

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF ABA&NAPM
(ABA&NAPM/USPS-T24-26 THROUGH 28)

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of American Bankers Association and National Association of Presort Mailers, which were filed on March 17, 2000:

ABA&NAPM/USPS-T24-26 through 28.

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

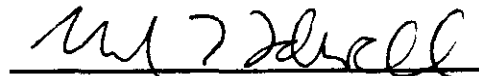
T24-25 and 29 have been redirected to the Postal Service for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-26 Under your new methodology in this case, unit mail processing cost avoidance has risen for 3 digit presorted First-Class letters, over basic, by comparison with USPS estimates in R97-1 (0.89 cents in this case, 0.77 cents in R97-1), but has fallen for 5 digit presorted letters, over basic, (1.0850 cents in this case, 1.5212 cents in R97-1).

- a. How does this discrepancy comport with your generalized conclusion that cost avoidance is shrinking?
- b. Does your view that cost avoidance is shrinking focus on just mail processing cost avoidances?
- c. If your answer to b. is other than an unqualified "Yes", please explain where delivery cost avoidances are shrinking by comparison with USPS R97-1 numbers for any of the following three rate categories of First Class workshared letter mail: basic automation, automation 3 digit, automation 5 digit.

RESPONSE:

First of all, I prefer the term "worksharing related savings" to "cost avoidance," as the latter is often interpreted to be an engineering model cost for a specific rate category subtracted from the engineering model cost for a specific benchmark.

a. I did not conclude in my testimony that "cost avoidance is shrinking." I stated on page 16 (lines 26-28), that "from a cost standpoint, the worksharing related savings results for some rate categories have decreased from those found in Docket No. R97-1." I then proceeded to discuss on page 17 how both cost methodology enhancements and technology improvements may have affected the results. In terms of the comparison between Docket Nos. R97-1 and R2000-1 automation 3-digit and 5-digit results, I do not view these findings as "discrepancies." I view the worksharing related savings results as more accurate cost estimates based on the cost methodology enhancements that have been implemented in this docket.

b. Yes. As stated in a., I do not have the "view" that "cost avoidance is shrinking." However, the comments I made on page 17 as to how the cost methodology enhancements and technology improvements may have affected the worksharing related savings results are directed toward the mail processing unit costs.

c. Based on my response to b., no response to c. is required.

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ABA&NAPM/USPS-T24-27**

a. Please confirm that your Column (1), Mail Processing Total Unit Cost from your Appendix I, page I-1, table "First-Class Letters Summary", is the same methodologically as USPS witness Hatfield's column (4), page 1, of Exhibit USPS-25A from R97-1, labeled "Total cost" (copy attached).

b. If you do not confirm in a. please answer only sub-part b. of ABA&NAPM/USPS-T24-28 below, and please explain here in full detail by cost pool or other factor, model or non-model, exactly what the differences are, and do this in a manner which is methodologically consistent with the Hatfield number from R97-1.

c. If you do confirm in a., please answer all sub-parts to the ABA&NAPM/USPS-T24-28 below.

RESPONSE:

a. Not confirmed.

b. Part a. asks me to confirm that I use the same (I assume this means consistent) methodology as witness Hatfield. I have not confirmed that statement. Given my response to a., part b. asks me to discuss the differences "in a manner which is methodologically consistent with the Hatfield number from R97-1." This does not seem possible given my response to a. However, I will discuss the differences between the cost methodologies used for First-Class presort letters by witness Hatfield in Docket No. R97-1 and myself in this docket.

CRA MAIL PROCESSING UNIT COST CATEGORIES

In Docket No. R97-1, witness Hatfield used two First-Class letters CRA mail processing unit cost categories: 1. "non carrier route presort letters" and 2. "automation carrier route presort letters." The first category contained the aggregate costs for the nonautomation presort letters, automation basic presort letters, automation 3-digit presort letters, and automation 5-digit presort letters rate categories. Therefore, models were developed for these rate categories and used to de-average the CRA mail processing unit costs. The latter category was a rate category. As a result, no cost models were required to de-average the CRA costs.

In this docket, I have used three separate CRA mail processing unit cost categories: 1. "nonautomation presort letters," 2. "automation non-carrier route presort

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letters," and 3. "automation carrier route presort letters." The first and third categories are rate categories. Therefore, no cost models are required to de-average the CRA costs. The second category contains the aggregate costs for the automation basic presort letters, automation 3-digit presort letters, and automation 5-digit presort letters rate categories. Therefore, models have been developed for these rate categories and are used to de-average the CRA mail processing unit costs.

COST MODELS

In Docket No. R2000-1, a new simplified base mail flow model spreadsheet and cost spreadsheet have been developed for letters and cards. These spreadsheets are used for all modeled rate categories. The new mail flow model consolidates the RBCS operations into "outgoing" and "incoming" operations, eliminates the usage of letters/cards coverage factors, and combines the automated and manual incoming SCF and incoming primary operations. This latter change has been made to reflect the assumption that the mail volumes routed to either the incoming SCF or incoming primary operations are typically separated in "upstream" operations. In other words, little mail flows from the incoming SCF to the incoming primary (and vice versa).

In addition, some model inputs have changed. The automation productivities have been de-averaged in a manner similar to the manual productivities, the density tables have been updated (see USPS-T-24, Appendix IV and Miller Workpaper I), and "weighted" piggyback factors have been used for automated operations. These changes are all described in my testimony.

COST POOL CLASSIFICATIONS

In Docket No. R97-1, the CRA mail processing unit cost estimates contained 46 cost pools. Each cost pool was classified as either "proportional" or "fixed," with the exception of the "non-MODS" cost pool. This latter cost pool was broken up into proportional and fixed components using the percentage distribution from the other 45 cost pools.

In this docket, the CRA mail processing unit costs contain 52 cost pools. Each cost pool is classified as either "worksharing related proportional," "worksharing related

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fixed," or "non-worksharing related fixed." For a description as to how each cost pool is classified, please see my response to ABA&NAPM/USPS-T24-12.

CRA ADJUSTMENTS

CRA adjustment factors are used in both dockets in cases where mail processing cost models are used to de-average CRA mail processing unit costs.

In Docket No. R97-1, a weighted model cost was calculated using base year mail volumes. The sum of the CRA proportional cost pools was then divided by the weighted model cost. The result was the CRA proportional adjustment factor. The remaining fixed cost pools were summed and classified as a fixed adjustment.

In this docket, a similar proportional adjustment (referred to as "worksharing related proportional") has been made. However, fewer cost pools have been classified as proportional. Fixed adjustments are also made in this docket, but two separate fixed components are calculated: "worksharing related fixed" and "non-worksharing related fixed."

WORKSHARING RELATED SAVINGS CALCULATIONS

In Docket No. R97-1, the total mail processing unit costs (proportional and fixed costs) were included in the worksharing related savings calculations (referred to as "cost difference"). The total mail processing unit costs and delivery unit costs for a specific rate category were subtracted from the corresponding costs for a selected benchmark and were used as a basis for establishing discounts by the pricing witness. The calculations were performed in the testimony of the pricing witness.

In this docket, I have included the worksharing related savings calculations in my testimony. In addition, the "non-worksharing related fixed" mail processing unit costs are excluded from the calculations. The "worksharing related" (proportional and fixed) mail processing unit costs and delivery unit costs for a specific rate category are subtracted from the corresponding costs for a selected benchmark and are used as a basis for establishing discounts by the pricing witness.

(c) No response is required.

Exhibit A: First-Class Mail Processing Cost Summary
Calculation of Total Mail Processing Costs

First-Class Letters

	[1] Model Cost	[2] Proportional Adjustment	[3] Fixed Adjustment	[4] Total Cost
Nonautomation presort	5.9053	1.1586	0.3573	7.1993
Automation basic presort	4.2822	1.1586	0.3573	5.3188
Automation 3-digit presort	3.6167	1.1586	0.3573	4.5477
Automation 5-digit presort	2.3038	1.1586	0.3573	3.0265
Automation carrier route presort				2.2910 1/

First-Class Cards

	[5] Model Cost	[6] Proportional Adjustment	[7] Fixed Adjustment	[8] Total Cost
Nonautomation presort	4.1793	1.0869	0.1754	4.7178
Automation basic presort	3.0306	1.0869	0.1754	3.4693
Automation 3-digit presort	2.5596	1.0869	0.1754	2.9574
Automation 5-digit presort	1.6304	1.0869	0.1754	1.9475
Automation carrier route presort				0.6204 2/

Row 1/ Exhibit USPS-25A, page 2 of 3, row 4.

Row 2/ Exhibit USPS-25A, page 3 of 3, row 5.

Column [1]: Exhibit USPS-25A, page 2 of 3, column 5.

Column [2]: Exhibit USPS-25A, page 2 of 3, row 8.

Column [3]: Exhibit USPS-25A, page 2 of 3, row 9.

Column [4]: Column 1 * column 2 + column 3.

Column [5]: Exhibit USPS-25A, page 3 of 3, column 2.

Column [6]: Exhibit USPS-25A, page 3 of 3, row 9.

Column [7]: Exhibit USPS-25A, page 3 of 3, row 10.

Column [8]: Column 6 * column 7 + column 8.

USPS Mail Processing Cost Pools

R-2000-1			R-97-1		
Cost Pool No	Source	Cost Pool Abbreviation	Cost Pool No	Source	Cost Pool Abbreviation
1	BMCS	NMO	1	BMCs	nmo
2	BMCS	OTHR	2	BMCs	Othr
3	BMCS	PLA	3	BMCs	Pla
4	BMCS	PSM	4	BMCs	psm
5	BMCS	SPB	5	BMCs	spb
6	BMCS	SSM	6	BMCs	ssm
7	MODS	BCS/	7	mods	bcs/
8	MODS	OCR/	8	mods	ocr/
9	MODS	FSM/	9	mods	fsm/
10	MODS	LSM/	10	mods	lsm/
11	MODS	MECPARC	11	mods	mecparc
12	MODS	SPBS OTH	12	mods	spbs Oth
13	MODS	SPBSPRIO	13	mods	spbsPrio
14	MODS	1SACKS M	14	mods	1SackS_m
15	MODS	MANF	15	mods	manf
16	MODS	MANL	16	mods	manl
17	MODS	MANP	17	mods	manp
18	MODS	PRIORITY	18	mods	priority
19	MODS	LD15	19	mods	LD15
20	MODS	1BULKPR	20	mods	1Bulk pr
21	MODS	1CANCMP	21	mods	1CancMPP
22	MODS	1OPBULK	22	mods	1OPbulk
23	MODS	1OPREF	23	mods	1OPpref
24	MODS	1PLATFRM	24	mods	1Platfrm
25	MODS	1POUCHING	25	mods	1POUCHNG
26	MODS	1SACKS H	26	mods	1SackS_h
27	MODS	1SCAN	27	mods	1SCAN
28	MODS	BUSREPLY	28	mods	BusReply
29	MODS	EXPRESS	29	mods	express
30	MODS	MAILGRAM	30	mods	MAILGRAM
31	MODS	REGISTRY	31	mods	Registry
32	MODS	REWRAP	32	mods	REWRAP
33	MODS	1EEQMT	33	mods	1EEQMT
34	MODS	INTL	34	mods	INTL
35	MODS	LD41	35	mods	LD41
36	MODS	LD42	36	mods	LD42
37	MODS	LD43	37	mods	LD43
38	MODS	LD44	38	mods	LD44
39	MODS	LD48 EXP	39	mods	LD48 Exp
40	MODS	LD48 SSV	40	mods	LD48_SSV
41	MODS	LD49	41	mods	LD49
42	MODS	LD79	42	mods	LD79
43	MODS	1SUPP F1	43	mods	1SUPPORT
44	MODS	1SUPP F4	44	mods	1MISC
45	MODS		45	mods	LD48 Oth
46	NONMODS	ALLIED	46	Non Mods	
47	NONMODS	AUTOMECH	47		
48	NONMODS	EXPRESS	48		
49	NONMODS	MANF	49		
50	NONMODS	MANL	50		
51	NONMODS	MANP	51		
52	NONMODS	MISC	52		
53	NONMODS	REGISTRY			

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ABA&NAPM/USPS-T24-28**

a. Please confirm that using USPS witness Hatfield's, Hume's, and Daniel's methods from R97-1 for both that case and this case, total cost avoidances have increased from 5.698 cents in R97-1 to 6.2170 cents in R2000-1 for a basic automation First Class letter, and have increased (over basic) from 0.8301 cents to 0.9850 cents for a First Class automated, 3 digit letter.

b. Please confirm that using USPS witness Hatfield's, Hume's, and Daniel's methods from R97-1 for those cost avoidances, and your new methods for R2000-1 cost avoidances that: (i) the cost avoidance for a First-Class automation 3 digit letter a First Class automation basic letter has increased from 0.8301 cents to 0.9850 cents.

c. In creating a new methodology for measuring cost avoidance for basic automation letters in this case, were you at all knowledgeable of or did you suspect the fact that under the R97-1 methodology, cost avoidance of First Class automation basic letters had increased by over 0.5 cents since the last rate case?

d. If your answer to c. is in the affirmative, in creating your new methodology, were you at all influenced by the increase in cost avoidance noted in c.?

RESPONSE:

I have answered all parts of this interrogatory, despite the instructions in ABA&NAPM/USPS-T24-27, because I think there may be some confusion as to whether I used the "same methodology" as witness Hatfield in Docket No. R97-1. I did not use the same exact cost methodology as witness Hatfield to calculate the total mail processing unit costs in this docket. However, the usage of total mail processing costs to calculate the worksharing related savings is a separate issue. [Note: In my testimony, I use the "worksharing related" mail processing unit costs, not the total mail processing unit costs, to calculate the worksharing related savings.] As a result, I have answered this interrogatory assuming that this latter issue is what is important to ABA&NAPM.

a. I can confirm that when the "Mail Processing Total Unit Cost" [Appendix I, page I, column (1)] is used in the worksharing related savings calculations, the results are as indicated below. However, I use the "Mail Processing Worksharing Related Unit Cost" [Appendix I, page I, column (2)] in the calculations in my testimony to better isolate the worksharing related savings associated with mailer worksharing activities.

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<u>Rate Category</u>	<u>R97-1 Total MP & Delivery Unit Cost</u>	<u>R2000-1 Total MP & Delivery Unit Cost</u>
First-Class Bulk Metered Mail Letters	14.7274	15.699
First-Class Automation Basic Letters	<u>9.0298</u>	<u>9.482</u>
Cost Difference	5.6976	6.217
First-Class Automation Basic Letters	9.0298	9.482
First-Class Automation 3-Digit Letters	<u>8.1997</u>	<u>8.497</u>
Cost Difference	0.8301	0.985

b. Confirmed.

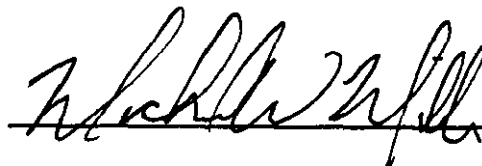
c. d. No. When I began working on the cost studies included in my testimony, I did not take the approach that my task was to simply recreate the cost studies using the exact same cost models and methodology that had been used in previous rate cases. I adopted the mindset that my job was to develop the most accurate cost estimates possible. My goal was to get as close to the truth as possible given the limitations that are associated with developing any cost estimate.

After months of reviewing the cost models and cost methodology used in previous cases, I identified several areas where improvements could be made. In this docket, I have implemented those improvements. The results of these changes are included in my testimony.

In addition, most of the cost methodology changes were completed months before the data inputs (e.g., CRA mail processing and delivery unit cost data, piggyback factors) were available. As a result, it would not have been possible to know exactly how the cost methodology changes would have influenced the results prior to the time period that the changes themselves were implemented.

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.

A handwritten signature in black ink, appearing to read "Michael W. Miller", written over a horizontal line.

Dated: 3/31/2000

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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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