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POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

| POSTAL RATE AND FEE CHANGES, 2000 | Docket No. R2000–1 |
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# RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA/USPS–T24-17 THROUGH 21)

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of Major Mailers Association: MMA/USPS–T24-17 through 21, filed on March 21, 2000.

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 21, 2000

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

**MMA/USPS-T24-17** Please refer to your response to MMA/USPS-T24-1(a). There you to imply that weight would have a greater impact on BMM costs than non-carrier route presorted costs, because BMM letters could weigh as much as 13 ounces whereas automation presorted letters are limited to 3.3362 ounces.

(a) Please confirm that non-carrier route automation presorted letters are allowed to weigh as much as 3.3362 ounces since this is about the maximum weight that barcode sorters can handle. If you cannot confirm, please explain why the weight limit for First-Class automation presorted letters is 3.3362 ounces.

(b) Please confirm that, according to LR-I-91B, Section 1, page 1, the chances of a First-Class single piece letter weighing over 3.5 ounces is 1.6 out of 1,000 letters. If you cannot confirm, for every 1,000 single piece First-Class letters, how many letters weigh over 3.5 ounces?

(c) Please explain how each of the factors listed below affects your CRA-derived unit costs differently, for each of the various mail categories included in your presort cost savings analysis. If you have assumed that the factor has the same impact on the derived cost differences for all of the mail categories studied, please so state. In addition, if you assume that the factor has a significant impact on the derived cost differences, please so state and explain the reasons for your assumption.

(1) local/nonlocal mix;
(2) origin/destination pattern;
(3) shape;
(4) weight;
(5) machinability; and
(6) likelihood of being undeliverable-as-addressed.

(d) Please explain how each of the factors listed below affect your model-derived unit costs differently, for each of the various mail category model flows included in your presort cost savings analysis. If you have assumed that the factor has the same impact on the derived cost differences for all of the mail categories studied, please so state. If you assume that the factor has a significant impact on the derived cost differences, please so state and explain the reasons for your assumption.

(1) local/nonlocal mix;
(2) origin/destination pattern;
(3) shape;
(4) weight;
(5) machinability; and
(6) likelihood of being undeliverable-as-addressed.

(e) Aside from those factors listed in parts (c) and (d), are there any other factors that affect the CRA and model-derived unit costs differently? If so, please identify all such factors and explain how each of them affects the derived unit costs.

(f) In order for your CRA-derived and model-derived unit costs to accurately reflect and compare presortation and automation cost differences, do you agree that it is your objective to remove all other cost causing attributions, such as those listed in parts (c) and (d) and any additional factors identified by you in part (e) of this interrogatory? If you do not agree, then please state what your objectives are.

(g) In your opinion, have you sufficiently removed from your analysis the impact of all other cost causing attributes, such as those listed in parts (c) and (d) and any additional factors identified by you in part (e) of this interrogatory? Please explain your answer.

**RESPONSE:**

(a) Confirmed for 3.3103 ounces. (Note: The response to MMA/USPS-T24-1 has been revised. It incorrectly stated that the weight limit for automation presort letters was 3.3362 ounces. The current weight limit is actually 3.3103 ounces.)

(b) I was unable to find this information in LR-I-91, Section 1, page 1. I can, however, confirm that 0.16% of the total single-piece letters weighed over 3.5 ounces in the "Summary by Ounce" spreadsheet found in the "dps98_fcmsp.xlw" workbook that is contained in LR-I-102.

(c) These factors could all conceivably affect the CRA mail processing unit costs and delivery unit costs that have been used to calculate the worksharing related savings in my testimony. However, I am not aware of any studies that have been conducted to determine how these factors specifically affect the mail processing unit costs and delivery unit costs for the CRA categories that support my testimony.

(d) Models are used to de-average CRA mail processing unit costs when those costs are not available at the rate category level. Therefore, these factors could all affect the model-derived mail processing unit cost estimates to the extent that they also affect the CRA mail processing unit cost estimates. As stated in my response to (c), I am not aware of any studies that have been conducted to determine how these factors

**RESPONSE to MMA/USPS-T24-17 (Continued)**

specifically affect the mail processing unit costs and delivery unit costs for the CRA categories that support my testimony.

(e) To the best of my knowledge, there are no other factors that affect these costs.

(f) I do not agree. The purpose of my testimony is stated in USPS-T-24, page 1. In regard to the worksharing related savings calculations, I have attempted to isolate the savings related to the presorting and prebarcoding of First-Class Mail letters and cards and Standard Mail (A) Regular and Non Profit letters using the best data available. Given the limitations associated with any data collection system or field study, it is not always possible to isolate the effect other factors, such as those factors listed in parts (c) and (d), would have on the results.

(g) Given my response to (c) and (d), I can not answer yes or no to this question because I have not studied the effect that these cost causing attributes might have on the CRA mail processing unit cost estimates. As I stated in my response to (f), I have used the best data available, given the limitations associated with any data collection system or field study.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION**

**MMA/USPS-T24-18** Please refer to your response to MMA/USPS-T24-2(b). There you explain why the "1CANCMMP" cost pool was assumed to be zero for Bulk Metered Mail (BMM).

(a) Please confirm that since you assumed that BMM mail are "entered in bulk, similar to presort mailers" and that BMM "would bypass these cancellation and metered mail preparation operations", you set the 1CANCMMP unit cost for BMM equal to zero. If you cannot confirm, please explain why not.

(b) If Bulk Metered Mail (BMM) is assumed to be entered into the mail stream in the same manner as First-Class presorted mail, please explain why you did not also assume that the 1CANCMMP cost for automation presorted letter mail would be zero.

(c) Please confirm that of all 22 cost pools with costs greater than 0.001 cents that you deemed were "non-worksharing" related (fixed)", the BMM unit cost is higher than for Automation presorted letters, with one exception. The only exception is the 1CANCMMP cost pool that you assumed would be zero for BMM and made no similar assumption for automated presorted letters.

(d) If not for presortation and automation differences, what causes the BMM unit cost to be higher for every cost pool other than the one cost pool that you artificially set the relationship for -- the 1CANCMMP cost pool?

**RESPONSE:**

(a) Confirmed.

(b) The CRA can not be used to isolate the costs for Bulk Metered Mail (BMM) letters. In developing the BMM letters mail processing unit cost estimate, the CRA mail processing unit costs for all metered letters are used as a starting point. In order to improve the BMM letters estimate, the "1CANCMMP" cost pool is set to zero to reflect the assumption that BMM letters are entered in full trays.

Unlike BMM letters, it is possible to isolate the CRA mail processing unit costs for automation presort letters. Therefore, it is not necessary to make any changes to the CRA-derived mail processing unit cost estimate. In addition, the "1CANCMMP" cost pool is classified as "non-worksharing related fixed" and would not affect the worksharing related savings results, whether this cost pool is set to zero or not.

(c) I can confirm this for the cost pools shown in my response to (d).

(d) The cost pools specified in (c) are shown below for BMM letters, First-Class nonautomation presort letters and automation presort letters. When determining how to

**RESPONSE to MMA/USPS-T24-18 (Continued)**

classify each cost pool, I looked at the relationships at the cost pool level for all three CRA mail processing unit cost categories. In most cases, the cost differences by cost pool are not significant between BMM letters and nonautomation presort letters. This is the reason why I stated in my response to MMA/USPS-T24-1(a) that other cost causing attributes (e.g., different weight limits) might be also be affecting the unit costs.

| Cost Pool | BMM Letters | Nonauto Letters | Auto Letters |
|---|---|---|---|
| BMCS NMO | 0.000 | 0.000 | 0.000 |
| BMCS OTHR | 0.000 | 0.000 | 0.001 |
| BMCS PLA | 0.000 | 0.000 | 0.000 |
| BMCS PSM | 0.000 | 0.000 | 0.000 |
| BMCS SPB | 0.000 | 0.000 | 0.000 |
| BMCS SSM | 0.000 | 0.000 | 0.000 |
| MODS FSM/ | 0.040 | 0.049 | 0.009 |
| MODS MECPARC | 0.001 | 0.004 | 0.000 |
| MODS SPBS OTH | 0.016 | 0.003 | 0.008 |
| MODS SPBSPRIO | 0.001 | 0.006 | 0.001 |
| MODS 1SACKS M | 0.035 | 0.046 | 0.019 |
| MODS MANF | 0.020 | 0.008 | 0.002 |
| MODS MANP | 0.003 | 0.004 | 0.002 |
| MODS PRIORITY | 0.004 | 0.000 | 0.001 |
| MODS 1CANCMMP | 0.000 | 0.069 | 0.025 |
| MODS 1PLATFORM | 0.761 | 0.752 | 0.293 |
| MODS 1SACKS H | 0.103 | 0.118 | 0.053 |
| MODS 1SCAN | 0.041 | 0.043 | 0.021 |
| MODS BUSREPLY | 0.007 | 0.000 | 0.004 |
| MODS EXPRESS | 0.001 | 0.001 | 0.000 |
| MODS MAILGRAM | 0.000 | 0.000 | 0.000 |
| MODS REGISTRY | 0.014 | 0.005 | 0.001 |
| MODS REWRAP | 0.008 | 0.004 | 0.003 |
| MODS 1EEQMT | 0.031 | 0.035 | 0.012 |
| MODS INTL | 0.006 | 0.006 | 0.002 |
| MODS LD48 EXP | 0.000 | 0.000 | 0.000 |
| MODS LD48 SSV | 0.022 | 0.014 | 0.009 |
| MODS 1SUPP F1 | 0.116 | 0.112 | 0.039 |
| MODS 1SUPP F4 | 0.290 | 0.149 | 0.070 |
| NONMODS ALLIED | 0.435 | 0.428 | 0.185 |
| NONMODS EXPRESS | 0.000 | 0.000 | 0.000 |
| NONMODS MANF | 0.006 | 0.010 | 0.000 |
| NONMODS MANP | 0.001 | 0.014 | 0.000 |
| NONMODS MISC | 0.171 | 0.215 | 0.079 |
| NONMODS REGISTRY | 0.008 | 0.004 | 0.003 |

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

**MMA/USPS-T24-19** Please refer to your response to MMA/USPS-T24-6(b)(3) and (4). There you indicate why the two cost pools "1SUPPF1" and "1SUPPF4" are unrelated to mailer presorting.

(a) What causes these costs to be .407 cents for metered mail and .108 cents for automation mail, as shown in your CRA cost derivations?

(b) Is the cost difference between metered mail and automation mail of .229 cents (.407 - .108) statistically significant? Please explain.

**RESPONSE:**

(a) The distribution methodology used for these cost pools is described in the testimony of witness Degen (USPS-T-16, pages 57-58).

(b) I have not performed a statistical analysis for these specific cost pools. As an input to my analysis, I assume that the mail processing unit costs found in LR-I-81 are accurate. As I stated in my response to MMA/USPS-T24-6(b), I have used the operations listing for these cost pools (LR-I-106, page I-25) as the basis for determining the proper classification. In this instance, I have classified these cost pools as "non-worksharing related fixed."

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

**MMA/USPS-T24-20** Please refer to your responses to MMA/USPS-T24-7-9. There you explain some of your reasons for deriving mail flow model unit costs even though you already had a CRA derived unit cost for some of the categories for First-Class letters included in your analysis.

(a) In comparing the CRA-derived unit costs and the weighted average model-derived unit costs, please confirm that the model-derived unit costs was:

(1) Lower than the CRA-derived unit costs by 1.71 cents or 25% for metered mail;

(2) lower than the CRA-derived unit costs by 1.40 cents or 18% for non-automation presort letters;

(3) higher than the CRA-derived unit costs by .31 cents or 12% for automation presort letters; and

(4) lower than the CRA-derived unit costs by .57 cents or 29% for carrier route letters.

(b) If your mail flow models are well designed and formulated to reliably simulate the real world production flow for processing letters, should you expect that the model unit costs would either be consistently high or consistently low as measured from the CRA-derived unit costs? Please explain your answer.

(c) If your mail flow models are well designed and formulated to reliably simulate the real world production flow for processing letters, wouldn't you feel the models were more reliable if their results were consistently off in the same direction when compared to the CRA-derived unit costs? Please explain your answer.

(d) If your mail flow models are well designed and formulated to reliably simulate the real world production flow for processing letters, wouldn't you feel the models were more reliable if their results were consistently off by approximately the same relative amount when compared to the CRA-derived unit costs? Please explain your answer.

(e) Please explain how USPS witness Campbell requested from you a "nonautomation CRA proportional adjustment factor"?

**RESPONSE:**

(a1) I can confirm that the First-Class metered letters model cost of 5.259 cents

(Appendix I, page I-16) is 1.71 cents lower than the Bulk Metered Mail (BMM) letters

**RESPONSE of MMA/USPS-T24-20 (Continued)**

CRA-derived "worksharing related proportional" unit cost of 6.979 cents (Appendix I, page I-7). This difference is 24.5% lower than the latter figure.

(a2) I can confirm that the weighted First-Class nonautomation presort letters model cost of 6.296 cents (Appendix I, page I-4) is 1.40 cents lower than the nonautomation presort letters CRA-derived "worksharing related proportional" unit cost of 7.700 cents (Appendix I, page I-8). This difference is 18.2% lower than the latter figure.

(a3) I can confirm that the weighted First-class automation presort letters model cost of 2.866 cents (Appendix I, page I-5) is 0.31 cents higher than automation presort letters CRA-derived "worksharing related proportional" unit cost of 2.553 cents (Appendix I, page I-9). This difference is 12.2% higher than the latter figure.

(a4) I can confirm that the First-Class automation carrier route presort letters model cost of 1.371 cents (Appendix I, page I-32) is 0.57 cents lower than the automation carrier route presort letters CRA-derived "worksharing related proportional" unit cost of 1.938 cents (Appendix I, page I-10). This difference is 29.3% lower than the latter figure.

(b) (c) No. As stated in the responses to several MMA interrogatories, the models rely on several average data inputs. As a result, it does not surprise me that some CRA proportional adjustment factors are less than one, while others are greater than one.

(d) No. As stated in the responses to several MMA interrogatories, simplified mail processing assumptions are used to construct cost models. In general, I would

**RESPONSE to MMA/USPS-T24-20 (Continued)**

expect these assumptions to have a greater impact on mail types that must be processed through the Remote Bar Code System (RBCS). Therefore, I am not surprised that the cost models for First-Class metered letters and First-Class nonautomation presort letters understate the CRA-derived "worksharing related proportional" mail processing unit costs as shown in my responses to (a1) and (a2), respectively.

The First-Class automation presort letters rate categories, however, are easier to model because this mail should not theoretically be processed through the more complicated RBCS network. In addition, these mail pieces have lower weight limits. As a result, I am not surprised that the cost models for the automation presort letters rate categories overstates the CRA-derived "worksharing related proportional" mail processing unit costs as shown in my response to (a3).

The First-Class automation carrier route presort letters model is developed solely for the purpose of determining a Delivery Point Sequence (DPS) percentage. This percentage is used by witness Daniel (USPS-T-28) to determine the delivery unit costs for that rate category. This rate category is different for the others in that it can only be used for letters that destinate at either Carrier Sequence Bar Code Sorter (CSBCS) facilities or manual facilities. I have not conducted any cost studies specific to carrier route presort letters because the CRA can be used to derive the unit costs for this rate category. In addition, carrier route presort letters can be entered in packages. Therefore, a package sorting proxy is included in the cost model. Given these facts, I am not surprised that the cost model for the automation carrier route presort letters rate

**RESPONSE to MMA/USPS-T24-20 (Continued)**

category understates the CRA-derived "worksharing related proportional" mail processing unit costs as shown in my response to (c4).

(e) In Docket No. R97-1, I was the witness for the Qualified Business Reply Mail (QBRM) cost avoidance (USPS-T-23). In that testimony, I applied the First-Class Mail non-carrier route presort letters CRA proportional adjustment factor to the cost model results. That factor was taken from the testimony of First-Class Mail cost witness Hatfield (USPS-T-25).

In our discussions in this docket, I suggested to witness Campbell that he might use the nonautomation presort letters data to develop a CRA worksharing related proportional adjustment factor that could be used as a proxy for single-piece letters. As stated in my response to (c), I would expect that the CRA worksharing related proportional adjustment factors for letters that undergo RBCS processing (like nonautomation presort letters and single-piece letters) to be greater than the corresponding automation letters factors. Based on our discussions, witness Campbell elected to use the nonautomation presort letters worksharing related proportional CRA adjustment factor as a proxy for single-piece letters in his testimony.

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**MMA/USPS-T24-21** Please refer to your responses to MMA/USPS-T24-14(a) and (b) and the Postal Service's institutional response to MMA/USPS-T24-14(c). In your responses, you explain how mailers' compliance with Move Update requirements is incorporated into your cost savings analysis. The Postal Service response provides actual volumes that were forwarded or returned by subclass for 1999.

(a) Please confirm that the added work performed by mailers to comply with the move update requirements should increase the derived cost savings between your benchmark BMM and automation basic letters? If you cannot confirm, please explain why not.

(b) Please confirm that, according to the Postal Service's institutional response, in 1999, the percentage of letters forwarded or returned for presort letters (1.74%) is higher than for nonpresorted letters (1.21%). If you cannot confirm, please explain why not.

(c) Please explain how the move update program has impacted the percent of presorted letters that are being forwarded or returned, in view of finding reported in the Executive summary of the Address Deficiency Study (which appears at the following Uniform Resource Locator: http://ribbs.usps.gov/files/uaa/uaasum.pdf) that various move updated programs saved the Postal Service at least $1.5 billion in 1998.

(d) Assuming that you can confirm the percentages provided in part (b), please confirm that your inclusion of the worksharing related savings in the impacted cost pools, i.e., reflecting a greater UAA percentage for presort letters than for nonpresorted letters, has the effect of reducing any derived cost differences resulting from the Move Update requirement? Please explain your answer.

**RESPONSE:**

(a) Not confirmed. As stated in the institutional response to MMA/USPS-T24-14(c), the percentage of First-Class presort letters that is forwarded or returned is higher (1.74%) than the percentage of First-Class nonpresorted letters that is forwarded or returned (1.21%). Since the Bulk Metered Mail (BMM) letters benchmark is a subset of the latter category, there may not be any associated cost savings related to Move Update compliance.

(b) Confirmed.

(c) I was not involved in the Address Deficiency study. From what I've read of the electronic summary of the Undeliverable-As-Addressed study on the postal website,

**RESPONSE to MMA/USPS-T24-21 (Continued)**

it could very well be that the greatest impact of the Move Update program has been to correct a problem related to outdated mailing lists that existed in the past. If this is in fact the case, I would not view the correction of such a problem as "worksharing." In addition, as stated in my response to (a), the percentage of mail that is forwarded or returned is still higher for First-Class presort letters when compared to First-Class nonpresort letters. Finally, as the study pointed out on page 14, it is to everyone's benefit to ensure that the addresses they place on a given mail piece are accurate because it results in postage costs that are lower than they otherwise would have been.

(d) Not confirmed. The worksharing related savings calculations measure the mail processing and delivery unit cost differences that exist between a Bulk Metered Mail (BMM) letter benchmark and the First-Class automation basic presort letters rate category. The cost pools that include the mail processing return and forwarding costs have been classified as worksharing related. Therefore, any return and forwarding cost difference that exists between the BMM letters benchmark and the automation basic presort letters rate category are reflected in the worksharing related savings results. No attempt has been made to quantify what savings would, or should, be attributed to mailer Move Update compliance based on a percentage of returned and forwarded mail that might have been the result of different circumstances (e.g., the absence of a Move Update program).

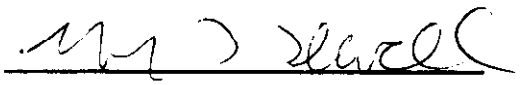
## DECLARATION

I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Dated: 2/21/2006

## 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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