

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL REGULATORY COMMISSION
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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DANIEL TO INTERROGATORY OF ALLIANCE OF NONPROFIT MAILERS
REDIRECTED FROM WITNESS RAMAGE
(ANM/USPS-T2—19(a), (b), and (g))**

The United States Postal Service hereby provides the response of witness Daniel to the following interrogatory of the Alliance of Nonprofit Mailers redirected from witness Ramage: ANM/USPS-T2—19 subparts (a), (b) and (g), filed on February 29, 2000.


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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking



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March 14, 2000

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ANM/USPS-T2-19. This question refers to attachment ANM/USPS-T2-19, which is hereby incorporated as part of the question. The mail processing cost and volume data in the attachment are from LR-I-96. The percentages in the bottom portion are computed from the data in the top part.

- (a) Please confirm that the mail processing cost and volume data in the top portion have been correctly transcribed. If you do not confirm, provide the correct data.
- (b) Please confirm that, for shape, presort condition and weight, the three Commercial ECR letter categories shown here (Basic, Auto and High Density/Saturation combined) constitute reasonably homogeneous subcategories vis-a-vis their respective Nonprofit ECR letter counterparts? If you do not confirm, please provide and discuss all significant cost-causing differences.
- (c) The bottom portion of the table in the attachment indicates that, for Auto ECR letters, the Nonprofit Test Year volume (439 million) amounts to 17.4 percent of the Commercial volume (2,528 million), while nonprofit dollar-weighted IOCS tallies in Test Year amount to 17.9 percent of commercial. Please confirm that the similarity of the two percentages is unsurprising in light of the homogeneity of the mail. Please explain fully any failure to confirm.
- (d) The bottom portion of the table also shows that in Test Year Basic Nonprofit ECR, letters Nonprofit receive 28.9 percent of the dollar-weighted amount attributed to Commercial ECR letters, yet the volume of Nonprofit ECR Basic letters (888 million) amounts to only 12.3 percent of the volume of Commercial ECR Basic letters (7,212 million). If Nonprofit and Commercial ECR Basic letters have an equal chance of being sampled each time an IOCS tally happens to be taken from ECR Basic letters, what is the probability of drawing a sample that is so disproportionate to the volumes of each respective rate category? What is the coefficient of variation (CV) for the mail processing cost estimate for Nonprofit Basic ECR letters?
- (e) For all ECR non-letters combined, Nonprofit volume (934 million) amounts to 4.6 percent of Commercial volume (20,502 million) while Nonprofit mail processing cost (based on dollar-weighted IOCS tallies) amounts to 12.0 percent of Commercial. If Nonprofit and ECR non-letters have an equal chance of being sampled each time an IOCS tally happens to be taken from ECR non-letters, what is the probability of drawing a sample that is so disproportionate to the volumes of each respective category? What is the coefficient of variation for the mail processing cost estimate for (i) Nonprofit Basic non-letters, (ii) Nonprofit High Density/Saturation non-letters, and (iii) all Nonprofit non-letters combined?
- (f) For all ECR combined, Nonprofit volume (2.9 million) amounts to 8.6 percent of Commercial volume (33.6 billion), while dollar-weighted Nonprofit mail processing cost (based on IOCS tallies) amounts to 17.3 percent of Commercial. If Nonprofit ECR mail has an equal chance of being sampled each time an IOCS tally happens to be taken from ECR mail, what is the probability of drawing a sample what is so disproportionate to the volumes of each respective category? What is the coefficient of variation for the mail processing cost estimate for all Nonprofit ECR mail?

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- (g) The table in the attachment relies solely on dollar-weighted IOCS tallies. For each mail processing cost estimate shown in the top portion of the table, please provide the number of direct tallies that underlie and form the basis for the dollar-weighted cost estimate. If the raw tallies are not distributed in proportion to the dollar-weighted cost estimates, please explain (i) which operations and their associated tallies have a higher-than-average cost, and (ii) why were nonprofit tallies disproportionately distributed among the operations with higher-than-average cost.
- (h) As pointed out in the preceding part (f), the volume of all Nonprofit ECR (2.9 million) amounts to only 8.6 percent of Commercial volume (33.6 billion). On a percentage basis, the volume of Nonprofit ECR might reasonably be described as "small," if small is defined as anything less than 10 percent. From a statistical viewpoint, does 2.9 million pieces constitute a relatively small volume for obtaining reasonably accurate mail processing cost estimates that are not likely to offer much variation owing to random differences in the sample?
- (i) How large do the volume and the sample have to be before one can expect relatively little variation in the cost estimate owing to random variation?

RESPONSE:

- (a). Not confirmed. Commercial ECR Saturation Nonletters should be 10,763 not 10,753. This affects the total and subtotal. These changes are shaded and italicized in a revised version of the attachment. There are also some minor changes due to rounding. These changes are just shaded in the revised version of the attachment. None of these changes affects the percentages calculated at the bottom.
- (b). It is unclear what the question intends by the phrase "reasonably homogeneous." One significant cost-causing characteristic not mentioned in the question is the level of dropshipping. The dropship profile of Basic and Saturation/High Density letters for the two subclass are as follows:

<u>ECR</u>	No dropshipping	DBMC	DSCF	DDU
Basic	22%	42%	34%	1%
Saturation/HD	8%	5%	74%	13%
Total	18%	31%	46%	5%

<u>NPECR</u>	No dropshipping	DBMC	DSCF	DDU
Basic	30%	33%	33%	3%
Saturation/HD	19%	2%	44%	35%
Total	26%	22%	37%	14%

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The differences in presort condition and weight per piece are as follows: ECR Basic letters are 55% of total ECR letters and NPECR Basic letters are 45% of total NPECR letters. ECR Auto Basic letters are 19% of total ECR letters and NPECR Auto Basic letters are 22% of total NPECR letters. Finally, ECR Saturation/High Density letters are 26% of total ECR letters and NPECR Saturation/High Density letters are 33% of total NPECR letters. The average weight of ECR letters is 0.8174 ounce per piece and the average weight of NPECR letters is 0.7412 ounce per piece.

(c-f) Answered by witness Ramage.

(g) The requested counts of IOCS records are provided in the attached table. The specific objects to which the terms "raw tallies" and "dollar-weighted cost estimates" refer are unclear. Note that the statement that "[t]he table in the attachment relies solely on dollar-weighted IOCS tallies" is incorrect; data sources other than IOCS are used to develop the data in the table. While it is basically correct to say that volume-variable mail processing costs in a cost pool are distributed in proportion to the dollar-weighted IOCS tallies associated with that pool, please see witness Van-Ty-Smith's testimony -- USPS-T-17, USPS LR-I-106, and the responses to ANM/USPS-T2-5 and -7 -- for full details of the IOCS processing methods. In addition, the costs in the table are Test Year costs; therefore, base year costs were converted to Test Year costs using the methodology described on page 27 of USPS-T-28.

(h-j) Answered by witness Ramage.

Revised Attachment in response to ANM/USPS-T2-19

	Test Year IOCS Mail Processing Cost (from LR-I-96)			GRAND TOTAL	Test Year Vol. (from LR-I-96, p.17)
	MODS	BMCs	Non-MODS		
Commercial ECR					
Letters					
Basic	107,300	8,962	26,940	143,202	7,212,310
Auto	32,376	3,458	9,498	45,332	2,527,648
High-D					
Saturation	13,399	190	6,561	20,150	3,388,002
Subtotal	153,075	12,610	42,999	208,685	13,127,960
Non-letters					
Basic	171,453	15,550	53,076	240,079	10,981,789
High-D					
Saturation	10,641	747	10,763	22,150	9,520,767
Subtotal	182,094	16,297	63,838	262,229	20,502,556
TOTAL	335,169	28,907	106,838	470,914	33,630,516

Nonprofit ECR					
Letters					
Basic	33,808	1,565	5,974	41,347	888,012
Auto	6,898	428	788	8,114	439,312
High-D					
Saturation	510	0	0	510	645,932
Subtotal	41,216	1,993	6,762	49,972	1,973,255
Non-letters					
Basic	17,814	6,503	6,014	30,330	629,104
High-D					
Saturation	703	0	424	1,127	304,847
Subtotal	18,517	6,503	6,438	31,457	933,951
TOTAL	59,733	8,496	13,200	81,429	2,907,206

Nonprofit as a Percent of Corresponding Commercial Rate

Nonprofit ECR					
Letters					
Basic	31.5%	17.5%	22.2%	28.9%	12.3%
Auto	21.3%	12.4%	8.3%	17.9%	17.4%
High-D					
Saturation	3.8%	0.0%	0.0%	2.5%	19.1%
Subtotal	26.9%	15.8%	15.7%	23.9%	15.0%
Non-letters					
Basic	10.4%	41.8%	11.3%	12.6%	5.7%
High-D					
Saturation	6.6%	0.0%	3.9%	5.1%	3.2%
Subtotal	10.2%	39.9%	10.1%	12.0%	4.6%
TOTAL	17.8%	29.4%	12.4%	17.3%	8.6%

BY98 IOCS Mail Processing Direct Tally Record Counts				
	MODS	BMCs	Non-MODS	GRAND TOTAL
Commercial ECR				
Letters				
Basic	463	30	105	598
Auto	124	7	24	155
High-D				
Saturation	54	1	17	72
Subtotal	641	38	146	825
Non-letters				
Basic	798	46	234	1,078
High-D				
Saturation	57	2	41	100
Subtotal	855	48	275	1,178
TOTAL	1,496	86	421	2,003
Nonprofit ECR				
Letters				
Basic	126	8	15	149
Auto	24	2	4	30
High-D				
Saturation	2	0	0	2
Subtotal	152	10	19	181
Non-letters				
Basic	81	16	22	119
High-D				
Saturation	2	0	1	3
Subtotal	83	16	23	122
TOTAL	235	26	42	303

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: 3/14/00

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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