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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 NEWSPAPER ASSOCIATION OF AMERICA (NAA/USPS-T28—1-2, 3(B), 4-10)

The United States Postal Service hereby provides the responses of witness Daniel to the following interrogatories of the Newspaper Association of America: NAA/USPS-T28—1-2, 3(b) and 4-10, filed on March 1, 2000. Interrogatory NAA/USPS-T28—3(a) is redirected to witness Ramage.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 15, 2000

RESPONSE OF U.S. POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T28-1: Please refer to page 5, lines 10-11 of your testimony. Please explain fully how using the CRA methodology is "superior to allocating costs where weight is not known totally on the basis of weight or piece volumes alone."

RESPONSE:

The quoted statement was excerpted from the following passage in USPS-T-28 at page 5, lines 4-11:

> Tallies where weight is not known are distributed in a similar manner as USPS witness Van-Ty-Smith (UPS-T-17) distributes mixed-mail tallies where the subclass is not known. This approach uses information where weight is known within a cost pool, activity code, or subclass to distribute tallies where weight is not known. This represents an improvement over previous methodologies that distributed costs for mail with unknown weight based on the aggregate costs where weight was known. Using the CRA methodology is also superior to allocating costs where weight is not known totally on the basis of weight or piece volumes alone.

It should be clear from the full passage that "CRA methodology" refers to the process, described at page 3 of USPS LR-I-99, of using (where possible) information contained in the activity code, cost pool and/or handling type to determine a weight distribution for the "no-weight" tallies. These data tend to have strong associations with shape, machinability, and other characteristics related to mailpiece weight.

Volume data (pieces and weight) by subclass, weight increment, and cost pool do not exist. Therefore, the main advantage of the CRA-based methodology for distributing no-weight tallies is that it makes use of additional, relevant information for identifying the weight distribution that is not available in the existing RPW-type data on pieces and weight by subclass and weight increment. An additional advantage is that using pieces or weight to distribute no-weight tallies would embody potentially unwarranted assumptions regarding constancy of volume-variable cost per piece or per weight increment. Determining the validity (or lack of validity) of such assumptions is an object of the analysis.

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NAA/USPS-T28-2: Please refer to Library Reference USPS-I-99, textual summary, at page 2. Please indicate whether, when "no weight" tallies are redistributed over all tallies with weight, such redistribution is weighted on a proportional basis by tallies with weight?

RESPONSE:

It should be understood that the use of the term "tallies" in the LR-I-99 text summary specifically means dollar-weighted tallies. Thus, terms such as "redistributed across tallies" (LR-I-99, text summary at page 3, line 5) should be read as "redistributed in proportion to dollar weighted tallies." This is the applicable "proportional basis" of the distribution of no-weight tallies. Note also that the procedures described at pages 2-3 of the LR-I-99 text summary do not include rules whereby no-weight tallies are distributed in proportion to "all tallies with weight."

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NAA/USPS-T28-3: Please refer to Library Reference USPS-I-100, textual summary, at page 1-2.

a. Please explain why data are collected by half-ounce weight increments up to four ounces, but only by full ounce increments between four and 16 ounces.
b. Did you make any specific use in your testimony of the half-ounce increments between one and four ounces. If so, please explain where. If not, please explain why not.

RESPONSE:

a. Redirected to witness Ramage.

b. Yes. Please see Table 3 on page 17 of my testimony. I grouped mail weighing less than 3.0 ounces and less than 3.5 ounces to approximate the cost of piece-rated mail, which weighs less than 3.3 ounces.

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NAA/USPS-T28-4: With reference to the "ECRWSS" marking on Enhanced Carrier Route walk-sequenced saturation mail:

a. When did the Postal Service first allow the "ECRWSS" marking to be used?
b. What other markings has the Postal Service allowed, and for what time periods, for ECR walk-sequenced saturation mail since September 1, 1997?

RESPONSE:

a-b. With the implementation of Docket No. MC95-1, July 1, 1996, the requirement for marking saturation mail was changed to "ECRWSS". To the best of my knowledge, this is the only marking the Postal Service has allowed since September 1, 1997.

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NAA/USPS-T28-5: Please refer to page 8, lines 17-18, of your testimony, where you state that access time costs "should not vary significantly by weight and are therefore distributed on the basis of pieces." Please explain the basis for this statement, and identify any cost study or analysis upon which you rely as support for this statement.

RESPONSE:

It is my opinion that weight, especially in the range of 0 to 16 ounces, should not affect a carrier's walking time spent in deviating from the course of a route to go to and from customer delivery sites and collection boxes, and driving time associated with slowing to serve curbline boxes or deviating to serve collection boxes. Access costs were allocated on the basis of piece in Docket No. R97-1 and I am not aware of any compelling reason to change that assumption. Furthermore, treating Elemental Load as directly proportional to weight should compensate for any extent to which weight may possibly affect Access costs. See also my responses to interrogatories AAPS/USPS-T28-4-5.

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NAA/USPS-T28-6: Please refer to Library Reference USPS-I-92, Section 1, Page 1 of 30, Table 3.

a. Please confirm that Table 3 presents estimated test year unit costs for flats weighing less that 3.0 oz. of $0.2494 and for flats weighing less than 3.5 oz. of $0.2289. If you cannot confirm, please explain why not.
b. Why does the inclusion of flats weighing between 3 and 3.5 ounces reduce the estimated unit cost compared to flats weighing up to 3 ounces?

RESPONSE:

a. Confirmed that Table 3 presents estimated test year unit costs *for Standard Mail (A) Regular* flats weighing less that 3.0 oz. of $0.2494 and costs *for Standard Mail (A) Regular* flats weighing less than 3.5 oz. of $0.2289.

b. The estimated cost of Standard Mail (A) Regular flats in the 3.0 to 3.5 ounce increment in USPS LR-I-92, Section 1 page 16, is $0.161, which is lower than the average cost of Standard Mail (A) Regular flats weighing less than 3.0 ounces. Including this mail pulls down the average, especially in light of the significant volume in this increment.

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NAA/USPS-T28-7 Please refer to page 8, lines 27-28, of your testimony, at which you state, in connection with attributing elemental load costs: "if weight is used as a distribution key, costs will double as weight doubles. This is not necessarily the case for load time."

a. Please provide your basis for stating that it "is not necessarily the case" that elemental load costs double as weight doubles."
b. Is it possible that elemental load costs do double as weight doubles? If your answer is negative, please explain why not.

RESPONSE:

a-b. Elemental load costs were treated as proportional to pieces in Docket No. R97-1. In this proceeding, elemental load costs are treated as proportional to weight. My testimony on page 8 explains the rationale of this change as follows: "[s]ince flats and parcels cost more to load than letters, and flats and parcels are heavier on average than letters, it seems reasonable that heavier pieces of the same shape may cost more to load than lighter pieces of the same shape." Allocating elemental load costs on the basis of weight, though most likely overstating the relationship, should tend to offset any possible understatement of allocating route and access costs on the basis of piece. I am not aware of any study of the impact of weight on carrier street costs that would provide a better basis for allocating these costs. I am not aware of quantitative studies suggesting it is possible that elemental load costs double as weight doubles.

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NAA/USPS-T28-8 Please refer to page 16, Figure 3, of your testimony. Please state whether Table 3 refers to all commercial Standard (A) mail, or merely the Standard (A) Regular subclass.

RESPONSE:

Figure 3 on page 16 of my testimony refers to the Standard Mail (A) Regular (non-ECR) subclass. *Table 3* on page 17 of my testimony contains data for all four subclasses of Standard Mail (A).

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NAA/USPS-T28-9: Please refer to page 17, Table 3, of your testimony.

a. Please confirm that Table 3 indicates that Standard (A) ECR letters weighing less than 3 ounces have higher estimated test year unit costs than the corresponding letters in the nonprofit ECR subclass. If you cannot confirm, please explain why not.

b. Please confirm that Table 3 indicates that Standard (A) ECR letters weighing less than 3.5 ounces have higher estimated test year unit costs than the corresponding letters in the nonprofit ECR subclass. If you cannot confirm, please explain why not.

c. Please confirm that Table 3 indicates that Standard (A) ECR flats weighing less than 3 ounces have lower estimated test year unit costs than the corresponding flats in the nonprofit ECR subclass. If you cannot confirm, please explain why not.

d. Please confirm that Table 3 indicates that Standard (A) ECR letters weighing less than 3.5 ounces have lower estimated test year unit costs than the corresponding flats in the nonprofit ECR subclass. If you cannot confirm, please explain why not.

e. Please identify every reason why the commercial ECR letters have higher estimated test year unit costs than the nonprofit ECR letters, but commercial ECR flats have lower estimated test year unit costs than the corresponding nonprofit ECR flats.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Confirmed that ECR *letters* weighing less than 3.5 ounce have lower estimated test year unit costs than 3.5 ounce *flats* in the NPECR subclass. I also confirm that Table 3 indicates that Standard Mail (A) ECR *flats* weighing less than 3.5 ounces have lower estimated test year unit costs than the corresponding flats in the Nonprofit ECR subclass.

e. Although I have not studied this issue and cannot provide an exhaustive list of reasons, I note that ECR flats are more heavily dropshipped than NPECR flats as seen in the profile of pounds below based on data in USPS LR-I-96.

ECR	No dropshipping	DBMC	DSCF	DDU
Basic	6%	21%	71%	2%
Saturation/HD	2%	2%	29%	68%
Total	4%	12%	52%	32%

NPECR	No dropshipping	DBMC	DSCF	DDU
Basic	22%	26%	50%	2%
Saturation/HD	11%	1%	55%	33%
Total	18%	18%	51%	13%

Since the estimates in Table 3 of my testimony represent the average cost of Standard Mail (A), one would expect categories with proportionately more dropshipping to have lower costs. Please see my response to interrogatory ANM/USPS-T2-19(b) for a discussion of cost causative differences between ECR and NPECR letters.

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NAA/USPS-T28-10: Please refer to page 17, Table 3, of your testimony.

a. Please confirm that Table 3 indicates that Standard (A) ECR letters weighing less than 3 ounces have **higher** estimated test year unit costs than Standard (A) ECR flats in the same weight range. If you cannot confirm, please explain why not.
b. Please confirm that Table 3 indicates that Standard (A) nonprofit ECR letters weighing less than 3.0 ounces have **lower** estimated test year unit costs than Standard (A) nonprofit ECR flats in the same weight range. If you cannot confirm, please explain why not.
c. Please confirm that Table 3 indicates that Standard (A) ECR letters weighing less than 3.5 ounces have **higher** estimated test year unit costs than Standard (A) ECR flats in the same weight range. If you cannot confirm, please explain why not.
d. Please confirm that Table 3 indicates that Standard (A) nonprofit ECR letters weighing less than 3.5 ounces have **lower** estimated test year unit costs than Standard (A) nonprofit ECR flats in the same weight range. If you cannot confirm, please explain why not.
e. Please identify every reason why the commercial ECR letters in (a) and (c) have higher estimated test year unit costs than the corresponding flats, while the nonprofit ECR letters in the same weight ranges have **lower** estimated test year unit costs than the corresponding nonprofit ECR flats.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Confirmed.

e. Although I have not studied this issue and cannot provide an exhaustive list of reasons, I note that given similar degrees of worksharing, one would expect letters to have a lower cost than flats as is the case in NPECR. However, ECR flats are more heavily workshared (*i.e.*, more presorted and more deeply dropshipped) than ECR letters, thereby providing a possible explanation as to why ECR flats have a lower average cost than ECR letters. Comparisons of the degree of dropshipping can also be made with the data provided in response to interrogatories ANM/USPS-T2-19(b) and NAA/USPS-T28-9(e).

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: 3/15/00

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 15, 2000