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 MAJOR MAILERS ASSOCIATION (MMA/USPS-T28—9-13(A))

The United States Postal Service hereby provides the responses of witness Daniel to the following interrogatories of Major Mailers Association: MMA/USPS-T28—9-13(a), filed on March 3, 2000. Interrogatory MMA/USPS-T28-13(b) is redirected to the Postal Service.

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 17, 2000

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MMA/USPS-T28-9. Please refer to your response to MMA/USPS-T28-1. In that response you note that your study shows that, for certain First-Class letters, letters weighing two ounces cost significantly more to process than letters weighing one ounce or less, but that, for Standard Mail (A) letters, letters weighing two ounces cost about the same to process as letters weighing one ounce or less.

(a) Does your response mean that if two First-Class single piece letters, exactly alike in all respects except that one weighs one ounce and the other weighs two ounces, are mailed at the same time from the same place to the same destination, the two-ounce letter will cost, on average, 13.1 cents more to process than the one-ounce letter? If not, please explain what your response does mean.

(b) Assuming your answer to part (a) is yes, please explain in detail exactly what extra handling operations or other cost incurrence factors cause an additional 13.1 cents to be incurred in processing a First-Class single piece letter weighing two ounces. For each such extra handling operation or other cost incurrence factor, please quantify the additional unit cost involved and provide all documents which support that analysis.

(c) Does your response mean that if two First-Class presorted letters, exactly alike in all respects except that one weighs one ounce and the other weighs two ounces, are mailed at the same time from the same place to the same destination, the two-ounce letter will cost, on average, 15.1 cents more to process than the one-ounce letter? If not, please explain what your response does mean.

(d) Assuming your answer to part (c) is yes, please explain exactly what extra handling operations or other cost incurrence factors cause an additional 15.1 cents to be incurred in processing a First-Class presorted letter weighing two ounces. For each such extra handling operation or other cost incurrence factor, please quantify the additional unit cost involved and provide all documents which support that analysis.

(e) Does your response mean that if two Standard Mail (A) letters, exactly alike in all respects except that one weighs one ounce and the other weighs two ounces, are mailed at the same time from the same place to the same destination, the two-ounce letter will cost, on average, .4 cents more to process than the one-ounce letter? If not, please explain what your response does mean.

(f) Assuming your answer to part (e) is yes, please explain why those same extra handling operations or other cost incurrence factors which cause First-Class letters weighing two ounces to cost so much more to process than letters weighing one ounce have almost no impact on the cost of the second ounce for Standard Mail (A) letters. For each such extra handling operation or other cost incurrence factor, please quantify the additional unit cost involved and provide all documents which support that analysis.

RESPONSE:

a. No. The response to interrogatory MMA/USPS-T28-1(b) means that, according to the study in USPS LR-I-91, the average First-Class Single-Piece letter-shaped

piece weighing between 1 and 2 ounces will cost 13.1 cents more than the average First-Class Single-Piece letter-shaped piece weighing less than 1 ounce. The cost study reflects all the characteristics associated with the average piece in each weight increment. See also the responses to interrogatories MMA/USPS-T28-4(a) and MMA/USPS-T28-8(c).

b. N/A

c. No. Please see the response to subpart (a).

d. N/A

e. No. Please see the response to subpart (a).

f. N/A

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MMA/USPS-T28-10. Please refer to your response to MMA/USPS-T28-2. In your answer to part (b) of that interrogatory, you state that the costs by ounce increment and shape for Standard Mail (A) "are not necessarily intended to be an exact quantification of costs for every individual weight increment."

(a) Doesn't your testimony give an exact quantification of the average additional cost to process the second ounce of a Standard Mail (A) letter? See your answer to MMA/USPS-T28-1(c). If your answer is no, please explain.

(b) Doesn't your testimony give an exact quantification of the average additional cost to process the second ounce of a First-Class nonpresorted letter? See your answer to MMA/USPS-T28-1(b). If your answer is no, please explain.

(c) Doesn't your testimony give an exact quantification of the average additional cost to process the second ounce of a First-Class presorted letter? See your answer to MMA/USPS-T28-1(b). If your answer is no, please explain.

RESPONSE:

a-c. The cost studies presented in USPS LR-I-91 and LR-I-92 use the best available data and an improved methodology to allocate costs for every major cost segment to weight increment. As noted in the response to interrogatory MMA/USPS-T28-9, "[t]he cost study reflects all the characteristics associated with the average piece in each weight increment." Some weight increments, however, have relatively low volume and therefore have higher coefficients of variation (CVs) associated with those cost estimates. For example, please see witness Ramage's response to interrogatory ANM/USPS-T2-13. Cost estimates with high CVs would fairly not be considered "exact." Moreover, attaching a high degree of confidence to individual estimates for low-volume weight increments could be misleading.

The phrase quoted in this interrogatory was used in the context of explaining that since USPS LR-I-91 and LR-I-92 do not completely isolate for the impact of weight, they do not provide the "specific impact of weight on costs" but rather provide a "general indication of the effect weight has on total volume variable costs."

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MMA/USPS-T28-11. Please refer to your responses to MMA/USPS-T28-4 and 8(c). In those responses, you discuss the difficulties of isolating the effects of weight on cost, noting differences in presorting and barcoding by ounce increment for First-Class and Standard Mail (A).

(a) In your cost studies, did you account for differences in the following factors that might exist among letters of different ounce increments within the same subclass category? If so, how?
   (1) local/nonlocal mix;
   (2) origin/destination pattern;
   (3) degree of presortation;
   (4) prebarcode vs. no prebarcode;
   (5) machinability;
   (6) delivery to p.o. box vs. delivery by carrier; and
   (7) likelihood of being undeliverable-as-addressed;

(b) In deriving your unit costs by weight increment, did you simply add up all the costs incurred and divide by the total originating volume? If not, please explain.

(c) If your answer to part (a) is yes, how do you know that the additional costs incurred were caused solely by the weight of additional ounces from those same pieces?

(d) For each ounce weight increment within First-Class nonpresorted letters (up to 3 ounces), are there differences in cost-causative attributes other than weight (such as, for example, ability to barcode)? If such differences do exist, please explain what they are and quantify how they impact on the cost of processing such pieces.

(e) For each ounce weight increment within First-Class presorted letters (up to 3 ounces), are there differences in cost-causative attributes other than weight (such as, for example, degree of presorting)? If such differences do exist, please explain what they are and quantify how they impact on the cost of processing such pieces.

(f) For each ounce weight increment within Standard Mail (A) letters (up to 3 ounces), are there differences in cost-causative attributes other than weight (such as, for example, degree of presorting)? If such differences do exist, please explain what they are and quantify how they impact on the cost of processing such pieces.

RESPONSE:

(a) No, not in the studies presented in USPS LR-I-91 and LR-I-92. However, data have been provided in response to interrogatory ANM/USPS-T28-8(c) in USPS LR-I-225 and attached to the response to subpart (e) of this interrogatory to facilitate accounting for differences in presorting, prebarcoding and dropshipping.

(b) It's not quite as "simple" as the interrogatory suggests. In deriving the unit costs by weight increment, Test Year costs for every major component were allocated to individual weight increments according to the methodology described in USPS-T-28 pages 4-10. The sum of these costs were divided by the estimate of TY volume in each weight increment to estimate the TY unit cost.

(c) N/A

(d) Yes. Cost-causative attributes other than weight that may be different in each ounce weight increment (up to 3 ounces) include at least all of the factors listed in subpart (a). Data do not exist to quantify the different proportions of any or all of the factors listed in part (a) by weight increment for nonpresorted First-Class letters or to quantify the impact on the processing cost of such pieces.

(e-f) Yes. Cost-causative attributes other than weight that may be different in each ounce weight increment (up to 3 ounces) include at least all of the factors listed in subpart (a). Data do not exist to quantify the different proportions of any of the factors listed in part (a) by weight increment for presorted First-Class letters or Standard Mail (A) letters or to quantify the impact on the processing cost of such pieces with two exceptions. The degree of presortation and the degree of prebarcoding can be estimated by weight increment for First-Class presort and Standard Mail (A) letters.[1] The impact on the cost of processing these pieces can be found in the testimony of witness Miller (USPS-T-24 Appendix I-1). The differences in local/nonlocal mix can be partially estimated by examining the difference in the degree of dropshipping by weight increment in USPS LR-I-225. The impact on the cost for dropshipping can be found in the testimony of witness Crum (USPS-T-27 Attachment C, Table 1).

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[1] Please see USPS LR-I-225 filed in response to interrogatory ANM/USPs-T28-8(c) for Standard Mail (A). Volumes for First-Class Presort by presort and prebarcode rate category and weight increment are attached.

Base Year

	4.0-5.0	5.0-6.0	6.0-7.0	7.0-8.0	8.0-9.0	9/0-10.0	10.0-11.0	Total
1L PR NAUTO	1,974,483	1,008,564	171,227	58,348	34,280	73,969	65,547	4,409,369,344
1L BA AUTO	-	-	-	-	-	-	-	4,594,274,803
1L 3D AUTO	-	-	-	-	-	-	-	19,631,231,887
1L 5D AUTO	-	-	-	-	-	-	-	10,203,173,803
1L CR AUTO	-	-	-	-	-	-	-	1,279,092,457
letter total	1,974,483	1,008,564	171,227	58,348	34,280	73,969	65,547	40,117,142,294
1F PR NAUTO	6,521,435	11,202,120	3,841,955	2,644,303	4,631,784	1,448,973	790,436	238,061,910
1F BA AUTO	2,538,584	2,187,235	1,701,918	1,656,449	1,511,281	1,413,903	858,845	44,490,730
1F 3/5 AUTO	9,475,597	8,408,250	6,038,919	5,006,193	3,980,468	4,012,837	2,355,962	223,752,709
flat total	18,535,616	21,797,605	11,582,791	9,306,944	10,123,533	6,875,713	4,005,244	506,305,349
1P PR NAUTO	171,991	129,955	108,023	134,289	76,745	121,434	58,572	10,804,835
total	20,682,090	22,936,123	11,862,041	9,499,582	10,234,558	7,071,116	4,129,362	40,634,252,478

FY98 First Class Presort Volumes by Rate Category and Weight Increment

Response to MMA/USPS-T28-11

Base Year

	0-0.5	0.5-1.0	1.0-1.5	1.5-2.0	2.0-2.5	2.5-3.0	3.0-3.5	3.5-4.0
1L PR NAUTO	2,001,142,334	2,229,705,232	83,957,488	31,489,523	15,336,164	34,227,950	3,278,541	6,845,696
1L BA AUTO	1,968,123,044	2,496,598,604	82,643,070	34,073,348	7,463,534	4,040,667	1,332,536	-
1L 3D AUTO	7,581,175,010	11,694,283,347	193,072,513	127,104,495	20,251,116	12,874,642	2,470,763	-
1L 5D AUTO	3,402,287,707	6,496,219,754	179,824,028	104,667,655	7,292,764	11,898,895	982,999	-
1L CR AUTO	438,888,695	793,061,575	34,533,435	8,739,204	988,679	2,096,199	784,669	-
letter total	15,391,616,790	23,709,868,513	574,030,534	306,074,225	51,332,257	65,138,354	8,849,509	6,845,696
1F PR NAUTO	6,260,079	19,854,667	32,191,984	34,299,796	34,346,651	58,936,597	8,198,926	12,892,202
1F BA AUTO	586,417	2,740,093	6,321,384	8,118,016	4,001,712	7,133,425	1,973,687	1,747,784
1F 3/5 AUTO	3,947,226	34,177,607	42,929,772	42,919,201	20,173,622	23,399,146	9,611,670	7,316,238
flat total	10,793,723	56,772,367	81,443,139	85,337,013	58,521,986	89,469,168	19,784,283	21,956,224
1P PR NAUTO	18,035	1,565,023	857,159	6,098,809	422,447	846,405	82,331	113,616
total	15,402,428,548	23,768,205,903	656,330,833	397,510,046	110,276,689	155,453,927	28,716,123	28,915,536

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MMA/USPS-T28-12. Please refer to your response to MMA/USPS-T28-8. There seems to be some confusion about the reference pages referred to in LR-I-91 and LR-I-92. Copies of relevant portions of the appropriate pages MMA intended to refer to are attached.

(a) Do you agree that, according to your study, for First-Class presort letters the average cost to process each incremental ounce appears to increase significantly as the weight of a letter increases from 0.5 and 3.5 ounces? Please note that the unit marginal cost differences are as follows: .5 to 1.0 oz: minus $.02; 1.0 to 1.5 oz: $.153; 1.5 to 2.0 oz: $.018; 2 to 2.5 oz: $.23; 2.5 to 3.0 oz: minus $.193; 3.0 to 3.5 oz: $.572; 3.5 to 4.0 of: $.087.

(b) What causes the phenomenon illustrated by the marginal cost differences shown in part (a) whereby the first half ounce in each whole ounce increment costs far more than the second half ounce in each whole ounce increment?

(c) Do you agree that, according to your study, for Standard Mail (A) Regular letters the average cost to process each incremental ounce appears to be practically non-existent between 0.5 and 3.5 ounces? Please note that the unit marginal cost differences are as follows: .5 to 1.0 oz: minus $.006; 1.0 to 1.5 oz: minus $.001; 1.5 to 2.0 oz: $.027; 2 to 2.5 oz: $.015; 2.5 to 3.0 oz: $.015; 3.0 to 3.5 oz: $.02g; 3.5 to 4.0 oz: $1.024.

(d) Is the relationship shown for Standard Mail (A) Regular letters, whereby the unit costs are approximately the same for all half-ounce weight increments up to 3.5 ounces, consistent with the results of previous engineering studies presented in Docket No. MC95-1 that showed throughput on letter automation equipment declined as weight increases to 4 ounces? Please explain your answer.

(e) In answer to MMA/USPS-T28-6(c) you note that transportation costs per pound are four times higher for First-Class Mail Presort letters than for Standard Mail (A) Regular letters. Please provide the actual transportation costs and the sources therefor that formed the basis for your conclusions.

(f) Please confirm the following data from LR-I-91a and LR-I-92areg. If you cannot confirm, please provide the correct unit cost figures.

Comparison of Unit Costs for First-Class Presort and Std Mail (A) Letters ($)				
	First-Class Presort Letters		Std Mail (A) Regular Letters	
	Unit Cost	Unit Cost	Unit Cost	Unit Cost
	0 to 1	1 to 2	0 to 1	1 to 2
Mail Processing	0.044	0.129	0.059	0.055
Delivery Functions	0.035	0.087	0.035	0.038
Total	0.079	0.216	0.093	0.094
Marginal Increase		0.137		0.0004

(g) As shown in the table in part (f), are the mail processing costs for 1-ounce letters within First-Class presort 1.5 cents less than for 1-ounce letters within Standard Mail (A)? If not, please explain.

(h) As shown in the table in part (f), are mail processing costs for 2-ounce letters within First-Class presort more than twice the mail processing costs for 2-ounce Standard Mail (A) letters? If not, please explain.

(i) If your answers to parts (g) and (h) are yes, please explain in detail the specific differences in the processing procedures followed by postal employees which causes First-Class Presort letters weighing between one and two ounces to cost more than (1) First-Class Presort letters weighing under 1 ounce, (2) Standard Mail (A) letters weighing up to 1 ounce, and (3) Standard Mail (A) letters weighing between 1 and 2 ounces.

(j) As shown on the table in part (f), are delivery costs for l-ounce letters within First-Class presort and Standard Mail (A) letters virtually the same? If not, please explain.

(k) As shown in the table in part (f), are delivery costs for 2-ounce First-Class presort letters more than twice the delivery costs for 2-ounce Standard Mail (A) letters? If not, please explain.

(l) If your answers to parts (j) and (k) are yes, please explain in detail the specific differences in processing procedures by postal employees which causes First-Class Presort letters weighing between one and two ounces to cost more than (1) First-Class Presort letters weighing under 1 ounce, (2) Standard Mail (A) letters weighing up to 1 ounce, and (3) Standard Mail (A) letters weighing between 1 and 2 ounces.

RESPONSE:

(a). I agree that, according to the data in USPS LR-I-91 (revised 3/1/00), the average cost to process First-Class Presort letters increases from $0.098 for letters weighing less than one ounce to $0.250 for letters weighing between one and two ounces to $0.383 for letters weighing between two and three ounces to $0.870 for letters weighing between 3 and 3.5 ounces.

(b) According to USPS LR-I-91 (revised 3/1/00), the unit cost allocated to each half-ounce increment for First-Class Presort letters are as follows:

0.0-0.5	0.5-1.0	1.0-1.5	1.5-2.0	2.0-2.5	2.5-3.0	3.0-3.5
$0.110	$0.090	$0.243	$0.262	$0.491	$0.298	$0.870

Therefore, with the exception of the 2.0-2.5 and 2.5-3.0 increments, the costs of letters within a whole ounce increment are similar, but the difference in costs between whole ounce increments is greater, e.g., the difference between 0.0-0.5 and 0.5-1.0 is 2 cents, but the difference between the average of 0.0-1.0 and 1.0-2.0 is 15 cents. As noted in response to interrogatory MMA/USPS-T28-

11(e), cost-causative attributes other than weight may be different in each ½-ounce increment.

(c) The numbers speak for themselves. According to the data in USPS LR-I-92, the average cost to process Standard A Regular letters increases from $0.107 for letters weighing less than one ounce to $0.111 for letters weighing between one and two ounces to $0.146 for letters weighing between two and three ounces to $0.175 for letters weighing between 3 and 3.5 ounces.

(d). Increasing costs are consistent with declining throughput.

(e). Test Year transportation costs in cost segment 14 in witness Kashani's Exhibit USPS-14H for First-Class Presort are $398,019,000 and for Standard Mail (A) Regular are $393,934,000. According to USPS LR-I-91, in the TY there are 1,801,587,274 pounds of First-Class Presort letters and $374,682,000 of transportation costs are allocated to letters. According to USPS LR-I-92, in the TY there are 1,373,950,008 pounds of Standard Mail (A) Regular letters and $67,257,000 of transportation costs are allocated to letters. Thus, the average cost per pound for First-Class Presort letters is $0.2079 and the average cost per pound for Standard Mail (A) Regular letters is $0.0490.

(f). Confirmed with the clarification that "Delivery Functions" applies only to City Carriers and does not include the cost of rural carriers.

(g). Yes.

(h). Yes.

(i). The processing procedures for these different categories of mail will vary depending on a number of factors other than just weight, such as those listed in my response to interrogatory MMA/USPS-T28-11.

(j). Yes.

(k). Yes.

(l). The processing procedures for these different categories of mail will vary depending on a number of factors other than just weight, such as those listed in my response to interrogatory MMA/USPS-T28-11.

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MMA/USPS-T28-13.

(a) Please indicate whether your study utilized the Commission-approved cost methodology, which assumes that labor costs vary 100% with volume, or the Postal Service's proposed cost methodology, which assumes that labor costs do not vary 100% with volume.

(b) If your study did not utilize the Commission-approved cost methodology, please provide the study results utilizing the Commission-approved cost methodology.

RESPONSE:

(a). All cost studies referred to in my testimony use the Postal Service's proposed cost methodology.

(b). Redirected to the Postal Service.

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: 3/17/00

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 Alverdo

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