

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS KINGSLEY TO INTERROGATORIES OF
THE MCGRAW-HILL COMPANIES, INC.
(MH/USPS-T10-1-11)

The United States Postal Service hereby provides the responses of witness Kingsley to the following interrogatories of The McGraw-Hill Companies, Inc.:
MH/USPS-T10-1-11, filed on March 22, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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April 5, 2000

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MH/USPS-T10-1 With reference to your testimony at p, 15, lines 12-14. that "[t]he majority of incoming secondary distribution of flats is performed manually in delivery units in the current environment largely because of the shortfall in mechanized flats sorting capacity":

- a. Please explain fully why the Postal Service did not timely order sufficient flat sorting machines in order to avoid the shortfall in mechanized flats sorting capacity.
- b. Please explain fully the reasons why the shortfall in mechanized flat sorting capacity at processing and distribution plants would lead the Postal Service to perform the majority of incoming secondary distribution of flats at delivery units, very few of which have any mechanized flat sorting capacity.
- c. Please reconcile your answer to part b above with your testimony at p. 35, lines 10- 12, that delivery units "are the least desirable alternative because they introduce an additional stop in the path between mailer and addressee," and explain the advantages of processing the mail at the processing and distribution plant."
- d. Please reconcile your answer to part b above with your answer to ANM/USPS-T10-16 indicating a nearly 20% underutilization of FSM 881s. Isn't fuller utilization of the FSMs a preferred and practical alternative to manual processing at delivery units?
- e. Please reconcile your answer to part b above with your answer to DFC/USPS-T10-10(p) that "[o]f the plant incoming secondary distribution, approximately 40% is manual." Is the shortfall in mechanized flats sorting capacity so severe as to strain capacity for manual processing at the processing and distribution plant?
- f. Please explain the extent to which, and the reasons why, "the FSM 881 is not able to efficiently process BCR sort plans," as stated in the USPS Strategic Improvement Guide for Flats Processing, September 1999, p. 14 (USPS-LR-I-193), and explain the impact of that fact on FMBCR operations and on the costs of processing Periodicals mail.

Response:

- a. Please see ANM/USPS-T10-40.
- b. Please see NNA/USPS-T10-18 and DMA/USPS-T10-27.

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- c. The complete paragraph -- from which you extracted the sentence fragment in your interrogatory -- is quoted below.

“Build or lease a new customer service facility specifically to delivery point sequence or manually case letters, and carrier route sort flats and parcels for nearby offices. These facilities, commonly called Delivery and Distribution Centers (DDC) and Delivery and Distribution Units (DDU – DDUs are smaller), are the least desirable alternative because they introduce an additional stop in the path between mailer and addressee.”

Clearly, I did not refer to delivery units that perform incoming secondary for the carriers at the same location (which does not introduce an additional stop).

- d. ANM/USPS-T10-16 does NOT indicate a 20% underutilization of FSM 881s as you state. This response provides the average utilization for AP5 FY2000 of over 1.6 million pieces sorted per FSM 881 (TPH/per machine/AP). Yes, *fuller utilization of FSMs is preferred but in many circumstances is constrained by the arrival profile of the mail compared to the service commitment, BCR/OCR accept rates (portion of rejects to be rehandled), preventive maintenance windows (the machines can not run 24 hours per day), time required to switch schemes, and operating windows (to meet transportation schedules to meet delivery).*

Centralized distribution benefits from economies of scale as demonstrated in the testimonies of USPS witnesses Degen and Bozzo on volume variability. In addition to the multitude of specific advantages in various groups of operations that they discuss, centralization provides the mail volumes that permit economical mechanization and automation, improves management control, and facilitates equipment maintenance.

- e. I am not sure I understand your question. I do not believe manual incoming secondary processing at plants is “strained”. The portion of volume on manual incoming secondary operations at plants is due to many factors such as

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machinability characteristics, arrival profiles, operating windows, equipment type and quantity, and service required for the mail. As mentioned in page 14 of my testimony, manual incoming secondary processing occurs predominantly at delivery units due to space constraints at plants, the ease of maintaining scheme knowledge, etc.

- f. When the FSM 881 only had a BCR, it required the barcoded volumes to be separated from non-barcoded volumes for several reasons. Each console can either be set to key or to sort on barcodes and so lower level clerks could feed the barcoded volumes. So separate mail streams for each sort program (i.e., each incoming secondary zone and each 3-digit sort plan) were required to estimate volumes, and staff and schedule the "best-suited" personnel to sort and to key BCR rejects. When using a BCR sort plan, you also lose three sortation bins on each side of the FSM 881 sort plan which results in six potential holdouts that now will require sortation further downstream. (The three bins right after the BCR on each side can not be used by the pieces fed on that same side due to the time required for the BCR to determine the result. Therefore, the three bins on side one can only be filled by volume originating from side two and vice versa. So these three bins are duplicated on both sides, thereby eliminating three other sort options).

Prior to implementation of Classification Reform in July, 1996, barcoded flats were allowed to be commingled with up to 15 percent non-barcoded flats, which resulted in a higher portion of BCR rejects. After Classification Reform, the bundles were required to be "pure" barcoded and "pure" non-barcoded. This allowed better scheduling and reduced the amount of BCR rejects and subsequent rehandlings.

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MH/USPS-T10-2 With reference to the productivity of the FSM 881:

- a. Please explain the reasons why the volume of pieces processed on FSM 881s in FY 1998 declined by more than 500 million pieces from FY 1997, as set forth in DMA/USPS-T21-2, Attachment 1.
- b. Please explain the reasons why the work hours associated with FSM 881 processing in FY 1998 nevertheless increased by approximately 1.43 million over FY 1997, as set forth in DMA/USPS-T21-2, Attachment 1.
- c. Please explain all of the reasons why "[despite the technological advances made over the past 5 years and a more favorable mail base for automation processing, productivity in both mechanized and automation flats processing operations continues to decline each year," as set forth in USPS Strategic Improvement Guide for Flats Processing, September 1999, p. 3 (USPS- LR-I-193).

Response:

a - c. The volume is the pieces processed, or finalized on an FSM, not pieces fed. I believe the reduction is due to the OCR on the FSM 881 has a higher reject rate than the BCR on keying, therefore, there is less finalization per pieces fed. OCR rejects need to be subsequently keyed, which requires and additional FSM 881 handling and, obviously, additional machine time.

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MH/USPS-T10-3 With reference to your response to DCF/USPS-T10-10(I) that "very little First-Class Mail is diverted to the manual operation due to [flat sorting] capacity constraints since First Class Mail is a small portion of flat volume [and] has priority on the FSMs":

- a. Please explain the extent to which Periodicals mail has priority on the FSMs,
- b. Please explain the reasons why "FSMs are primarily used to sort First-Class Mail and Standard Mail (A)" (USPS-T-16, p. 43, line 1), and reconcile that statement with your answer to part a. above.
- c. Please state the portion (or your best estimate of the portion) of flat mail volume in BY 1998 that is comprised of machinable, prebarcoded, non-carrier route Periodicals mail, and provide the source or basis of your answer.
- d. Please state the portion (or your best estimate of the portion) of machinable, prebarcoded, non-carrier route Periodicals mail that was processed in manual operations rather than on FSMs in FY 1998, and provide the basis or source of your answer.
- e. Please explain fully all of the reasons (in descending order of importance) why machinable, prebarcoded, non-carrier route Periodicals mail was processed in manual operations rather than on FSMs in BY 1998, and reconcile your answer to this part with answer to part a above;
- f. Please explain fully how, and by whom, the decision is typically made to process machinable, prebarcoded, non-carrier route Periodicals mail in manual operations rather than on FSMs.

Response:

- a. - b. Processing priorities are listed in the Postal Operations Manual (POM) Section 453 and apply to all operations. Other factors come into play on what volumes are processed on equipment including machinability characteristics (weight, polywrap, flimsy, rolls), presort level (ADC, 3D, or 5D bundle), arrival time (see below), service commitment (class, daily, weekly, monthly), operating window (critical entry time and clearance times to meet transportation and service), and volume (3,000 vs. 30,000 pieces). For

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example, if a Periodicals mailing is dropship entered at the SCF at 4 am and the DOVs to the delivery units for flat volumes is at 5 am, which provides time to separate bundles by zone but not enough time to process the zones to carrier route. Plants would not hold this volume an additional processing day in order to sort to carrier route on FSMs, subsequently delaying delivery one day. The majority of customer complaints that plants hear about from delivery units are Periodical service-related. So when in doubt, send it out.

- b. See above.
- c. Please see USPS-LR-I-87. This periodicals mail characteristics study is for FY 1999. We do not have similar information for BY 1998.
- d. We do not track volume by class or rate category in operations. For mail processing volume variability costs by cost pool, see witness Van-Ty-Smith's testimony (T17).
- e. I believe witness Van-Ty-Smith's testimony shows a considerable amount of Periodicals tallies in FSM operations. See a. above for reasons.
- f. The decision to process volumes in manual operations is determined by many factors including volume arrival profiles, presort levels, operating windows, scheduling, and unplanned for daily events (e.g., a FSM goes down, inclement weather). These decisions are made with the assistance of In-Plant Support (arrival profiles, staffing, equipment utilization windows, operating plans) with input from processing operations such as Plant Manger, MDOs, and SDOs. While the daily decisions are usually made by the MDOs and SDOs. If manual operations in Delivery units are affected, then the

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District Operations Programs Support function or Manager, Post Office
Operations and the affected post office are also involved in the planning
process.

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MH/USPS-T10-4 With reference to the response of the Postal Service to Presiding Officer's Information Request No. 4, and the Attachment thereto:

- a. What is your best understanding of the reasons why the unit mail processing costs for Periodicals Regular Rate mail in 1998 would increase by 9.5 percent over 1997, while the unit mail processing costs for Standard A Nonprofit flats in 1998 would decline by 15.2 percent from 1997? To what extent is the increase in Periodicals costs attributable to non-automation processing of machinable, prebarcoded, non-carrier route Periodicals mail? To what extent is the cost decrease for Standard A Nonprofit flats attributable to the automation processing of such mail?
- b. What is your best understanding of the reasons why the unit mail processing costs for Periodical Regular Rate mail in 1999 would increase by 2.3 percent over 1998, while the unit mail processing costs for Standard A Regular flats in 1999 would decrease by 2.6 percent from 1998? To what extent is the increase in Periodicals costs attributable to the non-automation processing of machinable, prebarcoded, non-carrier route Periodicals mail? To what extent is the cost decrease for Standard A Regular flats attributable to the automation processing of such mail?

Response:

- a. I am told that for both Periodicals Regular and Standard A Nonprofit, FSM costs went up and manual flats costs went down. However, unit FSM costs went up more for periodicals and unit manual flats costs went down less for periodicals. In addition, allied and non-MODS unit costs decreased for Standard A Nonprofit, but increased for Periodicals Regular. Even with these changes, overall, the total mail processing costs for Periodical Regular and Standard A flats converged and were virtually identical in FY98.

There are several differences between Periodicals and Standard Mail such as mail make-up requirements and options, level of presort, service commitment, amount of dropship entry, amount of versioning, and physical piece characteristics (e.g., weight). Without knowing the extent of the cost

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implications of these differences, it is my understanding that the increased attention to service and apparent increase in bundle breakage would impact mail processing costs.

- b. I am told that the POIR 4 costs used the pre R97-1 cost methodology and that the preliminary FY99 CRA shows no increase in the wage adjusted unit cost for Periodical Regular.

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MH/USPS-T10-5 With reference to your testimony at p. 11, lines 6-8. that the FSM 1000 "is intended to process a vast majority of the 25-33 percent of non-carrier route flats that are not machinable on the FSM 881":

- a. Please explain fully all of the distinguishing characteristics of such flat mail (u, by reference to specific weight and/or dimensions, polywrap, etc.) that make it machinable on the FSM 1000 but not on the FSM 881.
- b. Please confirm that the machinability limitations of the AFSM 100s are expected to be similar to the machinability limitations of the FSM 881.
- c. For both BY 1998 and TY 2001, please state the extent (or your best estimate of the extent) of the shortfall, if any, in the number of FSM 1000s necessary to handle the full volume of non-carrier route flats that are machinable only on the FSM 1000, and provide the source or basis of your answer.
- d. Does the Postal Service currently have, or is it considering, any plans to purchase additional FSM 1000s? If so, please describe those plans. If not, please explain fully why no such plans exist or are under consideration.

Response:

- a) See DMM C820.2 for FSM 881 criteria and C820.3 for FSM 1000 criteria. A summary of mail that is machinable on the FSM 1000 that is not machinable on the FSM 881 is pieces which are flimsier, heavier, rigid, thicker, and with fewer polywrap properties.
- b) Confirmed.
- c) The Postal Service expects sufficient FSM 1000 capacity in TY2001 given phase I AFSM deployments. For BY1998 there was an adequate number of FSM 1000s deployed, however, not necessarily to the right locations due to insufficient capacity for FSM 881-compatible volumes.
- d) No. See ANM/USPS-T10-40.

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MH/USPS-T10-6 With respect to the respective throughputs of the FSM 881 and the FSM 1000:

a. Please reconcile your answer to DMA/USPS-T10-14 (throughput of FSM 881 in keying mode "ranges from 4500-5500") with your answer to ANM/USPS-T10-20 ("maximum sustainable throughput of the FSM 881 in a manual keying mode is approximately 10,000 pieces per hour").

b. Please reconcile your testimony (p.11) and interrogatory answers (ANM/USPS-T10-20, DMA/USPS-T10-14, 15) regarding the respective throughputs of the FSM 881 and FSM 1000 with the information regarding those throughputs that was provided over the past three years to the USPS/Industry Cost Task Force on Periodicals, and produce all written conclusions of that Task Force in this regard.

c. Is your testimony (p. 11, 11.3-4) that "[the throughput of the FSM 881 is approximately 6,500 pieces per hour for BCR/OCR operations" consistent with the statement in the USPS Strategic Improvement Guide for Flats Processing, September 1999, p. 5 (USPS-LR-I-193) that "[t]he FSM 881 has a maximum sort rate of approximately 14,000 pieces per machine hour when using a 100 bin sort program and approximately 20,609 when using two 50-bin sort programs"? If so, please explain how the statements are consistent. If not, please explain the actual capability of the FSM 881 in this regard.

d. Please reconcile your testimony @. 11, ll. 14-15) that "[t]he throughput of the FSM 1000 is approximately 5000 pieces per hour in BCR operations" with the statement in the USPS Strategic Improvement Guide for Flats Processing, September 1999, p. 5 (USPS-LR-I-193) that "[t]he FSM 1000 can process approximately 10,000 pieces per hour with four keyers."

e. Please explain all reasons why the USPS obtains less than the manufacturer-specified maximum throughput for the FSM 881 and/or the FSM 1000, and produce all documents that discuss such reasons.

f. Please explain fully the extent to which, and all of the reasons why, Periodicals mail which meets the specifications of the FSM 881 is processed on the FSM 1000 instead and explain who typically makes that decision.

Response:

a) The maximum sustainable throughput was from the Guide you cite in part d below. See ANM/USPS-T10-44d.

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- b) Written conclusions of the task force are included in USPS-LR-I-193. I am not clear what throughputs the team was provided since they are not included in the report, therefore, I can not reconcile any possible differences.
- c) – e) The guide was written to provide the field with the machine's capabilities in an ideal environment. In my discussions with various Engineering personnel, they agree that the maximum throughputs are not sustainable nor are they realistic in our operating environment. See ANM/USPS-T10-44d.
- f) See MH/USPS-T10-3.

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MH/USPS-T10-7 With reference to your testimony on p. 34, ll. 23-26, that the processing of bundles of flats is often an attractive candidate for relocation" to annexes to plants:

a. Please provide your best estimate of the volume of Periodicals mail processed in annexes, and explain the source or basis of your answer.

b. Please provide your best estimate of the percentage of mail processed in annexes that is comprised of Periodicals mail, and explain the source or basis of your answer.

c. Please provide your best estimates of the volumes of mail, by subclass and shape, that are processed in annexes, and explain the source or basis of your answer.

d. Please confirm that in BY 1998, Periodicals mail was more likely than other mail to be processed in an annex. Please explain the source or basis of your answer, and provide all relevant documentation.

e. Please explain the reasons (in descending order of importance) why Periodicals mail was processed in annexes in FY 1998.

f. Please confirm that a principal reason why Periodicals mail was processed in annexes in FY 1998 was to accommodate increased volumes of other mail. Please explain the source or basis of your answer.

g. Please confirm that the use of annexes for mail processing involves additional handling and transportation costs, and provide any and all information and documentation that verifies or quantifies such costs. If you do not confirm, please explain your answer.

h. Please state the number of FSM 881s and FSM 1000s that are deployed in annexes.

Response:

a. – c. We do not separately track volumes of mail processed in annexes, much less by class. However, to give some feel for the magnitude of Periodicals processing in Processing and Distribution Centers (P&DC) and Processing and Distribution Facilities (P&DF) annexes, there appears to be some form of Periodicals processing in 34 of these annexes. Furthermore, all 34 of the

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annexes process other mail in addition to periodicals. There also are many other annexes that do not process periodicals. For comparison, there are 251 P&DCs and P&DFs.

- d. Not confirmed. See a. – c. above.
- e. As described in my testimony starting on page 32, when space is inadequate and all other less-disruptive, less-costly alternatives have been exhausted, we will resort to an annex. As also discussed in my testimony, many different considerations go into deciding exactly what operations to relocate to an annex, often unique to the particular facility. Periodicals are processed in an annex when a review of the factors for that annex indicates it would be cost-effective to include some periodicals operations in annex processing. I am not able to order the factors or considerations any further than already listed in my testimony.
- f. Mail, sometimes including periodicals, is processed in annexes when space is inadequate and better options have been exhausted. Space may become inadequate due to some combination of the space requirements of new equipment, employee safety and welfare, changes in mail makeup, and volume increases. I do not have information to classify any one of these as the "principle" reason.
- g. I would expect that in most cases, additional handling and transportation costs could be incurred with the use of annexes. However, there are situations where the processing costs might be less in an annex than if processed in the plant. For example, if the annex contains FSMs and the

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plant does not, I would expect annex processing costs to be less. I am not aware of any information that quantifies any additional handling and transportation costs associated with annexes.

- h. I do not have information to reliably distinguish FSMs by type and number in the main plant from FSMs in a plant annex. However, I am told that 22 of the P&DC and P&DF annexes have FSMs.

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MH/USPS-T10-8 With reference to the statement in the USPS Strategic Improvement Guide for Flats Processing, September 1999, p. 3 (USPS-LR-I-193) that "Another alarming statistic provided through MODS indicates that in FY 97 more than 50% of ah non-carrier-routed barcoded flats (approximately 12.9 billion in FY 97) presented by mailers at automation discount rates was processed and distributed in operations other than automation:"

- a. Please provide the number and percentage of non-carrier route prebarcoded flats that were processed in non-automation operations in FY 98 and FY 99, respectively.
- b. Please provide the number and percentage of non-carrier route flats that were barcoded by Periodicals mailers but processed in non-automation operations in PY 98 and FY 99, respectively.
- c. Please provide all of the reasons (in descending order of importance) why so many prebarcoded flats were not processed in automation operations during this period.
- d. Please provide all of the reasons (in descending order of importance) why so much prebarcoded Periodicals mail, in particular, was not processed in automation operations during this period.
- e. Please explain fully the extent to which the non-automated processing of prebarcoded flats has impacted USPS estimates of workshare savings in this proceeding, and/or the level of proposed automation discounts for Periodicals mail in this proceeding. Please quantify your answer and provide sources.

Response:

- a. No such data are available.
- b. In operations, we track barcoded volume but we do not track volumes by class.
- c. - d. The main reason was due to not enough flat sorting machine capacity, which required the flats to be sorted in a manual operation.

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- e. For estimates of periodical workshare savings and proposed discounts, please refer to the testimonies of Witness Yacobucci (USPS-T-25) and Witness Taufique (USPS-T-38).

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MH/USPS-T10-9 With reference to your testimony (p. 14, ll. 17-19) regarding the slowed growth in FY 1998 and FY 1999 in the percentage of non-carrier route presort flats barcoded by mailers:

- a. Would you have expected the growth in such prebarcoded flats to have been larger than you report for FY 1998 and FY 1999 in view of the broader machinability specifications of the FSM 1000, the deployment of FSMs with BCRs able to read barcodes through polybags, and/or other factors (please specify)?
- b. If not, please explain fully. If so, please reconcile your expectation with the lower growth that you report. Please provide any and all supporting documentation, including USPS projections in the growth of prebarcoded flats.
- c. In measuring the percentage of non-carrier route presort flats barcoded by Periodicals mailers, to what extent does the Postal Service rely on machine counts of such mail, rather than counts provided in documentation such as Form 3541? Are machine counts reconciled with Form 3541 totals to determine the total pieces of prebarcoded Periodicals mail, including prebarcoded Periodicals mail that is not processed by machine?
- d. To the extent that the Postal Services relies on machine counts, please confirm that the current shortfall in mechanized flats sorting capacity may have resulted in a significant undercount of the percentage of non-carrier route presort flats barcoded by mailers in FY 1998 and FY 1999. If you do not confirm, please explain.

Response:

- a. Personally, yes for the reasons you cite.
- b. I do not know why the mailing industry's response to these incentives was so disappointing. Volume forecasts may be found in the testimonies of USPS witnesses Tolley and Musgrave.
- c. Machine counts are not used in determining the volume by class or rate category.
- d. NA

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MH/USPS-T10-10 With reference to p. 39 of your testimony, please explain all of the reasons why automated flats are nearly ten times more costly to process than automated letters.

Response:

I would expect letter processing costs to be significantly less than for flats for numerous reasons:

- More consistency in shape (less variation) for letters than for flats.
- More consistency in address location and orientation for letters than for flats.
- Less bundle handling for letters than for flats. All automation and automation compatible letters must be provided in trays, with higher volume minimums (150 pieces vs. 6 or 10). Which also impacts the extent of required piece orientation at the feeders.
- Letter processing equipment has higher throughputs than FSMs.
- Letter processing equipment requires less staff per machine than FSMs (2 vs.6).
- DBCSs, where the majority of letter sortation occurs, has a much finer depth of sort than an FSM (190-220 stackers vs. 100 or 120 with the AFSM).
Therefore, fewer subsequent handlings are required.
- MLOCR rejects are sent through RCR and RBCS for resolution. FSM OCR rejects must be keyed.
- We barcode letters that go through MLOCRs, RCR and RBCS. We currently do not barcode flats. Therefore, OCR reject flats will again require keying for subsequent handlings.
- We currently DPS letters and do not DPS flats.

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MH/USPS-T10-11 Please explain the extent to which Periodicals mail incurs higher costs and/or delayed delivery because Periodicals mail is transported to Bulk Mail Centers where trailers can be held for 48 hours.

Response:

The Postal Service utilizes the BMC transfer hubs as part of the surface network for Periodicals Mail. Employees should separate Periodicals Mail on outgoing transportation to the greatest extent possible and process the mail without delay upon arrival. Even with Standard Mail (A), however, the clearance policy is one day after arrival if received prior to the critical entry time. The use of BMCs as transfer hubs for Periodicals Mail should not result in higher costs when compared to a dedicated network separate and distinct from the BMCs.

DECLARATION

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

Linda A. Kingsley
Date: 4-5-2000

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 "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

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April 5, 2000