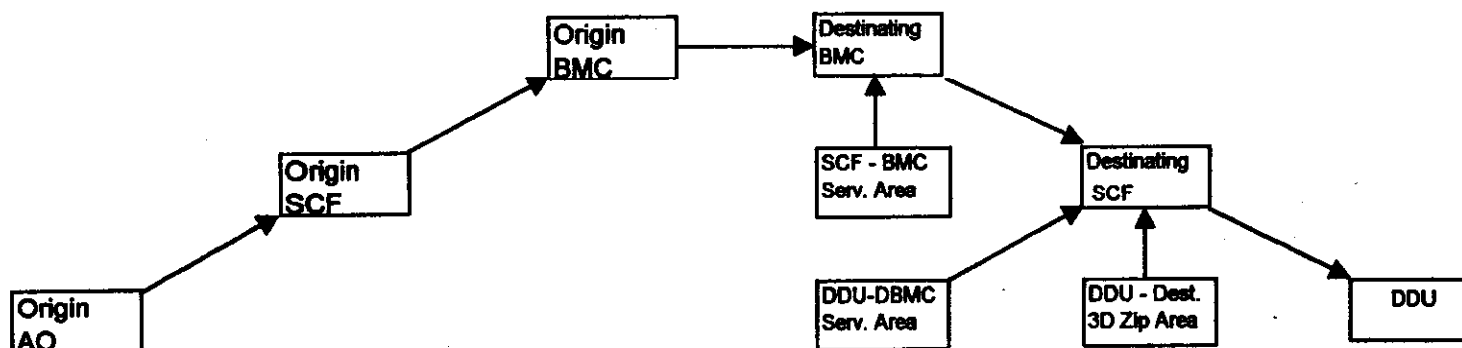
AAP/USPS-T27-11 With respect to Table 3 of Attachment H of your Testimony (Simplified Standard Mail (B) Mailflow), please show where BPM mail that is now shipped at local zone rates generally would enter the mail flow as described by the Table.

RESPONSE

The first section of Attachment H, Table 1 titled "Sum of Total Pieces" shows the volume by entry profile point for pieces entered at the Local rate in the first column. I have attached another version of the simplified Standard Mail (B) mailflow in response to this interrogatory that will allow you to match up the Table 1 results with the simplified mailflow.

ATTACHMENT TO WITNESS CRUM'S RESPONSE TO AAP/USPS-T27-11

Simplified Standard Mail (B) Mailflow



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AAP/USPS-T27-12 In Attachment J, Table 1.4 of your testimony, you provide a reference for column 8 stating "[p]ieces per container in Docket No. R84-1." Please provide this reference from Docket No. R84-1 and state when it was developed. In addition, please explain: a) why this reference is not outdated and b) the basis for relying upon results from Docket No. R84-1 in this proceeding.

RESPONSE

The column [8] line you reference states the following: "Pieces per container in Docket No. R84-1 (column [7])". The reference you ask for is in column [7] and is listed as Docket No. R84-1, Exhibit USPS-14I. The study was conducted during Fiscal Year 1982.

a. I do not believe this reference is outdated such that it would cause inaccurate estimates. The study referenced above estimates average pieces-per-container (or conversion factor) data for five types of containers. In my analysis presented in Attachment J, Table 1.4, I adjust the results from the R84-1 study based on the change in average cubic volume per piece between those presented for Bound Printed Matter in the 1998 CRA and those from the original study. Unless any changes occurred between the R84-1 study and 1998 regarding how pieces fit together in containers (not including changes in cubic volume which I have accounted for), my results would not be outdated.

b. I do not just rely on results from Docket No. R84-1. I adjust them based on the current 1998 Bound Printed Matter cubic feet per piece. Please also see my response to part (a).

DECLARATION

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

Charles L. Crum
CHARLES L. CRUM

Dated: 8 MARCH 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.


Richard T. Cooper

475 L'Enfant Plaza West, S.W.
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March 8, 2000