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Before the

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: **POSTAL RATE AND FEE CHANGE**

Docket No. **R2000-1**

VOLUME 7

DATE: Tuesday, April 18, 2000

PLACE: Washington, D.C.

PAGES: 2675 - 3239 ✓

ANN RILEY & ASSOCIATES, LTD.

1025 Connecticut Avenue, N.W., Suite 1015

Washington, D.C. 20036

(202) 342-8034

BEFORE THE
POSTAL RATE COMMISSION

- - - - -X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
- - - - -X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C. 20268

Volume VII
Tuesday, April 18, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:31 a.m.

BEFORE:

HON. EDWARD J. GEILMAN, CHAIRMAN
HON. GEORGE A. OMAS, VICE CHAIRMAN
HON. W.H. "TREY" LeBLANC, COMMISSIONER
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
HON. RUTH GOLDWAY, COMMISSIONER

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Court Reporters
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C O N T E N T S

	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
1	MAURA ROBINSON				
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3	BY MR. MCKEEVER		2794/2851/2907		
4	BY MR. OLSON		2809		
5	BY MS. DREIFUSS		2856/2911		
6	MARC A. SMITH				
7	BY MR. TIDWELL	2917			
8	BY MR. WIGGINS		2993		
9	MICHAEL W. MILLER				
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16	Additional Designated Cross Examination of Maura Robinson, Presiding Officer's Information Request Number 6, Questions 6, 7, 8, 10, 11, 12, and 13				2794
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18	USPS Response to Presiding Officer's Information Request Number 6, Question 9				2885
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1	Direct Testimony of Maura Robinson, USPS-T-34	2686	2686
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3	Designation of Written Cross-Examination of Maura Robinson, USPS-T-34	2687	2687
4	Additional Designated Cross Examination of Maura Robinson, Presiding Officer's Information Request Number 6, Questions 6, 7, 8, 10, 11, 12, and 13	2794	2794
5	APMU-Robinson-XE-1	2845	2845
6	USPS Response to Presiding Officer's Information Request Number 6, Question 9	2885	2885
7	Direct Testimony and Exhibits of Marc A. Smith, USPS-T-21	2919	2919
8	Library References LR-I-77, I-81 and I-83	2920	2920
9	Corrected Designated Written Cross Examination of Marc A. Smith	2921	2921
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11	Direct Testimony of Michael W. Miller, USPS-T-24	3031	3031
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P R O C E E D I N G S

[9:31 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we continue our hearings to receive testimony of Postal Service witnesses in support of Docket R2001.

Before we begin today, I want to mention that Presiding Officer's Ruling Number 40 was issued yesterday. That Ruling established dates for participants to designate for incorporation into the evidentiary record, Postal Service institutional responses and written responses provided by witnesses after completing their oral testimony.

Those designations are -- I know that this is a mistake, a typo here. It says those designations are due on March the 4th, but I know that they're really due on May the 4th.

Even we wouldn't try to pull a fast one like that on you all.

[Laughter.]

CHAIRMAN GLEIMAN: Although the Postal Service has told us they would like us to make it March the 4th.

Ruling Number 40 recognizes that participants have the right to explore these materials, and it allows for requests for cross examination.

Hopefully we won't need to schedule additional hearings, but if that becomes necessary, hearings for

1 questions on institutional responses and written responses
2 provided by witnesses who have completed their testimony
3 will be held on May the 11th, 2000.

4 I must tell you that when I thought about this, I
5 remember some time ago, an Art Buchwald piece where he joked
6 about announcements from the White House. And this was many
7 years ago, so it's not relevant, who was in the White House.

8 And his problem was the announcement that, quote,
9 "the White House said today," and when we have
10 cross-examination on institutional responses, it will be
11 interesting to see if we have a little model of L'Enfant
12 Plaza Headquarters Building over there with a mouth in the
13 middle of it, opening and closing, giving us responses.

14 I'm not sure who responds to oral cross on
15 institutional responses. I almost hope someone will ask to
16 have some cross, just so I can see how it's handled.

17 For any of you who are keeping score, I note that
18 for the record, Ruling Number 40 was issued out of order.
19 Ruling Number 41 was issued on Friday, but Ruling 40 did not
20 get out until yesterday morning.

21 I hope that you all didn't find this any more
22 confusing than I did when I signed the order.

23 In any event, I'd like to know whether anyone else
24 has any procedural matters that they would like to bring up
25 today?

1 [No response.]

2 CHAIRMAN GLEIMAN: There do not appear to be any.
3 There are three witnesses scheduled today, Witnesses
4 Robinson, Smith, and Miller.

5 And, Mr. Cooper, if you'd like, you can call your
6 first witness.

7 MR. COOPER: This is Richard Cooper for the Postal
8 Service, and the Postal Service calls Maura Robinson as its
9 first witness.
10 Whereupon,

11 MAURA ROBINSON,
12 a witness, having been called for examination and having
13 been first duly sworn, was examined and testified as
14 follows:

15 DIRECT EXAMINATION

16 BY MR. COOPER:

17 Q Ms. Robinson, I'm handing you two copies of a
18 document marked as USPS-T-34, entitled Direct Testimony of
19 Maura Robinson on Behalf of the United States Postal
20 Service.

21 [Pause.]

22 You are familiar with that document; are you not?

23 A Yes, I am.

24 Q Was it prepared by your or under your direct
25 supervision?

1 A Yes, it was.

2 Q If you were to be giving testimony orally today,
3 is this the testimony that you would give?

4 A Yes.

5 MR. COOPER: Mr. Chairman, I ask that this
6 testimony be admitted into the evidentiary record.

7 MR. McKEEVER: Mr. Chairman, if I may, there is a
8 point of clarification that I would request the indulgence
9 of the Chair on.

10 CHAIRMAN GLEIMAN: Certainly.

11 MR. McKEEVER: Ms. Robinson's response to an
12 interrogatory, specifically APMU/USPS-T-34-12, which was
13 filed on March 13 of this year, indicated that certain
14 numbers in Attachment E to her testimony, as originally
15 filed, were not correct.

16 Specifically, that Attachment, as originally
17 filed, underestimated Emery contract costs for the test year
18 by \$24 million, approximately.

19 I would like to ask whether Attachment E to Ms.
20 Robinson's testimony, as she has now adopted it, and as it
21 will be entered into evidence, contains the correct numbers
22 she provided in her response to APMU/USPS-T-34-12, or the
23 old numbers?

24 CHAIRMAN GLEIMAN: Well, if the witness would
25 please respond?

1 THE WITNESS: Attachment E includes the original
2 number, the \$498 million, I believe. The correct number is
3 the \$522 million noted in the APMU response.

4 MR. McKEEVER: Thank you, Mr. Chairman.

5 MR. COOPER: We can make that correction now, if
6 you would prefer, Mr. Chairman.

7 CHAIRMAN GLEIMAN: I don't know whether that
8 interrogatory response has been designated or not.
9 Gentlemen, could you tell me whether it's been designated?

10 MR. McKEEVER: I believe it has, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Okay, inasmuch as it has been
12 designated, and given the exchange that just took place, I
13 don't think that we have to go through the mechanics of
14 making an actual change in the testimony. I think the
15 record is pretty clear on the point.

16 MR. COOPER: Then I renew my request that this be
17 admitted into the evidentiary record.

18 CHAIRMAN GLEIMAN: Is there any objection?

19 [No response.]

20 CHAIRMAN GLEIMAN: All right, hearing none, I'll
21 direct that counsel provide the Reporter with two copies of
22 the Direct Testimony of Witness Robinson. We've noted the
23 difference between an interrogatory response and the
24 testimony.

25 The testimony is received into evidence, however,

1 as is our practice, will not be transcribed into the record.

2 [Direct Testimony of Maura
3 Robinson, USPS-T-34 was received
4 into evidence.]

5 CHAIRMAN GLEIMAN: Mr. Cooper, you have some
6 Category II Library References that this witness is
7 associated with?

8 MR. COOPER: Yes, sir, you are ahead of me on that
9 one.

10 CHAIRMAN GLEIMAN: You should have been here
11 earlier in the week. I'm sure that I would have been
12 playing catch-up.

13 BY MR. COOPER:

14 Q Ms. Robinson, in Ruling Number R2000-1/13, you
15 were asked to be prepared to sponsor Library Reference
16 I-165. Is that Library Reference associated with your
17 testimony, and are you prepared to sponsor it?

18 A Yes, it is, and yes, I am prepared to sponsor it.

19 CHAIRMAN GLEIMAN: That being the case, the
20 Library Reference in question is admitted into evidence. It
21 will not be transcribed into the record.

22 [Library Reference Number I-165 was
23 received into evidence.]

24 CHAIRMAN GLEIMAN: Ms. Robinson, have you had an
25 opportunity to examine the packet of Designated Written

1 Cross Examination that was made available to you earlier
2 today?

3 THE WITNESS: Yes, I have.

4 CHAIRMAN GLEIMAN: And if so, would your answers
5 to those questions be the same?

6 THE WITNESS: My answers would be the same, with
7 one exception, a revised version of APMU/USPS-T-34-10 was
8 not included in the package. That revision has been
9 substituted.

10 CHAIRMAN GLEIMAN: All right, that being the case,
11 counsel, if you would please provide two copies of the
12 Designated Written Cross Examination to the Court Reporter,
13 I'll direct that the Designated Written Cross Examination of
14 Witness Robinson be received into evidence and transcribed
15 into the record.

16 [Designated Written Cross
17 Examination of Maura Robinson was
18 received into evidence and
19 transcribed into the record.]
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MAURA ROBINSON
(USPS-T-34)

Party

Interrogatories

Association of Priority Mail Users, Inc.

APMU/USPS-T34-2e, 10-13, 15-19, 21-25, 28,
30-32, 40, 43-53

Douglas F. Carlson

DFC/USPS-T34-2-5, 7, 12-15
DFC/USPS-52 redirected to T34

Newspaper Association of America

APMU/USPS-T34-44, 52
VP-CW/USPS-T34-1

Office of the Consumer Advocate

APMU/USPS-T34-10-13, 15-17, 19, 25, 28, 30-
31, 40, 43-45, 48-52
DBP/USPS-4-5, 10, 64, 126-128 redirected to T34
DFC/USPS-T34-4, 13
UPS/USPS-T34-12, 15, 25, 30-32, 35

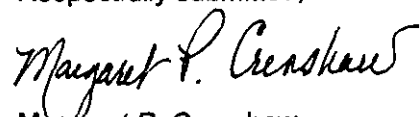
United Parcel Service

APMU/USPS-T34-2e, 12-13, 16-19, 21-25, 28,
30-32, 44-52
DBP/USPS-4-5, 10 redirected to T34
DFC/USPS-T34-4
Stamps.com/USPS-T34-1
UPS/USPS-T34-2, 5, 7, 10, 12-16, 23-25, 31-32,
35
VP-CW/USPS-T34-1

Val-Pak Direct Marketing, Val-Pak
Dealers, & Carol Wright

VP-CW/USPS-T34-1

Respectfully submitted,

A handwritten signature in black ink, reading "Margaret P. Crenshaw". The signature is written in a cursive style with a large, stylized initial 'M' and a long, sweeping underline.

Margaret P. Crenshaw
Secretary

DESIGNATED RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MAURA ROBINSON (T-34)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

APMU/USPS-T34-2e
APMU/USPS-T34-10
APMU/USPS-T34-11
APMU/USPS-T34-12
APMU/USPS-T34-13
APMU/USPS-T34-15
APMU/USPS-T34-16
APMU/USPS-T34-17
APMU/USPS-T34-18
APMU/USPS-T34-19
APMU/USPS-T34-21
APMU/USPS-T34-22
APMU/USPS-T34-23
APMU/USPS-T34-24
APMU/USPS-T34-25
APMU/USPS-T34-28
APMU/USPS-T34-30
APMU/USPS-T34-31
APMU/USPS-T34-32
APMU/USPS-T34-40
APMU/USPS-T34-43
APMU/USPS-T34-44
APMU/USPS-T34-45
APMU/USPS-T34-46
APMU/USPS-T34-47
APMU/USPS-T34-48
APMU/USPS-T34-49
APMU/USPS-T34-50
APMU/USPS-T34-51
APMU/USPS-T34-52
APMU/USPS-T34-53
DBP/USPS-4 redirected to T34
DBP/USPS-5 redirected to T34

Designating Parties:

APMU, UPS
APMU, OCA
APMU, OCA
APMU, OCA, UPS
APMU, OCA, UPS
APMU, OCA
APMU, OCA, UPS
APMU, OCA, UPS
APMU, UPS
APMU, OCA, UPS
APMU, UPS
APMU, UPS
APMU, UPS
APMU, OCA, UPS
APMU, OCA, UPS
APMU, OCA, UPS
APMU, OCA, UPS
APMU, UPS
APMU, OCA
APMU, OCA
APMU, NAA, OCA, UPS
APMU, OCA, UPS
APMU, UPS
APMU, UPS
APMU, OCA, UPS
APMU, OCA, UPS
APMU, OCA, UPS
APMU, OCA, UPS
APMU, OCA, UPS
APMU, NAA, OCA, UPS
APMU
OCA, UPS
OCA, UPS

DBP/USPS-10 redirected to T34	OCA, UPS
DBP/USPS-64 redirected to T34	OCA
DBP/USPS-126 redirected to T34	OCA
DBP/USPS-127 redirected to T34	OCA
DBP/USPS-128 redirected to T34	OCA
DFC/USPS-T34-2	Carlson
DFC/USPS-T34-3	Carlson
DFC/USPS-T34-4	Carlson, OCA, UPS
DFC/USPS-T34-5	Carlson
DFC/USPS-T34-7	Carlson
DFC/USPS-T34-12	Carlson
DFC/USPS-T34-13	Carlson, OCA
DFC/USPS-T34-14	Carlson
DFC/USPS-T34-15	Carlson
DFC/USPS-52 redirected to T34	Carlson
Stamps.com/USPS-T34-1	UPS
UPS/USPS-T34-2	UPS
UPS/USPS-T34-5	UPS
UPS/USPS-T34-7	UPS
UPS/USPS-T34-10	UPS
UPS/USPS-T34-12	OCA, UPS
UPS/USPS-T34-13	UPS
UPS/USPS-T34-14	UPS
UPS/USPS-T34-15	OCA, UPS
UPS/USPS-T34-16	UPS
UPS/USPS-T34-23	UPS
UPS/USPS-T34-24	UPS
UPS/USPS-T34-25	OCA, UPS
UPS/USPS-T34-30	OCA
UPS/USPS-T34-31	OCA, UPS
UPS/USPS-T34-32	OCA, UPS
UPS/USPS-T34-35	OCA, UPS
VP-CW/USPS-T34-1	NAA, UPS, VP-CW

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF THE ASSOCIATION OF PRIORITY MAIL USERS**

APMU/USPS-T34-2.

Under the contract with Emery Worldwide Airlines ("Emery") referred to in your testimony at pages 12-13:

- a. How many planes are provided, and how much lift capacity is provided, by Emery?
- b. Is the lift capacity provided by Emery used solely to transport Priority Mail between PMPCs in the Northeast and Florida?
- c. Unless your answer to preceding part (b) is an unqualified affirmative, please describe fully how the lift capacity provided by Emery is used.
- d. When the PMPCs operated by Emery have Priority Mail destinating to cities or areas not served by Emery's own aircraft, please explain the following:
 - i. When and under what conditions does Emery turn the mail over to the Postal Service at the nearest AMF for transportation under the Postal Service's contracts with the commercial air carriers?
 - ii. When and under what conditions does Emery contract with other third-party air carriers to transport the mail?
- e. Does the Postal Service pay Emery a fuel surcharge when oil prices increase? If so, how much is called for under the contract, and how did you adjust for this in the roll-forward model program for TY 2001?

RESPONSE:

(e) I am informed that there is no such fuel surcharge, all fuel charges incurred by Emery are passed through to the Postal Service.

REVISED 4/7/2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF THE ASSOCIATION OF PRIORITY MAIL USERS**

APMU/USPS-T34-10.

Please refer to your Attachment J, page 1.

- a. For the volumes of Priority Mail shown in Attachment J, please indicate the number or percentage of pieces for which delivery was actually confirmed by scanning the piece.
- b. For those pieces for which delivery was actually confirmed, please indicate the percentage which received (i) overnight delivery, (ii) 2-day delivery, (iii) 3-day delivery, and (iv) delivery in more than three days.

RESPONSE:

- a. I am informed that for AP 13 FY 1999, the percentage of pieces for which delivery was actually confirmed by scanning the piece was 95.9%. Similar data for FY 1999 as a whole is not available.
- b. I recently became aware of the following service performance data for Priority Mail mail pieces with retail Delivery Confirmation service. This data is for Quarter 4, FY 1999.

One-day service standard on-time	89.9%
One-day service standard in two-days and two-day service standard on time	83.4%
Three-day service standard on-time	83.1%
Percentage delivered within three days	91.6%
Percentage delivered in more than three days	8.4%

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APMU/USPS-T34-11.

Please refer to your testimony on page 6, lines 9-14. For Airborne, Federal Express, United Parcel Service, and any other competitors for which the Postal Service has information, please provide summary information showing which competitors offer guarantees (specify), free insurance (specify amount), free track-and-trace, and any "other services" (specify) referred to in your testimony which the Postal Service does not offer for Priority Mail, specifying in detail what those guarantees, insurance amounts and other services are.

RESPONSE:

United Parcel Service provides guaranteed on-time delivery, free insurance against damage and loss up to \$100, and free track-and-trace. Federal Express provides a money-back guarantee for service failures, and free track-and-trace. Airborne offers free track and trace. This may not be, however, a comprehensive listing of the service offerings of these competitors. Details of UPS's, FedEx's, and Airborne's product offerings can be found at www.ups.com, www.fedex.com, and www.airborne.com respectively or from the companies directly.

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APMU/USPS-T34-12.

Please refer to Attachment B, line (c) to your testimony. The increase in Emery contract costs from BY 98 to Test Year Before Rates is indicated to be \$209,006,000.

- a. How much of this increase is the result of increased volume of Priority Mail expected to be handled by Emery through the PMPC network?
- b. How much of this increase is the result of additional airlift supplied by Emery?
- c. How much of this increase is the result of higher per unit fees which the Postal Service will pay to Emery?
- d. If your answers to the preceding questions do not explain all of the \$209,006,000 increase, please provide a detailed explanation for the remainder.

RESPONSE:

- a. I am informed that 100% of the increase in Emery contract costs from BY 1998 to the Test Year Before Rates is the result of increased volume of Priority Mail expected to be handled by Emery through the PMPC network.
- b. None.
- c. None.
- d. The increase in Emery contract costs of \$209,006,000 from BY 1998 to the Test Year Before Rates is incorrect in USPS-T34, Attachment E. This difference was based on preliminary data for the Test Year Before Rates. The correct Test Year Before Rates Emery contract costs are \$522,036,600. Therefore, the increase in Emery contract costs from BY 1998 to TYBR 2001 is \$233,005,531 (\$522,036,600 less \$289,030,069).

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APMU/USPS-T34-13.

Have any of the Postal Service's costs under the contract with Emery been capitalized in one year and written off over subsequent years? If so, please specify the amount, the purpose, and the period used for amortization.

RESPONSE:

I am informed that none of the Postal Service's costs under the contract with Emery have been capitalized in one year and written off over subsequent years.

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APMU/USPS-T34-15.

In what month of what year did the first PMPC become operational? In what month of what year did the last (tenth) PMPC become operational?

RESPONSE:

I am informed that the first PMPC became fully operational in September 1997, and that the tenth PMPC became fully operational in July 1998.

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APMU/USPS-T34-16

Please refer to Attachment C, page 2 (Test Year Before Rates Volume (One pound pieces reallocated)) and Attachment D, page 1 (Test Year After Rates Volume with One Pound Rate) to your testimony.

a. Please confirm the following data:

Priority Mail	Current rate	Proposed rate	Percent Increase
One-pound	\$3.20	\$3.45	7.81 percent
Flat-rate	\$3.20	\$3.85	20.31 percent
Two-pound	\$3.20	\$3.85	20.31 percent

Priority Mail	TYBR volume	TYAR volume	Percent Decrease
One-pound	500,703,317	461,227,583	8.56 percent
Flat-rate	35,985,441	33,148,328	8.56 percent
Two-pound	493,746,619	454,819,354	8.56 percent

- b. Why do you anticipate that a 7.81 percent increase in rates will have the same effect on the TYAR volume of one-pound pieces as a 20.31 percent increase in rates will have on flat-rate and two-pound pieces?
- c. Priority Mail's own-price elasticity has been identified as -0.819 (see, e.g., USPS-T-32, p.26). (i) Why doesn't the 20.31 percent increase in rates suggest a 16.63 percent decrease in the volume of two-pound and flat-rate Priority Mail? (ii) With a combined TYBR volume of 529,732,060, this would reflect a loss of more than 88 million pieces of Priority Mail volume at the two-pound and flat rate, substantially more than the 41.8 million pieces which you project, would it not?

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RESPONSE:

- a. Confirmed that the first table with columns titled "Current rate," "Proposed rate," and "Percent Increase" are correct. Not confirmed that the second table is correct: The second table should read:

Priority Mail	TYBR volume (a)	TYAR volume (b)	Percent Decrease (c) = [(a) - (b)] / (a)
One-pound	500,703,317	461,227,583	7.88 percent
Flat-rate	35,985,441	33,148,328	7.88 percent
Two-pound	493,746,619	454,819,354	7.88 percent

- b. Consistent with Postal Rate Commission precedent (see Docket No. R97-1, PRC-Lib-Ref 12 at 9) and established Postal Service rate design methodology (see Docket No. R97-1, Exhibit USPS-33M), I have allocated test-year-after-rates Priority Mail volume to the individual rate cells using the test-year-before-rates, rate-cell volume distribution as adjusted for the one-pound rate. I have no study that would support the use of any other methodology.
- c. (i) - (ii) It is my understanding that the Priority Mail own-price elasticity of -0.819 is estimated for the Priority Mail subclass as a whole (see USPS-T8). This question implies that the Priority Mail own-price elasticity for the entire class can be appropriately applied to the individual rate cells. I do not have separate elasticities or forecasting models for individual weight and zone combinations and I am unaware

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of any study that supports this assertion. Therefore, I am unable to determine what the volume change for any individual rate cell would be in response to a change in the rate for that rate cell.

First, the amount of data needed to estimate elasticities at the rate cell level would be extremely large. Specific market research would be required to evaluate the demand characteristics of customers in each rate cell, and to estimate the demand for Priority Mail by rate cell. Even if this data were available, as discussed below, it is unclear whether forecasting elasticity at the rate cell would be appropriate.

Second, the type of market research suggested above assumes that the sole change in a customer's mailing pattern is based on the changes in individual rates. It is not unreasonable to assume that, for many mailers especially those involved in mail-order or internet-order fulfillment, mailing patterns are more likely to be driven by the demand of these mailers' customers for their product than to be driven by the change in individual Priority Mail rate cells. For example, if due to marketing or a change in tastes, a mailer's customers are ordering heavier items (e. g., five-pound packages instead of four-pound packages), I would expect the average weight of the mailer's pieces to increase. Even if it could be identified, associating this type of demand-driven change in package weight with any concurrent price change for

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individual Priority Mail rate cells would be likely to bias any rate-cell elasticity estimates.

Third, customers' evaluations of the best vendor for their shipping requirements do not solely depend on the change in Priority Mail rates for specific rate cells. For example, a customer may opt to use a vendor other than the Postal Service because that vendor offers a more attractive overall "rate package." That is, the non-Postal Service vendor may offer an array of rates for pieces that would otherwise be mailed not only as Priority Mail but also as Standard Mail (B), or Express Mail. Even if the customer's shipping decision is solely based on rates, the relevant cost measure may be the expected cost to mail a collection of different mail pieces (the change in a range of rate cells possibly across rate classes) NOT the cost to mail any one piece (the change in an individual rate cell.) To the extent that a customer's choice of vendors also involves the evaluation of other service-related characteristics (e.g., guarantees), the relationship between changes in individual rate cell prices and the volume shipped at those rates becomes even more unclear.

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APMU/USPS-T34-17.

Please provide all data in possession or control of the Postal Service showing Priority Mail's share of the expedited delivery market in which it competes, i.e., the 2-day to 3-day market.

- a. Please provide base year 1998 data as well as the most current data available on the market for second day delivery, showing the Postal Service's share of that market in terms of pieces and in terms of revenues.
- b. If available, provide the market share data for available weight ranges (e.g., up to two pounds, more than two and less than five pounds, and over five pounds).

RESPONSE:

- a. This data is available on a calendar year basis.

Time Period	Priority Mail Market Share Two- to Three-Day Market	
	Market Share (pieces)	Market Share (revenue)
Calendar Year 1998	62.4%	44.7%
Calendar Year 1999 (thru Quarter 3)	61.3%	45.0%

- b. I am unaware of any analysis of market share by weight.

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APMU/USPS-T34-18.

- a. Please provide copies of all published rates of competitors (such as FedEx, UPS, TNT, DHL, and Airborne) in the possession of the Postal Service for delivery services that compete with Priority Mail. Please include rates for UPS guaranteed three-day service if available, and Airborne's new Airborne@Home Service.
- b. When you decided to propose a higher-than-average increase for Priority Mail, what consideration did you give to the published two-day and three-day rates charged by FedEx, UPS and other competitors?
- c. To the best of your knowledge, information, and belief, what is the range of discounts from published rates offered by FedEx, UPS, and other competitors?
- d. What consideration did you give to discounts or negotiated or unpublished rates that competitors are known to give to shippers who regularly use their respective two-day services?
- e. What consideration did you give to the market share of Priority Mail by weight segment?
- f. Prior to finalizing your proposed rate design for Priority Mail, did you assess the competitive situation in consultation with persons assigned responsibility for marketing Priority Mail?

RESPONSE:

- a. It is my understanding that the Postal Service does not maintain a database of competitors' published rates. For some competitors, this information can be obtained from the companies' web sites. See, for example, www.ups.com and www.fedex.com.
- b. While I am generally aware of the published two-day and three-day rates charged by FedEx and UPS, as described in my testimony, the proposed Priority Mail rates were designed to meet the cost coverage proposed by witness Mayes. I did not design

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Priority Mail rates with a goal of establishing predetermined relationships between those rates and the published two-day and three-day rates of any competitor.

- c. It is my understanding that some competitors such as FedEx and UPS offer discounts to their published rates. However, I am unaware of the size and conditions under which these discounts are offered.
- d. As I am unaware of the size and conditions under which competitors offer discounts, I did not consider these discounts in my rate design.
- e. The proposed Priority Mail rates were designed to meet the cost coverage proposed by witness Mayes. I did not consider the market share of Priority Mail by weight.
- f. Yes.

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APMU/USPS-T34-19.

- a. Please confirm that your proposed rates for Priority Mail include a full markup and contingency on all distance-related transportation costs. If you do not confirm, please explain how distance-related transportation costs are treated with respect to markup.
- b. When designing Priority Mail rates, please explain why distance-related transportation costs should be subject to a full passthrough plus a full markup and contingency, while dropship discounts in the Standard A subclass reflect only a partial passthrough of distance-related transportation costs.

RESPONSE:

- a. Confirmed.
- b. This question appears to be based on the incorrect premise that distance-related transportation costs are treated differently at the subclass level of rate design. While distance-related, transportation costs are not separately identified in the rate design for Standard Mail (A), like Priority Mail, a markup and contingency are applied to all transportation costs including distance-related transportation costs.

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APMU/USPS-T34-21.

Please refer to your Attachment F, line m, to your testimony.

- a. Why is a Priority Mail Target Cost Coverage of 184.0 percent used for your Non Transportation Cost Per Piece Development, when the Postal Service is proposing a cost coverage for Priority Mail of 180.9 percent (see USPS-T-32, p. 25)?
- b. Please consult Attachment F, and confirm that, if the cost coverage of 180.9 is used to calculate the net nontransportation cost per Piece Rate Element, instead of 184.0 percent, that element becomes \$3.02450, instead of \$3.100746. If you do not confirm, please explain.
- c. Please refer to Attachment G, p.3, to your testimony. Please confirm the following Per Pound Rate Element calculations. Column (1) was taken from attachment G, p.3; column (4) is calculated here. If you do not confirm, please explain.

Zone	(1) Cost Coverage Applied	(2) Per Pound Rate Element	(3) Cost Coverage Applied	(4) Per Pound Rate Element
L, 1, 2, 3	184.0%	\$0.415064	180.9%	\$0.408070
4	184.0%	\$0.658035	180.9%	\$0.646949
5	184.0%	\$0.675071	180.9%	\$0.663697
6	184.0%	\$0.769444	180.9%	\$0.756480
7	184.0%	\$0.963873	180.9%	\$0.947634
8	184.0%	\$1.270998	180.9%	\$1.249585

- d. Please confirm that such a correction in the cost coverage would support a reduction in Priority Mail rates. If you do not confirm, please explain.

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RESPONSE:

- a. See response to UPS/USPS-T34-14.
- b. Not confirmed that the calculation is correct or that the cost coverage of 180.9% is appropriate (see response to UPS/USPS-T34-14). See below for the revised calculation.

(a) USPS T34 Att F(k)	Nontransportation Costs Including Contingency	\$2,286,319
(b) Assumed	Cost Coverage	180.9%
(c) = (a) * (b)	Net Nontransportation Costs including markup and contingency	\$4,135,951
(d) USPS T34 Att F(n)	Test Year Before Rates Priority Mail Volume	1,356,715
(e) = (a) / (d)	Net Nontransportation Cost per Piece including Contingency	\$1.685188
(f) = (c) / (d)	Net Nontransportation per Piece Rate Element	\$3.048505

- c. Confirmed that [Total Cost per Pound Including Contingency (USPS-T34, Attachment G, p. 3, (m))] * 184.0% = Column (2) above. Confirmed that [Total Cost per Pound Including Contingency (USPS-T34, Attachment G, p. 3, (m))] * 180.9% = Column (4) above. Not confirmed that Column (4) above is an appropriate calculation of the Per Pound Rate Element. See response to UPS/USPS-T34-14.
- d. Not confirmed that 180.9% is an appropriate "target cost coverage" given witness Mayes' testimony proposing the required test-year-after-rates Priority Mail cost coverage of 180.9%. See response to UPS/USPS-T34-14.

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APMU/USPS-T34-22.

Do distance-related air transportation costs shown in Attachment G to your testimony reflect the full amount of such costs, or only some fraction thereof? Please explain.

RESPONSE:

Yes, the distance-related air transportation costs shown in USPS-T34, Attachment G reflect the full amount of these costs. See USPS-T19 at 4.

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APMU/USPS-T34-23.

- a. What percentage of the base year volume of the Postal Service's proposed one-pound Priority Mail classification is believed to be subject to the Postal Service's statutory monopoly?
- b. What percentage of base year two-pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- c. What percentage of base year three-pound, four-pound and five-pound Priority Mail is believed to be subject to the Postal Service's statutory monopoly?
- d. What percent of base year zone-related Priority Mail is believed to be subject to the Postal Service's statutory monopoly?

RESPONSE:

(a) - (d) I am unaware of any study evaluating the percentage of Priority Mail by weight that is subject to the Postal Service's statutory monopoly.

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APMU/USPS-T34-24.

How does the Postal Service identify distance- and nondistance-related transportation costs for:

- a. the Eagle Network?
- b. C-Net?
- c. Western Air?

RESPONSE:

(a) - (c) I understand that, for Priority Mail, only linehaul-related costs are treated as distance-related. For the calculation, please see page 4 of the testimony of witness Pickett (USPS-T-19) and USPS Library Reference I-60.

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APMU/USPS-T34-25.

In your opinion, does Priority Mail represent anything more than heavyweight (over 13 ounce) First-Class Mail? Unless your answer is an unqualified negative, please describe all distinguishing characteristics that you perceive (weight excepted, of course) in terms of acceptance, processing, transportation, delivery, theoretical service commitments, actual service performance, etc.

RESPONSE:

Yes. While Priority Mail does serve as heavyweight First-Class Mail, it differs from First-Class Mail service in several ways. Priority Mail is sorted and processed separately from First-Class Mail in Postal facilities and within the Priority Mail Processing Center network which exclusively handles Priority Mail. In addition, Priority Mail receives expedited handling and transportation. Priority Mail service standards, on average, are quicker than First-Class Mail service standards. Lastly, Priority Mail customers are able to use value-added services such as delivery confirmation and Postal Service provided packaging that are not available to First-Class Mail customers.

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APMU/USPS-T34-28.

Please refer to Attachment K to your testimony. (i) Since witness Musgrave (USPS-T-8) uses a Base Year (for his Priority Mail volume estimates) of PFY 1999, and, as you point out (p. 19 of your testimony), delivery confirmation was available during PFY 1999, why do you make an adjustment to witness Musgrave's Priority Mail volume estimates to reflect "Incremental volume from Delivery Confirmation"? (ii) Please explain any role played by witness Musgrave in developing your upward adjustment of his projection. (iii) Did he concur with your upward adjustments either before or after your testimony was submitted?

RESPONSE:

- (i) Since witness Musgrave uses data from PFY 1999, some small effect of delivery confirmation service on Priority Mail volume is included in his forecast. As indicated in my testimony, the Postal Service expects delivery confirmation service to provide an important value-added feature for Priority Mail attracting customers that might not otherwise have chosen Priority Mail. As these customers become familiar with the availability and characteristics of delivery confirmation, they will be more likely to purchase delivery confirmation service and the associated Priority Mail service. The adoption curve proposed by witness Sharkey (Docket No. R97-1, USPS-33R at 6-8) and adopted by the Commission (Docket No. R97-1, PRC Op. at 359) in Docket No. R97-1, models this process for delivery confirmation itself. However, this shift in preferences for Priority Mail itself, cannot be modeled with an econometric projection, such as witness Musgrave's, based on historical data that includes a very short period with the new service.

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- (ii) Witness Musgrave played no role in developing my upward adjustment of his projection.
- (iii) While I informed witness Musgrave of my upward adjustment to his projection of Priority Mail volume prior to the submission of my testimony, he neither concurred with nor objected to my adjustment.

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APMU/USPS-T34-30.

At page 18 of your testimony, you state that Priority Mail rate increases were "constrained to be within a 5 percent band around the average rate change for Priority Mail as a whole." What is the basis for the selection of 5 percent as the maximum variance from the average rate change for Priority Mail?

RESPONSE:

The selection of 5 percent as the maximum variance from the average rate change for Priority Mail was based on the proposed 20.3% change from the current rates for the two-pound rate. This proposed rate change was approximately 5% above the average rate change for Priority Mail as a whole. I determined that a reasonable upper bound above the average rate change for Priority Mail as a whole would be no more than the approximately 5% increase being proposed for the weight step with the largest volume. Similarly, to avoid significant relative rate changes, I determined that a reasonable lower bound below the average rate change for Priority Mail as a whole would be no more than a 5% deviation from the average rate change.

As discussed on pages 17 through 18 of my testimony, "[t]he uncertain future of the Priority Mail network configuration makes significant changes in the relative rates within the Priority Mail rate schedule undesirable." Postal Service management is evaluating the current Priority Mail network and has not yet determined how the network will be configured in the future (see USPS-T34 at 13-14). The 5% constraint on the deviation of any rate from the average rate increase was one method I used to mitigate this uncertainty. This constraint is sufficiently large to incorporate some changes in

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relative costs between rate cells without incorporating all the unique features of the current network -- a network that may significantly change during the period in which the Docket No. R2000-1 Priority Mail rates are in effect.

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APMU/USPS-T34-31

Please identify the percentage of Priority Mail that was unidentified as such and therefore handled as First-Class Mail during the Base Year.

RESPONSE:

I am informed that 29.8 percent of Priority Mail volume was unidentified in FY 1998.

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APMU/USPS-T34-32.

In its Opinion & Recommended Decision for Docket No. R97-1, the Commission urged the Postal Service "to analyze and address the issue of marking up distance-related transportation costs in the subclasses where this is currently done in preparing its next omnibus rate request." See p.366, para #5316. Has such an analysis been performed? If so, please provide a copy. If not, why not?

RESPONSE:

In preparing the Priority Mail rate proposal, I discussed with Postal Service management the issue of marking up distance-related transportation costs in the Priority Mail rate design. No written report was generated.

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APMU/USPS-T34-40.

The Inspector General's report, Priority Mail Processing Center Network (September 24, 1999) DA-AR-99-01, states that in FY 1998 the PMPC network incurred \$13.2 million of additional costs that included, *inter alia*, costs for track and trace services.

- a. Please indicate what track and trace services the PMPC network has acquired, and explain why the PMPC network requires track and trace services not available to Priority Mail that originates and destines outside the PMPC network.
- b. The report further states that all of these \$13.2 million of additional costs were included in the FY 1998 CRA Report, but "network personnel...considered these to be start-up and non-recurring costs" (p. 7). Please indicate whether these start-up and non-recurring costs have been included in or excluded from the roll-forward projection to FY 2001. If your answer is to the effect that they are included, please explain the rationale for rolling forward start-up and non-recurring costs.
- c. Please identify and provide the amount of all other start-up and non-recurring costs of the PMPC network included in the FY 1998 CRA, and indicate whether these other start-up and non-recurring costs have been included in or excluded from the roll-forward projection to FY 2001.

RESPONSE:

- a. I am informed that under the terms of the PMPC contract, Emery is required to provide a scan of Delivery Confirmation barcodes on entry into the originating and / or destinating processing operations at a PMPC. I am further informed that this is a pilot test program designed to test the operational feasibility of such a feature.
- b. I am informed that FY 1998 start-up and non-recurring costs are not included in the projection for FY 2001.

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- c. I am informed that other FY 1998 start-up costs include: equipment and furniture for headquarters office (\$500,000); staff relocation costs (\$285,000); and mail transport equipment initial purchases (\$12.6 million). I am further informed that none of these costs are included in the projection for FY 2001.

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APMU/USPS-T34-43

- a. Please explain when Priority Mail sacks dropshipped to DBMCs or DSCFs are scanned for delivery confirmation purposes. If they are not scanned at DBMCs or DSCFs, why not?
- b. Does the Postal Service maintain records on the percentage of Priority Mail dropshipped sacks that is scanned for delivery confirmation purposes? If so, please provide such data.

RESPONSE:

- a. I am informed that Delivery Confirmation is not currently available for Priority Mail drop shipments. I am further informed that this service was tested but only one mailer participated; therefore, because of the limited participation, the test results were poor and there did not appear to be enough interest to extend Delivery Confirmation to Priority Mail drop shipment.
- b. Not applicable.

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APMU/USPS-T34-44.

Please refer to your response to APMU/USPS-T34-18(f), where you state that you consulted with persons assigned responsibility for marketing Priority Mail during your assessment of its competitive situation before finalizing your proposed rate design for Priority Mail.

- a. In your consultations with persons responsible for marketing Priority Mail, did you discuss the impact of imposing a 20-plus percent increase on the "weight step with the largest volume" (see response to APMU/USPS-T34-30) which represents over 39 percent of anticipated TYAR volume (the sum of flat rate and 2-pound volumes taken from Attachment D, even after 1-pound volume is removed)? (i) If so, were any concerns raised about the impact of this rate increase by marketing staff? Did you communicate any such concerns to witness Mayes, and, if so, did you take any actions in response to the concerns that were raised? (ii) If not, why not?
- b. Please refer to your response to APMU/USPS-T34-17(a). Did you discuss with marketing staff the impact of across-the-board double-digit increases on a product whose market share by volume fell in CY 1999 to its lowest level of the decade? (i) If so, what concerns were raised about the impact of these rate increases by the marketing staff? Were any actions taken in response to the concerns raised? (ii) If not, why not?
- c. Please provide a summary of your consultations with persons responsible for marketing Priority Mail. Include in your summary the number of such people consulted, the approximate number of hours which you devoted to such consultations.
- d. Please explain your understanding regarding changes in the competitive environment for expedited 2-day package service (i.e., the market in which Priority Mail competes) since the Base Year in Docket No. R97-1.

RESPONSE:

a. Yes.

(i) - (ii) Yes. I communicated these concerns to witness Mayes. My understanding is that she tempered the cost coverage at least in part to mitigate the rate increase (See USPS-T32 at 27). As described in my testimony, I took a number of actions to mitigate the impact of the rate

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increase including: (1) proposing a lower one-pound Priority Mail rate; (2) incorporating an adjustment to reflect the fact that the PMPC network was an experimental program; (3) incorporating an even rate increment between the 2-, 3-, 4-, and 5-pound unzoned rate cells; and (4) imposing rate constraints limiting the deviation from the average rate increase to no more than 5 percent.

b. Yes, I discussed the impact of the proposed Priority Mail rate increases with the marketing staff. However, the assertion that the market share for Priority Mail in CY 1999 is at its lowest level in the decade is incorrect. The Priority Mail market share of pieces in Calendar Year 1995 was lower at 60.7%.

(i) - (ii) The marketing staff was concerned about the impact of the proposed rate increase on the competitive position of Priority Mail within the two- to three-day package market and its impact on the ability of the Postal Service to attract and retain Priority Mail customers. The actions described in response to part (a) were taken in response to these concerns.

c. The requested information is not available, I do not maintain either telephone or activity logs. However, I did consult with the staff of the Expedited and Package Services marketing and financial offices and the content of the discussions is generally described in the responses to parts a. and b. of this question.

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d. The market in which Priority Mail competes has become more competitive since 1996. Increasingly, customers are demanding reliable service and some customers want the ability to use computer-based applications to manage and track their mailings.

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APMU/USPS-T34-45.

Please refer to your response to APMU/USPS-T34-25.

- a. Please identify in detail how (i) mail processing, (ii) transportation, and (iii) delivery provided to Priority Mail reflect greater expedition than is provided to First-Class Mail. Please discuss actual practices as well as service standards. For each function for which you maintain that Priority Mail receives more expedited handling than First-Class Mail, please provide copies of all documents, instructions, or other evidence upon which you rely to support your position.
- b. In those Postal Services facilities that process both First-Class Mail and Priority Mail (i.e., not within the PMPC network area), is it your understanding that Priority Mail is processed ahead of First-Class Mail? Is it your understanding that Priority Mail has dispatches that precede those for First-Class Mail?

RESPONSE:

- a. While I am not an expert in Postal Service operations, I understand that Priority Mail service reflects greater expedition than First-Class Mail in the following ways:

- (i) Mail processing resources are allocated to Priority Mail before First-Class Mail. See POM 453. In the Northeast and Florida, Priority Mail is processed and transported using the PMPC network; First-Class Mail does not have access to this network.
- (ii) Priority Mail has earlier clearance times than First-Class Mail in order to expedite the mail and ensure it is "first in line" for transportation resources. The distance range for Priority Mail that remains in the surface network is smaller than the distance range for First-Class Mail that remains in the surface network in order to meet service standards. Priority Mail being

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transported on commercial airlines is assigned using a system that assigns it to earlier flights than First-Class Mail. Priority Mail is transported on the A-Net (Eagle Network) before First-Class Mail.

(iii) In preparing mail for delivery, Priority Mail receives a higher priority than First-Class Mail. In the unlikely event that not all Priority Mail and First-Class Mail can be taken out for delivery, Priority Mail is delivered first. During the year-end holiday season, if necessitated by local operating conditions, Priority Mail would be delivered on supplemental Sunday delivery routes. First-Class Mail would not be delivered on these routes.

There are more three-digit ZIP code pairs where the service standard for Priority Mail is two days than for First-Class Mail.

Number of Three-Digit ZIP Code Pairs

	One-Day Service Standard	Two-Day Service Standard	Three-Day Service Standard
First-Class Mail	8,744	157,081	683,281
Priority Mail	9,029	780,509	59,562

b. See response to a.

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APMU/USPS-T34-46.

Please refer to your response to APMU/USPS-T-34-30. What possible significant changes to the PMPC network have you been informed of?

RESPONSE:

See response to UPS/USPS-T34-16.

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APMU/USPS-T34-47.

Please refer to your response to APMU/USPS-T-34-16(c).

- a. How much variance would there likely be between the elasticity for Priority Mail, and the elasticity for the rate cell which reflects 80 percent of Priority Mail Base Year volume?
- b. How much more difficult would it be to estimate the elasticity of the rate cell which reflects 80 percent of Priority Mail Base Year volume, and the elasticity for all Priority Mail?

RESPONSE:

- a. I am unaware of any study that has estimated the elasticity of any individual Priority Mail rate cell; therefore, I am unable to determine the size of the variance between the elasticity for Priority Mail as a whole and the elasticity of any individual rate cell.
- b. For the reasons discussed in the response to APMU/USPS-T34-16(c), I believe that it would be difficult to estimate the price elasticity for an individual rate cell. However, I am unable to quantify "how much more difficult" it would be.

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APMU/USPS-T34-48.

Please refer to your response to APMU/USPS-T-34-17.

- a. Please provide comparable data for CY 1997.
- b. Please provide complete data for CY 1999 as soon as available.

RESPONSE:

- a. - b. See below for revised table including CY 1997. I am informed that complete data for CY 1999 will be available in May 2000.

Time Period	Priority Mail Market Share Two- to Three-Day Market	
	Market Share (pieces)	Market Share (revenue)
Calendar Year 1997	62.7%	45.2%
Calendar Year 1998	62.4%	44.7%
Calendar Year 1999 (thru Quarter 3)	61.3%	45.0%

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APMU/USPS-T34-49.

Please refer to your response to APMU/USPS-T-34-28.

- a. When did testing of Priority Mail delivery confirmation begin with selected mailers?
- b. When did the electronic version of Priority Mail delivery confirmation become generally available?
- c. When did the manual version of Priority Mail delivery confirmation become available?
- d. Please provide data of delivery confirmation usage by A/P for PFY 1999.

RESPONSE:

- a. I am informed that testing of Priority Mail delivery confirmation began in November 1996.
- b. March 14, 1999.
- c. March 14, 1999.

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d.

Delivery Confirmation Volumes*
FY 1999

	Priority Mail		Standard Mail (B)		
	Electronic	Retail	Electronic	Retail	Total
AP1	1,584.0	0.0	0.0	0.0	1,584.0
AP2	1,798.6	0.0	0.0	0.0	1,798.6
AP3	1,803.5	0.0	0.0	0.0	1,803.5
AP4	2,696.5	0.0	0.0	0.0	2,696.5
AP5	1,999.4	0.0	0.0	0.0	1,999.4
AP6	2,046.0	0.0	0.0	0.0	2,046.0
AP7	2,360.3	856.8	0.0	55.5	3,272.6
AP8	2,243.2	1,581.1	0.0	79.9	3,904.2
AP9	2,378.5	1,677.8	0.0	72.4	4,128.7
AP10	2,254.0	1,695.0	0.0	68.8	4,017.8
AP11	2,478.2	1,844.4	39.1	73.1	4,434.8
AP12	2,690.0	2,128.7	31.4	84.4	4,934.5
<u>AP13</u>	<u>2,934.7</u>	<u>2,143.4</u>	<u>18.4</u>	<u>89.9</u>	<u>5,186.3</u>
Total	29,266.9	11,927.1	88.9	524.0	41,806.9

* Delivery Confirmation program data.

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APMU/USPS-T34-50.

- a. Under the PMPC network contract with Emery, what payments for FY 1998 were called for in the original contract? Please explain if payments were fixed, variable, or per piece.
- b. What was the total amount of money paid to Emery for FY 1998?
- c. Please identify all claims or other adjustments by Emery still outstanding for FY 1998?
- d. For those additional FY 1998 amounts paid to Emery over and above the amount stipulated in the original contract. Please set out the amount and justification for each payment.

RESPONSE:

- a. I am informed that the contract did not call for particular payments in FY 1998 as the question seems to assume. There is also no distinction in the original contract such as the question also seems to assume between fixed, variable, or per piece contract prices or payments. Most payments that Emery could and did earn under the contract for FY 1998 are based on fixed per piece prices in the original contract, but payments were also made for FY 1998 under the original contract's cost-reimbursement provisions. Although the original contract's FY 1998 fixed prices are per piece prices, they typically vary according to a variety of other contractual factors such as mail volume, origin point and destination point, type of mail piece (flat, parcel, or outside piece), and the contractor's performance.
- b. \$289,030,069
- c. I am informed that no Emery claims or adjustments are outstanding under the contract for FY 1998 only. Emery still has an outstanding payment claim, a

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portion of which is for work performed in FY 1998. See response to
APMU/USPS-T34-51(c) for a list of all outstanding claims.

- d. I am informed that there is no such single payment amount stipulated in the original contract for FY 1998 such as the question presupposes. As a result of a supplemental letter agreement dated August 4, 1998, USPS paid Emery approximately \$20.8 million above that which the original contract would have required. The supplemental letter agreement states only that all of its provisions, taken as a whole, are "mutually beneficial." It does not justify any one particular provision, or any payments that might be made under it, in isolation from the agreement's other provisions.

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TO INTERROGATORIES OF THE ASSOCIATION OF PRIORITY MAIL USERS

APMU/USPS-T34-51.

- a. Under the PMPC network contract with Emery, what payments for FY 1999 were called for in the original contract? Please explain if payments were fixed, variable, or per piece.
- b. What was the total amount of money paid to Emery for FY 1999?
- c. Please identify all claims or other adjustments by Emery still outstanding for FY 1999?
- d. For those additional FY 1999 amounts paid to Emery over and above the amount stipulated in the original contract. Please set out the amount and justification for each payment.

RESPONSE:

- a. I am informed that the contract did not call for particular payments in FY 1999 as the question seems to assume. There is also no distinction in the original contract such as the question also seems to assume between fixed, variable, or per piece contract prices or payments. Most payments that Emery could and did earn under the contract for FY 1999 are based on fixed per piece prices in the original contract, but payments were also made for FY 1999 under the original contract's cost-reimbursement provisions. Although the original contract's FY 1999 fixed prices are per piece prices, they typically vary according to a variety of other contractual factors such as mail volume, origin point and destination point, type of mail piece (flat, parcel, or outside piece), and the contractor's performance.
- b. \$503,373,935

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c. I am informed that Emery's outstanding claims under the contract are as follows:

- (i) FY 1999 change-order claim for \$28,498,816. The Postal Service denied this claim in its entirety; however the twelve months that the law allows Emery to appeal from the USPS's decision have not expired;
- (ii) a "recoupment" claim of \$10,649,934 previously paid and then "recouped" by USPS as an overpayment for FY 1999;
- (iii) a pending payment claim of \$16,786,397 for contract A/Ps 7-24, of which A/Ps 7-18 are in FY 1998 and APs 19-24 fall in FY 1999;
- (iv) a pending price redetermination claim of \$163,115,691 for CY 1999 which includes portions of FY 1999 and FY 2000;
- (v) a pending claim for an adjusted price for the balance of the contract for \$437,525,311 for contract A/Ps 26-63, of which A/Ps 26-31 are within FY 1999;
- (vi) a claim for the contracting officer's present and future imposition of volume variation pricing in accordance with original contract terms for \$29,167,878 for A/Ps 26-63 of which A/Ps 26-31 are within FY 1999.

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- d. I am informed that there is no such single payment amount stipulated in the original contract for FY 1999 such as the question presupposes. As a result of a supplemental letter agreement dated August 4, 1998, USPS paid Emery approximately \$42.8 million above that which the original contract would have required. The supplemental letter agreement states only that all of its provisions, taken as a whole, are "mutually beneficial." It does not justify any one particular provision, or any payments that might be made under it, in isolation from the agreement's other provisions. In addition, the Postal Service paid Emery \$2,309,792 in FY 1999 for a dedicated plane to service the Midwest area and \$116,715 in FY 1999 for a dedicated truck to service Staten Island. These were service-based initiatives beyond the scope of the initial contract for which Emery was compensated in accordance with additional agreements.

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APMU/USPS-T34-52.

For FY 1997, FY 1998 and FY 1999, please provide ODIS (Origin/Destination Information System) data regarding First-Class Mail and Priority Mail that shows the percentage of each which meets its respective overnight, 2-day, and 3-day standard.

RESPONSE:

ORIGIN-DESTINATION INFORMATION SYSTEM

ON TIME SCORES FOR FIRST -CLASS

AND PRIORITY MAIL, FY 1997

Percent First-Class 1 Day Service Standard Mail Arriving in One Day.	91
Percent First-Class 2 Day Service Standard Mail Arriving in Two Days.	82
Percent First-Class 3 Day Service Standard Mail Arriving in Three Days.	81
Percent Priority 1 Day Service Standard Mail Arriving in One Day.	86
Percent Priority 2 Day Service Standard Mail Arriving in Two Days.	73
Percent Priority 3 Day Service Standard Mail Arriving in Three Days.	76

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ORIGIN-DESTINATION INFORMATION SYSTEM

ON TIME SCORES FOR FIRST -CLASS

AND PRIORITY MAIL, FY 1998

Percent First-Class 1 Day Service Standard Mail Arriving in One Day.	92
Percent First-Class 2 Day Service Standard Mail Arriving in Two Days.	85
Percent First-Class 3 Day Service Standard Mail Arriving in Three Days.	82
Percent Priority 1 Day Service Standard Mail Arriving in One Day.	84
Percent Priority 2 Day Service Standard Mail Arriving in Two Days.	72
Percent Priority 3 Day Service Standard Mail Arriving in Three Days.	72

ORIGIN-DESTINATION INFORMATION SYSTEM

ON TIME SCORES FOR FIRST -CLASS

AND PRIORITY MAIL, FY 1999

Percent First-Class 1 Day Service Standard Mail Arriving in One Day.	93
Percent First-Class 2 Day Service Standard Mail Arriving in Two Days.	87
Percent First-Class 3 Day Service Standard Mail Arriving in Three Days.	85
Percent Priority 1 Day Service Standard Mail Arriving in One Day.	85
Percent Priority 2 Day Service Standard Mail Arriving in Two Days.	74
Percent Priority 3 Day Service Standard Mail Arriving in Three Days.	76

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APMU/USPS-T34-53.

Did you consider the development of a Priority Mail dropship discount for "open and distribute" mailpieces (sacks) sent to DSCFs or other postal facilities, which contain other classes of mail, and do not receive final delivery from postal carriers? If not, why not? If so, why was not such a discount included among your rate proposals?

RESPONSE:

Yes. Given the uncertainty surrounding the Priority Mail network and the potential impact of changes in that network on Priority Mail rates, the Postal Service decided not to propose any Priority Mail discounts in Docket No. R2000-1.

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REDIRECTED FROM THE POSTAL SERVICE**

DBP/USPS-4. [a] Confirm that the Postal Service has run a pilot program for more than a year now with some 250 Mail Boxes Etc. [MBE] franchises, including the MBE franchise in Tenafly, New Jersey. [b] Confirm that Postal Service soon plans to add some 700 additional MBE franchises to the program. [c] Confirm that these MBE franchises utilize an official USPS "round dater" for authenticating various mailing receipts and/or postmarking mail accepted by them. [d] Confirm that these MBE franchises sell postage stamps and postal stationery. [e] Advise which of the following services [assume that this refers only to single piece mail and not to any bulk mailings] a mailer may present to an MBE franchise for determination of the mailability, the postage required, and the acceptance of the mail in behalf of the United States Postal Service: [1] First-Class Mail / [2] Priority Mail / [3] Express Mail / [4] Standard Mail [B] including all classes of individual subclasses / [5] International Mail / [6] Certificates of Mailing / [7] Certified Mail / [8] Registered Mail / [9] Insured Mail / [10] Return Receipt / [11] Postal Money Orders. If any of these services are not provided, please explain why not. If additional services are provided, please advise the nature of the service. [f] Confirm that these MBE franchises normally will provide shippers with a choice of other private carriers, such as UPS and Fedex, for their shipments. [g] Provide a listing of any differences that exist between the level and types of available service between an MBE franchise and the standard type of contract station or branch that has existed for many years. [h] Provide a copy of the standard contract that is utilized between the Postal Service and the MBE franchise. [i] Explain and discuss any subparts you are not able to confirm.

RESPONSE:

- [a] Confirmed that such a pilot program exists and that one participant is located in Tenafly, New Jersey.
- [b] Confirmed.
- [c] I am informed that Contract Postal Unit operators including MBE franchisees are authorized to use a USPS "round dater."
- [d] See USPS-LR-I-231 to be filed shortly.

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- [e] [1] - [11] See USPS-LR-I-231 (to be filed shortly) for a list of the possible service offerings. I am informed that the choice not to provide one of more of the services listed in this question was a mutual decision between the Postal Service and the supplier.
- [f] See USPS-LR-I-231 to be filed shortly.
- [g] I am informed that there is no "standard type of contract station or branch" and that the list of services offered by any Contract Postal Unit is reached through mutual agreement between the operator and the Postal Service.
- [h] See USPS-LR-I-231 to be filed shortly.
- [i] See responses above.

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REDIRECTED FROM THE POSTAL SERVICE**

DBP/USPS-5 [a] Confirm that with respect to a flat-rate envelope which is utilized by a mailer for Priority Mail under the present rates, there is no additional charge for using the flat-rate envelope vs. any other type of enclosure. [Namely, an flat-rate envelope will cost \$3.20 regardless of weight and another type of enclosure will cost the same \$3.20 for weights up to two pounds and more than \$3.20 for weights over two pounds]. [b] Confirm that under the proposed rates, Priority Mail would have the following rates:

<u>Weight</u>	<u>Flat-rate Envelope</u>	<u>Other type of enclosure</u>
Under one pound	\$3.85	\$3.45
One to two pounds	\$3.85	\$3.85
Over two pounds	\$3.85	\$5.10 or more

[c] Confirm that these new rates being proposed will change from a scenario where a mailer will not have to pay more [and could even pay less if the weight is over 2 pounds] for using a flat-rate envelope [vs. any other type of container] to one where the mailer could pay an extra 40 cents postage for just using a flat-rate envelope if the weight is under one pound. [d] What plans does the Postal Service have to publicize this change of scenarios to the USPS acceptance employees? [e] What plans does the Postal Service have to publicize this change of scenarios to the mailing public? [f] Do you feel that this change in scenarios could result in confusion to the mailing public? If not, explain why not.) [g] Do you feel that many mailers could pay 40 cents extra postage either without understanding why or because they don't want to go to the trouble of switching envelopes? If not, why not? [h] Will a mailer be able to cross out and/or cover over the flat-rate envelope markings so as to eliminate the requirement to utilize the flat-rate postage rate? If not, why not? [i] Please provide a complete listing of all types of containers [envelopes, boxes, etc.] that the Postal Service provides to mailers for either Express Mail or Priority Mail including the following specific data: [1] USPS designation [such as EP-13A] / [2] Date of the current version / [3] Whether utilized for Express Mail or Priority Mail [Indicate any containers that may be utilized for both Priority and Express Mail] / [4] Description of the container [such as 9.5" by 12.5" envelope] / [5] Whether the container meets/mandates the requirements for mailing at the flat-rate envelope rate / [6] The wording that is on the container to indicate that it is a flat-rate envelope and the postage required / [7] The weight of the container without contents / [8] The cost to the Postal Service to purchase the container from its supplier. [Please show the price for 1000 containers so that the rounding errors will be less significant]. [j] Explain and discuss any subparts you are not able to confirm.

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REDIRECTED FROM THE POSTAL SERVICE

RESPONSE:

- [a] Confirmed that Priority Mail postage for a flat-rate envelope under the current rates is \$3.20. Also confirmed that the postage for any Priority Mail piece other than a flat-rate envelope under the current rates is \$3.20 or greater depending on the weight of the piece and the number of postal zones between the origin and destination.
- [b] Confirmed.
- [c] Confirmed that the proposed one-pound Priority Mail rate of \$3.45 is 40 cents less than the proposed flat-rate envelope rate of \$3.85. Also confirmed that the proposed flat-rate envelope rate of \$3.85 would apply to a Priority Mail piece in a flat-rate envelope if the piece weighed less than one pound.
- [d] I am informed that the Postal Service has not yet finalized its plans to publicize the rate and classification changes resulting from Docket No. R2000-1. However, I understand that the Postal Service intends to include information on the one-pound Priority Mail rate and the flat-rate envelope rate for USPS acceptance employees.
- [e] I am informed that the Postal Service has not yet finalized its plans to publicize the rate and classification changes resulting from Docket No. R2000-1. However, I understand that the Postal Service intends to include information on the one-pound Priority Mail rate and the flat-rate envelope rate for the mailing public.

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- [f] It is possible that some members of the mailing public may be confused by any change in postal rates and fees. However, the Postal Service intends to publicize the new rates and classification changes resulting from Docket No. R2000-1 in order to minimize any potential confusion among the mailing public and to ensure that USPS acceptance employees have information to assist customers in choosing the appropriate rate for their mail pieces.
- [g] It is possible that some members of the mailing public may be confused by any change in postal rates and fees. To address this problem, USPS acceptance employees will be provided the information needed to inform customers of their options and determine which service offering best meets the customer's needs. However, if a customer chooses to pay the \$3.85 flat-rate envelope rate for a mail piece weighing less than one-pound because "they don't want to go to the trouble of switching envelopes," he or she clearly has a preference for the flat-rate envelope because of its ease of use regardless of its price.
- [h] No. See DMCS 223.5.
- [i] See attachment for a listing of the packaging materials available to the general public. I am informed that no listing of all packaging provided to commercial mailers is available.
- [1] See attachment.
- [2] See attachment.
- [3] See attachment.

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- [4] See attachment.
- [5] The Priority Mail flat-rate envelope rate is available only for material mailed in envelopes EP-14B and EP-14F.
- [6] See response to DFC/USPS-T34-14.
- [7] I am informed that this information is not available.
- [8] I am unaware of any report that contains the requested information.
- [j] See responses to parts [a] to [i] above.



Attachment to DBP/USPS-5

Express Mail, Priority Mail and Global Priority Mail Order Form

Telephone Orders: 1-800-610-8734 FAX Orders: 1-800-270-6233

Listed below are all Express, Priority, and Global Priority Mail envelopes, boxes, tubes and identifying labels. A minimum order quantity for each item has been established. Please determine your needs either at the minimum level number noted or multiples of that number. Check the appropriate block for the amount needed or write the amount in the other block. You may order on an as needed basis or on a repeat order basis. If you choose to repeat your order, indicate the cycle by checking the block under the column marked "Repeat Orders." You may change your repeat order at any time by calling the above 800 number, faxing or mailing your changes.

The bottom part of the form must be completed to ensure that your order is shipped correctly.

Supply Type	Supply Item Description	PSN/Item Number	Quantity	Other	Repeat Orders	Monthly	Quarterly
Express Mail	Window Envelope for Custom Design Express Mail Label	EP 13	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	8 oz. Standard Envelope — Cardboard	EP 13A	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Customer Receipt Envelope	EP 13B	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tyvek Envelope — Large	EP 13C	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	International Envelope	EP 13E	<input type="checkbox"/> 10	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Flat Rate Envelope — Cardboard	EP 13F	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Box 12 1/4 x 15 1/4 x 3	0-1093	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tube 6 x 36 Express or Priority	0-1098	<input type="checkbox"/> 20	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Next Day Post Office to Post Office Label	Label 11A	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Next Day Post Office to Addressee Label	Label 11B	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Custom Designed Label	Form 5625	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Next Day Post Office to Post Office Label (continuous form labels)	Label 11E	<input type="checkbox"/> 10	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Next Day Post Office to Addressee Label (continuous form labels)	Label 11F	<input type="checkbox"/> 10	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Custom Designed Label (continuous form labels)	Label 5626C	<input type="checkbox"/> 10	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Drop Shipment Tag	TAG 157	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	EMCA Postage / Fees Paid Adhesive Label	Label 106	<input type="checkbox"/> 1 pad	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Outside Pressure Sensitive Label	Label 63	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Pickup Form	Form 5541	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Pickup Form (continuous)	Form 5541C	<input type="checkbox"/> 10	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Priority Mail	Flat Rate Envelope — Cardboard 5 x 10	EP 14B	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tyvek Envelope — 12 x 15 1/2	EP 14	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Flat Rate Envelope — Cardboard 12 1/2 x 9 1/2	EP 14F	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Envelope — Cardboard 5 x 10 (Window)	EP 14H	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Box 7 x 7 x 6 (Box 04)	0-10100-04	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Box 12 x 12 x 6 (Box 07)	0-10101-07	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Box 12 1/2 x 15 1/2 x 3	0-1096	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Box "Video" 9 1/2 x 6 1/2 x 2 (Large)	0-1096 Large	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Box "Video" 8 1/2 x 5 1/2 x 1 1/2 (Small)	0-1096 Small	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Box 11 1/2 x 14 x 2 1/2	0-1097	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tube 6 x 36 Express or Priority	0-1098	<input type="checkbox"/> 20	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Sticker (Pressure Sensitive Strip)	Label 106	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tape	Label 106A	<input type="checkbox"/> 1 roll	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Sticker (Pressure Sensitive 50/pad)	Label 107	<input type="checkbox"/> 1 pad	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Sticker (Pressure Sensitive 400/roll)	Label 107R	<input type="checkbox"/> 1 roll	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Address Label	Label 228	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Address Label (continuous form labels)	Label 228C	<input type="checkbox"/> 10	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Drop Shipment Tag	TAG 159	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Global Delivery Service	International Express Mail Service Guide	PUB 273	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Global Priority Flat Rate Envelope — Cardboard (12 1/2 x 9 1/2)	EP 15A	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Global Priority Flat Rate Envelope — Cardboard (8 x 10)	EP 15B	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Global Priority Mail Sticker	DEC 10	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Global Priority Mail Box 12 1/2 x 9 1/2 x 2 (Four lb. limit)	0-1099	<input type="checkbox"/> 25	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Global Priority Mail Tyvek Envelope 12 x 15 1/2	EP 15GP	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other Supplies	Postal Customer Order Form	Form DDD	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Customs	Form 2978	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Customs Declaration and Dispatch Note	Form 2978A	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Envelope for PS Form 2978A	Form 2978E	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Delivery Confirmation Form (Retail)	Form 152	<input type="checkbox"/> 1	<input type="checkbox"/> Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Ship This Order To:

Attention: _____ Customer Number: _____
 Company Name: _____ Phone: _____
 Address: _____
 City, State, ZIP+4: _____

PS Form DDD November 1999 These supplies are intended to be used only for mailing Express Mail, Priority Mail and Global Priority Mail. Misuse may be a violation of Federal Law.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DAVID B. POPKIN
REDIRECTED FROM THE POSTAL SERVICE

DBP/USPS-10. In the response to Interrogatory DFC/USPS-10, a total of ten Priority mail Processing Centers [PMPC] were listed along with the areas that each cover. [a] Is there an outside contractor that operates each of the ten PMPC facilities. If so, provide the name of this contractor. [b] Are there any plans to change the number of PMPC facilities or the area covered by each of the existing facilities? If so, please explain and detail the change and projected date. [c] Describe the method that is utilized by the Postal Service to process Priority mail for each of the following scenarios: [1] Originating and destinating within the same PMPC area / [2] Originating in one PMPC area and destinating in another PMPC area / [3] Originating in a PMPC area and destinating outside of the PMPC area, and / [4] Originating outside of a PMPC area and destinating within a PMPC area. Other scenarios may be necessary to provide for a full description of the methods utilized. These descriptions should indicate when mail is transferred between the Postal Service and the contractor and who is providing the transportation. For example, a possible response could be in the following format: Local post office sends mail to P&DC, P&DC delivers mail to originating PMPC, PMPC transports mail to destinating PMPC, mail is picked up from PMPC by local P&DC, and mail is sent to local post office. [d] Is all transportation between the P&DC and the serving PMPC done by ground transportation? If not, provide a listing of those P&DC that utilize air transportation to ship mail to or from the serving PMPC.

RESPONSE:

[a] Yes. Emery Worldwide Airlines.

[b] No.

[d] Not necessarily. I am informed that the contract requires Emery to provide

transportation between the designated USPS facility (not necessarily a P&DC) and

the PMPC in accordance with contractual service performance requirements. It is

within the discretion of the contractor to determine the appropriate mode of

transportation in order to meet the contractual service performance requirements. I

am also informed that, currently, a combination of ground transportation and four air

taxis are used to transport mail to and from the USPS facilities in Panama City, FL;

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DAVID B. POPKIN
REDIRECTED FROM THE POSTAL SERVICE**

Plattsburg, NY; Eastern Maine; and Houlton, ME to the serving PMPC. However, I am informed that the contractor may convert these to solely ground transportation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DAVID B. POPKIN
REDIRECTED FROM THE POSTAL SERVICE

DBP/USPS-64. Provide a breakdown by volume and revenue showing the percentage of Priority Mail that is transported in each of the following categories:

- [1] Direct [as opposed to a hub and spoke] surface transportation
- [2] Direct air transportation
- [3] Hub-to-spoke surface transportation
- [4] Eagle Network
- [5] Other Hub-to-spoke air transportation
- [6] Other methods of transportation [Break out and identify any which have 5% or greater volume or revenue]

RESPONSE:

- [1] - [6] The requested data are not available.

**RESPONSE OF UNITED STATES POSTAL SERVICE ROBINSON
TO INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE POSTAL SERVICE)**

DBP/USPS-126. Please furnish a copy of USPS-LR-I-231 that was used to respond to my interrogatory DBP/USPS-4.

RESPONSE:

I understand that a copy of USPS-LR-I-231 has been mailed to Mr. Popkin.

**RESPONSE OF UNITED STATES POSTAL SERVICE ROBINSON
TO INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE POSTAL SERVICE)**

DBP/USPS-127. [a] Refer to your response to DBP/USPS-5-i-3. Are there any containers that are utilized for both Priority Mail and Express Mail?

RESPONSE:

- a. Yes. I am informed that item 1098 – Tube 6" x 38" Express or Priority –may be used for either Express Mail or Priority Mails. This is indicated by the graphics on the tube.

**RESPONSE OF UNITED STATES POSTAL SERVICE ROBINSON
TO INTERROGATORIES OF DAVID B. POPKIN
(REDIRECTED FROM THE POSTAL SERVICE)**

DBP/USPS-128 With respect to the processing of Priority Mail in the areas covered by a PMPC, answer and explain each of the following: [a] Does the Postal Service pay Emery a fee for each Priority Mail article that they process? [b] Is there a financial advantage to process a Priority Mail article outside of the Emery system? [c] Is there an operational advantage to process a Priority Mail article outside of the Emery system? [d] To what extent does the Postal Service trap Priority Mail articles, such as those destinating locally, in the same P&DC area, and/or in nearby P&DC areas so that the article will be transported outside of the Emery system?

RESPONSE:

[a] Yes.

[b] The term "financial advantage" is interpreted to mean "lower cost." I am informed that, on average, it is more expensive to process Priority Mail within the PMPC network.

[c] - [d] The term "operational advantage" is interpreted to mean one that improved the probability that Priority Mail will be delivered on time. I am informed that when Priority Mail arrives at a hand-off point too late to meet the Priority Mail Processing Center (PMPC) operating plan (such as late arrival at a commercial airport); or when volume surges beyond the capacity of the PMPC; the Postal Service will trap Priority Mail for processing at the local P&DC.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T34-2. Please refer to footnote 9 in your testimony at page 16. Please explain why the flat-rate envelope would be priced at the two-pound rate, even for a flat-rate envelope that contained documents that weighed one pound or less.

RESPONSE:

The Priority Mail flat-rate envelope is a convenience product that allows customers to prepare and mail a Priority Mail piece without determining the actual weight and zone of the piece and the corresponding postage for that weight and zone. Customers who are price sensitive and wish to use the one-pound rate for documents weighing one pound or less may do so by using any appropriate packaging material other than the flat-rate envelope.

In Docket No. R90-1, the Postal Rate Commission recommended a rate for the Priority Mail flat-rate envelope stating "the additional convenience it provides will enhance the value of the service to the customers, especially the small-volume and household users. This is a proposal which simplifies customers' transactions with the Postal Service if they choose to take advantage of it." [Docket No. R90-1, PRC Op. at V-98, para. 5221]

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T34-3. Please provide all data concerning the actual weight of flat-rate envelopes that customers mail under current postage rates.

RESPONSE:

The data below is from an RPW special weight report for GFY 1998. The data is available in electronic format in USPS-LR-I-165, Priority Mail Pricing Spreadsheets, USPST34A.xls, worksheet "Input Data," cell range A118::E153.

<u>Ounce Increment</u>	<u>Flat Rate Envelope Volume</u>
0.001-1.000	3,267,416
1.001-2.000	19,126,400
2.001-3.000	11,930,814
3.001-4.000	8,227,460
4.001-5.000	6,910,483
5.001-6.000	5,267,363
6.001-7.000	4,387,424
7.001-8.000	3,711,186
8.001-9.000	3,703,285
9.001-10.000	3,503,828
10.001-11.000	3,421,208
11.001-12.000	4,185,505
12.001-13.000	4,329,216
13.001-14.000	4,252,744
14.001-15.000	3,233,383
15.001-16.000	2,890,377
16.001-17.000	3,010,064
17.001-18.000	2,652,809
18.001-19.000	2,281,426
19.001-20.000	1,790,850
20.001-21.000	1,660,130
21.001-22.000	1,445,749
22.001-23.000	1,508,339
23.001-24.000	1,320,774
24.001-25.000	1,120,700
25.001-26.000	970,750
26.001-27.000	841,025
27.001-28.000	946,470
28.001-29.000	712,902
29.001-30.000	696,428
30.001-31.000	585,522
31.001-32.000	566,692
32.001-99999	<u>5,475,431</u>
Total	119,934,151

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T34-4. Please refer to your response to DFC/USPS-T34-3. Of the total volume of Priority Mail flat-rate envelopes in FY 1998, please confirm that:

- a. 28.62 percent of the flat-rate envelopes weighed three ounces or less. If you do not confirm, please provide the correct percentage.
- b. 77.00 percent of the flat-rate envelopes weighed one pound or less. If you do not confirm, please provide the correct percentage.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T34-5. Please refer to your response to DFC/USPS-T34-2.

- a. In the passage from the Commission that you quoted, please confirm that the lowest Priority Mail rate being recommended in Docket No. R90-1 was equal to the two-pound rate. If you do not confirm, please explain.
- b. Please confirm that customers who find the two-pound rate for flat-rate envelopes convenient and simple likely would continue to find the rate for flat-rate envelopes to be convenient and simple if this rate were the one-pound rate. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed that in Docket No. R90-1, the lowest Priority Mail rate recommended by the Postal Rate Commission was a \$2.90 one-pound rate which was equal to the \$2.90 rate recommended for a two-pound piece.

See Docket No. R90-1, PRC Op., Appendix One, Rate Schedule 103, Priority Mail.
- b. Confirmed that customers find flat-rate envelopes to be convenient and simple to use. Not confirmed that an appropriate rate for the flat-rate envelope is the one-pound rate.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T34-7. Suppose a customer needs to mail a sheet of letter-size paper that would fit in a #10 envelope from Oakland, California, to Raleigh, North Carolina. This customer wants his letter to arrive in Raleigh as quickly as possible. He does not wish to pay for Express Mail service, and he desires no additional services such as Delivery Confirmation. If offered the choice between two services that have the same price, he will choose the lower-priced service. He is not concerned with any visual impact of Priority Mail packaging on the delivery end. Suppose further that this customer approaches a retail window clerk in Oakland for assistance in sending this document.

- a. Please confirm that nothing unusual exists about the scenario described in this question or this customer's preferences to suggest that this situation would be atypical of a retail transaction that may occur in Oakland. If you do not confirm, please explain.
- b. Please provide the delivery standard between Oakland and Raleigh for Priority Mail and First-Class Mail.
- c. Please explain the delivery options that the window clerk should discuss with this customer. Please provide all training and other documentation that guides the window clerk's encounter with this customer regarding selection of the appropriate type of delivery service.
- d. Will or could the window clerk's retail terminal provide the window clerk with the delivery standard for First-Class Mail or Priority Mail to Raleigh? If so, are window clerks instructed to consult this information routinely and provide it to customers?
- e. Please confirm that the window clerk may or should inform the customer that Priority Mail, while not guaranteed, provides delivery in two to three days. If you do not confirm, please explain.
- f. Please confirm that, based on the representation that Priority Mail provides delivery, while not guaranteed, in two to three days, this customer may choose to send his document via Priority Mail instead of First-Class Mail. If you do not confirm, please explain.
- g. Please explain any and all reasons why this customer would be better off sending his document via Priority Mail instead of regular First-Class Mail.
- h. Please confirm that this customer, whose preferences are described above, would, if informed that the delivery standard for both Priority Mail and First-Class Mail was three days, choose First-Class Mail for 33 cents, rather than Priority Mail for \$3.20. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. I am unaware of any study examining or evaluating "typical" retail transactions in Oakland, CA.
- b. I am informed that the service standard for First-Class Mail between Oakland CA and Raleigh NC is 3 days and that the service standard for Priority Mail between Oakland CA and Raleigh NC is 3 days.
- c. I am informed that the clerk is instructed to ask the customer "when does it need to get there?" The customer's answer to this question clues the clerk on what delivery service will meet the customer's needs. The key clue in the scenario described would be "as quickly as possible". The clerk is trained to suggest Express Mail and explain the guarantee. In this scenario, if the customer says he or she doesn't want to pay for Express Mail, then the clerk should offer the customer a choice between Priority Mail and First-Class Mail. Our training emphasizes offering customers choices and giving them information to help make the best choice for their needs. In this case, that information would be the difference in service standards between Priority Mail and First-Class Mail (if there is one) and the difference in price.

I have identified three documents that are used in training window clerks for this type of transaction; however, I recognize that there may be other materials prepared, for example, at the local level, that are used in training window clerks.

- Structured On-the-Job Training, Core Processes, Workbook, Course #23Q01-06, NSN #7610 040009881 (December 23, 1999).
- Sales and Services Associate Training, Associate's Workbook, NSN #7610 040008860, Course 23501-02 (October 1, 1999).
- Sales and Services Associate Training, Facilitator's Guide, NSN#7610 040008859, Course 23501-02 (September 1999).

An electronic copy of these documents will be filed as USPS LR-I-196.

- d. I am informed that the Oakland area has a combination of MOS IRTs and NCR POS ONE systems. MOS IRTs do not display service standards for First-Class Mail or service standards for Priority Mail when the service standard is two days or less. When the destination has a three-day Priority Mail standard, they display a highlighted message on the screen, stating, "3-day service area, advise customer". NCR POS ONE terminals do not display actual First-Class Mail service standards for each specific origin/destination combination, and indicate a three-day First-Class Mail service standard for every article. The NCR POS ONE system indicates a Priority Mail service standard (either two days or three days) which is determined on the basis of the specific origin and destination.
- e. Confirmed that the window clerk may inform the customer that Priority Mail, in general, while not guaranteed, provides delivery in two to three days.
- f. Confirmed.

- g. All other things being equal, a customer will generally prefer a lower-priced product that meets his or her needs to a higher-priced product that meets his or her needs. It appears that (1) this hypothetical customer does not value any of the services (e.g., delivery confirmation, packaging) offered by Priority Mail that are not offered with First-Class Mail; (2) the service standards for Priority Mail and First-Class Mail are identical and; (3) for this customer, all other things being equal, price is the determining factor in his or her choice between Priority Mail and First-Class Mail. Therefore, it appears that this customer would choose to mail a one-ounce mail piece (a sheet of letter-size paper in a #10 envelope) from Oakland, CA to Raleigh, NC using First-Class Mail at a rate of 33 cents instead of using Priority Mail at a rate of \$3.20.
- h. See response to DFC/USPS-T34-7(g).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T34-12. Please provide the weight of an empty Priority Mail flat-rate envelope.

RESPONSE:

Priority Mail flat-rate envelope EP-14F weighs approximately 1.4 ounces. Priority Mail flat-rate envelope EP-14B weighs approximately 0.8 ounces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T34-13. From any originating city, please discuss the extent to which *either* (1) First-Class Mail provides overnight service for a particular destination while Priority Mail would provide two-day service or (2) Priority Mail provides overnight service for a particular destination while First-Class Mail would provide two-day service. Please provide all available data.

RESPONSE:

I am informed that there are 849,106 valid 3-digit ZIP Code pairs. (1) There are currently 49 ZIP Code pairs where First-Class Mail provides overnight service, while Priority Mail provides two-day service. These cases appear to be database errors and are being resolved. (2) There are currently 151 ZIP Code pairs where Priority Mail provides overnight service, while First-Class Mail provides two-day service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T34-14. Please describe all Postal Service-provided mailing envelopes that qualify for the flat-rate-envelope rate.

RESPONSE:

Priority Mail flat-rate envelope EP-14F is a cardboard envelope measuring approximately 12.5 inches by 9.5 inches. Priority Mail flat-rate envelope EP-14B is a cardboard envelope measuring approximately 6 inches by 10 inches. Printed on all flat-rate envelopes is the Priority Mail logo and the endorsement "2 lb. Priority Mail postage rate required" and/or "2 lb. postage rate regardless of weight" or wording of similar intent.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T34-15. Please confirm that customers mailing items weighing one to 13 ounces might be more likely to use a Priority Mail flat-rate envelope, as opposed to First-Class Mail, if the proposed one-pound Priority Mail rate applied to the flat-rate envelope instead of the proposed two-pound rate. If you do not confirm, please explain.

RESPONSE:

Not confirmed. I am unaware of any studies that evaluate the relative importance of the availability and price of the flat-rate envelope, the availability of Priority Mail value-added services such as delivery confirmation, the service standards for both Priority Mail and First-Class Mail and other factors in customers' decisions to use the Priority Mail flat-rate envelope to mail items weighing one to 13 ounces as opposed using to First-Class Mail to mail these items.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF DOUGLAS F. CARLSON
REDIRECTED FROM THE POSTAL SERVICE**

DFC/USPS-52. Please provide any evidence to indicate that customers would not find the Priority Mail flat-rate envelope to be simple and convenient if the rate that applied to flat-rate envelopes were the proposed one-pound rate, rather than the proposed two-pound rate.

RESPONSE:

I am unaware of any study that would indicate that customer would not find the Priority Mail flat-rate envelope to be simple and convenient if the rate that applied to flat-rate envelopes were the proposed one-pound rate rather than the proposed two pound rate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF STAMPS.COM

STAMPS.COM/USPS-T-34-1

Please refer to the attached Postal News Release of February 11, 2000, (labeled Attachment to STAMPS.COM/USPS-T34-1) on the Postal Service's expansion of its pilot program with Mail Boxes Etc. (MBE). According to the news release, 700 MBE locations will be added to the existing 250 locations, which "have offered a variety of postal products and services such as stamps, . . . Priority Mail and Express Mail."

- (a) Please produce a copy of the contract and/or agreements with MBE related to the pilot program.
- (b) For each year remaining in the pilot program, please provide the amount that the Postal Service expects to pay MBE under the contract and / or agreements in total, and individually, for stamps, Priority Mail and Express Mail.
- (c) Do payments to MBE vary with the number or dollar amount of stamp sales by MBE? If so, please provide the procedures for calculating the payments.

RESPONSE:

- (a) See USPS-LR-I-231.
- (b) See USPS-LR-I-231. I am informed that information on the total expected payments is unavailable.
- (c) See USPS-LR-I-231.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T34-2. Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

RESPONSE:

I relied directly on FY 1999 cost, revenue, volume or other data in my testimony in one instance. As described in my testimony (USPS-T34, page 19, lines 8 through 9), "I project delivery confirmation volumes associated with Priority Mail and Standard (B) based on FY 1999 delivery confirmation program scanner data" This data is presented in USPS-T34, Attachment J. I used FY 1999 data instead of BY 1998 data because three of the four delivery confirmation service options (retail Priority Mail, and electronic and retail Standard (B)) were not available during BY 1998.

I am unable to identify all instances in which I may have indirectly relied on or used in my testimony in any way FY 1999 cost, revenue, volume, or other data which is incorporated in the results of other witnesses used as inputs to my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T34-5. Refer to the attached article on a contract awarded to TIC Enterprises, LLC ("TIC"), by the Postal Service (labeled Attachment to UPS/USPS-T34-5).

- (a) Produce a copy of the contract.
- (b) For the initial term of the contract, provide by year the amounts that the Postal Service is obligated to pay, or expects to pay, TIC under the contract.
- (c) Are the amounts of the payments to TIC under the contract dependent on any measure or estimate of additional volume or additional revenue realized by the Postal Service as a result of the contract? If so, provide the formula or formulas for determining the amounts to be paid to TIC.
- (d) Provide by year and class, subclass, or type of mail, or to the greatest extent of disaggregation possible, the amounts the Postal Service is obligated to pay, or is expected to pay, to TIC under the contract.
- (e) Provide the cost to the Postal Service in the Test Year of the "dedicated sales force that will be bringing the USPS' Priority Mail [and] Express Mail . . . to small- to medium-sized businesses" that is referred to in the article.
- (f) Are there members of the "dedicated sales force" which devote their time exclusively to marketing Priority Mail? If so, provide by fiscal year the cost to the Postal Service of that part of the "dedicated sales force."
- (g) Are there members of the "dedicated sales force" that devote their time exclusively to Express Mail? If so, provide by fiscal year the cost to the Postal Service of that part of the "dedicated sales force."
- (h) Are there members of the "dedicated sales force" who devote their time exclusively to both Priority Mail and Express Mail? If so, provide by fiscal year the cost to the Postal Service of that part of the "dedicated sales force."
- (i) Are any of the costs of the TIC contract attributed to either Priority Mail or Express Mail in the base year, or in any other year through (and including) the Test Year? If so, indicate by year and by class of mail the amount of costs so attributed to Express Mail and/or Priority Mail.

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(j) The article states that the contract award to TIC "follows a successful 18-month pilot program in which TIC marketed these products in the Los Angeles and San Francisco areas." State the dates of the pilot program, and indicate whether any of the costs of the pilot program were attributed to either Express Mail or to Priority Mail. If costs were attributed either to Express Mail or to Priority Mail, state the amount that was attributed by year.

RESPONSE:

- (a) See USPS-LR-I-202, to be filed shortly.
- (b) See USPS-LR-I-202, to be filed shortly.
- (c) See USPS-LR-I-202, to be filed shortly.
- (d) See USPS-LR-I-202, to be filed shortly.
- (e) In the referenced article, the term "dedicated sales force" is attributed to James Greiff, President of TIC Enterprises. I am not aware of any agreement with TIC Enterprises that results in a "dedicated sales force" for any single Postal Service product or service. It is my understanding that all TIC Enterprises sales representatives are trained and expected to offer four USPS products: Priority Mail, Express Mail, Global Priority Mail and International Express Mail. Therefore, I cannot provide costs for any such "dedicated sales force" for Priority Mail and Express Mail.
- (f) See response to UPS/USPS-T34-5(e).
- (g) See response to UPS/USPS-T34-5(e).
- (h) See response to UPS/USPS-T34-5(e).
- (i) I am not an expert on cost attribution. However, I am informed that these costs are not attributed to Express Mail and / or Priority Mail.
- (j) I am informed that the San Francisco pilot program contract was issued on 3/20/1998 and ended on 12/2/1999. I am further informed that the Los Angeles pilot program contract was issued on 6/23/1998 and ended on 12/2/1999. I am not an expert on cost attribution. However, I am informed that these costs are not attributed to Express Mail and / or Priority Mail.

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UPS/USPS-T34-7. Refer to the attachment (labeled Attachment to UPS/USPS-T34-7), which refers to the Priority Mail packaging program.

- (a) Provide the total cost to the Postal Service of Priority Mail packaging other than customized packaging (i.e., packaging containing a mailer's logo) for each year from FY 1995 through FY 1999.
- (b) In which cost segment and component, and in what account, are these costs recorded?
- (c) Are all of these costs attributed exclusively to Priority Mail? If not, for each of the years from FY 1995 through FY 1999, state how much is attributed/assigned to Priority Mail, and how much is attributed/assigned to other classes and services.
- (d) Provide the total cost to the Postal Service of customized Priority Mail packaging (i.e., Priority Mail packaging containing a mailer's logo) for each year from FY 1995 through FY 1999, and state what cost segment and component, and the Postal Service account, in which these costs are collected.
- (e) Are all of the costs of customized Priority Mail packaging attributed to Priority Mail? If not, state for each year from FY 1995 through FY 1999 how much was attributed/assigned to Priority Mail and how much was attributed/assigned to other classes and subclasses of mail.
- (f) Provide the Postal Service's estimates of the costs it expects to incur for Priority Mail packaging (other than customized packaging) in FY 2000, and, separately, in the Test Year, and state whether all such costs will be attributed exclusively to Priority Mail. If not, state how much is expected to be attributed/assigned to Priority Mail, and how much is expected to be attributed/assigned to other classes and subclasses of mail.
- (g) State how much the Postal Service estimates it will spend on customized Priority Mail packaging in FY 2000, and, separately, in the Test Year, and state whether all of those costs will be attributed exclusively to Priority Mail. If not, state how much is expected to be attributed/assigned to Priority Mail, and how much is expected to be attributed/assigned to other classes and subclasses of mail.

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RESPONSE:

- (a)-(g) I am unaware of any report that contains the requested information. It is my understanding that the Postal Service neither tracks nor manages packaging costs on the basis of whether or not the package has a mailer logo.

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UPS/USPS-T34-10. Has the Postal Service ever, at any time during the past three years, given computers away for free to large Priority Mail users? If so, provide the total cost of this program separately by year for BY 1998, FY 1999, FY 2000 (estimated), and the Test Year (estimated), and indicate whether the total cost of the program has been and is being attributed in full to Priority Mail.

RESPONSE:

It is my understanding that the Postal Service (Tactical Marketing and Sales Development – TM&SD) established a developmental program to provide shippers with manifest systems. These systems facilitate the shipper's use of Postal Service package services by enabling the manifesting of packages sent using the Postal Service. The Postal Service entered into individual test agreements with nineteen customers for up to a three-year period under which it leased, at no charge to the customer, manifest mailing systems (hardware and / or software). At this time the program has been suspended. I am informed that total costs for these systems are:

FY 1998 \$165,545

FY 1999 \$425,561

FY 2000 \$110,238

It is possible that offices other than TM&SD may have provided similar systems to customers. I am unaware of the costs, if any, of these programs. I am not an expert on cost attribution. Despite my best efforts, I have not been able to determine how or if the cost of this program is being attributed to Priority Mail.

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UPS/USPS-T34-12. Refer to Attachment A, which is the Compensation attachment to Contract Postal Unit Contract No. 363199-99-U-0158, relating to a two-year contract beginning on November 7, 1998, to operate a Contract Postal Unit ("CPU") for the Postal Service. The Compensation attachment states that the CPU operator "will be paid 20% of the postal funds it receives and remits for the sale of domestic Priority Mail and domestic Express Mail," and "5% of the postal funds it receives and remits for the sale of all other postal products and services" that are subject to the contract.

- (a) Are the full amounts paid by the Postal Service to the CPU operator under such contracts for the sale of Priority Mail attributed solely to Priority Mail? If so, indicate how and where this attribution is reflected in the Postal Service's presentation in this proceeding.
- (b) Are the full amounts paid by the Postal Service to the CPU operator under such contracts for the sale of Express Mail attributed solely to Express Mail? If so, indicate how and where this attribution is reflected in the Postal Service's presentation in this proceeding.
- (c) In what cost segment and component are the payments made by the Postal Service to CPU operators under such contracts recorded in the case of Priority Mail? Identify all accounts in which such payments on account of Priority Mail are recorded.
- (d) In what cost segment and component are the payments made by the Postal Service to CPU operators under such contracts recorded in the case of Express Mail? Identify all accounts in which such payments on account of Express Mail are recorded.
- (e) In what cost segment and component are the payments made by the Postal Service to the CPU operators under such contracts recorded in the case of other postal products? Identify all accounts in which such payments on account of other postal products are recorded.
- (f) Provide separately for BY 1998 and FY 1999 the total amount of payments made by the Postal Service under such contracts for the sale of Priority Mail.
- (g) Provide separately for FY 2000 and for the Test Year the Postal Service's estimates of the total payments it will make under such contracts for the sale of Priority Mail.
- (h) Provide separately for BY 1998 and FY 1999 the total amount of payments made by the Postal Service for such contracts for the sale of Express Mail.

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- (i) Provide separately for FY 2000 and for the Test Year the Postal Service's estimates of the total payments it will make under such contracts for the sale of Express Mail.
- (j) Provide separately for BY 1998 and FY 1999 the total amount of payments made by the Postal Service under such contracts for the sale of all other postal products.
- (k) Provide separately for FY 2000 and for the Test Year the Postal Service's estimates of the total payments it will make under these contracts for the sale of all other postal products.
- (l) How many such contracts with a "Performance Payment Rate" structure (see the attachment) that is the same as or similar to that reflected in the attachment (i.e., where payments are made to the CPU operator on the basis of a stated percentage of the funds received for the sale of Priority Mail and/or Express Mail at a rate higher than for other postal products) are currently in effect?
- (m) Provide the total amount paid by the Postal Service under all such contracts since the inception of this program up to the present, separately for Priority Mail and for Express Mail.

RESPONSE:

- (a) I am not an expert on cost attribution; however, I am informed that the amounts paid by the Postal Service under such contracts for the sale of Priority Mail are not attributed to Priority Mail.
- (b) I am not an expert on cost attribution; however, I am informed that the amounts paid by the Postal Service under such contracts for the sale of Express Mail are not attributed to Express Mail.

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- (c) I am not an expert on cost attribution; however I am informed that payments for Priority Mail under such contracts are recorded in account 52301, cost segment 13, component 111.
- (d) I am not an expert on cost attribution; however I am informed that payments for Express Mail under such contracts are recorded in account 52301, cost segment 13, component 111.
- (e) I am not an expert on cost attribution; however I am informed that payments for other postal products under such contracts are recorded in account 52301, cost segment 13, component 111.
- (f)-(k) I understand that the data in the following table presents the Postal Service's expenditures under such contracts for the sale of Priority Mail, Express Mail, and all other postal products through AP 2, 2000. It is my understanding that the Postal Service has not prepared an official projection of the expected expenditures under this program.

<u>Fiscal Year</u>	<u>Priority Mail</u>	<u>Express Mail</u>	<u>All Other Postal Products</u>	<u>Total</u>
FY 1998	\$ 0	\$ 0	\$ 0	\$ 0
FY 1999	\$ 529,957	\$106,513	\$ 601,281	\$1,237,751
FY 2000 (thru AP2)	\$ 101,574	\$ 20,858	\$ 131,310	\$ 253,742

- (l) I understand that there are 249 such contracts.

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(m) See response to UPS/USPS-T34-12(f)-(k).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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UPS/USPS-T34-13. The Final Adjustment for Delivery Confirmation amounts for air Transportation and Surface Transportation listed in Attachment K to USPS-LR-I-165 are not contained in the source cited, USPS-LR-127, Chapter XV. Identify the source and provide the relevant source document if it has not already been provided.

RESPONSE:

The source is USPS-LR-I-127, Chapter XV, page 787.

The allocation of the Final Adjustment for Delivery Confirmation for air transportation and surface transportation in USPS-T34, Attachment K (electronic version USPS-LR-I-165) is incorrect. The allocation was changed following the completion of the rate design. The correct test year before rates totals (\$000) as shown in USPS-LR-I-127 are:

Air Transportation = \$9,877.451

Surface Transportation

~~= \$5799.686~~ = 5,702.056 (Highway) + 60.877 (Railroad) + 36.753 (Domestic Water)

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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UPS/USPS-T34-14. Provide the source of the assumptions used in Rate Design Assumptions -- Target Cost Coverage of 184% in USPS-LR-I-165, Input Data worksheet.

RESPONSE:

The "target cost coverage" of 184% referenced in USPS-LR-I-165, Input Data worksheet is a rate design assumption whose use is described below.

Witness Mayes established the required test-year-after-rates cost coverage for Priority Mail of 180.9 percent (see USPS-32B, p. 1). The Priority Mail rate design is based on test-year-before-rates-costs (see USPS-T34, Attachments F and G). Priority Mail unit costs are greater in the test-year-after-rates than in the test-year-before-rates.

Therefore, if test-year-before-rates costs are marked up and rates designed using a "target cost coverage" of 180.9 percent, the resulting test-year-after-rates cost coverage will be less than the 180.9 percent cost coverage required. To address this problem, I increased the input or "target cost coverage" until the required test-year-after-rates cost coverage of 180.9% was achieved.

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UPS/USPS-T34-15. Provide the Special Weight Report -- FY 1998 Priority Mail by Ounce referred to in USPS-LR-I-165, Input Data and Att B tabs.

RESPONSE:

See attached.

SPECIAL PRIORITY REPORT--PQ 7 FY 1998
 VOLUMES BY OUNCE INCREMENT UP TO TWO POUNDS

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OZS	PRIORITY VOLUME	PRESORT PRIORITY VOLUME	FLAT RATE ENVELOPE PRIORITY VOLUME	PRESORT FLAT RATE ENVELOPE PRIORITY VOLU
.001- 1.000	4,961,478.73	8,902.93	3,262,444.69	4,971.79
OVER 2 POUNDS	250,675,229.34	644,496.49	5,431,849.39	43,581.77
1.001- 2.000	10,747,880.66	62,464.96	19,106,826.92	19,573.08
10.001-11.000	19,846,650.81	53,247.01	3,417,264.93	3,942.80
11.001-12.000	74,767,386.76	327,557.61	4,172,245.12	13,259.75
12.001-13.000	66,948,385.45	335,351.85	4,309,251.07	19,964.98
13.001-14.000	55,349,822.75	429,783.35	4,237,657.96	15,085.59
14.001-15.000	50,119,282.08	243,527.79	3,214,702.56	18,680.92
15.001-16.000	43,957,839.22	137,738.99	2,877,981.20	12,395.57
16.001-17.000	39,895,342.93	380,918.09	3,008,128.80	1,935.60
17.001-18.000	37,605,315.77	188,382.36	2,635,562.76	17,246.00
18.001-19.000	33,907,739.62	90,689.81	2,271,627.40	9,798.12
19.001-20.000	30,906,934.44	124,480.01	1,785,161.56	5,688.70
2.001- 3.000	9,253,462.13	14,691.66	11,905,151.55	25,662.11
20.001-21.000	27,822,960.92	150,367.24	1,656,818.29	3,311.98
21.001-22.000	26,370,314.04	66,053.51	1,445,748.98	
22.001-23.000	23,965,887.09	64,345.89	1,505,056.81	3,282.17
23.001-24.000	22,723,096.97	38,248.44	1,316,642.30	4,131.42
24.001-25.000	21,149,704.70	74,879.44	1,102,535.30	18,165.06
25.001-26.000	19,739,600.27	66,947.37	965,683.09	5,066.59
26.001-27.000	18,910,265.80	64,204.77	840,363.20	661.72
27.001-28.000	17,803,333.85	44,181.75	932,677.39	13,792.14
28.001-29.000	16,197,393.09	22,191.48	706,489.35	6,412.60
29.001-30.000	15,093,993.14	53,521.12	688,483.81	7,944.68
3.001- 4.000	8,110,306.40	17,640.86	8,188,164.95	39,294.59
30.001-31.000	13,745,226.21	49,414.20	585,369.68	152.16
31.001-32.000	13,336,090.77	26,278.93	542,124.36	24,568.11
4.001- 5.000	8,438,858.84	9,956.09	6,880,566.25	29,916.65
5.001- 6.000	9,092,784.37	25,190.87	5,257,133.37	10,229.71
6.001- 7.000	9,880,716.49	24,342.43	4,381,532.37	5,891.41
7.001- 8.000	11,402,682.16	43,345.83	3,697,970.22	13,215.56
8.001- 9.000	14,529,498.55	86,440.76	3,675,792.14	27,492.42
9.001-10.000	16,583,546.47	32,355.31	3,478,540.01	25,287.61
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	1,043,579,050.81	4,001,139.19	119,483,547.78	450,603.37

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SPECIAL PRIORITY REPORT--PO 7 FY 1998
AVERAGE WEIGHT PER PIECE FOR FLAT RATE ENVELOPE PRIORITY

OZS_PP

10.2969

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T34-16. Refer to your testimony on pages 17-18, where you propose to "maintain the current relative rate structure" so that "the Postal Service will be able to fully evaluate the operational feasibility of alternate network configurations without being constrained by having fully incorporated the unique features of the current contract into rates." Why is it appropriate to maintain the current relative rate structure when significant changes to costs are likely?

RESPONSE:

It is appropriate to maintain the current relative rate structure because significant unknown changes to the underlying costs for Priority Mail are likely. The premise of this question suggests that the Postal Service should speculate on unknown future network configurations, develop costs based on this speculation, and fully incorporate these speculative costs into rates. Instead, the rate design and the underlying assumptions take a conservative approach and (1) assume the current network configuration persists; (2) mitigate impact on relative rates of experimental network configurations (the PMPC network) that may not persist; and (3) meet the required Priority Mail cost coverage proposed by witness Mayes.

As discussed on pages 13-15 of my testimony, the PMPC network, run by contractor Emery Worldwide Airlines, is an experimental program. The Postal Service is currently evaluating the Priority Mail network and has not yet decided how it will be configured in the future. Many options are being discussed including: continuing the current network structure, expanding or reducing the PMPC network, or replacing the Emery network with an alternate network run by the Postal Service or by an outside contractor. In designing rates in this uncertain environment, as discussed on page 14 of my testimony, I attempted to reconcile two factors: the existence of the Emery contract

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and its impact on costs and the fact that Emery PMPC network is a test program. My rate design mitigates the impact of the Emery contract and the unique assignment of some transportation-related costs into Cost Segment 16 on relative rates while recognizing that the best available projection of overall Priority Mail costs is that presented in test year roll-forward model.

As the Postal Rate Commission noted in Docket No. R87-1, the existing rate relationships are presumptively reasonable.

[4025] A primary reference point in any case evaluating a Postal Service request to change rates is the existing rate schedule. The current schedule reflects what postal customers are paying today, and any proposed new rates must be viewed in light of what changes they involve from rates recommended by this Commission and implemented by the Governors.

[4026] The existing rate relationships are presumptively reasonable. They have evolved over the years as a result of extensive analysis, as described in Commission recommended decisions. Our review of existing rates recognizes this evolution and the reasoning which has led to past recommendations. [Docket No. R87-1, PRC Op. at 367]

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TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T34-23. Provide the volume of Priority Mail by ounce increment for BY1998.

RESPONSE:

See USPS-LR-I-250 to be filed shortly.

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TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T34-24. Provide the volume of Priority Mail by ounce increment for FY1999.

RESPONSE:

See USPS-LR-I-250 to be filed shortly.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T34-25. Confirm that one-day service Priority Mail has an overnight service commitment or standard identical to that for First-Class Mail. If you do not confirm, explain how they differ and the extent of the difference.

RESPONSE:

Not confirmed. I am informed that, for First-Class Mail, 8,744 three-digit ZIP Code pairs have a one-day service standard, and for Priority Mail, 9,029 three-digit ZIP Code pairs have a one-day service standard.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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UPS/USPS-T34-30. For BY1998, provide the portion of the total volume of Priority Mail pieces for which the customer purchased Delivery Confirmation service.

RESPONSE:

No customers purchased Delivery Confirmation service in BY 1998. The Delivery Confirmation fees were implemented on March 14, 1999.

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UPS/USPS-T34-31. For FY1999, provide the portion of the total volume of Priority Mail pieces for which the customer purchased Delivery Confirmation service.

RESPONSE:

2.4% of total FY 1999 Priority Mail pieces purchased Delivery Confirmation service. All of these purchases were following the implementation of the Delivery Confirmation fees March 14, 1999.

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UPS/USPS-T34-32. For TY2001, provide the portion of the total volume of Priority Mail pieces for which the customer is expected to purchase Delivery Confirmation service.

RESPONSE:

12.9% of TYBR 2001 Priority Mail pieces are projected to purchase Delivery Confirmation service.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T34-35. Interrogatory UPS/USPS-T34-4 asked about a statement in an analyst's report discussing the Postal Service's contract with Emery that Emery "has recognized \$123.7 million in unbilled revenue to date" in relation to the Priority Mail contract. In an objection filed at the Commission on February 25, 1999, the Postal Service advised that Emery's "unbilled revenue" under the contract is a "matter under discussion." As of the date of your answer, has the Postal Service agreed to pay Emery any amounts over and above the amounts which the Postal Service contended were to be paid under the PMPC contract, either with respect to BY1998, FY1999, FY2000, or FY2001? If so, provide those amounts for each year.

RESPONSE:

To the best of my knowledge, the Postal Service has not reached any such agreement with Emery.

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT
PROMOTIONS, INC.

VP-CW/USPS-T34-1.

- a. Please refer to your response to APMU/USPS-T34-19. Please confirm that, in Priority Mail rate design, the difference in the rate for an item mailed to zone L, 1, 2, 3, and an item mailed to, say, zone 6, reflects distance-related transportation cost plus contingency plus markup. Please provide a detailed explanation for any nonconfirmation.
- b. Please confirm that the difference in the rate for pound-rated Standard A Mail entered at, say, a DSCF, and the same mail entered at a OMBC reflects only costs avoided by the Postal Service, without any contingency or markup, which costs in turn may be multiplied by a passthrough of less than 100 percent.
- c. Please provide a detailed explanation for any nonconfirmation. Please explain why this different treatment between subclasses (i.e., cost plus contingency plus markup in one instance, and less than 100 percent of costs avoided in the other) is (i) fair and equitable, (ii) consistent, and (iii) smart business for the Postal Service.
- d. Please refer to your response to APMU/USPS-T34-32.
 - (i) What different approaches to marking up distance-related transportation costs for Priority Mail did you discuss with Postal Service management?
 - (ii) What led you to retain the method used in this docket?

RESPONSE:

- a. Confirmed. See USPS-T34, Attachment G.
- b. Confirmed.
- c.
 - (i) The difference in the rate design for zoned Priority Mail and Standard Mail (A) is fair and equitable because of the dramatic differences in the mail

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT
PROMOTIONS, INC.**

characteristics of the two classes and the resulting effect on costs. While Standard Mail (A) pieces can weigh no more than 16 ounces, zoned Priority Mail rates are used for mail pieces weighing from five to seventy pounds. Transportation costs increase as weight and distance transported increase. The zoned rates reflect this and application of the markup and contingency to all costs including distance-related transportation costs is fair and equitable. It would be inequitable, and patently absurd, for a five-pound piece destinating in Zone 1 to pay the same contribution to institutional costs as a seventy pound piece destinating in Zone 8. Nonetheless, this is what the premise of this question implies.

Note: Total distance-related Priority Mail costs are \$454,124,369 (= 267,629,452 air + 186,492,917 surface, see USPS-T34, Attachment G, page 1). If the rate design does not mark up these costs and include a contingency on these costs, approximately \$387,921,826 (= $454,124,369 \times [(1.025) \times (1.809) - 1]$) must be added to the costs recovered through the "per-piece" charge to maintain the overall Priority Mail cost coverage proposed by witness Mayes and meet the contingency proposed by witness Tayman. In the test year before rates this is approximately \$0.2859 (= $387,921,826 / 1,356,714,577$) per piece.

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT
PROMOTIONS, INC.**

(ii) The difference in the rate design for zoned Priority Mail and Standard Mail (A) is consistent when the two rate structures are compared on an apples-to-apples basis. The scenario as described in APMU/USPS-T34-19 could be viewed as "unfair" to Standard Mail (A) – the discount for drop shipment is only equal to a fraction of the avoided transportation costs instead of the 100% of avoided transportation costs plus markup plus contingency inherent in the "imputed discount" for Priority Mail destinating in Zone 1. Or this scenario could be viewed as "unfair" to Priority Mail -- the cost of transporting mail from Zone 1 to Zone 8 includes a markup and a contingency while the Standard Mail (A) discount or "cost" of avoided Postal Service transportation does not include a markup or contingency. Both these arguments ignore the fact that the rate designs for end-to-end service for both Priority Mail and Standard Mail (A) are consistent and include distance related transportation costs to which both a mark-up and the contingency are applied. The Standard Mail (A) dropship discount is designed to provide incentives for mailers to reduce combined overall costs by dropping Standard Mail (A) pieces deep in the postal system thus avoiding mail processing and transportation costs. On the other hand, Priority Mail is structured as a completely end-to-end system, the zoned structure reflects costs and not incentives for mailer worksharing. If, in the future and following the completion and evaluation of the appropriate costing studies, the Postal

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT
PROMOTIONS, INC.**

Service were to propose drop ship discounts for Priority Mail, it is unlikely that these incentives would eliminate the zoned rate structure for pieces weighing more than five pounds.

(iii) The difference in the rate design for zoned Priority Mail and Standard Mail (A) makes smart business sense for the Postal Service because it appropriately reflects the differences in the characteristics and costs for the two classes of mail.

d.

(i) In preparing the Priority Mail rate design for Docket No. R2000-1, I discussed with Postal Service management witness Haldi's proposals in prior omnibus rate cases to eliminate the markup on the distance-related component of transportation costs.

(ii) Witness Haldi's proposal was rejected because the Postal Service shares the Commission's concern (see Docket No. R94-1, PRC Op. at V-38) that implementing such a proposal may result in significant disruption in Priority Mail rates.

1 CHAIRMAN GLEIMAN: Is there Additional Written
2 Cross Examination?

3 MR. McKEEVER: Yes, Mr. Chairman.

4 CHAIRMAN GLEIMAN: Mr. McKeeever?

5 CROSS EXAMINATION

6 BY MR. McKEEVER:

7 Q Ms. Robinson, I have just handed you a copy of
8 your responses to Presiding Officer's Information Request
9 Number 6, Questions 6, 7, 8, 10, 11, 12, and 13.

10 If those questions were asked of you today, would
11 your answers be the same?

12 A Yes, they would.

13 MR. McKEEVER: Mr. Chairman, I move that Ms.
14 Robinson's responses to Presiding Officer's Information
15 Request Number 6, Questions 6, 7, 8, 10, 11, 12, and 13, be
16 admitted into evidence and transcribed into the record.

17 CHAIRMAN GLEIMAN: If you would please provide
18 copies to the Reporter, I'll direct that that material be
19 received into evidence and transcribed into the record.

20 [Additional Designated Cross
21 Examination of Maura Robinson,
22 Presiding Officer's Information
23 Request Number 6, Questions 6, 7,
24 8, 10, 11, 12, and 13, were
25 received into evidence and

transcribed into the record.]

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

6. In response to AMPU/USPS-T-39-1 (a), witness Mayo states that "there is no formalized use of Delivery Confirmation data to measure the quality of parcel delivery service." In responding to APMU/USPS-T39-1 (b)-(c), the Postal Service states that "[d]elivery confirmation data, ODIS data and PETE data are available to Headquarters and Field operations management." In response to APMU/USPS-T34-10 (b), which asked for Priority Mail delivery data available from the Delivery Confirmation system, witness Robinson stated: "I am informed that the requested data are not available."

- a. Please describe in detail the Delivery Confirmation data that is collected for parcel post and Priority Mail.
- b. For how long is this data retained?
- c. What delivery confirmation data [have been], are made available to Headquarters and Field operations management?

RESPONSE:

At the time I prepared the response to APMU/USPS-T30-10(b), I understood that a service performance measure based on Delivery Confirmation data was under development and was not yet available. In the process of identifying information responsive to part (c) of this question, I determined that a service performance measure based on retail Delivery Confirmation data was available. This information has been provided in response to UPS/UPS-T34-34 and a revised response to APMU/USPS-T34-10(b) will be filed.

- a. Date item was delivered, delivery was attempted, item was forwarded, or item was returned. If accepted over the retail counter, date of the acceptance scan. Electronic Delivery Confirmation customers provide the Postal Service with information on when and where a piece is expected to be entered.
- b. One year.

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- c. Data needed to calculate scanning percentages, that is, the number of Delivery Confirmation pieces receiving a delivery scan within a certain area, divided by the total number of Delivery Confirmation pieces destined for that area. A service performance measure based on retail delivery confirmation scans is also provided.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6**

7. Please refer to interrogatories UPS/USPS-T34-11 and 12, Attachment A. Attachment A purports to be a compensation attachment to Contract Postal Unit Contract No. 363199-U-0158, relating to a two-year contract for operating a Contract Postal Unit for the Postal Service. The attachment states that the operator will be paid 20 percent of the postal funds it receives and remits for the sale of domestic Priority Mail and domestic Express Mail, and 5 percent of the postal funds it receives and remits for the sale of all other postal products and services subject to the contract.

- a. Is UPS's characterization of this document accurate?
- b. Please describe the cost-benefit analysis or other considerations that led to establishing this compensation schedule. If documentation exists supporting this arrangement, please provide it.
- c. Are payments under these contracts treated as product specific costs, that is, are payments made as a result of the sale of Priority Mail treated as a product specific cost of Priority Mail?
- d. What are the percentages of total revenue from Express Mail and Priority Mail sold at Postal Service retail offices? What are the percentages of total revenue from Express Mail and Priority Mail at contract units where compensation is computed in such fashion?

RESPONSE:

- a. Yes. Contract 363199-U-0158 has an Attachment 4 containing such terms.

This contract is between the Postal Service and a Mailboxes, Etc. franchisee.

See USPS-LR-I-231.

- b. I am informed that the deliberative processes involved in contracting for services on the terms described are not memorialized in documentation. I am further informed that, as with all procurements, the considerations underlying the compensation paid a supplier include providing fair compensation for service/goods received, and obtaining fair value for the consideration paid.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

- c. I am not an expert on cost attribution; however I am informed that payments for Priority Mail under such contracts are recorded in account 52301, cost segment 13, component 111, and are not treated as product-specific costs for either Priority Mail or Express Mail.
- d. The percentage of total revenue from Express Mail and Priority Mail sold at Postal Service retail offices is not known. I am informed that the percentage of the total postal funds generated from Express Mail and Priority Mail postage in contract postal units compensated as set forth in this question for FY 1999 through AP 2 of FY 2000 was 21%.

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8. Please describe the extent to which PETE and EXFC data are made public, include in your response the extent to which the public data refers to performance between specifically identified geographic areas.

RESPONSE:

EXFC overnight performance data are released to the public by USPS Public Affairs and Communications through a general news release, *Postal News*, at the conclusion of each postal quarter. This news release is posted on our public web site at <http://www.usps.com/news/press/>.

Upon request, Consumer Affairs provides an electronic copy of summarized EXFC data. The data provided are limited to on-time service performance and average days to deliver by service commitment and all service commitments combined. Estimates of the margins of error associated with these estimates are also provided. Data are provided at the national level, and from all origins combined to a specific destination performance cluster level only.

The Postal Service does not officially release PETE data, even at the national level because it is considered to be commercially sensitive.

The policy of the Postal Service always has been that data indicating performance between specifically identified geographic areas (commonly referred to a "point-to-point" data) are not public. Any public disclosures of point-to-point data by any Postal Service office are contrary to policy.

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10. Please refer to the response of witness Robinson to DFC/USPS-T-34-13 concerning service commitments for Priority and First Class between 3-digit Zip Code pairs. Witness Robinson states that there are 849,106 valid 3-digit Zip Code pairs, and states there are 151 Zip Code pairs where Priority Mail provides overnight service while First-Class provides two-day service.

- a. Please provide the number of Zip Code pairs where the service standard for First Class equals that of Priority Mail, segregated into overnight, two-day and three-day service areas.
- b. Please provide the number of Zip Code pairs where the service standard for First Class exceeds that of Priority Mail, segregated into overnight, two-day and three-day service areas.
- c. Please provide the total overnight, two-day and three-day service standard Zip Code pairs for Priority Mail and First Class mail.
- d. Witness Robinson states in the same interrogatory response that database errors appear to be responsible for the 49 Zip Code pairs where First-Class provides overnight service while Priority provides two-day service. Please clarify and update this conclusion.

RESPONSE:

- a. I am informed that the First-Class Mail service standard equals the Priority Mail service standard in 225,239 ZIP code pairs: 8,744 are one-day service standard, 156,933 are two-day service standard, and 59,562 are three-day service standard.
- b. I am informed that there are currently no instances where the First-Class Mail service standard exceeds (are faster than) the Priority Mail service standards. In preparing the response to DFC/USPS-T34-13, 49 ZIP code pairs were identified as having a First-Class Mail service standard that exceeded the Priority Mail service standard. I am informed that these 49 instances were errors and that the service standard database has been corrected.

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c.

Number of Three-Digit ZIP Code Pairs

	One-Day Service Standard	Two-Day Service Standard	Three-Day Service Standard
First-Class Mail	8,744	157,081	683,281
Priority Mail	9,030	780,514	59,562

d. See response to part (b).

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11. In USPS-LR-I-196, in the Sales and Services Associate Training, Facilitator's Guide, NSN#7610 040008859, Course 23501-02 (September 1999) p. 111, reference is made to a Sommers Communication Video entitled "Priority Mail." Please supply a copy of the video.

RESPONSE:

The requested video will be filed shortly as USPS-LR-I-282.

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12. The Postal Service is proposing to eliminate the one pound minimum weight requirement for parcel post and charge the minimum rate in each category for all pieces weighing up to two pounds (USPS-T-36 at 12). For inter-BMC that proposed rate is \$3.47. The Service is also proposing a new one pound Priority mail rate of \$3.45 (USPS-T-34 at 16). Please explain the rationale for a one pound priority rate that is lower than the one pound rate in parcel post.

RESPONSE:

As the question notes, the proposed \$3.47 inter-BMC rate is for material weighing no more than two pounds while the proposed \$3.45 Priority Mail rate is for material weighing no more than one pound. Both the Priority Mail and the Parcel Post rates are based on the costs of providing these services and these rates reflect those costs plus the contingency proposed by witness Tayman and the cost coverages proposed by witness Mayes. The inter-BMC Parcel Post rate allows customers to mail heavier weight pieces (up to two pounds rather than only one pound). Therefore, by using the \$3.47 inter-BMC Parcel Post rate, some customers will be able to mail two-pound packages at a lower rate than if they were to use the proposed \$3.85 two-pound Priority Mail rate.

However, Parcel Post and Priority Mail have different rate structures, with Parcel Post offering opportunities for customers to workshare and thereby take advantage of discounts. Therefore, for many commercial customers, and some retail customers, the appropriate comparison is not between the one-pound Priority Mail rate and the two-pound inter-BMC rate, but rather between the one-pound Priority Mail rate and the two-pound, intra-BMC, DBMC, DSCF, or DDU rate. In each of these cases, the Priority Mail rate is greater than the corresponding Parcel Post rate. However, for some customers -- those who mail

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one-pound, inter-BMC pieces -- the lower Priority Mail rate would be more economical. Previously, customers mailing these pieces would have had no alternative but to use Priority Mail; this rate proposal does not penalize them for continuing to use Priority Mail.

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13. In USPS-T-34 witness Robinson discusses the Emery adjustment which moves some of the costs of the Emery contract from the per piece to the per pound rate element in Priority mail. The adjustment is made by, "assuming that the Emery costs in cost segment 16 remain at the same level as in the base year and reallocating the difference (based on base year proportions) between the test year and the base year Emery costs to cost segment 3.1 (Mail Processing Direct Labor), and cost segment 14 (Transportation)." Please explain the rationale for reallocating only the difference between the test year and the base year instead of the entire test year contract amount.

RESPONSE:

As discussed in my testimony (USPS-T34 at 14-15), I reallocated only the difference between the test year and base year Emery contract costs to cost segment 3.1 (Mail Processing Direct Labor) and cost segment 14 (Transportation) in order to mitigate the impact of the Emery contract on Priority Mail rates. The Priority Mail Processing Center (PMPC) network run by Emery Worldwide Airlines is an experimental program (see, for example, my response to UPS/USPS-T34-16), and the Postal Service has not yet determined whether this network will continue, be expanded, be eliminated, or be replaced by another network design. Therefore, in designing Priority Mail rates, I chose to mitigate the impact of the Emery network on Priority Mail rates by re-allocating the difference between test year and base year Emery contract costs to cost segments 3.1 and 14 based on base year proportions. This mitigates the impact of the Emery contract -- and its novel impact on Postal Service costs through its assignment to cost segment 16 -- on Priority Mail rates while still recognizing that the Emery contract does reduce the amount of costs that are identified by Postal Service costing methodology as distance-related. If the Postal Service's network

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6**

evaluation results in a continuation of the PMPC network under the same contract structure and with a similar assignment of these costs to cost segment 16, the rate design I proposed in this case is a step towards a cost structure with fewer identified transportation costs. Conversely, if the Postal Service decides (1) to eliminate the PMPC network; or (2) to modify the contract structure; or (3) to directly assign some Emery network costs to transportation (C/S 14), the unique characteristics of the Emery contract will not have been fully incorporated into the Priority Mail rate structure, and the rate design I propose in this case will thus avoid the need for a potentially dramatic compensating adjustment in a future omnibus rate case.

1 MR. McKEEVER: Mr. Chairman, I understand that
2 there was also a revised answer that Ms. Robinson gave to
3 APMU/USPS-T-34-10.

4 My understanding from counsel is that the revised
5 answer to that interrogatory, even though I'm not sure it
6 was designated as revised, has been included in the record
7 as part of the original package of written cross.

8 MR. COOPER: Yes, the witness earlier indicated
9 that she had made that substitution.

10 MR. McKEEVER: Thank you, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Thank you. Is there any
12 Additional Written Cross?

13 MR. OLSON: Mr. Chairman, I have no objection, but
14 I'd like to examine the packet being provided to the
15 Reporter.

16 CHAIRMAN GLEIMAN: All right, then we'll just wait
17 a moment while you have an opportunity to do that.

18 MR. OLSON: Thank you, Mr. Chairman.

19 CHAIRMAN GLEIMAN: Thank you, Mr. Olson. Any
20 additional designated written cross?

21 [No response.]

22 CHAIRMAN GLEIMAN: If not, that brings us to oral
23 cross-examination. Two parties have requested to
24 cross-examine Witness Robinson, the Association of Priority
25 Mail Users and ValPak-Carol Wright. Are there any other

1 parties that wish to cross-examine this witness?

2 [No response.]

3 CHAIRMAN GLEIMAN: If not, Mr. Olson, you can
4 decide which hat you are wearing and you can proceed.

5 MR. OLSON: Taking it alphabetically, Mr.
6 Chairman, William Olson, representing the Association of
7 Priority Mail Users.

8 CROSS-EXAMINATION

9 BY MR. OLSON:

10 Q Ms. Robinson, I would like to ask you to turn to
11 page 12 of your testimony. I have some questions about the
12 Emery adjustment which you make. And on page 13 you say
13 that the Postal Service's contract with Emery is on a per
14 piece basis that does not permit the Postal Service to
15 identify which payments to Emery are either a transportation
16 or non-transportation, correct?

17 A Yes, that is correct.

18 Q And because of that, if you were to lump all those
19 costs into, without trying to spread them between
20 transportation and non-transportation, lump them into cost
21 segment 16 and put them in the per piece rate element, that
22 would skew the recommended rates, or requested rates, is
23 that basically what you are saying?

24 A The Emery contract costs are accounted for in cost
25 segment 16, which, under the Postal Service's methodology

1 for designing rates and the methodology that has been used
2 by the Postal Rate Commission, is treated as -- cost segment
3 16 is treated as a cost that would result in per piece
4 costs. It would not recognize the transportation component
5 of the Emery contract.

6 Q And, therefore, you go through a procedure, do you
7 not, of trying to determine what percentage of those costs
8 should be treated as, I guess you have per piece air
9 transportation and surface transportation, is that correct?

10 A No, I don't think that is correct.

11 Q What categories do you break it into? Are we
12 talking about Attachment E now?

13 A Attachment E. What the Emery adjustment is doing
14 is taking the change in the Emery contract costs from the
15 base year to the test year before rates, and it is
16 reallocating a portion of that change to transportation
17 costs to air and to surface transportation costs based on
18 the proportions of air transportation, surface
19 transportation and mail processing in the base year.

20 Q You are not affecting then the amount in the base
21 year, simply the amount of the increase between the base
22 year and the test year before rates?

23 A I am reallocating only the amount of the increase
24 between the base year and the test year before rates, yes.

25 Q Okay. Now, you say in your responses we just

1 discussed, that the contract with Emery is on a per piece
2 basis. Does that mean that as volume increases, the amount
3 of the funds paid to Emery increase, or what do you mean by
4 per piece basis?

5 A I am not an expert on the Emery contract, but, in
6 general, my understanding of that contract is as volume
7 increases, the amount paid to Emery does increase.

8 Q What other factors cause amounts paid to Emery to
9 increase?

10 A The total amount paid to Emery?

11 Q Yes.

12 A The Emery contract prices are based on a number of
13 factors, including origin and destination of the mail
14 pieces, shape of the mail piece, and the per piece price.
15 There also are some clauses regarding contract performance.
16 Change in any of those could presumably cause the contract
17 payments under the Emery contract to increase.

18 Q What do you mean by origin destination, the first
19 factor you listed?

20 A It is my understanding of the Emery contract, that
21 there are different prices for different legs of
22 transportation between different city pairs, say.

23 Q So, if the piece originated in Florida and went to
24 Boston, it might get a higher rating than a piece that
25 originated in Newark and went to Elizabeth?

1 A It would likely have a different rate, I am not
2 sure if it would be higher or lower.

3 Q What is the performance change in payment to Emery
4 based upon, do you know?

5 A No, I don't.

6 Q As we look at this just in large numbers, and we
7 see the amendment you have now made to Attachment E, you
8 show an increase in the Emery contract payments from base
9 year of 289 million to test year before rates of 522
10 million, is that correct?

11 A Yes, that is correct.

12 Q And that's a hefty percentage of increase, is it
13 not, about 80 percent?

14 A I have not done the calculation, but it is in that
15 range.

16 Q Is an 80 percent increase between the test year --
17 I'm sorry, between the base year, '98, and the test year,
18 2000, likely to be significantly caused by a change in
19 volume?

20 A The increase in Emery costs between the base year
21 and the test year depends on several factors. During the
22 base year the Emery network was not fully up. There were
23 not the full ten sites operating during the entire portion
24 of the base year, so that impact of the network being
25 full-scale in the test year would affect those costs.

1 In addition, if there are volume changes in the
2 volume projected to go through the Emery network, that would
3 also affect those costs.

4 Q Do you know how many of the ten plants were up by
5 the close of the base year, '98?

6 A The tenth and last PMPC that is currently
7 operating became fully operational in July, 1998, which
8 would have been before the close of the base year.

9 Q And the numbers that I saw were that five of them
10 were operational by December, '97, is that correct?

11 A I don't know.

12 Q Of the 80 percent increase in the Emery payment,
13 do you know how much of it is accounted for by the fact that
14 the contract was not fully -- all the plants were not up by
15 the end of the base year?

16 A No, I don't.

17 Q What other factors caused that to be increased?

18 A To increase the cost of Emery? Other than the
19 things I've already indicated, that is the amount of
20 information I have about the increase in the cost for the
21 Emery network.

22 Q On Attachment A you have three percentages --
23 shape -- I'm sorry -- share base year mail processing costs,
24 air transportation costs, and surface transportation costs.

25 Where did those percentages come from?

1 A Those percentages are calculated based on the mail
2 processing, direct labor costs, air transportation costs,
3 and surface transportation costs that were brought I believe
4 by Witness Meehan.

5 Q And those are on (d) through (g), lines (d)
6 through (g)?

7 A Yes, the totals are.

8 Q Now you say in your testimony and in your
9 responses to interrogatories several times that the contract
10 with Emery is -- I think you say it has uncertainty to it.
11 It has an uncertain future. It is not clear these costs
12 will be incurred in this way in the test year, et cetera.

13 Is that your -- the uncertainty with which you
14 confront the issue is you write your testimony?

15 A There is some uncertainty regarding the future of
16 the Priority Mail network. The Emery program is a test
17 program and my understanding is management is in the process
18 of evaluating that program.

19 Q What does it mean to be a test program? I think
20 you also called it a pilot program at one point. What does
21 that mean actually?

22 A It is my understanding that the Postal Service
23 instituted the Emery network to evaluate the operational
24 advantages of processing mail through a third party
25 contractor.

1 Q And is this the first time, to your knowledge,
2 that it had been done by the Postal Service, at least since
3 we rode horses?

4 A I am not aware of any other circumstance. I don't
5 know that it is the first time.

6 Q Do you know what options the Postal Service has in
7 front of it with respect to the Emery contract. Could you
8 speak to the range of options that are possible outcomes at
9 the end of the current contract?

10 A There is a very wide range of possible outcomes.
11 I would be speculating if I said that Outcome A or Outcome B
12 would be the result.

13 I am generally aware of discussions among
14 management that include expanding the network, reducing the
15 network, having an alternative network of some sort, and
16 including bringing the process back within the Postal
17 Service in a more traditional manner.

18 Q And do the options also include perhaps other
19 vendors besides Emery?

20 A It is my understanding that has been discussed.

21 Q Is processing of Priority Mail within the Priority
22 Mail processing center network more or less expensive than
23 processing the same mail outside the network?

24 A Let's see, it is my understanding that it is
25 generally more expensive.

1 Q And you were looking that up before you responded.
2 What source do you have for that conclusion?

3 A The source for the information?

4 Q Yes.

5 A That was provided to me by the operational people
6 who run the Emery network -- or the Postal people who work
7 with the Emery network.

8 Q Can you quantify that for us, how much more
9 expensive is it to have the Emery -- to process Priority
10 Mail through the Emery network?

11 A No, I can't.

12 Q Any order of magnitude you could give us?

13 A No.

14 Q You just know it is more expensive?

15 A That is what I have been informed.

16 Q Do you know when the Emery contract expires?

17 A I am afraid I don't remember the date, no.

18 Q If I were to suggest that we have been given the
19 date of February 2002, does that sound correct?

20 MR. COOPER: The witness has already answered that
21 she does not know the answer to this question.

22 MR. OLSON: Well, I am trying to refresh her
23 recollection. If she continues to say she doesn't know, I
24 can't go any further. But I think I am allowed to suggest
25 an answer.

1 CHAIRMAN GLEIMAN: If that date rings a bell with
2 the witness, she can tell us. And if it doesn't, then we
3 will move on to something else, Mr. Olson.

4 THE WITNESS: I am sorry, the date was?

5 BY MR. OLSON:

6 Q February 2002.

7 A I don't recall the specific date.

8 Q When you say that the network is a test or a
9 pilot, are you -- what do you think is being tested? In
10 other words, to give you some possibilities, are we trying
11 to see how Priority Mail could be delivered less expensively
12 by outside vendors, or are we trying to see if it could be
13 delivered more rapidly and meet service commitments more of
14 the time? Are those the sorts of things that are being
15 tested?

16 A I was not involved in the decision to institute
17 the Emery network. It is generally my understanding that
18 the Emery PMPC network was developed to look at both those
19 things, the cost of Priority Mail outside the network, or
20 outside the traditional Postal system of processing mail,
21 and also the speed or the service that could be achieved.

22 Q Okay. So, in terms of its ability to deliver the
23 mail at the same or reduced cost, that so far has not
24 occurred, correct?

25 A I am sorry?

1 Q In terms of the ability of the Emery PMPC network
2 to deliver Priority Mail at the same or reduced cost, that
3 objective has not been yet achieved, correct?

4 A It is my understanding that it is generally more
5 expensive to process and transport mail through the Emery
6 network, yes.

7 Q Then how about service improvements, have there
8 been improvements in delivery of the mail that is processed
9 through the network?

10 A I believe Witness Kingsley has stated in an
11 interrogatory response that there are some improvements.

12 Q Do you have any information of your own on that,
13 or are you simply relying on Witness Kingsley?

14 A I don't have any information of my own, no.

15 Q As the rate design witness for Priority Mail, did
16 it seem important to you to find out as to whether the Emery
17 contract was succeeding in terms of improving performance
18 for Priority Mail?

19 A The question of whether the Emery network in and
20 of itself is improving performance does not address the
21 bigger issue that is used in rate design. Rate design is
22 typically done at the national level, not at some
23 subnational level, whether it is the Emery network area or
24 some other geographic area.

25 Q Okay. But have you come to any conclusion as to

1 whether the additional costs of operating the Emery PMPC
2 network are justified by any increases in service for
3 Priority Mail?

4 A I have not reached any conclusions on that, no.

5 Q Do you know the percentage of total Priority Mail
6 that both originates and destinate within the PMPC network?
7 And we are dealing with basically the Northeast and Florida,
8 correct?

9 A Yes. The PMPC network is Northeast and Florida,
10 yes. I don't know the exact percentage, no.

11 Q Do you know the percentage of mail that originates
12 within -- any order of magnitude, by the way, of the pieces
13 that originate within and destinate within?

14 A I don't have that number, no.

15 Q Any idea how much volume originates within and
16 destinate outside the network?

17 A No.

18 Q How about the reverse, the pieces that originate
19 outside and destinate within the network?

20 A I don't have that, no.

21 Q How about in the aggregate, the number of
22 percentage of Priority Mail which is touched by the network
23 in some way?

24 A I don't know the specific number, no.

25 Q In having the network operated by a non-Postal

1 Service contractor, there have to be handoffs of mail, mail
2 that is handed off by the Postal Service to the contractor
3 and taken back from the contractor to the Postal Service for
4 either further transportation or final delivery, correct?

5 A Yes, I would assume that there are transfers of
6 mail between the contractor and the Postal Service, yes.

7 Q And this may cause the Postal Service to incur
8 costs whcih otherwise it would not incur; is that not
9 correct?

10 A I don't know. I'm not an operations expert.

11 Q So you don't have any opinion as to whether the
12 Postal Service has to incur additional costs due to the
13 existence of the Emery network that it otherwise would not
14 have to incur?

15 A I'm not an operations expert. I don't know what
16 additional costs, if any, the Postal Service would incur.

17 Q Under the contract, who is responsible for cost
18 overruns?

19 A I don't know.

20 Q Do you know if there is any penalty paid for
21 failure to meet certain service standards that are specified
22 in the contract, financial penalty?

23 A It is my general understanding that there is a
24 performance clause within the contract. I am not sure
25 precisely how that clause operates.

1 Q Are you aware as to whether payments have been
2 made to Emery because Emery has taken the position that it
3 is losing money on the contract?

4 A What type of payments?

5 Q Additional supplemental payments, not required
6 under the original contract?

7 [Pause.]

8 A It's my understanding that payments to Emery under
9 thier contract have been made in accordance with the
10 contract. I'm not sure what sort of supplemental payments
11 you would be referring to.

12 Q Okay, let me ask you to refer to your response to
13 APMU 50 and 51.

14 A Yes?

15 Q And there in 50, we asked you for the payments
16 that were made to Emery for Fiscal 1998, and you gave the
17 amount of \$289 million, roughly, correct?

18 A Yes.

19 Q Okay. Do you know if that -- I'm not sure how to
20 ask that. Is that basically the full cost of the PMPC
21 Network for Fiscal 1998?

22 A Yes, I believe so.

23 Q There is referenced in your response to Section D,
24 a supplemental letter agreement of August 4, 1998, where the
25 USPS paid Emery \$20.8 million, correct?

1 A Yes. I was informed that as a result of a
2 supplemental letter agreement dated August 4, 1998, the
3 Postal Service paid Emery approximately \$20.8 million above
4 that which the original contract would have required.

5 Q Okay, so that clearly is above that which the
6 original contract would have required, as you say in your
7 own response, correct?

8 A Yes.

9 Q Okay, so you're aware of that?

10 A Yes.

11 Q Okay. And then in response to 51(d), and 51,
12 generally dealt with Fiscal '99. You say that as a result
13 of a supplemental letter agreement dated August 4, 1998,
14 USPS paid Emery approximately \$42.8 million above that which
15 the original contract would have required, correct?

16 A Yes.

17 Q Okay, how do you deal with those two numbers? Is
18 one a subset of the other, or are they in addition to each
19 other? They're both --

20 In other words, the supplemental letter agreement
21 in both cases is dated August 4, 1998, but in one case it
22 says there was a payment of \$20.8 million, and the other one
23 says \$42.8 million.

24 What's the difference between those two?

25 A I'm not an expert on the contract or the

1 administration of the financial provisions of the contract.
2 It is generally my understanding that those two numbers do
3 not overlap; one is for '98 and one is for 1999.

4 Other than that, I can't provide any other
5 information.

6 Q Okay, so that's the difference, then, I take it,
7 that the \$20.8 million is for Fiscal '98, and the \$42.8
8 million is for Fiscal '99; is that correct?

9 A That is my understanding.

10 Q Okay. And, I take it, beyond the fact that you
11 quote the supplemental letter agreement as saying that it
12 was for reasons, I guess, that were, quote, mutually
13 beneficial, do you have anything else you can tell us about
14 why those payments were made, the total of, what, \$63.6
15 million?

16 A No, other than they were made; that's all I know.

17 Q And in both cases, they were payments above that
18 which the original contract would have required, correct?

19 A That's correct.

20 Q Do you know if there were payments that were made
21 for additional work that the Postal Service asked Emery to
22 assume?

23 A Would this be work outside the scope of the
24 contract? Or --

25 Q Well, within or without the scope of the contract.

1 It would -- in other words, if the Postal Service said, we
2 know we negotiated that you would truck mail from Point A to
3 Point B, but from now on, we want you to fly it, so we want
4 to change the requirements of the contract, and pay you more
5 to compensate you for doing it.

6 Was it that kind of Postal Service-driven
7 improvements that caused these \$60-some-odd million dollars
8 of costs to be made; do you know?

9 A I don't know the cause of those payments.

10 My general understand is, the Postal Service does
11 not determine how Emery does its job, how it processes or
12 transports mail.

13 In response to an interrogatory, there was at
14 least one instance where the scope of what Emery was
15 slightly modified, which resulted in additional payments to
16 Emery.

17 Q Do you recall what that was?

18 [Pause.]

19 MR. COOPER: I would direct the witness' attention
20 to the response to Part D of Question 51, APMU 51 as a
21 possibility.

22 THE WITNESS: Yes, that is correct,
23 APMU/USPS-T34-51. The last two sentences.

24 BY MR. OLSON:

25 Q And those are payments of \$2.3 million and

1 \$116,000?

2 A Yes.

3 Q Are there any other Postal Service payments to
4 Emery that you know of that were based on, as this calls it,
5 service base initiatives beyond the scope of the initial
6 contract for which Emery was compensated in accordance with
7 additional agreements, any others?

8 A I am not recalling any within the Emery PMPC
9 network context.

10 Q Now, let's take a look at your response to 51(c),
11 and we asked you to identify all claims or other adjustments
12 by Emery still outstanding for fiscal '99, and you
13 identified six, correct?

14 A Yes.

15 Q And these range from claims of \$10 million to \$437
16 million, correct?

17 A Yes, they do.

18 Q Okay. And these are -- I added them together, the
19 28 million, the 10 million, the 16 million, the 163 million
20 and the 437 million, and got something like 685 million
21 total claims against the Postal Service. Does that sound
22 about right?

23 A I have not done the arithmetic, but that appears
24 the correct calculation.

25 Q And it appears from your explanation that that was

1 in part for '98, in part for '99, and in part for 2000,
2 fiscal '98, '99 and 2000, correct?

3 A My understanding is the claims that are
4 outstanding are in part for fiscal '98, '99 and subsequent
5 years.

6 Q And your position is that these -- I am not really
7 sure how these claims work, but Emery comes to the Postal
8 Service and says you owe us more money and here is why, and
9 the Postal Service decides what its position is, is that the
10 way claims work, do you know?

11 MR. COOPER: I am going to object. We are getting
12 beyond the scope of the witness' testimony here. She is
13 certainly not a claims expert.

14 MR. OLSON: That is exactly what the witness spoke
15 to. If she doesn't know, she doesn't know. But I don't
16 think this is objectionable.

17 CHAIRMAN GLEIMAN: If the witness can answer, you
18 can get an answer from her. If not, she will tell you.

19 THE WITNESS: Would you repeat the question,
20 please?

21 BY MR. OLSON:

22 Q Sure. Do you understand anything about the way
23 that the Postal Service claims process operates for these
24 \$685 million of claims that you itemize?

25 A I am not a contracting officer or an expert on

1 this contract. My understanding is that these claims exist.
2 I don't know the process by which Emery submits a claim or
3 the Postal Service reviews it.

4 Q Okay. Or the process by which the Postal Service
5 determines what to pay, if anything?

6 A No, I am not familiar with that process.

7 Q When you say mutually beneficial under the
8 supplemental letter agreements that provided for the \$63.6
9 million in supplemental payments for fiscal '98 and '99, do
10 you know what that means, "mutually beneficial" to whom?

11 A I am not certain as to what mutually beneficial
12 is, but I would presume it would be to Emery and the Postal
13 Service.

14 Q Any thoughts about whether that is mutually
15 beneficial to Priority Mail users?

16 A I am not sure that makes sense in this context.

17 Q I agree, for a different reason. I want to ask
18 you to look back in your testimony and ask you what
19 percentage increase in the two pound rate are you proposing
20 for Priority Mail?

21 A 20.3 percent increase.

22 Q And in your testimony at page 20, lines 5 and 6,
23 you talk about discussing with account managers the
24 availability of delivery confirmation service and how that
25 has been instrumental in making sales to new customers,

1 correct?

2 A Correct.

3 Q Have you talked to those same account managers
4 about the effect of a 20.31 percent increase in the basic
5 two pound rate?

6 A I have spoken with individuals within the
7 marketing function at the Postal Service about the impact of
8 the 20.3 percent increase in the two pound rate. They are
9 not necessarily the same people I had discussed the delivery
10 confirmation or availability of delivery confirmation with.

11 Q Do you have any of their views that you would like
12 to share with us?

13 A It is my understanding that the people responsible
14 for the marketing of Priority Mail are very concerned about
15 the impact of a 20 percent increase in the two pound rate on
16 their ability to retain and attract new customers to
17 Priority Mail.

18 Q Okay. Let me ask you to look at your response to
19 APMU Number 2, and this is a quick question, but it says, I
20 believe that all fuel charges incurred by Emery are passed
21 through to the Postal Service, so there is no fuel surcharge
22 as such. I mean if the Postal Service is paying all of
23 them, there obviously wouldn't be a surcharge, because they
24 just pay them simply, is that correct?

25 A It is my understanding that under the Emery

1 contract, all fuel charges are passed through so there would
2 not be a separately stated surcharge.

3 Q And do you know if they are passed through with a
4 profit factor added to it or an overhead or whatever you
5 would want to call it?

6 A I don't know.

7 Q In response to APMU 10 as revised today, you said
8 you became aware of certain performance data for Priority
9 Mail pieces with retail delivery confirmation, and you
10 provide that data, correct?

11 [Pause.]

12 A I am afraid in the process of revising the
13 interrogatories I have misplaced the revised version of
14 APMU-10.

15 [Pause.]

16 THE WITNESS: Thank you.

17 BY MR. OLSON:

18 Q Okay, do you see that?

19 A Yes.

20 MR. OLSON: Thank you, Mr. Cooper.

21 BY MR. OLSON:

22 Q First of all, what is the source of this service
23 performance data? Is it the delivery confirmation scans
24 that you are relying on here?

25 A It is my understanding this information is based

1 on the delivery confirmation date of the scans available for
2 Priority Mail pieces with delivery confirmation that were
3 sold at the retail counter.

4 Q So this is not ODIS data, correct?

5 A No, it isn't.

6 Q It's not PETE data?

7 A No, it isn't.

8 Q By the way, can you explain to us what PETE is and
9 how that measures performance in just a sentence or two?

10 A I am not an expert on the PETE system. PETE
11 stands for Priority End to End, and it is a service
12 performance measure that involves the use of test mail to
13 measure service performance for priority mail.

14 Q And those numbers are generally I think in the UPS
15 designations of your response to POIR Number 6.

16 You indicate that those are not generally made
17 public, correct?

18 A That is correct.

19 Q Are the results of retail delivery confirmation
20 service generally made public, do you know?

21 A I don't believe so.

22 Q Well, they are being made public here, correct?

23 A In this circumstance, yes. We have also provided
24 some national PETE scores in institutional responses.

25 Q The first line, and this is Fiscal '99, Quarter 4

1 data correct?

2 A Correct.

3 Q The first line talks about one-day service
4 standard on time, and it says 89.9 percent, and I have some
5 Postal Service responses to interrogatories -- as a matter
6 of fact, these are the interrogatories of Mr. Carlson.

7 This is DFC/USPS-T34-8, and perhaps I can give
8 this to you.

9 A Thank you.

10 Q Are you familiar with these -- this particular
11 interrogatory response by the Postal Service of an
12 interrogatory which was originally directed to you?

13 A Yes, I am.

14 Q And you did not respond to this, but the Postal
15 Service did, correct?

16 A Yes, it was an institutional response.

17 Q Okay. There do you see the percentage of Priority
18 Mail which have a one-day standard that arrive in one day?

19 A Subpart (e), 85 percent.

20 Q Right, so would that compare to this 89.9 percent
21 that you show? I know one is ODIS data and one is delivery
22 confirmation service data, but those are comparable numbers?

23 A I believe both numbers are measuring priority mail
24 with a one-day delivery standard that arrives in one day.
25 It is my understanding the data in the two systems is not

1 necessarily the same. The delivery confirmation data is
2 restricted to those Priority Mail pieces mailed by customers
3 who chose to purchase retail delivery confirmation service,
4 and it may not necessarily be representative of the entire
5 universe of Priority Mail.

6 Q And it was the retail pieces also, not the
7 electronic delivery confirmation service --

8 A That is correct.

9 Q So in terms of a nationwide number, 85 percent is
10 a nationwide number, correct?

11 A The ODIS number reported in response
12 DFC/USPS-T34-8, Part (e), my understanding is that is a
13 nationwide number.

14 Q And then the next line you combine two categories
15 that I am not sure why you combine. I wanted to ask you,
16 you say "one day service standard in two days" and that
17 would be mail which is late. Correct?

18 A That would be mail that is one day late.

19 Q And then you say "and two day service standard on
20 time" so that would be mail that is on time, correct?

21 A That would be mail that would be delivered in two
22 days or less.

23 Q Why do --

24 A For two day service standard mail that would be
25 delivered in two days or less.

1 Q Why do you aggregate those two as you report this
2 data?

3 A This is the way that the retail delivery
4 confirmation data reports service performance.

5 Q That is the way they present their data?

6 A Yes, it is.

7 Q How do you interpret that, if some of it is late
8 and some of it is on time? I mean it is hard to figure out
9 what that means, isn't it?

10 A I think there would be some difficulty in
11 interpreting what that is. It is a mix of mail that is
12 delivered within two days.

13 Q But you can't tell whether it is late or on time?

14 A There is some portion of that mail, the one day
15 service standard mail that is delivered in two days, that
16 would be late, yes.

17 Q Some of it is late; some of it is on time.

18 A Correct.

19 Q And then the line that says -- well, I was going
20 to ask you about the three day service standard on time.
21 What would the number be from the Postal Service response to
22 the Carlson interrogatories for three day service standard
23 on time for Priority Mail?

24 A I believe that would be the response to Part (h),
25 the percentage of Priority Mail for which the delivery

1 standard is 3 days that arrives in three days, and that
2 number is 76 percent.

3 Q Okay, so again this would be higher with the 83.1
4 percent, correct?

5 A 83.1 is higher than 76, yes.

6 Q And again for the same reasons you said before,
7 this would not necessarily be a representative sample,
8 correct, the retail delivery confirmation service?

9 A I am not aware of any study that has determined
10 whether the retail delivery confirmation service performance
11 data is based on a representative sample of Priority Mail.
12 It is possible that it is not.

13 Q But it is for one quarter of the year, correct? --
14 for Fiscal '99?

15 A This is four Quarter 4, Fiscal, 1999.

16 Q Could you look at your response to Interrogatory
17 43?

18 A APMU-43?

19 Q Yes.

20 A Yes.

21 Q And this is one that has to do with the
22 availability of delivery confirmation service for Priority
23 Mail that is drop shipped, correct?

24 A Correct.

25 Q Okay. And you say that, you confirm that you

1 cannot get delivery confirmation on a drop shipped piece of
2 Priority Mail, correct?

3 A Yes, I was informed that delivery confirmation is
4 not available to drop shipped sacks.

5 Q Is the reason that it is not available that the
6 Postal Service, the reasons that you say here, that the
7 Postal Service didn't think there was enough interest among
8 Priority Mail drop shippers to buy the scanning equipment
9 for the DSCFs that this mail is frequently sent to?

10 A I was not involved in the tests that evaluated the
11 use of delivery confirmation with Priority Mail drop
12 shipments. I was informed that, on the basis of how that
13 test was constructed, there was limited participation. I am
14 not sure if that necessarily implies that mailers under
15 other circumstances would not be interested in it.

16 Q But the decision was made, was it not, to not buy
17 the equipment and put it at the SCFs so that the incoming
18 sacks, typically, of drop shipped Priority Mail could be
19 scanned, correct?

20 A I am not aware of any decision to buy or not to
21 buy scanners at DSCFs.

22 Q Well, they didn't buy them, did they?

23 A I don't know.

24 Q You don't know if there are scanners at the SCFs
25 to scan?

1 A No, I don't.

2 Q In other words, the equipment may be there, but
3 they simply chose not to use it for drop shipped Priority
4 Mail?

5 A I do not know how delivery confirmation scanners
6 are deployed in DBMCs or DSCFs, if they are.

7 Q Well, when the test occurred, there were various
8 mailers that had different opinions about delivery
9 confirmation service, but didn't there come a time when the
10 Postal Service decided to roll out the program and for all
11 mailers make it available, either retail or electronic
12 version? I am just wondering why they held back and did not
13 make it available to people that do Priority Mail drop ship?

14 A The delivery confirmation service was available on
15 a nationwide basis as of March 14th, 1999. You could call
16 that when the fees were implemented. My understanding of,
17 very limited understanding of this test program is there was
18 a test run and, for a variety of reasons, which I don't
19 think I am able to address, they decided not to extend the
20 program past the test phase, or to stop the program.

21 Q Is there any other Priority Mail which is not
22 scanned, other than upon delivery, and, of course, Priority
23 Mail drop ship is mail that is opened at DSCFs, correct?

24 A Priority Mail drop ship, my understanding, that it
25 is drop shipped using Priority Mail and opened at the DSCF.

1 Q So that would be delivery, in essence, for that
2 Priority Mail piece, correct?

3 A What would be delivery? I'm sorry, I don't
4 understand.

5 Q The opening of the package and the opening of the
6 sack and the distribution of the pieces inside as whatever
7 they are, Standard A mail or something else. That would be
8 the functional equivalent of delivery, would it not be?

9 A I am not sure if you would characterize it as the
10 functional equivalent of delivery. It is the last step in
11 processing those sacks.

12 Q Well, that is when it -- that is the last step at
13 which it could be scanned, correct?

14 A The sack itself?

15 Q Yes.

16 A Based on a pretty limited understanding of when
17 one could scan sacks or not, I would assume that once the
18 sack has been opened and the mail is distributed, that would
19 be your last opportunity to scan.

20 Q Well, I don't want to take this any further, but I
21 am just not sure what relevance it has that it was tested
22 and one mailer participated in terms of a justification for
23 not offering it to all mailers once the program was rolled
24 out. Having sat through many -- I don't want to testify,
25 but I mean in many APMU meetings where this has been

1 presented, I guess it has never worked its way to your level
2 to understand there is mailer interest in this and mailer
3 concern is not available.

4 A I have not heard any discussion on the part of
5 mailers, or am not aware of any discussion of mailers
6 requesting this service. What I do know is the test, as it
7 was configured and is referenced here, was such that one
8 mailer participated and there were concerns about the
9 limited participation.

10 Q Okay. Let me ask you to look at your response to
11 APMU 45. And there you talk about the greater expedition
12 that Priority Mail service receives and you have three
13 different categories of mail processing, earlier clearance
14 time, delivery and more three digit zip code pairs for two
15 day mail, correct?

16 A Yes.

17 Q Okay. Now, what I would like you to do is go back
18 to this Carlson interrogatory that I showed you before and
19 ask you to compare apples and apples, First Class mail
20 versus Priority Mail, and, basically, let's start with the
21 three day mail. If there is a piece of First Class mail
22 that has a three day delivery standard and a piece of
23 Priority Mail that has a three day delivery standard, that
24 is an apples to apples comparison, is it not, when you take
25 a look at the ODIS data?

1 A Based on my understanding of the delivery
2 standards, Priority Mail and First Class mail have different
3 delivery standards. The three day service area for Priority
4 Mail would be smaller than the three day delivery standard
5 area for First Class mail. So I am not sure it is strictly
6 an apples to apples comparison.

7 Q Well, I know there are more of them, but for those
8 three digit zip pairs where there is a three day standard,
9 they both have a three day standard. Let me ask you to take
10 a look at this response to this interrogatory and maybe I
11 can ask you the question again. D says the percentage of
12 First Class mail for which the delivery standard is three
13 days, that arrives in three days, and H talks about the
14 percentage of Priority Mail for which the delivery standard
15 is three days, that arrives in three days. And which gets
16 better service there, based on this ODIS data?

17 A I am not sure you can make that comparison in that
18 the percentage of First Class mail for which the delivery
19 standard is three days, that arrives in three days, is a
20 much larger portion of the First Class mail stream than the
21 portion of Priority Mail for whom the delivery standard is
22 three days, that also arrives in three days. You are not
23 making an apples to apples comparison.

24 Q Well, I am not saying that they are the same zip
25 code pairs or there is the same volume. I am just saying

1 that for pieces which have a three day standard, how many of
2 those pieces are delivered within three days? And I am
3 asking you, who gets better service, First Class or
4 Priority?

5 A Well, the numbers are as indicated in the
6 interrogatory response. The percentage of First Class mail
7 for which the delivery standard is three days, that arrives
8 in three days, is 85 percent. The percentage of Priority
9 Mail for which the delivery standard is three days, that
10 arrives in three days, is 76 percent. You can't compare
11 those two numbers and, based on the magnitude, make the
12 statement that a bigger number implies a better service
13 standard, because you are not measuring the same thing.

14 Q Aren't you in both cases taking a look at three
15 day mail that arrives in three days, irrespective of how
16 many pieces there are?

17 A You are looking at three day mail that arrives in
18 three days, but a much larger portion of the First Class
19 mail stream has a three day service standard, and presumably
20 moves, if it meets its service standard, would be receiving
21 a lower quality of service than the Priority Mail.

22 Q Oh, I understand you can make an argument that it
23 has more three digit zip code pairs that are two day versus
24 three day, I understand that. But I am at a loss to
25 understand why you say that the numbers are not comparable.

1 In both cases there are three day mail that arrives in three
2 days, isn't that comparable?

3 A No, I don't think it is unless it is three day
4 mail with the same zip code pairs, measuring that subsegment
5 of those numbers.

6 Q Well, let's take a look at overnight mail, let me
7 ask you to compare the numbers. First of all, you report in
8 your response to interrogatory APMU-45(a)(3) that Priority
9 Mail has slightly more overnight three digit zip code pairs
10 than First Class, correct?

11 A That is correct.

12 Q Okay. 8,744 versus 9,029, correct?

13 A Correct.

14 Q A difference of 285, certainly under a percent?

15 A I haven't done the math, but I can assume that is
16 under a percent.

17 Q I think it is around three-hundredths of a
18 percent, but --

19 A Okay.

20 Q Is that, just for purposes of discussion, can we
21 say that is about the same?

22 A it is my understanding that the First Class mail
23 and Priority Mail, one day service standard area, is
24 approximately the same.

25 Q Okay. Now, let me ask you to compare those

1 numbers from Postal Service response to the Carlson
2 interrogatory. Who gets better service, First Class or
3 Priority?

4 A The percentage of First Class mail for which the
5 delivery standard is one day, that arrives in one day, is 93
6 percent.

7 The percentage of Priority Mail for which the
8 delivery standard is one day that arrives in one day is 85
9 percent.

10 On the basis solely of this information, it would
11 appear that the First Class mail is somewhat more likely to
12 be on time.

13 Q What I'm trying to wrestle with is that in your
14 response to this Interrogatory 45, you talk about all these
15 ways that mail processing resources are devoted to Priority
16 Mail.

17 It has earlier clearance time. It gets
18 preferential delivery for -- I guess you don't say that
19 exactly.

20 You say it has a higher priority, and then you
21 talk about these factors that would lead one to believe that
22 Priority Mail would be delivered on time more often.

23 And any reason you can -- any way you can account
24 for these numbers that indicate First Class is getting
25 better service?

1 A I think you need to make a distinction between
2 on-time service performance and better service. On-time
3 service --

4 Q Well, let me stick with that question. That's a
5 good distinction.

6 A Okay.

7 Q Better on-time service performance, any reason you
8 could give us as to why First Class is doing better than
9 Priority?

10 A The service performance is a measure against a
11 standard. It does not necessarily -- the reasons -- the
12 ways in which Priority Mail receives preferential service
13 correlate with the service performance, but they're --

14 [Pause.]

15 A You need to look at the entire picture. The
16 service --

17 Q I'm just asking you to focus on this one little
18 part of the picture. And with all the preferential
19 processing and preferential delivery that your interrogatory
20 response recites, can you give us any insight as to why
21 First Class is having a higher percentage of pieces that are
22 overnight in this case, delivered overnight, than Priority?

23 A I'm not sure I can address the operational reasons
24 why a higher percentage of the overnight First Class seems
25 to meet its service standard than Priority Mail.

1 However, I point out that a much larger portion of
2 the Priority Mail stream receives two-day service than the
3 First Class mail stream.

4 Q Right.

5 A And that would suggest preferential use of
6 resources.

7 Q Now, I understand that point. I was trying to get
8 to the other.

9 MR. OLSON: I think that's all I have, but, Mr.
10 Chairman, I'd like to ask if I could designate this
11 response. I know we're going to be designating these on May
12 4th, but I'd like to ask this particular response to Carlson
13 Interrogatory be incorporated into the record at this point
14 for clarity.

15 CHAIRMAN GLEIMAN: Are you asking that it be
16 placed in as a cross examination exhibit?

17 MR. OLSON: Yes.

18 CHAIRMAN GLEIMAN: Then I don't think we have a
19 problem to that.

20 MR. COOPER: I have no objection to its
21 transcription for clarity.

22 CHAIRMAN GLEIMAN: If you mark it and identify it,
23 we'll transcribe it into the record as a cross examination
24 exhibit.

25 MR. OLSON: Thank you. I will provide that to the

1 Reporter in a second.

2 I have just about one minute of questions for
3 ValPak, if I might finish?

4 CHAIRMAN GLEIMAN: Let's put that cross
5 examination exhibit in the record at this point, if you
6 would.

7 MR. OLSON: Well, I only have one, so I'm going to
8 have to borrow one back from someone.

9 CHAIRMAN GLEIMAN: Well, in that case, let's at
10 least identify how you've marked it at this point, and then
11 you can hold on to it, and we can give it back --

12 MR. OLSON: Thank you. I identified it as
13 APMU-Robinson-XE-1.

14 CHAIRMAN GLEIMAN: Okay, APMU-Robinson-XE-1, since
15 I'm sure that somewhere along the line, there's another APMU
16 cross examination exhibit, and you'll make sure that we get
17 that to the Reporter when you finish your additional
18 questions.

19 [APMU-Robinson-XE-1 was marked for
20 identification and transcribed into
21 the record.]

22

23

24

25

APMV-ROBINSON
XE-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF DOUGLAS F. CARLSON
(REDIRECTED FROM WITNESS ROBINSON)

DFC/USPS-T34-8. Please provide the following information for the most-recent fiscal year for which it is available, and please specify the measurement system from which these data are obtained:

- a. The percentage of First-Class Mail for which the delivery standard is one day that arrives in one day.
- b. The percentage of First-Class Mail for which the delivery standard is two days that arrives in two days.
- c. The percentage of First-Class Mail for which the delivery standard is three days that arrives in two days.
- d. The percentage of First-Class Mail for which the delivery standard is three days that arrives in three days.
- e. The percentage of Priority Mail for which the delivery standard is one day that arrives in one day.
- f. The percentage of Priority Mail for which the delivery standard is two days that arrives in two days.
- g. The percentage of Priority Mail for which the delivery standard is three days that arrives in two days.
- h. The percentage of Priority Mail for which the delivery standard is three days that arrives in three days.

RESPONSE:

The following FY 1999 data was obtained from the Origin-Destination Information System (ODIS). This data measures service performance from the origin office to the delivery office, NOT delivery to the recipient's address.

- a. 93 percent.
- b. 87 percent.
- c. 41 percent.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF DOUGLAS F. CARLSON
(REDIRECTED FROM WITNESS ROBINSON)**

d. 85 percent.

e. 85 percent.

f. 74 percent.

g. 45 percent.

h. 76 percent.

Source: ODIS Standard SSA Reports.

1 MR. OLSON: Great, thank you; I will.

2 BY MR. OLSON:

3 Q Ms. Robinson, I want to switch hats and just talk
4 about ValPak. And we only asked you one interrogatory, so
5 this can't last very long. But can you find ValPak-1 there?

6 A Yes, I have it.

7 Q Okay. We asked you to make some observations
8 about Priority Mail and Standard-A Mail and how the rate
9 design operates.

10 And the treatment of distance-related costs and
11 whether they're marked up and a contingency put on them and
12 such. Do you recall that?

13 A Yes, I do.

14 Q Okay. And on page 3 of your response, you talk
15 about -- you know, we're back to apples and apples here.

16 It says that the difference in rate design for
17 zone Priority Mail and Standard Mail-A is consistent when
18 the two rates structures are compared on an apples-to-apples
19 basis.

20 And you talk about the scenario described in
21 APMU-T-34-19. Can you summarize what you mean by that
22 scenario?

23 [Pause.]

24 A APMU/USPS-T-34-19 asked a question --

25 COMMISSIONER GOLDWAY: Nineteen or 13?

1 THE WITNESS: Nineteen.

2 MR. OLSON: Nineteen.

3 THE WITNESS: Asked a question referring to
4 distance -- the treatment of distance-related transportation
5 in Standard-A versus how it is treated in the Priority Mail
6 rate design.

7 BY MR. OLSON:

8 Q And, specifically, APMU-T-34-19 asked about the
9 use of a markup and contingency, or the application of the
10 full markup and contingency to distance-related
11 transportation costs, correct?

12 A Yes, it did.

13 Q Okay, then you go on your sentence here to say
14 that that scenario could be viewed as unfair to Standard
15 Mail-A , dash, the discount for drop shipment is only equal
16 to a fraction of the avoided transportation costs instead of
17 the 100 percent of avoided transportation costs plus markup
18 plus contingency inherent in the imputed discount for
19 Priority Mail destinating in Zone 1.

20 Can you elaborate on what you meant there?

21 A The question is referring to the rate design
22 principles used for Standard Mail-A and Priority Mail.

23 I'm not an expert on the Standard-A mail rate
24 design. But my understanding is that drop-shipped discounts
25 for Standard Mail-A represent some fraction of the avoided

1 transportation costs for mail that's drop-shipped.

2 Q So, we're not talking about, necessarily, the
3 markup and the contingency, but here we're even talking
4 about a discount which is only a fraction of the actual
5 avoided transportation costs, correct?

6 A It's my understanding that the Standard-A
7 discounts are based on a percentage of the avoided
8 transportation costs, in part.

9 Q Right, and so when we try to compare and
10 rationalize rate design -- and I know that you're not a
11 Standard-A rate design expert, but trying to look at
12 different classes of mail and come up with principles,
13 requires everyone to get outside their element perhaps.

14 But when you talk about the design for drop
15 shipment of Standard-A as being a fraction of the avoided
16 transportation costs, you're dealing with a different issue
17 than whether there is a contingency and markup on
18 transportation costs; correct?

19 A Yes, I believe you are.

20 Q Okay. And do you have an opinion in terms of rate
21 design as to whether it's better if at least rather than a
22 fraction of avoided transportation costs, the full avoided
23 transportation costs are reflected in rate design as a
24 principle of rate design?

25 A In computing discounts?

1 Q Yes.

2 A It's my general understanding that discounts are
3 computed based on some fraction of the avoided costs for the
4 Postal Service, whether they're transportation costs or
5 other mail processing costs.

6 Q Right, but do you have an opinion as to whether it
7 is better to pass through all the savings of drop shipment
8 as a principle of rate design?

9 A A principle of rate design, I believe the reason
10 for a pass-through of a portion of the costs is to ensure
11 that the discounts aren't overstated.

12 MR. OLSON: In terms of -- well, I don't want to
13 get too far afield, so I think I'll just leave it at that,
14 and thank you very much, Ms. Robinson, and thank you, Mr.
15 Chairman.

16 CHAIRMAN GLEIMAN: Before we get to what I believe
17 is some followup, I think we'll take a ten-minute break and
18 come back somewhere between five of and on the hour.

19 [Recess.]

20 CHAIRMAN GLEIMAN: Is there any follow-up?

21 MR. McKEEVER: Yes, Mr. Chairman.

22 CHAIRMAN GLEIMAN: Mr. McKeever, you may proceed.

23 MR. McKEEVER: Thank you, Mr. Chairman.

24 FURTHER CROSS EXAMINATION

25 BY MR. McKEEVER:

1 Q Ms. Robinson, I am John McKeever for United Parcel
2 Service.

3 At the beginning of his cross examination, Mr.
4 Olson asked you some questions about what elements made up
5 the increase in Emery costs from the base year to the test
6 year, do you remember that?

7 A Yes, I do.

8 Q And you mentioned a number of elements including
9 two. You indicated that the charges under the PMPC contract
10 depend on the origin and destination of the mail and the
11 shape of the mail, is that correct? That is two of the
12 elements that make up that adjustment?

13 A It is my understanding that the Emery contract
14 prices are based on a price schedule which includes origin
15 and destination of the mail within the Emery network and
16 shape of the mail, yes.

17 Q Okay. Am I correct that the per piece charge
18 under that contract varies depending on the shape of the
19 mail handled?

20 A I believe that is correct.

21 Q And am I also correct that the per piece charge
22 varies depending on the origin and destination of the mail
23 handled in that network?

24 A There is variation depending on the origin and
25 destination, yes.

1 Q Are you not sure that that is reflected in
2 different per piece charges? Let me ask it more plainly.

3 A Yes.

4 Q Is that reflected in different per piece charges?

5 A For some set of origin and destinations there
6 would be different per piece charges. They are not
7 necessarily unique for each origin and destination.

8 Q Okay, thank you. Now the \$24 million increase in
9 the test year adjustment that was the subject of your
10 response to APMU Interrogatory 12, am I correct that that
11 \$24 million additional dollars in the test year is not
12 reflected in the cost numbers in Table 3 on page 8 of your
13 testimony?

14 A Are you referring to line (d) and line (l)?

15 Q Yes.

16 A The cost numbers for the test year before and
17 after rates are correct. The error was in the picking up of
18 the Emery contract cost itself.

19 Q Okay, so that the numbers that are shown in Table
20 3 do include the \$24 million of additional costs that --

21 A Yes, they do.

22 Q Okay, thank you. Mr. Olson asked you some
23 questions about whether the PMPC network was operating, when
24 facilities went online. Do you recall that?

25 A Yes, I do.

1 Q Am I correct -- oh, he also asked you if you knew
2 when the contract would expire and you didn't recall, is
3 that correct?

4 A I don't recall the date, no.

5 Q Do you know whether the Emery contract is
6 scheduled to be in effect for all of the test year?

7 A As I don't recall the date it expires, I don't
8 know.

9 Q Okay. Am I correct that to the extent Priority
10 Mail volume is handled by Emery in the PMPC network, it's
11 handled less by the Postal Service outside of that network,
12 is that correct, because Emery does some of the work in the
13 network?

14 A It is my understanding that the Emery PMPC network
15 to some extent substitutes for Postal Service purchased
16 transportation and internal Postal Service mail processing.

17 Q Okay, thank you. Could you turn to your response
18 to Interrogatory 51(c), which Mr. Olson asked you some
19 questions about?

20 A APMU-51?

21 Q APMU, yes, and in particular APMU-51(c)(i).

22 Am I correct that that answer indicates that Emery
23 requested approximately \$28.5 million of additional payments
24 for FY 1999, but the Postal Service denied that claim and
25 therefore hasn't paid it yet, at this point?

1 A Based on a very limited understanding of the
2 nature of the contract claims process, it is my
3 understanding that Emery had a claim for approximately \$28
4 million. The Postal Service denied that claim and therefore
5 has not paid it.

6 Q Okay. Could you go back to your response to
7 Interrogatory 45, APMU-45, please.

8 Now the chart that you provide there on the second
9 page indicates, am I correct, that Priority Mail has a
10 two-day service standard for approximately 780,500 zip code
11 pairs?

12 A That is correct.

13 Q Whereas the First Class two-day service standard
14 applies in the case of approximately 157,000 zip code pairs?

15 A Correct.

16 Q Am I correct that if a mailer goes to a post
17 office and has a choice to mail something either First Class
18 or Priority Mail, if that mailer chooses Priority Mail, that
19 piece is more likely to get there on two days regardless of
20 what the service standard for the two classes is?

21 I am trying to take the service standard out of
22 the --

23 A I am not aware of any study that has done the
24 crosswalk between Priority Mail, the ability for Priority
25 Mail to meet its service standard and the ability of First

1 Class mail to meet its service standard.

2 Q Well, I am trying to put service standard aside.
3 Forget about what the standard is and just ask, if I go to
4 the post office and I have something to mail, is it more
5 likely to get there in two days if I send it by Priority
6 Mail than if I send it by First Class mail?

7 A I am not aware of any data that evaluates the
8 probability of mail arriving within two days depending on
9 which class of mail you choose.

10 Q Okay. You don't know?

11 A No, I don't.

12 MR. McKEEVER: Okay. That's all I have, Mr.
13 Chairman.

14 CHAIRMAN GLEIMAN: Is there any additional
15 follow-up?

16 MS. DREIFUSS: The OCA does have one or two
17 follow-up questions, please.

18 CHAIRMAN GLEIMAN: Ms. Dreifuss.

19 CROSS EXAMINATION

20 BY MS. DREIFUSS:

21 Q Could you turn your attention to APMU
22 Interrogatory Number 45 again, please? I just wanted to
23 look at the one day service standard column at the bottom of
24 page 2 of the answer.

25 There are 8,744 zip code pairs that the Postal

1 Service would provide a one day service standard for First
2 Class and 929 for Priority Mail.

3 Can you tell me, if you know, what the overlap is
4 between the zip code pairs for First Class and Priority
5 Mail? In other words, how many of those zip code pairs
6 would be in common both to First Class and Priority Mail?

7 A I don't know.

8 Q Do you have a rough idea about the extent of that
9 overlap?

10 A I have not seen an evaluation of what the overlap
11 would be, no.

12 Q Do you know whether the Postal Service would be
13 able to determine the extent of the overlap, possibly
14 following the hearing, by making a comparison of each set of
15 zip code pairs?

16 A From my understanding of the service performance
17 database, we probably could identify which three digit zip
18 code pairs were in common in the 8,744 and the 9,029.

19 MS. DREIFUSS: Mr. Chairman, I was wondering if I
20 could, through you, ask the Postal Service to provide the
21 extent of the overlap between the First Class Mail zip code
22 pairs and the priority mail zip code pairs subject to a one
23 day service standard.

24 CHAIRMAN GLEIMAN: Do you think that we could come
25 up with that information?

1 MR. COOPER: We'll sure give it a shot.

2 CHAIRMAN GLEIMAN: Okay.

3 MS. DREIFUSS: Thank you.

4 CHAIRMAN GLEIMAN: Seven days.

5 MS. DREIFUSS: That's fine with us. Thank you. I
6 just have one more question that relates to this.

7 BY MS. DREIFUSS:

8 Q Do you happen to know the amount of volume, First
9 Class mail volume, for which a one day service standard is
10 available? Again I guess it would be within these 8,744 zip
11 code pairs?

12 A No, I don't know that volume.

13 Q Would you know the answer for Priority Mail?

14 A No, I don't.

15 Q Do you know whether the Postal Service could
16 determine the amount of volume for those zip code pairs in
17 First Class and Priority Mail?

18 A I am not an expert on the data systems and I am
19 not sure whether that is possible to determine or not.

20 MS. DREIFUSS: Mr. Chairman, I guess I would ask
21 in this instance too whether you might direct the Postal
22 Service to look into that for the OCA and provide an answer
23 on the volume of the First Class mail, subject to a one day
24 service standard and the Priority Mail subject to a one day
25 service standard -- if it is possible and not too

1 time-consuming an effort.

2 MR. MCKEEVER: Mr. Chairman, if I may I would like
3 to extend that request to the volume of First Class mail
4 that falls in the two day service standard category, and the
5 volume of Priority Mail that falls into the two day service
6 category as well.

7 CHAIRMAN GLEIMAN: Mr. Cooper --

8 MR. MCKEEVER: And we may as well, I guess, go all
9 the way and --

10 [Laughter.]

11 MR. MCKEEVER: -- and ask for the volume of First
12 Class that falls within the three day service standard and
13 the volume of Priority Mail that falls within the three day
14 service standard.

15 CHAIRMAN GLEIMAN: Mr. Cooper?

16 MR. COOPER: In for a dime, in for a dollar, I
17 guess. We will try to come up with these answers in seven
18 days.

19 MR. MCKEEVER: Thank you, Mr. Chairman.

20 MS. DREIFUSS: Thank you very much. I have no
21 more questions for Ms. Robinson.

22 CHAIRMAN GLEIMAN: Is there any additional
23 follow-up?

24 [No response.]

25 CHAIRMAN GLEIMAN: That brings us to questions

1 from the bench. I just have a very few questions.

2 I need to understand a little bit about how you go
3 about your job. You are the rate design person for Priority
4 Mail?

5 THE WITNESS: Yes, I am.

6 CHAIRMAN GLEIMAN: Okay. In doing that, do you or
7 do you not apply the criteria that are listed in 36.22(b)?
8 Those are the ones that take into account the value to this
9 person and the value to that person.

10 Do you look at those at all?

11 THE WITNESS: Those criteria are typically applied
12 at the rate class level by Witness Mayes.

13 CHAIRMAN GLEIMAN: Okay. Am I correct then that
14 somebody gives you some cost information and somebody else
15 gives us some mark-up numbers targets, and you take the
16 costs and the mark-up and you figure out how to spread the
17 mark-up across the various rate cells within the subclass,
18 in effect to come up with a set of rates that give you a
19 weighted average mark-up of what? -- 81 percent or something
20 like that.

21 In this case is that what you do?

22 THE WITNESS: The way the rate design was done is
23 I was provided the test year costs by Witness Kashani, the
24 markups by Witness Mayes. I used those to develop rate
25 designs that met the cost coverage proposed by Witness

1 Mayes. And that is approximately 181 percent.

2 CHAIRMAN GLEIMAN: But not every cell is marked up
3 the same in Priority Mail. Some cells are marked up more
4 than others to come up with --

5 THE WITNESS: If you calculate the ratio of the
6 rates to the allocated unit costs, they do differ across
7 rate cells, yes.

8 CHAIRMAN GLEIMAN: How do you go about deciding
9 who gets a larger markup and who gets a smaller markup,
10 other than trying to find a combination, permutation of
11 numbers that come out to the weighted average? Is there
12 some other -- I mean are there some criteria that you
13 consider?

14 THE WITNESS: As was described in my testimony,
15 the rate design began with establishing the two pound rate
16 and that rate was based on the costs, some concerns about
17 the relative increase of that rate. But following that, we
18 proposed a one pound rate that was, once again, established
19 based on the allocated unit cost for the one pound rate, the
20 Priority Mail -- excuse me, the First Class mail maximum
21 rate for the 13 ounce piece, the difference between the one
22 pound rate and the two pound rate. The following -- the
23 subsequent rates were set in order to maintain a relatively
24 consistent rate structure in the proposed rates, as compared
25 to what had been resulting from Docket R97.

1 CHAIRMAN GLEIMAN: So the law says that the
2 Commission has to look at certain criteria when it
3 recommends rates. And my assumption was that our
4 counterparts in the Postal Service also have to look at
5 these criteria when they are developing their proposal that
6 they send over here.

7 In effect, if I understand what you have told me
8 in response to the two questions I have asked, it is not you
9 who takes into account alternative means of sending and
10 receiving, it is not you who takes into account the effect
11 of the rate increase on the general public or business mail
12 users, it is not you who takes into effect the simplicity of
13 a structure or the value to the sender and the recipient,
14 and all those other nice words that are in 3622(b).
15 Somebody else takes that into account?

16 THE WITNESS: That is the subject of Witness
17 Mayes' testimony.

18 CHAIRMAN GLEIMAN: I just wanted to make sure who
19 to ask the questions of when we got there.

20 Now, it is very interesting to me, I was looking
21 at page 16 of your testimony, starting at line 19, where you
22 talk about the proposed one pound Priority Mail rate, and
23 you talk about, you know, why this was established. You
24 lead into it a little from a couple of paragraphs above, but
25 then you talk about how you established it, that there is a

1 35 cent difference between the First Class 13 ounce rate
2 that has been proposed and the one pound rate that you are
3 proposing.

4 And you talk about some other benefits that accrue
5 to a person who buys up, I think is the term you use in your
6 testimony, without flipping to the next page, who buys up to
7 Priority Mail from First Class mail. And I will leave it to
8 someone else to talk about whether it is a buy up or a buy
9 down, based on some of the stuff that we have heard.

10 What I was kind of curious about is whether you
11 were aware when -- did you decide to establish the one pound
12 rate?

13 THE WITNESS: Yes, I did.

14 CHAIRMAN GLEIMAN: Were you aware that, I think
15 somebody else, I don't believe it was you, was, at the same
16 time you were doing this, or perhaps in the same building,
17 maybe in the next room, establishing what is tantamount to a
18 one pound Parcel Post rate?

19 THE WITNESS: Yes, the Parcel Post rate design was
20 done at the same time as the Priority Mail rate design.

21 CHAIRMAN GLEIMAN: Well, if I wanted to move from,
22 if I had a one pound piece, and I wanted to move up, would I
23 go from Parcel Post to Priority Mail or Priority Mail to
24 Parcel Post, which way is moving up?

25 THE WITNESS: I am not sure what you mean by

1 moving up.

2 CHAIRMAN GLEIMAN: Well, you indicated, you know,
3 in your testimony that going from First Class to Priority
4 Mail, and, again, I am looking at the paragraph that bridges
5 pages 16 and 17 of your testimony, is a buy up, from First
6 Class to Priority Mail is a buy up. Okay Using it in the
7 same sense, if you were moving from Priority to Parcel Post,
8 would you be buying up or down?

9 THE WITNESS: Typically, Priority Mail receives a
10 higher standard of service than Parcel Post.

11 CHAIRMAN GLEIMAN: So, if you moved from Priority
12 Mail to Parcel Post, you would be buying down, in effect?
13 Getting less?

14 THE WITNESS: For lack of a better term, yes.

15 CHAIRMAN GLEIMAN: Any idea of why you have to pay
16 two cents more for a one pound piece when you buy down?
17 This is very strange, I don't understand it.

18 THE WITNESS: I believe the rate you are referring
19 to is the 3.47 inter-BMC Parcel Post rate, as compared to
20 the Priority Mail 3.45 one pound rate.

21 CHAIRMAN GLEIMAN: Right on the money. That is
22 correct.

23 THE WITNESS: The Parcel Post rate is for mail
24 pieces weighing up to two pounds.

25 CHAIRMAN GLEIMAN: But if I have a one pound

1 piece, you know, I could send it Priority Mail or Parcel
2 Post, and if I send it Priority, I would pay 3.45 and if I
3 send it Parcel Post, I would pay 3.47. I would pay, in
4 effect, the two pound rate.

5 THE WITNESS: If you are mailing it on the two
6 pound inter-BMC Parcel Post rate, you would pay 3.47. Yes.

7 CHAIRMAN GLEIMAN: And if I have a one pound
8 piece, do you think it makes sense for me to pay 3.47 to
9 mail it for what you agreed earlier on was a lesser service
10 than the 3.45 I would pay under Priority Mail?

11 THE WITNESS: If you were given the choice for a
12 parcel, you went into the post office to mail a parcel and
13 were given those options, I would suspect that the typical
14 mailer would choose to purchase the one pound Priority Mail
15 weight rated piece. However, the 3.47 rate is for a broader
16 -- or rate, rather, is for a broader range of weights and is
17 appropriate given the cost for Parcel Post up to two pounds.

18 CHAIRMAN GLEIMAN: I understand that, I won't
19 pursue it any better. One last question, and it is a
20 follow-on to something that you were asked by Mr. Olson, and
21 I am not sure I understood the numbers, perhaps you can help
22 me out. He was talking about delivery confirmation on one
23 day Priority Mail and, excuse me, service standards being
24 met on one day Priority Mail, and I thought I understood the
25 numbers to be 98 percent of the time when you buy delivery

1 confirmation and 85 percent of the time in the broader
2 sense, which would include delivery confirmation and not
3 delivery confirmation.

4 THE WITNESS: 98 does not --

5 CHAIRMAN GLEIMAN: I'm sorry, did I say 98? I
6 mean to say 89. 89 percent on time, one day service
7 standard area for Priority Mail, based on sampling of the
8 delivery confirmation data.

9 THE WITNESS: Okay.

10 CHAIRMAN GLEIMAN: And 85 percent based on a
11 broader sample that might also include delivery confirmation
12 pieces, but included pieces that were not delivery
13 confirmation pieces also.

14 THE WITNESS: Based on ODIS data for fiscal 1999,
15 the percentage of one day Priority Mail whose delivery
16 standard is one day, that arrives in one day, is 85 percent.
17 For the portion of Priority Mail pieces that purchase retail
18 delivery confirmation service, and this is only for Quarter
19 4 fiscal 1999, the percentage of one day service standard
20 mail that is on time is 89.9 percent, approximately 90
21 percent.

22 CHAIRMAN GLEIMAN: All right. Okay. Just so that
23 I understand what these numbers mean, delivery confirmation
24 actually tells you when the piece was delivered to someone's
25 house, it is scanned by the carrier when it is presented at

1 the ultimate delivery point?

2 THE WITNESS: I am not an expert exactly on when
3 delivery confirmation pieces are scanned. In general, they
4 would be scanned when they are delivered. I believe there
5 are circumstances where they may be scanned when a delivery
6 is attempted.

7 CHAIRMAN GLEIMAN: I am aware of that and I think
8 you are absolutely correct. I even know of an instance
9 where something was delivery scanned on a federal holiday,
10 two days before it was actually delivered, but we won't go
11 into all the gory details of that one right now. I happen
12 to use Priority Mail frequently and use delivery
13 confirmation because I like to see how it works, and
14 sometimes it does.

15 Let me ask you about ODIS. We now know that
16 delivery confirmation generally is actually when something
17 is presented at the ultimate delivery address. Now, ODIS,
18 that doesn't have anything to do with ultimate delivery
19 addresses, that has to do, as I recall, with originating and
20 destinating offices. So it is when I take it up to 14th
21 Street and L and drop it off, and when it gets to the post
22 office on the other end, that is what that data represents?

23 THE WITNESS: I am not an expert on ODIS, but that
24 is my understanding.

25 CHAIRMAN GLEIMAN: Okay. So, if you buy delivery

1 confirmation, not only is the percentage higher, but the
2 fact of the matter is that you really can't compare that 85
3 percent on ODIS and the 89.9 percent on delivery
4 confirmation one-on-one, because in the case of ODIS, it is
5 delivery to somebody's door and in the case -- excuse me, in
6 the case of delivery confirmation, it is delivery to
7 somebody's door? In the case of ODIS, it is just delivery
8 to the destinating post office and it may take another day
9 to get from there to somebody's house, depending on what
10 time it gets to that post office?

11 THE WITNESS: The numbers are not strictly
12 comparable. The delivery confirmation data is based on a
13 very small subsegment of the Priority Mail mailstream.
14 Those pieces that received retail delivery -- or purchase
15 retail delivery confirmation.

16 CHAIRMAN GLEIMAN: I am just wondering if, you
17 know, you get better service when you pay the extra money
18 for the delivery confirmation.

19 I have no further questions at this point.

20 Commissioner LeBlanc.

21 COMMISSIONER LeBLANC: Ms. Robinson, a good thing
22 about following our Chairman sometimes is he asks a lot of
23 the questions that I was going to ask, so that is the good
24 side. The bad side is people may think we think alike, but
25 that is --

1 CHAIRMAN GLEIMAN: If I may interrupt, I just want
2 to note for the record that this is the first time I have
3 gone first. With all the other witnesses, I have let
4 everyone else go first. I intend to do that from here on in
5 also. I just was a little confused about some of these
6 things.

7 COMMISSIONER LeBLANC: I couldn't let him off
8 light, that is how you have to look at that one.

9 Just a clarification, in a follow-up to your
10 answer to the Chairman and Mr. Olson, you were talking a lot
11 about the overpayment of the contracts and then you touched
12 on with Mr. McKeever about there is I think \$20 million that
13 haven't been -- the board hasn't agreed to. You are not
14 sure of the dates of the Emery contracts that are going to
15 -- whether or not they are going to fall in the test year,
16 outside the test year, or whenever it may be. And yet when
17 you designed your rates, you put a 20 percent increase in.
18 What is going to happen? Who -- in effect, you are asking
19 our Commission here to buy this, and if something changes,
20 then what happens at that point? Where do we go with that?

21 Do you have any thoughts on that? In other words,
22 if all of these things come into fruition, it's going to
23 change that rate design, and/or the rate, pretty
24 dramatically, or it would seem to me it would.

25 Where would you have us go with that?

1 THE WITNESS: The costs that were based -- the
2 costs that I based my rate design on were from Witness
3 Kashani's testimony. And they're based on a network
4 configuration that includes the existing PMPC Network, the
5 10 sites, and the remaining processing throughout the rest
6 of the country.

7 As I noted in my testimony, the way costs are
8 incurred under the Emery contract, it is somewhat unusual in
9 that it is a bundled contract where mail processing and
10 transportation are accounted for in Cost Segment 16 as
11 opposed to some of the transportation costs being accounted
12 for in Cost Segment 14 where they are traditionally put.

13 Because of that, I chose to use what I've termed
14 the Emery adjustment to try and mitigate the effect of that
15 unique contract on the rate design.

16 What I've effectively tried to do is go halfway
17 and incorporate some of the characteristics of the Emery
18 contract into the rate design, recognizing that it exists
19 and it is a fact, while not fully incorporating them and
20 running a large risk of having to backtrack or do the big
21 swing back in the other direction that you're talking about.

22 COMMISSIONER LeBLANC: Okay. Thank you very much.

23 CHAIRMAN GLEIMAN: Commissioner Omas has no
24 questions. I just want to make a comment to put everybody
25 on notice. I erred before when I was talking about the

1 percentage of one-day delivery in the Priority Mail area. I
2 said 98 when I should have said 89. I don't know whether
3 anybody picked up the evidence on that, but a 33-cent stamp
4 was very easy for me, being mildly dyslexic. You could wind
5 up with a 43-cent stamp in this case, so you're better be on
6 your guard.

7 [Laughter.]

8 CHAIRMAN GLEIMAN: Commissioner Goldway?

9 COMMISSIONER GOLDWAY: I thought you were calling
10 on George.

11 COMMISSIONER OMAS: I have no questions.

12 CHAIRMAN GLEIMAN: George has no questions.

13 COMMISSIONER GOLDWAY: I have many questions.

14 CHAIRMAN GLEIMAN: You need to turn your
15 microphone on.

16 COMMISSIONER GOLDWAY: I have many questions, and
17 some of my papers seem to be mislaid.

18 Let's begin with the decision to establish a
19 one-pound rate for Priority Mail. I'm a bit confused about
20 how this is going to work.

21 You're also continuing to have a flat rate,
22 two-pound envelope?

23 THE WITNESS: That's correct.

24 COMMISSIONER GOLDWAY: At \$3.85.

25 THE WITNESS: Yes, the flat rate envelope rate is

1 supposed to be \$3.85.

2 COMMISSIONER GOLDWAY: So, somebody who has an
3 important document and wants to send it in a Priority Mail
4 envelope will have to use the \$3.85, whether it weighs five
5 ounces or 10 ounces or 20 ounces?

6 THE WITNESS: No, that's not correct. The flat
7 rate envelope is a packaging option for customers. It is a
8 specifically-denominated envelope that states two-pound rate
9 required, on it.

10 It's my understanding that the office in charge of
11 packaging programs is in the process of designing an
12 envelope that will not be rate-denominated, but can be used
13 for any weight of mail that has characteristics similar to
14 the existing flat-rate envelope.

15 In addition, a mailer could use any of the other
16 Postal Service-provided packaging materials for Priority
17 Mail, or their own packaging materials.

18 COMMISSIONER GOLDWAY: But the mailer won't know
19 that up to one pound it could be \$3.45. It won't indicate,
20 up to one pound, \$3.45?

21 THE WITNESS: The packaging that has been proposed
22 will not be a denominated rate; it would be -- you could use
23 it for a one-pound piece or a three-pound piece, presumably,
24 and pay the weight-rated rate.

25 To the extent that those are clearly marked, there

1 will be a distinction between the flat-rate envelope and the
2 non-flat-rate envelope, for lack of a better word, to allow
3 the mailer to make those distinctions.

4 COMMISSIONER GOLDWAY: Can I refer you to
5 DFC/USPS-T-24-3?

6 THE WITNESS: Yes?

7 COMMISSIONER GOLDWAY: This is a response to a
8 question about volumes for Priority Mail.

9 THE WITNESS: Yes.

10 COMMISSIONER GOLDWAY: By weight. And as I read
11 it -- I haven't done the math, but it certainly looks like
12 to me that the overwhelming majority of Priority Mail volume
13 by weight is under 13 ounces. Am I reading that correctly?

14 THE WITNESS: This chart shows the flat-rate
15 envelope volume by ounce increment, and as is noted in the
16 response to DFC/USPS-T-24-4, approximately 77 percent of the
17 flat-rate envelopes weighed one pound or less.

18 COMMISSIONER GOLDWAY: Don't you think it would be
19 appropriate to have an envelope that was a flat-rate
20 one-pound envelope, given the kind of usage and service that
21 customers seem to be making of the Priority Mail?

22 THE WITNESS: The flat-rate envelope is designed
23 to hold up to two pounds in weight. It's very easy to come
24 up with mail pieces that fit into the flat-rate envelope
25 that weigh more than one pound.

1 The concern with using the one-pound rate for the
2 flat-rate envelope is putting upward pressure on the
3 one-pound rate. As mailers weigh mail above one-pound
4 pieces, it would tend to increase the one-pound rate.

5 COMMISSIONER GOLDWAY: I don't understand that.
6 Could you repeat that again?

7 THE WITNESS: If you use the one-pound rate for
8 the flat-rate envelope, the \$3.45, say, you're running the
9 risk of putting upward pressure on that specific rate,
10 because the flat-rate envelope was designed to hold, fairly
11 easily, material weighing up to two pounds.

12 So when the rate -- in subsequent cases, when the
13 rates would be designed, you would have a tendency for
14 customers to stuff that envelope full, mail heavier-weight
15 pieces, and drive the costs up for the category, one-pound
16 and flat-rate envelopes.

17 COMMISSIONER GOLDWAY: Well, why not a slightly
18 smaller one-pound rate envelope, but one that accommodates
19 what's clearly the demand and the usage, because it looks to
20 me like the proposal that you're presenting, while it
21 indicates you want to reduce the spread between First Class
22 and Priority, that a two-pound rate would not provide for
23 that.

24 In fact, still it will continue to have that large
25 spread, even larger now, to \$3.85, because the flat-rate

1 envelope will be offering \$3.85, when the bulk of the
2 mailings are under one pound.

3 THE WITNESS: The Postal Service -- it's my
4 understanding we're planning on addressing that issue, in
5 part, by providing an envelope with similar characteristics
6 that can be used by mailers weighing pieces less than one
7 pound.

8 COMMISSIONER GOLDWAY: I think we'll have to
9 consider that.

10 I'd like to --

11 COMMISSIONER OMAS: Ruth, would you speak up a
12 little bit, please?

13 COMMISSIONER GOLDWAY: Okay. I'd like to continue
14 that line of questioning, if I can make any of this
15 consistent, by asking you about the video which was
16 submitted as a result of responses to Request for
17 Information Number 6.

18 And it's a video that is a training video for
19 Postal employees to sell Priority Mail.

20 THE WITNESS: The video you're referring to is a
21 part of the training procedures for window clerks, the sales
22 associates.

23 COMMISSIONER GOLDWAY: Yes. And are you aware of
24 whether that training video will be changed as well?

25 THE WITNESS: I'm not aware of specific plans, but

1 in the video it refers to specific rates or rate comparisons
2 that would no longer be in effect, I would believe that it
3 would be changed to make sure the information was accurate.

4 COMMISSIONER GOLDWAY: Okay, if you'll give me a
5 moment to find my reference to that?

6 [Pause.]

7 Have you looked at the video yourself?

8 THE WITNESS: Yes, I have.

9 COMMISSIONER GOLDWAY: By the way, for the record,
10 it is filed as Library Reference 1282.

11 On two separate occasions in the video, the MC or
12 trainer is urging his listeners, the audience of people who
13 would be selling this product, to explain the benefits of
14 Priority Mail, and says that Priority Mail takes two to
15 three days, whereas Parcel Post takes seven, eight, or nine
16 days. And that reference is made twice in comparing the two
17 products.

18 THE WITNESS: There is a comparison of the service
19 standards, and I'm aware they speak of Priority Mail service
20 standards as being two to three days. I don't specifically
21 remember the reference to Parcel Post.

22 COMMISSIONER GOLDWAY: They also refer to the
23 service standards of Parcel Post as seven, eight, or nine
24 days.

25 THE WITNESS: I don't recollect that,

1 specifically, but there is a reference to Parcel Post
2 standards.

3 COMMISSIONER GOLDWAY: And in the ODIS Quarterly
4 Statistics Reports that the Postal Rate Commission receives
5 regularly -- and I'm looking at Postal Quarter One for this
6 year, 2000 -- I don't know if we need to submit this as a
7 document or if you'll just accept, subject to check, that
8 the chart I have here is, in fact, the regular submission
9 that the Postal Service presents on the quarterly basis for
10 ODIS.

11 This chart indicates that this -- yes, this is
12 data on ODIS delivery for Parcel Post, Standard B, and it
13 indicates that 85 percent of Standard B parcels are
14 delivered in six days or less, and that 42 percent of
15 parcels are delivered in three days or less.

16 THE WITNESS: I've not reviewed that chart; I
17 can't confirm that.

18 COMMISSIONER GOLDWAY: Well, if you acknowledge,
19 subject to check, that this is the standard material that
20 I'm referring to --

21 THE WITNESS: I'll assume that's correct.

22 COMMISSIONER GOLDWAY: And also acknowledge that
23 in the video, Parcel Post Service standards are referred to
24 as seven to nine days, would you be concerned that the
25 accuracy of that video is questionable? Not fully

1 descriptive of the services provided under Parcel Post?

2 THE WITNESS: I don't think the video is intended
3 to be a full description of the services available under
4 Parcel Post. It is part of a much larger amount of material
5 --

6 COMMISSIONER GOLDWAY: Or perhaps a fair
7 comparison of the two service standards?

8 THE WITNESS: Not specifically recalling the
9 reference to Parcel Post, I would assume the video was based
10 on some data. I'm not sure I can reach that conclusion.

11 COMMISSIONER GOLDWAY: Do you think that I would
12 have some reason to be concerned that a new training video
13 describing the availability of one-pound rate versus
14 two-pound rate for Priority Mail might avoid the same sort
15 of -- might not include the more precise comparisons that
16 would give people the -- give consumers the fairer options
17 they might have with products, if we have a video that now
18 simply gives the extremes of service on two products and
19 ignores those overlaps, and we are now talking about a
20 one-pound rate that would probably address up to 75 percent
21 of users' needs, but may be described as a two-pound,
22 flat-rate envelope?

23 THE WITNESS: I would hope that any training
24 materials that the Postal Service prepared would accurately
25 portray the various customers, options and products. I

1 would note that the flat rate envelope volume is
2 approximately 120 million pieces. There is a very large
3 amount of Priority Mail that is under two pounds that does
4 not use the flat rate envelope.

5 COMMISSIONER GOLDWAY: We don't know what
6 percentage of that under one pound volume is using the flat
7 rate envelope at the moment, do we?

8 THE WITNESS: Actually, --

9 COMMISSIONER GOLDWAY: Could we get that
10 information?

11 THE WITNESS: Actually, I believe I have that. I
12 have done the percentages. Out of a total 1.174 billion
13 Priority Mail pieces in fiscal 1998, approximately 121
14 million pieces used the flat rate envelope. Approximately
15 418 million pieces weighed less than one pound and did not
16 use the flat rate envelope, and approximately 382 million
17 pieces weighed between one pound and two pounds and did not
18 use the flat rate envelope.

19 COMMISSIONER GOLDWAY: Could you provide us with
20 -- where is that chart? Perhaps I can do this myself.

21 THE WITNESS: In my testimony, Attachment A, page
22 7 of 8.

23 COMMISSIONER GOLDWAY: Okay. Attachment A, page
24 7.

25 THE WITNESS: Attachment A, page 7 of 8.

1 COMMISSIONER GOLDWAY: Okay. Let me go now to
2 some of the service standard issues that I am concerned
3 with. In your response to Question 10(a) and 10(c) of POIR
4 Number 6, you gave the aggregate information for service
5 standards and zip code pairs. You have indicated, based on
6 other questions here today, that you would try and give us
7 the volumes for the mail that was in one day, two day and
8 three day, comparing First Class and Priority.

9 Are there volumes available for the mail that goes
10 beyond three days? In other words, not just the volume of
11 mail that is in those service standards, but the volume of
12 mail that sort of falls beyond what the service standards
13 are.

14 THE WITNESS: I am not sure exactly how the data
15 systems measure the data, but if you are looking for the
16 volume of mail that is one day that is delivered in more
17 than one day, I don't know how data systems specifically
18 measure that.

19 COMMISSIONER GOLDWAY: The volume for mail that is
20 delivered in four days or five days, or six days.

21 THE WITNESS: I am not an expert on the data
22 systems. I am not sure specifically what data is included
23 in those data systems.

24 COMMISSIONER GOLDWAY: How does the Postal Service
25 derive its standards for zip code pairs? Is there some

1 formula, for example, for First Class service between zip
2 codes that are one or two days? It is not just a factor of
3 absolute distance, there must be some other factors
4 involved. And what are the factors that are used to
5 establish one day, two day, three day service standards?

6 THE WITNESS: I don't develop the delivery service
7 standards. I am not sure how they are developed. It is my
8 understanding that it is not a purely distance based
9 relationship, or if it is X miles, it is always Y service
10 standard. I believe there are some other operational
11 considerations that are taken into effect.

12 COMMISSIONER GOLDWAY: Would there be another
13 witness who could testify to service standards?

14 THE WITNESS: I am not aware of anyone who has
15 service standards as the subject of their testimony, no.

16 CHAIRMAN GLEIMAN: If I may, Commissioner Goldway,
17 I don't know whether there is another witness, but I will
18 tell you what, I think the witness who set the target markup
19 over cost had to look at those criteria, if I understand the
20 earlier exchange, so I think that the witness, Witness
21 Mayes, as I recall, is liable to get some questions from me
22 and perhaps you might want to think about asking questions
23 of that witness also about how the markup was established,
24 given the criteria and the law that are supposed to be taken
25 into account.

1 COMMISSIONER GOLDWAY: I think we need the
2 criteria to establish service standards for both First Class
3 mail and Priority Mail.

4 CHAIRMAN GLEIMAN: That is the person.

5 COMMISSIONER GOLDWAY: All right. Perhaps he can
6 be alerted that those questions are going to be asked. Oh,
7 it is she.

8 CHAIRMAN GLEIMAN: I think I just alerted her, she
9 is in the room today.

10 COMMISSIONER GOLDWAY: All right.

11 COMMISSIONER LeBLANC: She is even writing it
12 down.

13 COMMISSIONER GOLDWAY: We may want to ask her then
14 these questions again. But let me, for the record, repeat
15 that what we have so far is an indication that with delivery
16 confirmation, one day overnight service and Priority is
17 about 89 percent.

18 THE WITNESS: For those customers who use Priority
19 Mail and purchase retail delivery confirmation service, yes.

20 COMMISSIONER GOLDWAY: With ODIS, we have
21 something about around 85 percent. And with those PETE
22 scores that we have available that were submitted in
23 response to APMU/USPS-T34-8, we have overnight service
24 standards of somewhere between 84 and 91 percent. I am
25 rounding off the numbers, but it is by quarter as opposed to

1 annually. But we have three different measurement
2 standards.

3 THE WITNESS: There are three measurement systems
4 that measure performance, yes.

5 COMMISSIONER GOLDWAY: Yes. In different ways.

6 THE WITNESS: Yes.

7 COMMISSIONER GOLDWAY: Would you agree that all of
8 them come up with a number that is less than the EXFC
9 service standard for First Class one day delivery?

10 THE WITNESS: I have not done that comparison. I
11 am not certain if that is correct.

12 COMMISSIONER GOLDWAY: Don't we have a regular
13 announcement that the service standards have been going up
14 and up and the last one was 94 and they have been hovering
15 at 93 for the last year-and-a-half? Do you recall that
16 number?

17 THE WITNESS: Yes, that is generally what I recall
18 the EXFC numbers being.

19 COMMISSIONER GOLDWAY: And that number is higher
20 than any of these numbers?

21 THE WITNESS: I am not certain that it is higher
22 than any of the numbers. I haven't --

23 COMMISSIONER GOLDWAY: These numbers that I have
24 just quoted from.

25 THE WITNESS: I have not seen the PETE scores. I

1 mean I have seen them, but I do not have them available, in
2 front of me.

3 COMMISSIONER GOLDWAY: That is -- oh, it is a
4 response from the Postal Service, redirected from you.

5 THE WITNESS: Correct.

6 COMMISSIONER GOLDWAY: So you haven't seen this.
7 84.85, 82.73, 88.16 and 91.26, are any of those over 93?

8 THE WITNESS: None of those numbers are over 93.

9 COMMISSIONER GOLDWAY: So we can see from the
10 numbers we have here that none of those numbers match the
11 high number that is regularly announced for First Class
12 overnight service, of the numbers we have here?

13 THE WITNESS: Of those numbers you read, all of
14 those are below what I believe the EXFC overnight score is.

15 COMMISSIONER GOLDWAY: Okay. What I would like to
16 do to add to the record of evidence that we have is make
17 sure that our response, that the United States Postal
18 Service response to Presiding Officer Request for
19 Information, Number 6, Question 9, is submitted into the
20 record. This was given to us just a few days ago, later
21 than the responses to the other 10 questions. Many of which
22 dealt with Priority Mail. And it was asking for the quarter
23 by quarter, to what extent First Class mail was delivered as
24 fast or faster in any five of the 85 clusters that the
25 Postal Service indicated performance clusters are

1 comparable, Priority and First Class.

2 And this record also lists 78 clusters where EXFC
3 is better and only six where PETE is better. 79 where -- in
4 Quarter 2. I don't think I need to read the chart here. We
5 can submit this as part of the evidentiary record.

6 CHAIRMAN GLEIMAN: I think at this point we can
7 transcribe this response to Presiding Officer's Information
8 Request No. 6, Question 9, into the record and we will,
9 since it is an institutional response wait and put it in as
10 evidence when we get to that point in time when we are doing
11 institutional responses.

12 [USPS Response to Presiding
13 Officer's Information Request
14 Number 6, Question 9 was received
15 into evidence and transcribed into
16 the record.]

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

RECEIVED
APR 14 4 28 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6, QUESTION 9
(April 14, 2000)

In accordance with Presiding Officer's Ruling No. R2000-1/36 (April 12, 2000),
the United States Postal Service hereby provides its response to Presiding Officer's
Information Request No. 6, Question 9.

The question 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



Michael T. Tidwell

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April 14, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6 QUESTION 9**

9. The Postal Service's response to DFC/USPS-49 includes an attachment describing the PETE system stating that it is modeled closely after EXFC. According to the attachment, data is collected for 85 performance clusters. For each quarter of FY1998 and 1999, to what extent was First Class Mail delivered as fast or faster than Priority Mail for any of the 85 clusters? Explain in detail how you arrived at the analysis.

RESPONSE:

Comparison of EXFC and PETE Overnight Service Performance

EXFC is an external measurement system of collection box to mailbox delivery performance. Currently EXFC continuously tests a panel of 465 ZIP Code areas selected on the basis of geography and volume density from which 90% of First-Class volume originates and 80% destines. Through FY 1999 PQ 2, EXFC tested a panel of 303 ZIP Code areas. EXFC is not a system-wide measurement of all First-Class Mail performance.

PETE is an external measurement system of collection point to mailbox delivery performance. PETE continuously tests a panel of 301 ZIP Code areas selected on the basis of geography and volume density from which 71% of Priority Mail volume originates and 67% destines. PETE is not a system-wide measurement of all Priority Mail performance.

The EXFC and PETE 3-digit ZIP Code area test domains are not the same. The EXFC test area was expanded beginning FY 1999 PQ 3. The following table compares the test domains.

**RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6 QUESTION 9**

	FY 1998 - FY 1999 PQ 2	FY 1999 PQ 3 / 4
Total EXFC ZIP Code Areas	302	465
Total PETE ZIP Code Areas	301	301
EXFC ZIPs not in PETE	65	184
PETE ZIPs not in EXFC	63	20
Common PETE / EXFC ZIPs	238	281

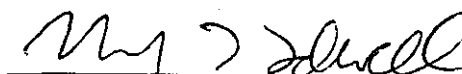
Prior to FY 1999 PQ 3, the common test domain covered about 62% of the originating and 56% of the destinating identified Priority volume. After EXFC expansion, the common test domain covers about 69% of the originating and 63% of the destinating Priority volume.

The following table shows the compares destination cluster performance in EXFC and PETE for overnight committed Priority Mail. Only the common service area between EXFC and PETE are included in these data. There are 85 performance clusters. However, the Alaska performance cluster has no overnight service area.

	Common ZIP Codes	Clusters better in EXFC	Clusters better in PETE
FY 1998 PQ 1	238	78	6
FY 1998 PQ 2	238	79	5
FY 1998 PQ 3	238	75	9
FY 1998 PQ 4	238	44	40
FY 1999 PQ 1	238	59	25
FY 1999 PQ 2	238	76	8
FY 1999 PQ 3	281	67	17
FY 1999 PQ 4	281	66	18

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

475 L'Enfant Plaza West, S.W.
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April 14, 2000

1 COMMISSIONER GOLDWAY: Okay. Well, one other
2 piece of information I have regarding service standards in
3 the context of this discussion -- I am aware of the concerns
4 that ordinary customers have about Priority Mail versus
5 First Class Mail and I did receive an experiment that was
6 conducted by a young man in eighth grade a few years ago
7 when Priority Mail -- actually it was just a year ago --
8 just before Priority Mail went up. This was at the \$3.20
9 and 33 cent rate, so it's fairly current.

10 There was a discussion earlier about comparing
11 apples to apples and oranges to oranges, and in this
12 experiment 60 cards were mailed to ten different locations
13 and they weighed exactly the same and cost 33 cents and 60
14 Priority Mail envelopes were also mailed to the exact same
15 locations, costing \$3.20.

16 The results of this survey indicate that on
17 average there appears to be no significant difference
18 between Priority Mail and First Class Mail service except
19 that Priority Mail was slightly better. Now it is a small
20 sample of 60 so you can't really be statistically accurate,
21 but I think it is useful to submit this experiment into the
22 record, although it is not an official or statistical sample
23 because it does demonstrate what an average citizen might
24 see about the relative value of Priority Mail and First
25 Class Mail and such a average person's evaluation I think is

1 useful for us in determining service standards.

2 CHAIRMAN GLEIMAN: I would like to think --

3 COMMISSIONER GOLDWAY: May I introduce this into
4 the evidentiary record?

5 CHAIRMAN GLEIMAN: I would like to think that that
6 document which you received I believe since the case was
7 filed has found its way into our public commenter file, and
8 I don't think it is proper subject matter for inclusion in
9 the record.

10 I have no objection to it being established as a
11 Library Reference and we will do that.

12 COMMISSIONER GOLDWAY: Thank you -- so it will be
13 given a -- do we need to designate the number?

14 CHAIRMAN GLEIMAN: We will file it. We will make
15 sure it gets filed with the docket room and it will be
16 assigned a library number. I don't believe that there are
17 any Rate Commission Library References at this point but
18 rather than give it a number right now and have it out of
19 order, I would rather wait until after the proceedings today
20 and then we will take appropriate action to ensure that it
21 is put in as a Library Reference in the docket room.

22 As I said, I would like to think, since it was
23 received since the case was filed, that it was also in the
24 commenter file at some point.

25 COMMISSIONER GOLDWAY: I have some other

1 questions, Chairman, about how Priority Mail is advertised
2 or more specifically how it is explained to the customer at
3 post offices and at point of purchase, and I am not sure
4 that Witness Robinson is the right person to ask these
5 questions of. Who would be the person to follow on in more
6 detail about these questions?

7 CHAIRMAN GLEIMAN: I think the way to find out if
8 Witness Robinson is the right witness is to ask the
9 questions of her. It never ceases to amaze me sometimes how
10 much witnesses, some witnesses, know and are willing to
11 offer up, and if she is not the right witness her counsel
12 can object and then we can find out from her counsel if this
13 is beyond the scope of her testimony and then we can find
14 out from counsel whether there is another witness to whom we
15 can direct these questions, but I would just start asking
16 the questions of the witness, if it were me.

17 COMMISSIONER GOLDWAY: In your answer to Carlson
18 USPS -- I think this is yours -- USPS-T34-7(d), you indicate
19 that NCR POS 1 terminals do not display the actual First
20 Class Mail service standards for each specific
21 origin-destination combination and they indicate a three
22 day, First Class Mail service standard for every article.
23 Is that correct?

24 THE WITNESS: That is the information I was
25 provided.

1 COMMISSIONER GOLDWAY: So a three day service
2 standard is indicated even if there is a First Class --
3 there is an overnight service standard for the particular
4 destination that the customer's purchasing this First Class
5 stamp for, is that correct?

6 THE WITNESS: That is my understanding.

7 COMMISSIONER GOLDWAY: And you also said that MOS
8 IRTs do not display service standards for First Class Mail
9 or service standards for Priority Mail when the service
10 standard is two days or less?

11 THE WITNESS: Correct. The MOS IRTs do display a
12 message when there is a three-day Priority Mail service
13 standard. It notes that there is a three day service area
14 and to advise the customer.

15 COMMISSIONER GOLDWAY: As an exception to what
16 would otherwise be the normal one to two day?

17 THE WITNESS: Based on a very limited
18 understanding of what the retail terminals do, I believe the
19 Priority Mail or a notice about the Priority Mail service
20 standard for the MOS IRTs is only displayed when it has a
21 three day service standard.

22 COMMISSIONER GOLDWAY: Is there any notice
23 displayed for First Class?

24 THE WITNESS: I don't know. The information I was
25 provided for this interrogatory suggests it is not, for that

1 specific sort of terminal.

2 COMMISSIONER GOLDWAY: So there would be no
3 comparative delivery standards available at those?

4 THE WITNESS: I don't know if the terminals are
5 configured to show a comparison of service standards, no.

6 COMMISSIONER GOLDWAY: What information source
7 would the window clerk have available or could that person
8 access to give the customer information about the comparison
9 or delivery standards for Priority Mail and First Class?

10 THE WITNESS: I have never worked in window
11 service and I am not familiar with the window operations.

12 There may be some reference materials. I really
13 couldn't say what they would be.

14 COMMISSIONER GOLDWAY: In my ad hoc survey of post
15 offices, it appears to me that the display information
16 available about Priority Mail and Priority Mail service
17 standards is inconsistent.

18 Would it be possible to get a list or a
19 compilation of all of the types of display information about
20 Priority Mail that is currently on view at post offices, or
21 perhaps that Priority Mail poster information that has been
22 produced in 1999 and the year 2000?

23 CHAIRMAN GLEIMAN: Mr. Cooper?

24 MR. COOPER: I am not sure of the scope of the
25 request here. Is it the information that is displayed on

1 the terminals that you are interested in or is it more than
2 that?

3 COMMISSIONER GOLDWAY: I am interested in the
4 information that is displayed on the terminals and in the
5 post offices -- posters, brochures. I know that this may be
6 a large request so I think if we can narrow it to those
7 products that have been produced by the Postal Service
8 regarding Priority Mail for display in post offices in 1999
9 and 2000, rather than going back over the years, at least I
10 would get a sense of what is the current thinking in the
11 Postal Service about how to describe Priority Mail and its
12 service standards and what is the most current information
13 available to postal clerks and consumers about Priority Mail
14 at the post offices.

15 MR. COOPER: To the extent that some of those
16 materials may be generated on a local level, I am not sure
17 that we can get them all, but we will make an effort to do
18 so.

19 COMMISSIONER GOLDWAY: If there are materials
20 generated at a local level, is there a policy directive
21 regarding the information on those materials that we could
22 be provided with?

23 MR. COOPER: We will look for one.

24 CHAIRMAN GLEIMAN: Just so we all understand,
25 since you are concerned about the breadth of the request, we

1 are talking about calendar years or fiscal years, which
2 would you like?

3 COMMISSIONER GOLDWAY: Fiscal years.

4 CHAIRMAN GLEIMAN: Fiscal Years '99 and 2000.

5 Okay.

6 MR. COOPER: We will make our best effort to
7 comply with this request.

8 CHAIRMAN GLEIMAN: And because it conceivably
9 could take you a bit longer than seven days, could you give
10 us a status report at the end of seven days as to progress
11 and whether we can expect something substantive and the
12 timeframe that we can expect it in?

13 MR. COOPER: Yes, sir.

14 CHAIRMAN GLEIMAN: Thank you.

15 COMMISSIONER GOLDWAY: And another question I
16 might ask is whether it might be possible in the POS 1
17 terminals to actually display the service standard for the
18 location that a person is purchasing Priority Mail versus
19 Parcel Post for as opposed to this general one is two to
20 three days and one is seven to nine days.

21 THE WITNESS: Perhaps I need to clarify this
22 response.

23 This response was specifically referring to Mr.
24 Carlson's question regarding the Oakland area. It is my
25 understanding there are a number of different retail

1 terminals, some of which are not deployed in the Oakland
2 area. The various terminals provide different information
3 and I am not certain as to what sort of comparative
4 information is available.

5 COMMISSIONER GOLDWAY: Could we get a report from
6 the Postal Service on the kinds of comparative information
7 that are available through POS-1?

8 CHAIRMAN GLEIMAN: I think that that's already
9 going to be included in the information that you're
10 hopefully going to get in response to the earlier request.

11 COMMISSIONER GOLDWAY: You think so, okay.

12 CHAIRMAN GLEIMAN: Because you did ask for
13 information that was displayed on terminals, as well as
14 information that was displayed in front of the windows, if
15 you will. So I think that's probably covered.

16 If I could just clarify, you also asked a question
17 as to whether software could be modified to include not only
18 rates but service standards associated with the particular
19 destinating addressing, originating and destinating address?

20 COMMISSIONER GOLDWAY: Yes.

21 CHAIRMAN GLEIMAN: That's an additional request,
22 and if you could please explore what the -- whether that is
23 possible; that is, to upgrade or modify software that the
24 Postal Service uses on its retail terminals to include a
25 reference to the service standard for the particular type of

1 mail in question, so that that information, I assume, could
2 then be conveyed to the customer at that point.

3 COMMISSIONER GOLDWAY: Yes.

4 CHAIRMAN GLEIMAN: So if you could check on that
5 also?

6 MR. COOPER: We will include that on the list.

7 COMMISSIONER GOLDWAY: Thank you for your
8 patience, Commissioners. That completes my questions.

9 CHAIRMAN GLEIMAN: Commissioner Covington has a
10 few questions, I believe.

11 COMMISSIONER COVINGTON: Good afternoon, Ms.
12 Robinson. I do intend for us to grab a bite to eat as soon
13 as possible.

14 I have several questions, more general than
15 technical in nature with regard to service performance.

16 The first thing I'd like to know is, I know
17 initially -- and I would assume that this still may very
18 well be the case that the PMP sites were located in the
19 Northeast Region of the country and Florida.

20 And I was wondering, has there been another PMPC
21 opened since the 10th one was opened back in July of 1998?

22 THE WITNESS: No, there has not. The current PMPC
23 Network is the ten sites noted in the response to
24 DFC/USPS-T-34-1.

25 COMMISSIONER COVINGTON: Okay, and Mr. Olson,

1 briefly, this morning, touched on PETE, which I found kind
2 of interesting, which is our priority, end-to-end analyses.

3 And if I'm correct in my thinking, Priority Mail
4 generally or should receive expedited handling and
5 transportation upon receipt, correct?

6 THE WITNESS: In general, Priority Mail receives
7 preference in handling and transportation, yes.

8 COMMISSIONER COVINGTON: Okay, in doing Quarter
9 Four, Fiscal Year 1999, there was an 8.4 percent number
10 given as to Priority Mail delivered in more than three days.
11 What I was wondering was, what would cause this or this a
12 common number?

13 THE WITNESS: I believe the number you're
14 referring to was provided in a response to
15 APMU/USPS-T-34-10, and is based on the retail delivery
16 confirmation data for Quarter Four, 1999.

17 COMMISSIONER COVINGTON: That's correct.

18 THE WITNESS: The only information I have is the
19 percentage that was delivered in more than three days, 8.4
20 percent.

21 COMMISSIONER COVINGTON: Okay, well, let me ask
22 you this question, Ms. Robinson, doing the base year, it's
23 stated that 29.8 percent of Priority Mail was handled as
24 First Class Mail.

25 And being a new Commissioner, it might be helpful

1 if you could explain what happened there.

2 THE WITNESS: I believe the percentage you're
3 referring to is the percentage of Priority Mail that is
4 unidentified; in other words, it does not bear markings that
5 indicate it as Priority Mail, and from a casual observer who
6 does not weigh it, it would look just like First Class Mail.

7 Unidentified Priority Mail, since it cannot be
8 picked out as being Priority Mail is processed on the First
9 Class Mail Network.

10 COMMISSIONER COVINGTON: Okay, then, two other
11 questions: In your testimony at page 13, line 8, I was
12 wondering why is it that UPS cannot or does not readily
13 identify air and surface transportation costs incurred under
14 the Emery contract but in the same paragraph, you state that
15 we here at the Commission and also at the Postal Service,
16 that Cost Segment 14 identifies it?

17 THE WITNESS: It's a unique feature of the Emery
18 contract. Typically, Postal Service purchased
19 transportation is reported in the accounting systems in Cost
20 Segment 14.

21 The Emery contract is unique in that it's a
22 bundled rate for mail processing and transportation, both
23 air and surface, and we don't have a number that can be
24 identified out of those contract payments as
25 transportation.

1 Therefore, all of those costs have been reported
2 in Cost Segment 16 as purchases of services.

3 COMMISSIONER COVINGTON: Okay, and one final
4 question, Ms. Robinson: On pages 17 and 18 of your
5 testimony, I think doing this morning's proceedings, Mr.
6 Olson as well as Mr. McKeever and Ms. Dreifuss, have all
7 stated it, and I feel quite sure that there's not that much
8 difference between a test and a pilot, so to speak, but as
9 far as the future of the Priority Mail processing network,
10 if I were -- if I wanted to know who is going to be charged
11 with the responsibility of evaluating the future, is there a
12 certain component?

13 Is there a team, or does that rest strictly with
14 you? Is it operational? Would it be on the expedited and
15 delivery? Who would actually be charged with this
16 responsibility?

17 THE WITNESS: It's definitely not me.

18 [Laughter.]

19 THE WITNESS: It is probably going to be a senior
20 level management decision in operations, would be my guess.

21 COMMISSIONER COVINGTON: Okay, individually, or
22 would it be a concerted effort on the part of the United
23 States Postal Service?

24 THE WITNESS: I don't know who will have the final
25 responsibility for that decision, but I would expect that it

1 would be fully examined by some group of people who are
2 familiar with operations.

3 COMMISSIONER COVINGTON: And wit the time running
4 down on this contract period, what type of timeframe would
5 that decision be made?

6 THE WITNESS: I'm not aware of any specific
7 timeframe.

8 COMMISSIONER COVINGTON: Near future?

9 THE WITNESS: I really would not be able to
10 characterize when that decision is going to be made.

11 COMMISSIONER COVINGTON: Okay, thanks a lot, Ms.
12 Robinson. That's all I have, Mr. Chairman.

13 CHAIRMAN GLEIMAN: Commissioner Omas?

14 COMMISSIONER OMAS: Ms. Robinson, I have one
15 question. You had stated that it cost more to send mail
16 using the Emery contract, versus using the Postal processing
17 system.

18 My question is, specifically, why is that?

19 THE WITNESS: I'm not familiar with the
20 operational costs in the Postal Service or within the Emery
21 contract to be able to make that analysis, that judgment, or
22 to make that determination.

23 COMMISSIONER OMAS: Well, how did you make the
24 determination that it cost more?

25 THE WITNESS: The information I was provided by

1 the operational people involved with the PMPC Network
2 indicated that it was more expensive to process Priority
3 Mail within the PMPC Network.

4 COMMISSIONER OMAS: Do you have any idea how much?

5 THE WITNESS: No, I don't.

6 COMMISSIONER OMAS: Thank you. That's all, Mr.
7 Chairman.

8 CHAIRMAN GLEIMAN: Commissioner LeBlanc?

9 COMMISSIONER LeBLANC: Ms. Robinson, I guess we'll
10 go to lunch sometime here, but just as a followup to
11 Commissioner Covington, did I understand you right when you
12 said that in the bulk situation there, you don't know
13 whether or not there is transportation involved, the amount?

14 THE WITNESS: It's my understanding of the way
15 that we reimburse Emery is that it is on a per-piece basis,
16 and that transportation is not explicitly identified.

17 COMMISSIONER LeBLANC: So if there is an overrun
18 on the contract, you don't know where the overrun is then?

19 It's just a figure, you just pay the fee and you
20 have no way of knowing where that overrun or breakout is,
21 period?

22 THE WITNESS: From my understanding of how we pay
23 Emery, it is an amount of money that is not identifiable as
24 mail processing surface transportation or air
25 transportation.

1 COMMISSIONER LeBLANC: So, when that contract is
2 set out, as far as you are concerned, then, if I'm
3 understanding you correctly, there are no specifications
4 that you have to deal with in setting up that contract or
5 whatever. It's just a figure that's given to you.

6 It's an overpayment or whatever it may be, and
7 that's all that you look at?

8 THE WITNESS: The Emery contract costs, I was
9 provided for use in the rate design was the \$522 million.
10 It's my understanding that cannot be disaggregated into
11 transportation mail processing.

12 COMMISSIONER LeBLANC: Do you know how that was
13 set up at all to begin with?

14 THE WITNESS: The contract payment? I was not
15 involved with that, no.

16 COMMISSIONER LeBLANC: Okay. Thank you, Mr.
17 Chairman.

18 CHAIRMAN GLEIMAN: Commissioner Goldway?

19 COMMISSIONER GOLDWAY: Yes, Commissioner Covington
20 brought up this issue of APM/USPS-T-34-31, the Priority Mail
21 unidentified. I had meant to ask you about that.

22 And you seem to say that, as I understand it, that
23 there is an envelope with a \$3.20 stamp on it. And nothing
24 else on the envelope? Somebody might have handwritten,
25 Priority Mail, but that wouldn't count; is that what you're

1 saying?

2 THE WITNESS: Basically, it's just -- my
3 understanding of what unidentified Priority Mail is, is that
4 it has no indication on the envelope that it is Priority
5 Mail.

6 COMMISSIONER GOLDWAY: Well, then, how do you know
7 it's Priority Mail?

8 THE WITNESS: When the data collectors go out and
9 do their samples, they look at the postage paid on the piece
10 to determine whether it paid Priority rates of First Class
11 Mail rates or another class of mail's rates.

12 COMMISSIONER GOLDWAY: So it's just the postage on
13 it which is what they're identifying as Priority Mail?

14 THE WITNESS: Unidentified Priority Mail is, to
15 use a bad term, identified as Priority Mail based on the
16 postage paid.

17 COMMISSIONER GOLDWAY: In the figures that we
18 talked about earlier, about the amount of -- the volume of
19 Priority Mail which is under 16 ounces, was any of that
20 unidentified Priority Mail included?

21 THE WITNESS: Yes, I believe it would be.

22 COMMISSIONER GOLDWAY: So, there is a statistical
23 accounting for that then?

24 THE WITNESS: Yes, that's my understanding.

25 COMMISSIONER GOLDWAY: Do we have any idea of that

1 unidentified Priority Mail, how that unidentified Priority
2 Mail breaks down in terms of weight?

3 THE WITNESS: I don't know what's in the data
4 systems regarding that.

5 COMMISSIONER GOLDWAY: Okay, but you are confident
6 that that 29.8 percent of Priority Mail volume is included
7 in the volume numbers that you submitted for all of Priority
8 Mail?

9 THE WITNESS: Yes, it is.

10 COMMISSIONER GOLDWAY: And somehow in the
11 breakdown of weights as well?

12 THE WITNESS: Yes, I believe it is.

13 COMMISSIONER GOLDWAY: Thank you.

14 CHAIRMAN GLEIMAN: I'm reluctant to ask any more
15 questions, but I'm just kind of curious now, too, about
16 unidentified Priority Mail.

17 You gave some service standard figures earlier on,
18 and we focused on the one-day service areas. I'm just kind
19 of curious as to when you do your service standard figures,
20 or when the Postal Service does them, whether it includes
21 unidentified Priority Mail when it measures percentage of
22 mail that has met service standards, and not necessarily one
23 day, but in all the service standard areas?

24 THE WITNESS: Based on my information, the
25 delivery confirmation service standard information is for

1 retail pieces that purchased delivery confirmation in
2 adjunct to Priority Mail, and I believe that would most
3 likely be identified. PETE data is based on Priority Mail
4 test pieces that are identified. I don't know how ODIS
5 measures identified versus unidentified mail for service
6 standards.

7 CHAIRMAN GLEIMAN: Okay. So I sent a package, if
8 I sent an 11 pound package Priority Mail, and paid the
9 postage on it and bought delivery confirmation, and the
10 clerk forgot to put the tape on there that said it was
11 Priority Mail, and it wound up being delivered in a much
12 longer period of time than might otherwise have been the
13 case, it would be picked up as a piece of late delivered
14 Priority Mail based on the delivery confirmation stamp?

15 THE WITNESS: For that, I am not certain how it
16 would work for that specific example.

17 CHAIRMAN GLEIMAN: Like I said, I knew I shouldn't
18 have asked that question, anyway, but, you know.

19 I believe that is it for questions from the bench,
20 and it looks like there may be some follow-up. Mr.
21 McKeeever.

22 MR. McKEEVER: Thank you, Mr. Chairman. I only
23 have two or three questions.

24 FURTHER CROSS EXAMINATION

25 BY MR. McKEEVER:

1 Q Ms. Robinson, Commission LeBlanc asked you some
2 questions about a situation where there might be cost
3 overruns under the Emery contract. Am I correct that the
4 amount the Postal Service pays per piece for Emery to handle
5 Priority Mail volume in that network, in a given period of
6 time, is the same whether or not it actually ends up costing
7 Emery more to handle those pieces?

8 A I am not familiar enough with the Emery contract
9 pricing structure to be able to reach that conclusion.

10 Q You don't know one way or the other?

11 A No, I don't.

12 Q Okay. At the beginning of the questions from the
13 bench, the Chairman asked a series of questions that noted
14 that the rate for a Parcel Post one pound piece was two
15 cents higher than the proposed rate for a one pound Priority
16 Mail piece, do you recall that?

17 A Yes, the rate for inter-BMC Parcel Post, two
18 pounds, is 3.47, which is two cents higher than the proposed
19 3.45 rate for one pound Priority Mail.

20 Q Of course, if the rate for a one pound Priority
21 Mail piece were to be an even \$3.50, that would change that
22 situation, is that correct?

23 A \$3.50 would be more than \$3.47, yes.

24 MR. MCKEEVER: That is all I have, Mr. Chairman.

25 CHAIRMAN GLEIMAN: As an editorial side note, just

1 thinking about the current rates, if you have a two pound
2 Priority Mail piece and a two pound Parcel Post piece and
3 you buy delivery confirmation for each of them, the Parcel
4 Post winds up costing more than the Priority Mail piece.
5 That is under current rates. I haven't looked at it under
6 the new ones yet.

7 MR. McKEEVER: I believe we had tried to address
8 that in the last case, Mr. Chairman.

9 CHAIRMAN GLEIMAN: I am afraid that my memory bank
10 is a bit muddled at this point.

11 Mr. Olson.

12 MR. OLSON: Mr. Chairman, thank you.

13 BY MR. OLSON:

14 Q Just to add further confusion to the issue of
15 identified Priority Mail, it is my understanding that if a
16 piece is in a Priority Mail envelope, that is identified
17 Priority Mail, correct?

18 A In Postal Service provided packaging, yes.

19 Q And if it has a Priority Mail sticker on it, it is
20 identified Priority Mail, correct?

21 A That is my understanding, yes.

22 Q And if it has Priority Mail tape on it, it is
23 identified Priority Mail, correct?

24 A Correct.

25 Q And if someone writes on there in noticeable

1 letters, "Priority Mail," it is considered identified
2 Priority Mail, correct?

3 A I believe that is correct.

4 Q But if it has, just as Commission Goldway said, a
5 little stamp up there that says "Priority Mail" on the
6 stamp, and \$3.20, that is not considered identified Priority
7 Mail, correct?

8 A Now, by stamped, do you mean the postage that is
9 applied to the letter?

10 Q Just the little postage stamp in the corner,
11 correct, that is the only -- the only place the word
12 "Priority" appears on the envelope is -- I don't even know
13 if the word "Priority Mail" is on the stamp, frankly, but is
14 to have a Priority Mail stamp on it, that is not identified
15 Priority Mail, isn't that correct?

16 A I may be stretching my understanding of identified
17 Priority Mail, but my understanding is postage alone does
18 not result in a piece being considered to be identified
19 Priority Mail.

20 Q Even if it had a meter strip for \$3.20, for
21 example, and that is --

22 A If it were solely a meter strip for \$3.20, I
23 believe it would be unidentified.

24 Q And if it had \$3.20 of postage stamps, it would be
25 unidentified, correct?

1 A If it were solely the postage stamp, that is my
2 understanding, yes.

3 Q And even if it used a Priority Mail postage stamp,
4 it would be unidentified, correct?

5 A If the postage stamp says "Priority Mail" on it, I
6 am not certain about that.

7 Q Okay. And with respect to all this discussion of
8 First Class and Priority Mail performance and comparisons,
9 do you know if -- the performance standard for which class
10 is used in determining bonuses of managers? If you know.

11 A I am not certain of how the management
12 compensation program works. I am not sure of all the
13 details of that.

14 Q You don't know if they use First Class performance
15 as a factor?

16 A I am not certain exactly how things are weighed
17 into that, no.

18 MR. OLSON: Thank you.

19 CHAIRMAN GLEIMAN: If there is no further --

20 MS. DREIFUSS: The OCA does have a couple of more.

21 CHAIRMAN GLEIMAN: Sorry. Nice try on my part.

22 Ms. Dreifuss.

23 FURTHER CROSS EXAMINATION

24 BY MS. DREIFUSS:

25 Q I wanted to ask about unidentified Priority Mail,

1 of course. Why be different? Do you know what the
2 in-office cost system and the city carrier cost system does
3 about this unidentified Priority Mail?

4 A No, I don't.

5 Q I also wanted to ask you, this follows up on the
6 Chairman's question about ODIS, the figures that were
7 provided by the Postal Service in response to Carlson
8 Interrogatory Number 8 come from ODIS, I believe. He asked
9 you about delivery standards, and I guess what he probably
10 meant by that was a service standard, do you think that is
11 right, when he was asking about the delivery standards for
12 Priority Mail, what he had in mind was the service standard?

13 A That was my understanding, yes.

14 Q Right. ODIS is not able to give the full picture
15 on meeting service standards, though, is that correct?

16 A ODIS measures service performance from the origin
17 office to the delivery office, it does not include the final
18 leg to the customer's premise.

19 Q Right. So it takes a little bit more time, and,
20 as the Chairman suggested, possibly up to a day more to
21 actually accomplish delivery, beyond what ODIS would pick
22 up. Does that sound about right to you?

23 A It would take some additional time, I don't know
24 how much additional time.

25 Q To the extent that it takes additional time, and

1 perhaps up to a day, and I understand that you are not an
2 expert on ODIS, you don't know how much more time, the
3 percentages that are given in response to Carlson
4 Interrogatory Number 8 are somewhat overstated, does that
5 sound right to you? That is -- let me restate it. If, in
6 some cases, additional days are necessary to accomplish
7 delivery, then the percentages that we see in response to
8 Carlson Interrogatory Number 8 would tend to be somewhat
9 smaller, would they not?

10 A I am not sufficiently aware of what ODIS measures
11 and how much additional time it would take between when the
12 ODIS data measures service standard and delivery to the
13 address, the recipient's address. I presume it would take
14 some additional time. Whether that is sufficient to reach
15 the conclusion that these numbers would be overstated or
16 understated, I don't know.

17 Q If, in some cases, it does take an additional day
18 beyond the ODIS measurement to accomplish to delivery, then
19 in those cases, and as they are reflected in these overall
20 percentage figures, the percentage figures would be somewhat
21 smaller, but we don't know how much smaller. Does that
22 sound right?

23 A If, in some cases, it would take an additional day
24 or more to deliver past the point where ODIS measures, that
25 would appear to be correct that these might be somewhat

1 overstated. However, I don't have sufficient information on
2 how the ODIS system works and what percentage of cases that
3 would be to reach a firm conclusion.

4 MS. DREIFUSS: Okay. Thank you.

5 CHAIRMAN GLEIMAN: Any more follow-up?

6 [No response.]

7 CHAIRMAN GLEIMAN: If not, that brings us to
8 redirect. Mr. Cooper, would you like some time with your
9 witness?

10 MR. COOPER: She has had to face quite a few
11 questions. I think I would like to take a couple of minutes
12 just to assess where we are at.

13 CHAIRMAN GLEIMAN: All right. Do you want five,
14 ten?

15 MR. COOPER: I think five is enough.

16 CHAIRMAN GLEIMAN: Okay. Five minutes then.

17 [Recess.]

18 CHAIRMAN GLEIMAN: Mr. Cooper?

19 MR. COOPER: I have no redirect.

20 CHAIRMAN GLEIMAN: If there is no redirect, then
21 Ms. Robinson, that completes your testimony here today. We
22 appreciate your appearance, your contributions to our
23 record, and your putting up with all the questions that we
24 probably need to ask of other witnesses but don't know who
25 to ask them of -- again I want to thank you, and you are

1 excused.

2 [Witness excused.]

3 MR. McKEEVER: Mr. Chairman, if I may ask one
4 question of clarification, there was a request made of the
5 Postal Service to provide certain information, and that is
6 the volume that falls within the one day, two day, three
7 day, et cetera timeframes.

8 There was no year specified for that data --

9 CHAIRMAN GLEIMAN: Oh, you are right.

10 MR. McKEEVER: -- and --

11 CHAIRMAN GLEIMAN: Just the beginning of time.

12 MR. McKEEVER: I would like to make that request
13 with respect to Fiscal Year 1999. They only need to look at
14 1999 data, which is, I believe, number one, the most recent
15 data available, and also most of the information -- not all
16 of it -- but most of the information concerning the extent
17 to which one class or the other meets its service standard
18 is also for fiscal year 1999.

19 CHAIRMAN GLEIMAN: Well, I think that is an
20 important clarification and I suspect that the Postal
21 Service won't have a problem with making the clarification
22 and limiting it to just the one year.

23 MR. COOPER: I think we would have made that
24 limiting assumption in any case but thank you for clarifying
25 that.

1 CHAIRMAN GLEIMAN: Well, this way we avoid
2 potential for motion practice later on, so before we break
3 for lunch, and thank you again, Ms. Robinson, before we
4 break for lunch I understand that the one party that
5 indicated they wanted to cross Witness Smith does not plan
6 to cross examine Witness Smith, and if there is anyone else
7 in the room that wanted to cross examine Witness Smith --
8 aha! -- speak now.

9 MR. WIGGINS: We are obviously doing something
10 wrong in our designations, because we did designate.

11 CHAIRMAN GLEIMAN: We may not be picking them up.

12 MR. WIGGINS: We are doing a single document
13 designating cross -- I mean indicating a desire to do oral
14 cross and maybe that is a mistake, but we did that.

15 CHAIRMAN GLEIMAN: Well, I will take you at your
16 word and, that being the case, Mr. Smith, see you after
17 lunch.

18 Let's come back at 1:30.

19 [Whereupon, at 12:35 p.m., the hearing was
20 recessed, to reconvene at 1:30 p.m., this same day.]

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AFTERNOON SESSION

[1:32 p.m.]

CHAIRMAN GLEIMAN: Counsel, would you like to call your next witness?

MR. TIDWELL: Postal Service calls Marc Smith to the stand.

CHAIRMAN GLEIMAN: Mr. Smith, if you would please stand.

Whereupon,

MARC A. SMITH,
a witness, was called for examination by counsel for the United States Postal Service and, having been first duly sworn, was examined and testified as follows:

CHAIRMAN GLEIMAN: Please be seated.

DIRECT EXAMINATION

BY MR. TIDWELL:

Q Mr. Smith, I am handing you two copies of a document entitled, "Direct Testimony of Marc A. Smith on behalf of United States Postal Service," marked for identification as USPS-T-21.

A Thank you.

Q Are you familiar with this document?

A Yes.

Q Was it prepared by you or under your direct supervision?

1 A Yes, it was.

2 Q I understand that you found a number of minor
3 changes or clarifications that you want to make at this
4 time.

5 A That's right, I have four minor changes.

6 Q Would you describe those for us?

7 A Sure. Page 9, line 12, the number 127 should
8 instead be 126, so it is LR-I-126.

9 Page 11, it turns out the last two lines of page
10 11 were also repeated at the top of page 12, so I am
11 deleting the last two lines of page 11.

12 At the end of the testimony before the attachments
13 there is a list of attachments and the list will list the 18
14 attachments. The titles there for Attachments 1, 17 and 18
15 have been revised to be consistent with the titles in the
16 Attachments.

17 Finally, Attachment 3, on the column headings for
18 the depreciation costs, right below Depreciation Costs is in
19 parentheses (CS 20); that should be (CS 20.1) because that
20 refers to a cost segment 20.1.

21 Q Have those changes been made in the two copies
22 that I handed you?

23 A Yes, they have.

24 MR. COOPER: Mr. Chairman, with those corrections,
25 I would ask that this testimony be admitted into the

1 evidentiary record.

2 CHAIRMAN GLEIMAN: Is there an objection? Hearing
3 none, I will direct counsel to provide two copies of the
4 testimony of Witness Smith to the Court Reporter and the
5 testimony will be received into evidence and not transcribed
6 into the record.

7 [Direct Testimony and Exhibits of
8 Marc A. Smith, USPS-T-21, was
9 received into evidence.]

10 CHAIRMAN GLEIMAN: Mr. Cooper, Category 2 Library
11 References?

12 BY MR. COOPER:

13 Q Now Mr. Smith, in Ruling Number 13 in this case
14 you were asked to prepare, to sponsor Library References --

15 COMMISSIONER LeBLANC: Is your mike on?

16 MR. COOPER: Yes, it is. I'll speak right into
17 it.

18 COMMISSIONER LeBLANC: Thank you.

19 BY MR. COOPER:

20 Q You were asked to prepare Library References I-77,
21 81, and 83. Were those prepared by you and are they
22 associated with your testimony, and are you prepared to
23 sponsor them?

24 A Yes, they were prepared by me and/or under my
25 supervision, and I am prepared to sponsor them.

1 CHAIRMAN GLEIMAN: Those three Library References
2 will be entered into evidence.

3 [Library References LR-I-77, I-81
4 and I-83 were received into
5 evidence.]

6 CHAIRMAN GLEIMAN: Mr. Smith, have you had an
7 opportunity to examine the packet of designated written
8 cross examination that was made available to you earlier
9 today?

10 THE WITNESS: Yes, I have.

11 CHAIRMAN GLEIMAN: And if those questions were
12 asked today, would your answers be the same?

13 THE WITNESS: Yes, they would. I do have one --
14 well, there is one change though. With the exception of one
15 response.

16 I found an error in my answer to
17 ABA/NAPM/USPS-T-21-6.

18 CHAIRMAN GLEIMAN: And could you tell us what the
19 correction is?

20 THE WITNESS: Yes. It is I had in the question
21 that asked me what equipment, what types of equipment was
22 covered by the expenses of \$281 million and \$170 million, as
23 shown in my Attachment 1 and I incorrectly had included in
24 that -- I listed the equipment and I incorrectly had
25 included in that list that there was custodial, maintenance,

1 building equipment and vehicle maintenance equipment, so I
2 have deleted those.

3 CHAIRMAN GLEIMAN: They have been deleted on the
4 copies that you have there?

5 THE WITNESS: Yes.

6 CHAIRMAN GLEIMAN: That being the case, if counsel
7 would please provide two copies of the corrected designated
8 written cross examination of Witness Smith to the reporter,
9 the material is received into evidence and will be
10 transcribed into the record.

11 [Corrected Designated Written
12 Cross-Examination of Marc A. Smith
13 was received into evidence and
14 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MARC A. SMITH
(USPS-T-21)

Party

Interrogatories

Alliance of Nonprofit Mailers

ANM/USPS-T21-1-12

American Bankers Association and
National Association of Presort Mailers

ABA&NAPM/USPS-T21-4, 6-8, 13, 16-17, 19, 22-
24, 29-30, 33, 38, 41, 43-44

Association for Postal Commerce

ANM/USPS-T21-1-12
DMA/USPS-T21-1-4, 6-7
MH/USPS-T21-1
MPA/USPS-T21-1a-c, j, 2d-e
PostCom/USPS-T21-1-2

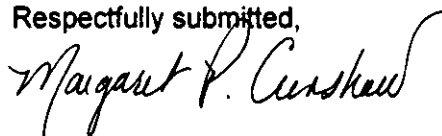
McGraw-Hill Companies, Inc., The

MH/USPS-T21-1

Newspaper Association of America

DMA/USPS-T21-2-4, 6
MH/USPS-T21-1

Respectfully submitted,



Margaret P. Crenshaw
Secretary

DMA/USPS-T21-4
DMA/USPS-T21-6
DMA/USPS-T21-7
MH/USPS-T21-1
MPA/USPS-T21-1a
MPA/USPS-T21-1b
MPA/USPS-T21-1c
MPA/USPS-T21-1j
MPA/USPS-T21-2d
MPA/USPS-T21-2e
PostCom/USPS-T21-1
PostCom/USPS-T21-2

NAA, PostCom
NAA, PostCom
PostCom
McGraw-Hill, NAA, PostCom
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T2I-4. On page 4, lines 10-11 you assert that your mail processing costs by letter shape have been developed using "indicia for First - Class single - piece letters."

- a. In this exercise have you used single piece letters as a benchmark for developing costs avoided due to worksharing?
- b. Did you in any way use actual data on BMM directly as a benchmark for developing costs by letter shape avoided due to worksharing?

Response:

Page 4, lines 10-11 is merely a summary or listing of the various unit costs by shape which I provide in my testimony. If you would rather not rely on such summaries or so-called "assertions," see Attachments 17 and 18 of my testimony to see the specific unit costs provided in my testimony.

- a. No. As indicated in my testimony at page 4, lines 7 to 8, my testimony provides costs to be used in developing costs avoided due to worksharing. My testimony, however, makes no designations of costs as "benchmarks" nor does it provide estimates of costs avoided due to worksharing.
- b. No. As noted in my response to part "a," I have not designated any costs as "benchmarks." In addition, if "BMM" refers to "bulk metered mail" then it should be noted that I provide "First-Class Single-Piece Bulk Entered Metered Letters" unit costs of 9.87 cents per piece for the base year (see Attachment 17, page 2) and 10.47 cents per piece for the test year (see Attachment 18, page 2). These unit costs are based on cost data for all

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Page 2 of Response to ABA&NAPM/USPS-T21-4.

First-Class, Single-Piece Metered Letters. See also witness Miller's response to
ABA&NAPM/USPS-T24-20.

Revised 4/18/00

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ABA&NAPM/USPS-T2I-6. In Attachment 1 of LR-83, "Maintenance Labor, and Parts and Supplies for Mail Processing Equipment by Category for FY 1998, please explain in detail what \$281 million in "non-mail processing equipment" labor costs, and \$170 million in parts and supplies costs, consists of.

Response:

These amounts are the maintenance labor costs and parts and supplies costs for certain types of non-mail processing equipment. This includes the following: office furniture; print shop and communications equipment; computers; lobby, window, and vending equipment; cafeteria, audio-visual and closed circuit TV equipment. For additional information see USPS-LR-I-201. Please note that Attachment 1 is part of my testimony and that the excel spreadsheet copy of this attachment to my testimony is contained in the USPS-LR-I-83 spreadsheets.

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ABA&NAPM/USPS-T21-7. Consider Attachment I of LR-83 and Page I-11, "FYOI Adjustments Due to Deployments", column (I), Mid-FY 98 Deployments.

a. Please confirm that annual labor maintenance costs per deployed mail processing machinery were as follows for BY 1998: \$43,885 per DBCS; \$94,403 per OCR, \$132,309 per RBCS deployment

b. How many manhours by machine category do these costs entail? At what wage rate?

c. What does the \$132,309 figure "per RBCS deployment" mean, i.e. is this the maintenance cost for all remote video stations per site and related equipment?

Response:

- a. Confirmed.
- b. The FY 1998 hours for maintenance of DBCSs, OCRs and RBCS were 4,517,023.6, 2,015,023.6 and 784,128 respectively. The hourly wage rate was \$29.52. The product of these hours and wage rate provides the costs shown in column 2 of page II-6A of USPS-LR-I-83. These costs are adjusted to reflect break, washup, administrative and supervision as indicated in column 5 of page II-6A. The hours by equipment listed above do not reflect break, washup, administrative and supervision time.
- c. This is the RBCS maintenance labor cost per plant with RBCS.

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ABA&NAPM/USPS-T21-8. On page I-11 of LR-83, DBCS deployments increase from BY 1998 to TY2001 from 4661 to 5117, while OCR and RBCS deployments appear at steady state levels, respectively, of 930 and 250. Depreciation charges for this equipment appear at Page IV-2 of your LR-83. As would be expected for a steady state, the depreciation charges from BY98 to TY2001 are about the same for the 930 OCRs deployed for both years, but they increase by 73% from \$50 million to nearly \$87 million for RBCS deployments between base year and test year. With 250 deployments for both years, how can depreciation charges grow by this much?

Response:

Page I-11 of USPS-LR-I-83 shows 250 plants as having RBCS in both years.

The increased capital cost stems mainly from the additional purchase of more advanced Remote Computer Reading equipment. See the testimony of witness Kingsley, USPS-T-10, at page 9. Also purchases of additional Output Subsystems (OSS) for DBCS and for LMLM Linerless Label Applicator also add to test year depreciation. See USPS-LR-I-126, pages 9-11 for a description of these programs.

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ABA&NAPM/USPS-T21-13. From LR-83, Attachment 8, please explain why the variabilities for all letter and flat mail processing equipment facility spaces (lines 13- 18) are uniformly listed at 80%. Is this an assumption, the result of a study?

Response:

These variabilities from Attachment 8 of my testimony, are those established in Docket No. R76-1 as indicated in my testimony at pages 13-14.

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ABA&NAPM/USPS-T21-16. In a "full up" automated environment of 2001, please explain how a 1992 facility study referenced on lines 14-15, page 11, can be used to estimate current facility space, e.g. for RBCS not even deployed yet, and for other mail processing equipment such as the largest bin BCSs or MLOCs?

Response:

This is explained in my testimony at pages 11-12. Adjustments in facility space by category due to equipment deployments since FY 1992 to FY 1998 have been provided in Docket No. R94-1, USPS-LR-G-137, pages I-4 to I-6; in Docket No. R97-1, USPS-LR-H-127, pages I-4 and I-5 and in the current case in USPS-LR-I-83, pages I-4 and I-5. Adjustments due to anticipated deployments between FY 1998 and FY 2001 are shown in USPS-LR-I-83, pages I-10, I-11 and I-12.

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ABA&NAPM/USPS-T21-17. a. Please explain why as you indicate on page 12, lines 7-8, a residential rent index (DRI) is used to measure postal commercial facility space, much of which is in warehousing districts?

b. For each facility for which a residential rent index is applied in costing postal facilities, state the actual, annual out of pocket cost to the Postal Service for such facilities, e.g. lease payments made, mortgage payments made including actual interest payments, records of monthly rent actually paid to another party, etc.

c. From FY1992 through BY1998, by years, are the changes in actual facility costs from b. greater than, less than, or about the same as your DRI index?

Response:

a. Just to be clear, the DRI Rent -Residential index is used to update the rental rates obtained for earlier fiscal years to both the base year and test year. For example the imputed rent per square foot for OCRs in FY 1996 was \$7.22 per square foot (see line 13 of page I-2, of USPS-LR-I-83).

The ratio of the FY1998 to FY1996 DRI Rent-Residential indices or 403.94 to 380.78 (shown on page I-3 of USPS-LR-I-83) is used to escalate this rental rate to \$7.65 per square foot for FY 1998 (see page I-7). I use the DRI Rent-Residential index to update imputed rents since that is used in our budget forecasts of rental costs (see USPS-LR-I-127, Chapter III, Section a).

b. I use the DRI Rent-Residential index to update imputed rents for all facility categories and therefore all facilities. I have made no use of the individual facility rental and other payment information for FY 1998. Much of this

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Page 2 of Response to ABA&NAPM/USPS-T21-17.

information, which is often obtained through Freedom of Information Act requests, is available for purchase. The attached materials describe the data available on a set of CDs and provide a contact for obtaining this.

- c. I have made one comparison of the average rent paid per square foot and the DRI Rent-Residential Index for the two years FY 1992 to FY 1998. The average rent per square foot grew 20 percent from \$5.83 per square foot in FY 1992 to \$6.97 per square foot in FY 1998. The DRI Rent-Residential Index rose by 17 percent going from 345.73 in FY 1992 to 403.95 in FY 1998. (Rent per square foot based on private lease payments and real estate taxes, as per accounts 54101, 54121, and 54133).

**ATTACHMENT TO RESPONSE
TO ABA&NAPM/USPS-T21-17.
PAGE 1 OF 4**

**USPS LEASED FACILITY DATA INFORMATION
AVAILABLE UNDER THE FREEDOM OF INFORMATION ACT**

I. FILE ORGANIZATION

Data is broken out by State. Each State is presented in an Microsoft Excel format.

II. DATA COLUMN NAMES

COLUMN NAME	DESCRIPTION
A	Facility ID
B	Post Office
C	Unit Name
D	Street Address
E	State
F	Zip Code
G	County
H	Lease Effective Date
I	Lease Expiration Date
J	Annual Rental
K	Responsible Area/District
L	Renewal Options Available
M	Renewal Option Years
N	Next Renewal Option Rental
O	Maintenance Responsibility
P	Net Interior Square Feet
Q	Total Site Square Feet
R	Building Ownership Code
S	Land Ownership Code
T	Building Occupied Date
U	Tax Rider
V	Purchase Option Rider
W	Owner Name
X	Owner Address 1
Y	Owner Address 2
Z	Owner Address 3
AA	Owner City
AB	Owner State
AC	Owner Zipcode
AD	Payee Name (only if different from owner)
AE	Payee City
AF	Payee State
AG	Payee Zipcode

**ATTACHMENT TO RESPONSE
TO ABA&NAPM/USPS-T21-17.
PAGE 2 OF 4**

III. SUPPORT

For information and support, you may call:

Jenny A. Herndon
Information Systems Coordinator
Facilities Program Support
US Postal Service
4301 Wilson Boulevard #300
Arlington, VA 22203-1861
Phone: 703/526-2802
Fax: 703/526-2710
Email: jherndon@email.usps.gov

IV. CODE TRANSLATION

Facility Building Ownership

Code	Description
	Private Lease
A	Standard Lease
B	Renewal Option
C	Extension Agreement
D	Month-to-Month Lease
E	Automatic Renewal
P	Fixed Term Lease
	Federal
G	GSA Controlled
K	Other Agency Control
W	Military Controlled
	USPS
F	Lease Purchase
H	Purchased, Prev. Leased
J	Purchased, Not Prev. Lsd
N	Constructed by USPS
V	Transferred
	Miscellaneous
O	Free Building
Q	Bldg on another record
X	No Building
Y	USPS Personal Property

**ATTACHMENT TO RESPONSE
TO ABA&NAPM/USPS-T21-17.
PAGE 3 OF 4**

Facility Land Ownership

Code	Description
	Private Lease
A	Standard Lease
B	Renewal Option
C	Extension Agreement
D	Month-to-Month Lease
E	Automatic Renewal
P	Fixed Term Lease
Z	Ground Lease
	Federal
G	GSA Controlled
K	Other Agency Control
W	Military Controlled
	USPS
F	Lease Purchase
H	Purchased, Prev. Leased
J	Purchased, Not Prev. Lsd
L	Land Banking
V	Transferred
	Miscellaneous
O	Free Land
Q	Land on another record
X	No Land

Building Maintenance Responsibility

Code	Description
1	Lessor
2	USPS
3	GSA
4	USPS(Not Roof)
5	Federal Agency
6	Shared
7	Lap Maintenance Rider

Lease Tax Rider Code

Code	Description
0	None Specified
1	Percentage
2	Reimbursable

**ATTACHMENT TO RESPONSE
TO ABA&NAPM/USPS-T21-17.
PAGE 4 OF 4**

Lease Purchase Option Type

Code	Description
1	Fixed Dollar and Date
2	Fixed Dollar/Date and LAP Option
3	Option Under LAP
4	Fixed Date at FMV
5	Non-Standard, Specified in Lease

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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ABA&NAPM/USPS-T21-19. Regarding your labor-based distribution keys for equipment and facility cost allocations by subclass, does one-subclass run on a machine cause more downtime than another subclass, for example, from jamming the machine? How are the machine downtimes and associated labor costs allocated by subclass, to the subclass causing the jam, or are they allocated to an institutional cost pool?

Response:

IOCS does not separately identify machine downtime due to jams, so I do not have any evidence to suggest that any particular subclass causes a disproportionate share of that downtime. In principle, some subclasses may cause relatively more jams and related downtime than others. In the case of automated letter sorting equipment, heavy and flimsy letters will tend to cause more jams. It is my understanding that the mail processing cost methodology includes machine downtime in the labor cost pools for mechanized and automated sorting, and in the corresponding workhours used in the volume-variability models. Since the downtime is not identified separately, there is no blanket treatment of the downtime as either fully volume-variable or institutional. The estimated volume-variability factors will reflect, among other things, the volume-variable portion of machine downtime. Also, to the extent that jammed mail requires additional handling, it will tend to result in relatively more IOCS "handling mail" tallies for the associated subclasses. Those subclasses will, in turn, tend to account for a relatively large share of the volume-variable cost distribution keys.

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ABA&NAPM/USPS-T21-22. Referencing lines 11-12 on page 20, does your rollforward/budget process incorporate any network economies or economies of scale or scope in arriving at test year estimates of costs?

Response:

My rollforward process should incorporate the same economies of scale and scope as included by witness Kashani, USPS-T-14, with the following minor caveat: As discussed in my response to ABA&NAPM/USPS-T21-23 I attempt to rollforward costs in the same way as witness Kashani, USPS-T-14. As noted in that response, however, I must use some approximations of his calculations, so this would lead to some minor differences.

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ABA&NAPM/USPS-T21-23. On pages 28-29, you state that you apply the "same adjustments" that witness Kashani uses for his aggregated mail processing labor cost data to your disaggregated cost pool data. How can you be certain that his aggregated adjustment factor is appropriate for each and every one of your cost pools, and is this a reasonable assumption on your part?

Response:

As stated in my testimony on page 29, in developing test year unit costs by shape and cost pool, I approximate the calculations done by witness Kashani, as well as those of witness Meehan. (See page 29, lines 9-11). It would be very difficult to replicate their calculations in all detail. Doing so would require a very large modeling exercise to reflect all aspects of base year cost development and all of the factors considered in the rollforward. The modeling of the rollforward process needs to consider specific volume changes for each subclass by year, and the distribution of cost reductions and other programs according to specific distribution keys as done by the rollforward, for each year. As a result, it is reasonable to use approximations.

As stated on page 29 of my testimony, I reconcile my calculations back to the aggregate mail processing costs by subclass of witnesses Meehan and Kashani because of my use of approximations. I reconcile my calculations back to the aggregate mail processing costs by subclass for the base year and the test year (both for labor and for total labor and piggybacked costs) as discussed in pages 29 to 31. This reconciliation assures overall consistency of my calculations with witnesses Meehan and Kashani.

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ABA&NAPM/USPS-T2I-24. On page 29, you note the existence of new IOCS data on non-carrier route presort letters. Does this IOCS data include tallies of labor time spent on automation versus non-automation presort letters? At what stage of the mail processing is the information gathered?

Response:

Yes, IOCS data contains labor time separately for automation and non-automation presort letters. This information is gathered at all stages of mail processing.

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ABA&NAPM/USPS-T21-29. Why is the square footage for RBCS shown as increasing by nearly 200,000 square feet (Attachments 6 & 7) between FY 1998 and FY 2001, when the number of "deployments" listed in LR 83 remains constant at 250 between those years?

Response:

The FY2001 facility space for RBCS is increased over the FY 1998 by approximately 13 percent, which is the projected overall growth in facility space, once we exclude the equipment categories for which only deployments affect space usage. This overall growth is called the "General Growth Factor" which is line 7 of page I-13 of USPS-LR-I-83.

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ABA&NAPM/USPS-T21-30. Regarding Attachment 9, please explain why mail processing labor costs would go down by a greater percentage for Standard A commercial mail than for First Class presort letter mail (19.49% vs. 12.15%).

Response:

As explained in my response to ABA&NAPM/USPS-T21-14 these percentages are the distribution key for the savings of the program Improve Function 4

Productivity. They do not indicate the percentage decline in labor costs for each subclass.

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ABA&NAPM/USPS-T21-33. Regarding Attachment 14:

- a. why is the piggyback factor for DBCS so much greater than for other bar code sorters?
- b. Why is there no piggyback factor for RBCS "other workroom", please define this term and explain the difference between this category and RBCS "workroom".
- c. What is RBCS LMLM, and why does this piggyback have indirect costs 262.3% greater than direct labor costs?

Response:

- a. The basis for the development of the separate piggyback factors for MPBCS, DBCS and CSBCS is shown in USPS-LR-I-77, page 442. This data reflects the data obtained from our accounting, engineering and IOCS sources. It would appear that DBCSs are less labor intensive given these costs.
- b. See my response to ABA&NAPM/USPS-T21-25. In addition, "RBCS: Other Workroom" includes all RBCS equipment at the plant except LMLMs. All RBCS related costs are included in the RBCS cost pool piggyback factor of 1.958 in Attachment 14, page 1. However, witness Miller, USPS-T-24, uses the separate piggyback factors for LMLM and RBCS: Remote Encoding in his processing cost models. In addition, the additional RBCS: Other Workroom costs of \$109,317,075 for the test year (covering costs for the IPSS, RCR, and OSS) is incorporated into the cost modeling directly by witness Miller, without a piggyback factor.

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Page 2 of Response to ABA&NAPM/USPS-T21-33.

- c. The LMLM is described by witness Kingsley, USPS-T-10, at page 6. The costs developed for the LMLM piggyback factor are shown in USPS-LR-I-77, at page 443. This shows that the equipment related costs (columns 5-7) for LMLMs are unusually high relative to labor costs, since these equipment related costs are about the same as the labor costs.

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ABA&NAPM/USPS-T21-38

Please refer to your testimony at page 8, where you note that "...This assumes that there is a constant proportion of labor and equipment-related costs for the marginal and accrued costs."

- a. With increasing deployments of DPBCS expected through the test year, how good an assumption is this?
- b. In general, as automation in mail processing proceeds to equip each productive worker with more and more capital, how good an assumption is this?
- c. If you were to drop this assumption, what would happen to your results?

Response:

- a. The quoted statement given above is meant to apply by operation or cost pool rather than for mail processing as a whole. The quoted sentence would be clearer if it were prefaced with "for individual operations." This is also discussed by witness Bozzo, USPS-T-15, at pages 40-41 and in his response to OCA/USPS-T15-10. Increased deployments of Delivery Barcode Sorters or any other equipment does not imply changing proportions of labor and equipment related costs for the individual operations.
- b. See my response to part a and also please note that the assumption of constant proportions of labor and equipment-related costs is made with respect to different levels of volume. Certainly over time, as technology changes, there will be modifications in the proportions of labor and equipment-related costs. My statement does not preclude such changes.

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Page 2 of Response to ABA&NAPM/USPS-T21-38

- c. As indicated by witness Bozzo in his response to OCA/USPS-T15-10, part
d, the labor and equipment variabilities would not be equal.

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ABA&NAPM/USPS-T21-41

Please refer to your response to ABA&NAPM/USPS-T21-2. For the classifications of piggyback factors you do have, "by cost pool . . . or by subclass" for R97-1 and R2000-1, in each instance where they are not identical please list the values for R97- 1 and R2000-1 in a table, and please explain whether the change is due to wage rates or other factors. If other factors, please explain what other factor(s).

Response:

I provide about 250 to 300 piggyback factors in both my Docket No. R97-1 testimony, USPS-T-45, and in my testimony for this case. Each of these piggyback factors relies on numerous test year costs as inputs. In preparing my testimony, I have not done an analysis comparing the piggyback factors from each case as you seek, for any of these 250 to 300 piggyback factors.

Apart from the general discussion of why piggyback factors change case to case as provided in my response to ABA&NAPM/USPS-T21-2, it may be of help to discuss some specific examples. Consider two cases for the operation specific mail processing piggyback factors where the change was relatively large. The test year BMC Sack Sorting Machine (BMC SSM) piggyback factor was 2.414 in my R97-1 testimony (see USPS-LR-H-77, page 232) and it is 1.935 in my current testimony (as shown in Attachment 14). The primary reason for this difference is the relatively larger growth of the volume variable SSM labor costs leading to a relative increase for the denominator. This is due to the increase in labor costs between the base years for the two cases and increases

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in the projected rise in these costs for the test years (see USPS-LR-H-77, page 194, line 15 from Docket No. R97-1 and USPS-LR-I-77, page 444, line 15).

Another factor in the increase in volume variable SSM labor costs is the higher volume variabilities for BMC labor, in particular for "Allied Labor & All Other Mail Processing" (see the Docket No. 97-1 testimony of witness Degen, USPS-T-12, page 15, and the testimony of witness Van-Ty-Smith, USPS-T-17, page 25). In addition, the non-labor costs have remained about the same (see USPS-LR-H-77, page 192, line 15 from Docket No. R97-1 and USPS-LR-I-77, page 442, line 15).

The test year Remote Barcode System (RBCS) piggyback has increased significantly between the last case and this one. It was 1.450 in Docket No. R97-1 (see USPS-LR-H-77, page 231, under the heading "mods 15 LD 15") and it is 1.958 as shown in Attachment 14 under the heading "MODS 15 LD15." This increase has two primary causes. First, the Remote Encoding Site labor projected for test year FY 2001 (see USPS-LR-I-77, page 442, line 28) is a lot lower than what was projected for test year FY 1998 (see USPS-LR-H-77, page 192, line 28). Second, as shown in these same sources, the projected capital costs are a lot higher for test year FY 2001 due to the purchase more advanced Remote Computer Reading equipment (see my response to ABA&NAPM/USPS-T21-8).

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ABA&NAPM/USPS-T21-43

Please refer to your response to ABA&NAPM/USPS-T21-4. With regard to your response to a., have you used single piece letter costs (other than directly measured metered letter costs) in any way in your testimony, and if so in what ways? With regard to your response to b., is your data for BMM taken from sources which directly measure BMM costs, or is your data taken from sources which measure (i) single piece non-metered letter costs or (ii) single piece metered letter costs, which you then infer are good proxies for BMM?

Response:

With respect to your question concerning my response to part a., I have used single-piece letter costs as an input in the calculations of piggyback factors and costs by shape as described in my testimony. The results that I provide for First-Class single-piece letters are shown in the first line of Attachment 17, page 1, the first two lines of Attachment 17, page 2, the first line of Attachment 18, page 1 and the first two lines of Attachment 18, page 2.

With regard to my response on part b, if BMM refers to "bulk metered mail," then my BMM costs are based on "(ii) single piece metered letter costs," as discussed by witness Miller in his response to ABA&NAPM/USPS-T24-20.

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ABA&NAPM/USPS-T21-44

Please refer to your response to ABA&NAPM/USPS-T21-17. Please answer the question as to why a residential rent index is used to escalate commercial/warehousing facility space. Are you applying a DRI residential rent escalator from FY1992 forward, as indicated at page 12, line 6 of your testimony, or are you apply the DRI index from FY1996 forward as indicated in your response? With response to your answer to c., for this case and R97-1 and R94-1 and MC95-1, which costs have been the binding costs actually used as costs in the case, the historical costs, or the DRI adjusted imputed rent costs? If you have only calculated these for FY1992 and FY1998, how do you know for costing purposes whether to use the book cost cap, or the imputed rent figure?

Response:

As indicated in my response to 17a, I use the DRI Rent-Residential index to escalate (or deflate) imputed rents, because this same index is used in our rollforward forecasts of rental costs. It is used to reflect changes in the average rental rates, whether up or down. I have used the DRI Rent-Residential index from FY 1992 forward.

As to which cost is binding, in all four cases you cite, the volume variable imputed rents exceeded book cost and were capped at book cost. Book cost provided the upper bound. In each of these cases and for each fiscal year, volume variable imputed rents and book costs are computed to determine if imputed rents need to be capped. The "book" rental rate per square foot (for payments to private lessors) was provided in my response to ABA&NAPM/USPS-T21-17c for FY92 and FY98. This is not needed to check whether to use the book cost as a cap for volume variable imputed rents.

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ANM/USPS-T21-1. Attachment 6 to your testimony, at line 18, shows a total of 4,061,004 square feet allocated to, or occupied by, flat sorting machines ("FSMs") in FY 1998, with annual rental value of \$30,978,000.

- a. What was the total number of FSMs that occupied the above-indicated total FSM space in FY 1998?
- b. Please provide the breakdown, or count of FSMs, as between FSM 881s, FSM 1000s, and any other FSMs included in the total number supplied in response to preceding part a.
- c. What was the average square footage occupied by a FSM 881 in FY 1998?
- d. What was the average square footage occupied by a FSM 1000 in FY 1998?
- e. What was the average square footage occupied by each other type of FSM in FY 1998?
- f. Confirm that in FY 1998 the annual rental value of real estate for FSMs amounted to \$7.63 per square foot. If you do not confirm, please explain fully.

Response:

- a. The calculation of the 4,061,004 square feet was based on 1,046 FSMs, which is the average number of FSMs, or the mid-year number of FSMs in FY 1998. See USPS LR-I-83, page 1-5.
- b. The breakdown of the 1,046 FSMs is 812 FSM 881s and 234 FSM 1000s.
- c. The calculation of the FY 1998 FSM square footage is based on 3,882,411 square feet per FSM 881. This includes the amount of space taken up by the FSM 881s as well as an apportionment of space for staging, storage, corridors, stairwells, and elevators in the workroom and space for custodial, heating and building maintenance. This apportionment is shown in Docket No. R94-1, USPS-LR-G-120, page III-19 and in Schedules 4 and 5.

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- d. The answer is the same as for FSM 881s. However, this fails to account for the greater amount of space used by the FSM 1000s, as indicated in my response to ANM/USPS-T21-2, part c.
- e. No other types of FSMs are included in the calculations.
- f. Confirmed. As indicated in my testimony at pages 12-13, however, the volume variable costs for space provision (rent, depreciation and interest) is capped at "book" costs. As a result, the volume variable space provision cost per square foot included in the base year costs is lower than \$7.63 by about 19 percent (see USPS-LR-I-77, page 404, line 15).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T21-2. In attachment 7 to your testimony, you show at line 18 a total of 6,126,832 square feet occupied by FSMs in FY 2001, with annual rental value of \$51,477,000.

- a. What is the total number of FSMs that will occupy the above-indicated total FSM space in FY 2001?
- b. Please disaggregate this total number among FSM 881s, FSM 1000s, AFSM 100s, and each other model of FSM that is projected to occupy FSM space in FY 2001.
- c. What is the average square feet assumed to be occupied by an FSM 881 and an FSM 1000 in FY 2001? If these figures differ from those provided in response to ANM/USPS-T1-1(c) and (d), please explain fully and produce documents sufficient to verify your explanation.
- d. How many square feet is an average AFSM 100 projected to occupy in FY 2001?
- e. Does the number of AFSM 100s planned for deployment by FY 2001 account fully for the increase of 2,065,828 square feet allocated to FSMs between FY 1998 and FY 2001? If not, please explain fully what accounts for this approximate 50 percent increase in space attributed to FSMs.
- f. Confirm that in FY 2001 the annual rental value of real estate for FSMs is projected at \$8.40 per square foot. If you do not confirm, please explain fully.
- g. Please explain the increase in rental value from \$7.83 [sic] in FY 1998 to \$8.40 in FY 2001. In particular, please explain the extent to which the increase results from an increase in the rate for existing space and higher-than-average rental value for new space added between FY 1998 and FY 2001.

Response:

- a. The calculation of the 6,126,832 square feet was based on 1,316.5 FSMs, which is the average number of FSMs, or the mid-year number of FSMs projected in FY 2001. See USPS LR-I-83, page 1-12.
- b. The breakdown of the 1,316.5 FSMs is 812 FSM 881s, 338 FSM 1000s, and 166.5 AFSM 100s.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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ANM/USPS-T21-2, Page 2 of 3**

- c. The calculation of the FY 2001 FSM 881 square footage is based on 3,882.41 square feet per FSM 881 as reported in ANM/USPS-T21-1, part c. The calculation of FSM 1000 square footage for FY 2001 is based on 5,739.8 square feet per FSM 1000. This is different than reported in ANM/USPS-T21-1, part d. Engineering estimates indicate that the FSM 1000 requires nearly 50 percent more space than a FSM 881. The projection for the space for the FSM 1000 in FY 2001 is shown in USPS-LR-I-83, at pages I-11 and I-12. My calculation for FY 2001 rectifies the problem which I noted in my response to ANM/USPS-T21-1, part d. The square footage per FSM amounts given above include the space occupied by the FSMs as well as ancillary space as indicated in my response to ANM/USPS-T21-1, part c.
- d. The calculation of AFSM 100 square footage for FY 2001 is based on 6,211.9 square feet per AFSM 100. The AFSM 100 requires 60 percent more space than a FSM 881. The projection for the space for the AFSM 100 in FY 2001 is shown in USPS-LR-I-83, at pages I-11 and I-12.
- e. No. The space projected for the AFSM 100 is 1,034,275 square feet. The projection for the space for the FSM 1000 in FY 2001 increases by 1,031,544 square feet over that in FY 1998 due to the increase in the number of FSM 1000s deployed and due to raising the amount of space per FSM 1000 as indicated in my response to part c of this question.

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- f. Confirmed. As indicated in my testimony at pages 12-13, however, the volume variable costs for space provision (rent, depreciation and interest) is capped at "book" costs. As a result, the volume variable space provision cost per square foot included in the test year costs is lower than \$8.40 by about 16 percent (see USPS-LR-I-77, page 456, line 15).
- g. The increase in rental value from \$7.63 in FY 1998 to \$8.40 in FY 2001 is based on the change in the DRI, Rent-Residential index. The index was 403.95 in FY 1998 and is projected to be 444.93 in FY 2001. This results in a 10.14 percent increase in the rental values for FSMs and all other categories. (See USPS-LR-I-83, page I-9.) As noted in part f, the volume variable space provision cost per square foot included in both the base year and test year costs are capped at "book" costs. As a result the change between the base year and test year volume variable space provision costs is based on the projected change in "book" costs.

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ANM/USPS-T21-3. In attachment 2 to your testimony, equipment group 6, you show depreciation costs (CS 20.1) for FSMs of \$31,607,001 in FY 1998.

- a. Of the total number of FSMs which the Postal Service owned in FY 1998 (see your response to ANM/USPS-T21-1a), how many were still being depreciated on the Postal Service's books?
- b. Of the total number supplied in response to the preceding part, how many of those FSMs will be fully depreciated on the Postal Service's books by (i) the end of FY 2000, and (ii) the end of FY 2001?

Response:

- a. Approximately 533 of the 812 FSM 881s were being depreciated in FY 1998. All the 234 FSM 1000s were being depreciated in FY 1998, for a total of 767.
- b. Of the 767 FSMs being depreciated in FY 1998, the number of FSMs that are fully depreciated by the end of FY2000 is 272. Of the 767 FSMs being depreciated in FY 1998, the number of FSMs that are fully depreciated by the end of FY2001 is 322.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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ANM/USPS-T21-4. In attachment 3 to your testimony, equipment group 6, you show depreciation costs (CS 20) for FSMs of \$78,599,672 in FY 2001.

- a. What is the total number of FSMs that the Postal Service will be depreciating in FY 2001?
- b. What is the average expected cost of an AFSM 100 that was used for estimating depreciation in FY 2001?
- c. Over how many years will the AFSM 100 be depreciated, what method of depreciation will be used, what survivor curves are assumed, and what is the estimated salvage value (if any)?
- d. Do the AFSM 100s planned for deployment by FY 2001 account fully for the \$36,992,671 [sic] increase in depreciation between FY 1998 and FY 2001? If not, please explain fully what accounts for the more than 100 percent increase in FSM depreciation between FY 1998 and FY 2001?

Response:

- a. The Postal Service will be depreciating approximately 261 FSM 881s, as well as all FSM 1000s and AFSM 100s it has acquired. The mid-year average is 261 FSM 881s, 338 FSM 1000s and 166.5 AFSM 100s, for a total of 765.5.
- b. The average expected cost of an AFSM 100 used in estimating depreciation was \$2,285,714.
- c. The method of depreciation, which I used in my calculations, is straight line depreciation with a ten year service life and a zero salvage value.
- d. The FSM depreciation increases by \$46,992,661 between FY 1998 and FY 2001, from \$31,607,011 to \$78,599,672, as shown in my Attachments 2 and 3 of my testimony, USPS-T-21. This increase results from the AFSM 100 depreciation of \$31,428,571, an increase in the FSM 1000

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depreciation of \$3,220,000, an increase in FSM 881 depreciation of \$4,450,352, and the apportionment of tray transport and staging systems costs of \$7,893.737. See USPS-LR-I-83, pages IV-2 to IV-7. The increase in the FSM 1000 depreciation is from the additional deployment and the addition of the barcode readers. The increase in the FSM 881 depreciation results from the addition of the OCRs to the FSM 881. The tray transport and staging systems cost apportionment is shown on page IV-6 of USPS-LR-I-83 and is discussed in my testimony at page 7, footnote 7.

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ANM/USPS-T21-5. For FY 1998 and FY 2001, please provide the total equipment and facility-related volume variable costs attributable to FSMs (or FSM cost pools) for each of the following components (see your testimony at page 2):

- a. Rents (component 15.1)
- b. Depreciation (component 20.3)
- c. Interest (component 20.5)
- d. Fuel and Utilities (component 15.2)
- e. Custodial Services Labor (component 11.1)
- f. Contract Cleaners (component 11.1.2)
- g. Building Equipment Maintenance Labor (component 11.3)
- h. Custodial Services and Supplies (component 16.3.1)
- i. Building Security (component 18.1.2)

Response:

- a.-i. The FY 1998 cost for components a to c is \$28.524 million which is \$13.657, \$13.470 and \$1.397 million, respectively, for rents, depreciation, and interest. The FY 1998 cost for components d-i is \$26.726 million, which is \$6.156 million for fuel and utilities, \$11.472 million for custodial services labor, \$0.811 million for contract cleaners, \$5.522 million for building maintenance, \$1.697 million for custodial supplies and services and \$1.069 million for building security. The FY 2001 cost for components a to c is \$48.501 million, which is \$22.117, \$22.857 and \$3.527 million, respectively, for rents, depreciation, and interest. The FY 2001 cost for components d-i is \$41.705 million, which is \$9.117 million for fuel and utilities, \$18.650 million for custodial services labor, \$1.286 million for contract cleaners, \$8.807 million for building maintenance, \$2.298 million for custodial supplies and services and \$1.547 million for building

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security. These calculations are based on USPS-LR-I-77, pages 391, 404, 442, and 456. It should be noted that the facility space on which these costs are based includes space discussed in ANM/USPS-T21-1 and 2 plus additional ancillary space. This ancillary space is for employee facilities (lunch room, restrooms, etc.), office space for supervisors and administrative, space for FSM maintenance labor, and space for mail transport equipment centers (see USPS-LR-I-77, pages 398 and 451).

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ANM/USPS-T21-6. Please identify and quantify any other costs, including any indirect and piggy-backed costs, that are included in total volume variable costs attributable to FSMs in FY 1998 and FY 2000.

Response:

For FY 1998, the other indirect and piggybacked costs are shown in USPS-LR-I-77 at page 391, line 10. This includes \$235.6 million for supervisory, administrative and benefits; \$31.9 million for FSM depreciation and interest expense; \$53.0 million for FSM maintenance labor cost; and \$12.0 million for FSM maintenance parts and supplies. I do not have these estimates for FY 2000. For FY 2001, which was requested in ANM/USPS-T21-5, the other indirect and piggybacked costs are shown in USPS-LR-I-77 at page 442, line 10. This includes \$336.8 million for supervisory, administrative and benefits; \$78.3 million for FSM depreciation and interest expense; \$86.4 million for FSM maintenance labor cost; and \$15.8 million for FSM maintenance parts and supplies.

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ANM/USPS-T21-7. Please refer to your testimony at pages 9-10, where you mention that the AFSM 100 is an example of an equipment deployment that is anticipated to reduce the manual sorting of flats.

- a. Are you the witness responsible for developing the estimate of anticipated cost savings from deployment of the AFSM 100 that witness Kashani used as an input in the roll-forward model? If not, please identify the witness whose testimony sponsors, or is responsible for, the estimated Test Year cost savings anticipated from deployment of the AFSM 100.
- b. Please quantify the gross (or total) cost savings in manual sorting of flats (including all piggy-back and indirect costs) that are anticipated to result from deployment of the AFSM 100 in (i) FY 2000, and (ii) FY 2001. Please explain fully how these figures are derived, and produce sufficient documentation to verify your explanation.

Response:

- a. No, I am not the witness responsible for developing the estimate of anticipated cost savings from deployment of the AFSM 100 that witness Kashani used as an input in the roll-forward model. This cost savings estimate is provided in USPS-LR-I-127, which is discussed by witness Tayman, USPS-T-9, in his testimony at page 1, lines 6-7.
- b. I have no estimate for FY 2000. The gross cost savings in manual flat sorting for FY 2001, which I have estimated for the purposes of developing operation specific piggyback factors, is \$274.8 million. This is computed as the sum of the net savings of \$36.6 and \$53.2 million reported for the AFSM 100 (by witness Kashani, USPS-T-14, Appendix A, page 24, lines 17 and 18) and the AFSM 100 staffing costs of \$185.0 million (provided in USPS-LR-I-77, page 446, line7). The AFSM 100

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staffing cost was computed based on the staffing cost for the FSM 881, \$674.5 million (shown at USPS-LR-I-77, page 444, line 10A). This figure is multiplied by the ratio of AFSM 100s to FSM 881s which is 167/812 and by the ratio of staffing for each machine, which 8/6.

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ANM/USPS-T21-8. At page 2 you state that "This part of my testimony is supported by LR-I-83, 'Equipment and Facility-Related Costs.'"

- a. Was LR-I-83 prepared by you, or under your supervision?
- b. Are you sponsoring LR-I-83? If not, what witness is?

Response:

- a. Yes.
- b. This material is presented as a foundation for my testimony. Any questions that you have on this material can be directed to me.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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ANM/USPS-T21-9. Your testimony also references LR-I-127.

- a. Was LR-I-127 prepared by you, or under your supervision?
- b. Are you sponsoring LR-I-127? If not, what witness is?

Response:

- a. No.
- b. Witness Tayman, USPS-T-9, discusses this library reference in his testimony at page 1, lines 6-7.

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ANM/USPS-T21-10. Please refer to LR-I-83, p. I-5. In the row labeled "FSM 1000," please explain the source and meaning of the numbers shown in columns I-3.

- a. Are these numbers (807, 942 and 1,150 respectively) intended to represent the number of FSM 1000s deployed? If so, please reconcile with witness Kingsley's statement (USPS-T10, p.11) that the number of FSM 1000s deployed is 340, with no plans to increase that number.
- b. If these numbers in the above-referenced row do not refer to the number of FSM 1000s, how should they be interpreted?
- c. Do the 1,150 FSMs deployed at the end of FY 98 (column 3) consist of 812 FSM 881s and 338 FSM 1000s? Please explain any negative answer

Response:

- a. No. This row, which is labeled "FSM 1000 (Included in FSM category)," is intended to reflect the total number of FSMs, both FSM 881 and FSM 1000. The first column is mid-FY96 deployments of FSM 881s, which is shown as 807. The second column is end of FY97 deployments of both FSM 881s and FSM 1000s, which are shown as 942. The third column is the end of FY98 deployments of both FSM 881s and FSM 1000s, which are shown as 1,150.
- b. See the response to part a.
- c. Yes.

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ANM/USPS-T2I-11. Please refer to LR-I-83. On p. I-12, in column 1 you show the square feet per FSM and in column 5 the number of FSMs deployed in mid-FY 01. Multiplying the number of FSMs times the square feet per FSM yields a total of 3,945,248 square feet. Please reconcile this number with the 6,126,832 square feet shown at p. I-14, line 18, column 1.

Response:

The 3,945,248 square feet is, essentially, the amount of space necessary to operate and maintain the FSMs according to engineering estimates, as discussed below. The 6,126,832 square feet, which is based on the FY92 facility space survey and adjustments for additional deployments (as described in USPS-LR-I-83, part I), is fully consistent since this includes space for staging, empty equipment storage, corridors, stairwells, and elevators and space for custodial, heating and building maintenance. To show this consistency, I will show how adjusting the 3,945,248 square feet to include the space for these additional purposes leads us to about the same result.

Page I-12, column 1 shows the following square feet per machine 2,500, 3696, and 4000 for FSM 881, FSM 1000 and AFSM 100 respectively. (These are the square feet per FSM used to compute the 3,945,248 square feet, as noted in the question.) These square footage per machine correspond to those described in the Witness Kingsley's response to NNA/USPS-T10-13, as "the physical space necessary to operate and maintain the equipment." As indicated in that response, to compute the total "Work Space Units" (WSUs) associated

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with each piece of equipment, it is necessary to add 15 percent additional space for staging of mail. Adding 15 percent to the 3,945,248 square feet gives us 4,537,035 square feet of total WSU space for test year FSM equipment.

Of course, for each operation on the workroom floor there is much additional support space needed, in addition to the space used for the operation itself. Space is needed for aisle space, main corridors, empty equipment storage, stairwells, elevators, custodial, heating and building maintenance. The FY92 survey of facility space showed that the space for these purposes accounts for a significant share of space. In FY 1992 we found that the FSMs occupied 2,326,750 square feet (see Docket No. R94-1, USPS-LR-G-120, Schedule 4, Page 1). The space for FSMs was adjusted to include an apportionment or share of the space for these support purposes, listed above, as described in Docket No. R94-1, USPS-LR-G-120, page III-19, and Schedule 5, Page 1, leading to total FSM space of 3,133,107 square feet. Thus, the inclusion of the support space adds 34.66 percent additional space. If the above total WSU FSM space for the test year of 4,537,035 square feet is increased by the same percentage, the result is virtually the same as the 6,126,832 shown at page I-14, line 18, column 1.

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ANM/USPS-T21-12. In LR-I-83, p. I-12, you show a total of 175 AFSM 100s deployed by the end of FY 01. Another library reference, LR-I-126, p. 18, under the sections "Accelerate FSM Buy Into 2001" and "Additional Advanced Flat Sorter Machine (AFSM) To Upper Bound," computes savings/costs for the roll-forward model for an additional 88 AFSM 100s. Please reconcile your assumed deployment of 175 AFSM 100s with the data and information shown in LR-I-128 for accelerating the FSM buy and acquiring an additional 88 AFSM 100s.

Response:

They don't reconcile. I have not, as your question implies, included any additional facility space for the additional 88 AFSM 100s for the test year. The reason I need not include such space is that I am unable to make a corresponding reduction in FSM 881 space. Witness Kingsley indicates that ultimately the AFSM 100 will replace the FSM 881. See witness Kingsley, USPS-T-10 at 11. There is no available timetable or information on the removal of FSM 881s.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T21-1. Standard (A) Regular unit attributable cost increased approximately seven percent from FY 1997 to FY 1998 (from 13.5 cents per piece to 14.5 cents per piece) while the unit cost for all mail remained stable over the same period.

Is there an operational explanation for why the unit cost for Standard (A) Regular increase so dramatically from FY 1997 to FY 1998? If so, please provide it.

Response:

With regard to the unit cost changes between FY 1997 and FY 1998, you are correct. It should be noted that there was a decline in the Standard (A) Regular unit cost between FY1996 and FY 1997. As a result, Standard (A) Regular unit volume variable cost increased approximately five percent from FY 1996 to FY 1998 (from 13.8 cents per piece to 14.5 cents per piece). The FY 1996 costs referred to are from the base year FY 1996, from Docket No. R97-1.

Concerning operational explanations, see my responses to DMA/USPS-T21-2, DMA/USPS-T21-3 and DMA/USPS-T21-6.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T21-2. The unit clerks and mailhandlers cost for Standard (A) Regular mail increased from 5.2 cents per piece in FY 1997 to 5.7 cents per piece in FY 1998 while the unit clerks and mailhandlers cost for First-Class Letters and Parcels and for mail as a whole dropped from FY 1997 to FY 1998.

Please provide unit clerks and mailhandlers costs for First-class letters for FY 97 and FY 98.

By what percent did the unit clerks and mailhandlers cost for Standard (A) Regular flats increase from FY 1997 to FY 1998? What was the unit clerks and mailhandlers cost for Standard (A) Regular flats in FY 1997? What was it in FY 1998?

Is there an operational reason for this large increase?

Did flat sorting productivity (expressed in piece handlings per labor hour) decrease from FY 1997 to FY 1998?

If so, why did it decrease? (Migration of flats from higher-productivity FSM-881s to lower-productivity FSM-1000s? Decrease in FSM-881 productivity from FY 1997 to FY 1998? Decrease in productivity on FSM-1000s from FY 1997 to FY 1998? Increase in allied operation unit costs? If there is a combination of reasons, please explain what the major reasons are.)

If flat sorting productivity is decreasing, what is the Postal Service doing to reverse the negative trend in flat sorting productivity?

Please provide nationwide MODS productivity figures (expressed in piece handlings per labor hour) for flats by sorting method (i.e., FSM-1000, FSM-881, small parcel and bundle sorter, and manual flat sorting) and year for 1996, 1997, and 1998.

By what percent did the unit clerks and mailhandlers cost for Standard (A) Regular letters increase from FY 1997 to FY 1998? What was the unit clerks and mailhandlers cost for Standard (A) Regular letters in FY 1997? What was it in FY 1998?

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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DMA/USPS-T21-2, Page 2 of 4**

Response:

a. The unit clerks and mailhandlers costs for First-Class letters for FY 97 and FY 98 are as follows. The unit costs I am providing are for the "letters" subclass, consisting of both First-Class single-piece and presort categories for all shapes combined as reported in the FY 1997 and FY 1998 CRAs. The total cost segment 3 unit costs for FY 1997 and FY 1998 are 7.23 cents and 7.1 cents respectively, a decline of 1.8 percent. The mail processing unit costs (component 3.1) for FY 1997 and FY 1998 are 6.28 cents and 6.11 cents, respectively, a decline of 2.6 percent.

b. The unit mail processing clerks and mailhandlers labor cost for Standard (A) Regular flats increased by 15.2 percent from FY 1997 to FY 1998. It was 6.19 cents in FY 1997. It was 7.13 cents in FY 1998. Also please note that the FY 1997 unit cost was below the FY 1996 Standard (A) Regular flats mail processing labor cost, which was 6.53 cents. During the period FY 1996 to FY 1998, these unit costs increased 9.1 percent. Wage increases of 5.4 percent accounted for the major share of this increase.

c. An analysis of the change in costs by cost pools shows that the increase in unit costs is from the FSM, Non-MODS, and SPBS cost pools. The increase in the FSM cost pool cost per piece results from the deployment of the FSM 1000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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DMA/USPS-T21-2, PAGE 3 OF 4**

as well as the decline in FSM 881 productivity as reported below. I am told that the decline in FSM 881 productivity is likely a result of the increased focus on providing service and the difficulty in maintaining separate barcoded and non-barcoded mailstreams. There does not appear to be a commensurate decrease in manual flat sorting costs, which I am told is partly due to the expected lag (about 2 months) between equipment deployment and work hours savings. In addition, I am told that increased bundle breakage may have lead to more sortations for both mechanized and manual.

d. Flat sorting productivities (manual, FSM 1000 and FSM 881 combined) declined from 594 pph in FY 1997 to 575 pph in FY 1998, as shown in Attachment 1. Please note that MODS productivities only reflect the processing in the plant. See also the individual productivities by machine type given below.

e. As shown in Attachment 1, the decline reflects a decline in the FSM 881 productivity and an increase in the FSM 1000 productivity. I am told that the decline in the FSM 881 productivity may reflect the increase focus on service. The growth in productivity for the FSM 1000 would likely reflect improvement as operational experience was obtained. The deployments of FSM 1000 helped offset the declines in the FSM 881 productivity as well.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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DMA/USPS-T21-2, PAGE 4 OF 4**

f. I am told that the Postal Service is addressing these concerns beyond the base year, through the deployment of the OCRs to the FSM 881 and the deployment of the AFSM 100. The AFSM 100s will initially reduce manual work hours and, as deployment proceeds, start replacing FSM 881s. In the interim, the OCRs on the FSM 881s will eliminate the need to maintain separate barcoded and non-barcoded mailstreams, a requirement that proved operationally cumbersome. The OCRs on the FSM 881s will also reduce costs by reductions in operator keying time.

Other efforts to reduce costs are to improve FSM utilization and manual flats sorting productivity as described in LR-I-126, page 18. I am told that Operations management has responded to the flats sorting productivity challenge by making reduced manual work hours and increased FSM utilization key performance indicators for mail processing.

g. Nationwide MODS productivities for FY 1996, FY 1997 and FY 1998, for the requested operations are provided in Attachment 1.

h. The unit mail processing clerks and mailhandlers labor cost for Standard (A) Regular letters increased 3.5 percent from FY 1997 to FY 1998. This unit cost was 3.3 cents in FY 1997. It was 3.42 cents in FY 1998.

**ATTACHMENT 1 TO
DMA/USPS-T21-2**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

National MODS Productivities			
	Volumes (in 000s)	Workhours	Productivity(PPH*)
FY96			
FSM 881	17,107,575	23,673,307	723
Manual Flats	9,577,819	20,503,382	467
SPBS	2,588,396	9,587,770	270
FY97			
FSM 881	17,744,305	25,627,752	692
FSM 1000	807,122	1,441,892	560
Manual Flats	9,744,406	20,594,264	473
Total of Above	28,295,833	47,663,908	594
SPBS	2,879,063	11,416,212	252
FY98			
FSM 881	17,231,906	27,055,773	637
FSM 1000	4,024,661	6,753,932	596
Manual Flats	8,031,254	17,110,578	469
Total of Above	29,287,820	50,920,283	575
SPBS	3,100,251	12,827,226	242

Note: Productivity is Volume/Workhour. Volume is Total Pieces Fed (TPF) for all operations except manual flats, for which it is Total Pieces Handled (TPH). FY96 FSM and manual flats data from Docket No R97-1, USPS-LR-H-113, pages 101-102. FY 98 FSM and manual flats developed in USPS-LR-I-107. FY97 data, including SPBS productivities based on methods used in USPS-LR-I-107.

*PPH is Pieces Per Hour.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T21-3. The Standard (A) Regular unit city carrier in-office cost increased ten percent from FY 1997 to FY 1998: from 1.6 cents per piece to 1.8 cents per piece. Please confirm that this increase occurred while the unit city carrier in-office cost for all classes of mail as a whole barely changed (a one-percent increase).

Is there an operational reason for the ten percent increase in the Standard (A) Regular unit cost from FY 1997 to FY 1998? Would you expect unit city carrier in-office costs to decrease because of the increasing use of delivery point sequencing by the Postal Service?

Response:

I confirm both the calculation of the increase in the Standard (A) Regular city carrier in-office unit cost and the small change in in-office unit cost for all classes as a whole.

A possible operational reason for the ten percent increase in the Standard (A) Regular unit [city carrier in-office] cost from FY 97 to FY 98 is as follows. As described by witness Kingsley, (USPS-T10, page 26, lines 1 to 9), WSS bundles must frequently be cased. This resulted from an arbitration with the NALC, the "Snow award" in 1997. I am told that carriers generally find it more efficient overall to case this mail first, so the non-carrier-route flats are then cased into a case that is already partially full, with concomitant loss of efficiency for this mail.

Yes, ceteris paribus, DPS should lead to a decline in costs. However, in 1997 - 1998, the loss of workload due to DPS may have been overshadowed by the increase in flats casing costs. See Witness Daniel's response to DMA/USPS-T21-5.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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DMA/USPS-T21-4. How does the Postal Service measure city carrier in-office productivity? Based on this measure, did city-carrier in-office productivity decrease between FY 1997 and FY 1998? If so, by what percentage? If not, why did the unit cost for the Standard (A) Regular subclass increase so much?

Response:

I am informed that the primary Postal Service measure of city carrier in-office productivity is the Office Efficiency Indicator (OEI), defined as the number of *delivery points served by an office divided by the in-office workhours, i.e.* deliveries per hour. The OEI improved from 138.33 in FY 97 to 141.83 in FY 98. Standard (A) Regular costs increased nonetheless because of the shift in workload from letters to flats, as explained in my response to DMA/USPS-T21-3.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T21-6. Standard (A) Regular unit costs for several support (or piggyback) cost segments (e.g., supplies and services – 23 percent; custodial and maintenance services – 11 percent; supervisors – 9 percent) increased significantly between FY 1997 and FY 1998. Are there operational reasons for these increases?

Response:

The reasons for the increases in these unit costs are as follows. The 23 percent increase in supplies and services (cost segment 16) unit costs for Standard (A) Regular is mostly due to the increase in "Other Miscellaneous," component 16.3.4. This is due to an increase in costs for contractual services and general supplies. In addition, the share of these costs borne by Standard (A) Regular rose due to the increase in costs for Standard (A) Regular in mail processing labor (component 3.1) and city carrier in-office costs (cost segment 6). (The processing and city carrier labor cost increases are discussed in my responses to DMA/USPS-T21-2, 3 and 4 and witness Daniel's response to DMA/USPS-T21-5.) The distribution of these component 16.3.4 costs is proportional to the all labor costs. See USPS-LR-I-1, page 16-5.

The 11 percent increase in custodial and maintenance services (cost segment 11) unit costs for Standard (A) Regular is primarily due to the increase in "Operating Equipment Maintenance," component 11.2 for Standard (A) in particular. This is due to increases in the DBCS, FSM, powered transport equipment, and SPBS maintenance labor costs. The IOCS tallies used in distributing these costs (see Attachment 4 of my testimony, USPS-T-21) indicate

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
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DMA/USPS-T21-6, PAGE 2 OF 2**

significant growth in the Standard (A) Regular processing in these operations.

The 9 percent increase in supervisors (cost segment 2) unit costs were for increases in mail processing and city carrier supervisors costs. These increases stem from the increased costs for Standard (A) Regular in mail processing labor (component 3.1) and city carrier in-office costs (cost segment 6). This is because the distribution of supervisor costs is proportional to the craft labor supervised. See USPS-LR-I-1, pages 2-2 and 2-4 for description of the development of supervisor costs.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T21-7. While the Standard (A) Regular unit cost increased seven percent from FY 1997 to FY 1998, the Standard (A) ECR unit cost dropped two percent. Why did these two subclasses behave so differently?

Response:

See my responses to DMA/USPS-T21-2, 3, 4 and 6 and witness Daniel's response to DMA/USPS-T21-5. In general, Standard (A) ECR mail processing costs would not include much piece distribution costs and probably does not have as much bundle handling costs. As a result, its processing costs are probably not going to be affected by the factors described in DMA/USPS-T21-2 for Standard (A) Regular flats.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF THE MCGRAW-HILL COMPANIES, INC.**

MH/USPS-T21-1: With reference to the Attachment to your response to Presiding Officer's Information Request No. 4:

- a. Please explain why the mail processing unit costs for First-Class non-carrier route/presort flats would nearly double from 1996 to 1997 (as set forth in Table 2).
- b. Please explain why the mail processing unit costs for First-Class carrier route/presort flats would increase more than five-fold from 1996 to 1997 (as set forth in Table 3).
- c. Please explain why the unit mail processing costs for Periodicals Regular Rate mail in 1998 would increase by 9.5 percent over 1997 (as set forth in Table 4), while the unit mail processing costs for Standard A Nonprofit flats in 1998 would decrease by 15.2 percent from 1997 (as set forth in Table 7). Please explain the role in this regard of the non-automation processing of machinable, prebarcoded, non-carrier-route Periodicals mail.
- d. Please explain why the unit mail processing costs for Periodicals Regular Rate mail in 1999 would increase by 2.3 percent over 1998 (as set forth in Table 4), while the unit mail processing costs for Standard A Regular flats in 1999 would decrease by 2.6 percent from 1998 (as set forth in Table 5). Please explain the role in this regard of the non-automation processing of machinable, prebarcoded, non-carrier-route Periodicals mail.

Response:

- a. Based on the costs by cost pool from the base year 1996 and the FY 1997 CRA, the largest increases are in the FSM, platform, opening, pouching and Non-MODS cost pools. I have no explanation for this. It is probably relevant that the implementation of Classification Reform in July of 1996 meant significant changes in the makeup requirements for both First-Class presort letters and flats.
- b. I don't know. Classification Reform, which was implemented at the end of FY 1996, eliminated this category. As shown in USPS-LR-I-233, available data do indicate costs and volumes for this category in FY 1997. Volume

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Page 2 of the Response to MH/USPS-T21-1

in FY 1996 was 43.8 million, and only 9.3 million in FY 1997. No costs or volumes are reported for this category in FY 1998.

- c. Based on comparing the mail processing costs by cost pool from the FY 1997 and FY 1998 CRAs, we can say the following. Periodicals Regular Rate costs rose due to significant increases in the unit costs for FSM sorting, platform and opening units, and Non-MODS cost pools. This was offset partially by a decline in plant manual flat sorting unit costs. The cost increase for Periodicals Regular Rate appears to share some of the same factors prompting the increase in Standard A Regular flats unit costs as discussed in my response to DMA/USPS-T21-2. The decline in Standard A Nonprofit flats costs occurred due to a large reduction in the plant manual flat sorting unit costs and declines in platform and opening, and Non-MODS costs pools. An increase in FSM unit costs partially offset this decrease. I have no information concerning non-automation processing of machinable, prebarcoded, non-carrier route Periodicals mail. Also see witness Kingsley's response to MH/USPS-T10-4.
 - d. A comparison of the Periodicals Regular Rate mail processing unit costs for the base year FY 1998 with the preliminary costs for the FY 1999 CRA indicates there is a slight decline in wage adjusted unit costs. Thus, this is a case where the pre-R97-1 and current Postal Service costing methodology provide different results on the direction of cost changes. As
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF THE MCGRAW-HILL COMPANIES, INC.**

Page 3 of the Response to MH/USPS-T21-1

to non-automated flats sorting, based on comparing the mail processing costs by cost pool from the FY 1998 base year and FY 1999 CRAs, the plant manual flat sorting unit costs decline between FY 1998 and FY 1999.

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TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T21-1. Please refer to Table 4 from witness Degen's testimony in R97-1 (USPS-T-12) and to Table I from witness Van-Ty-Smith's testimony in R2000-1 (USPS-T-17). These two sources give total mailing processing costs by cost pool for 1996 and 1998, respectively. A comparison of these figures shows that the FSM cost pool increased by 41 percent over this two-year period, from \$737 million to \$1.04 billion. Over the same period, the MANF cost pool decreased by 11 percent, from \$515 million to \$460 million. Combining the figures for these two cost pools shows that the total costs for both mechanized and manual flats processing increased by 20 percent, from \$1.25 billion to \$1.50 billion.

- (a) Please provide total flats volumes for 1996 and for 1998, respectively, and further indicate the percentage change in flats volumes over this two-year period.
- (b) Please provide the unit cost for flats processing for 1996 and for 1998, respectively, and further indicate the percentage change in the unit cost over this two-year period.
- (c) If the unit cost for flats processing increased between 1996 and 1998, please explain why this occurred and further explain how any such increase is consistent with a general movement from manual to machined flats processing.
- (d) State what percentage of machinable flats is processed by manual methods and what percentage is processed by machine methods. Please provide figures for 1996, for 1998, and those projected for 2001.
- (e) State what percentage of machinable periodicals flats is processed by manual methods and what percentage is processed by machine methods. Please provide figures for 1996, for 1998, and those projected for 2001.
- (f) State what percentage of machinable First Class flats is processed by manual methods and what percentage is processed by machine methods. Please provide figures for 1996, for 1998, and those projected for 2001.
- (g) State what percentage of machinable Standard A flats is processed by manual methods and what percentage is processed by machine methods. Please provide figures for 1996, for 1998, and those projected for 2001.
- (h) State what percentage of machinable flats is projected to be processed on ASFM I00s in 2001.
- (i) State what percentage of machinable periodicals flats is projected to be processed on ASFM I00s in 2001.

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TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA**

- (j) State the percentage of machinable periodicals flats that could be processed on ASFM 100s in 2001.

Response:

- a.-c. Please note that the sum of the FSM and MANF cost pools is not the "total costs for both mechanized and manual flats processing" as the introductory paragraph to this question states. The FSM and MANF cost pools are for FSM and manual flats sorting at MODS plants. This does not include the labor costs for stations, branches and non-MODS facilities.

The total flats volumes for FY 1996 and FY 1998 are, respectively, 43,363,715,000 and 51,146,314,000. There was an 18 percent increase between FY 1996 and FY 1998.

I am not sure what "unit costs for flats processing" is being requested. If I used the costs provided in the introductory paragraph to this question along with the volumes requested in part a, I come up with unit costs of 2.88 and 2.93 cents per piece for FY 1996 and FY 1998, respectively. This is a two percent increase in unit costs. This is not a useful or valid comparison for two reasons. First, as noted above, these costs are only for MODS plants. Second, these unit costs are the aggregate of many categories of flats, including carrier route and non-carrier route presort. For further information see my response to DMA/USPS-T21-2.

- d.-i. These parts are being answered by witness Yacobucci, USPS-T-25.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA**

- j It is not clear what is requested on this part. See witness Yacobucci's response to parts d-i of this question as well as his response to MPA/USPS-T25-4.

Revised 4/6/00

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T21-2. Please refer to your response to POIR #4.

a. Please provide Periodicals Regular Rate billing determinants for FY 1989, FY 1992, and FY 1999. Please provide the billing determinants in an electronic spreadsheet using the rate categories that the Postal Service is proposing in this docket.

b. Please describe the methodology that you used to develop billing determinants for FY 1989 and FY 1992.

c. Please confirm that Periodicals Regular Rate mailers performed more worksharing in FY 1999 than they performed in either FY 1989 or FY 1992. If not confirmed, please explain.

d. In an electronic spreadsheet format, please provide the following information from MODS individually for each year from FY 1989 to FY 1999:

1. Manual flat sorting total piece handlings (TPH)
2. Manual flat sorting work hours
3. Manual flat sorting productivity
4. FSM TPH
5. FSM work hours
6. FSM productivity

e. In an electronic spreadsheet format, please provide the following information individually for each year from FY 1989 to FY 1999. If you cannot provide this exact information, please disaggregate wage- level-adjusted Periodical Regular Rate unit mail processing costs in as similar a fashion as possible:

- (1) wage-level-adjusted Periodicals Regular Rate unit cost for allied/support mail processing operations;
- (2) wage-level-adjusted Periodicals Regular Rate unit cost for piece distribution operations;
- (3) wage-level-adjusted Periodicals Regular Rate unit cost for bundle distribution operations;
- (4) wage-level- adjusted Periodicals Regular Rate unit cost for all other mail processing operations.

Response:

a-c. Redirected to witness Taufique, USPS-T-38.

Revised 4/6/00

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA**

- d. The requested data are provided in USPS-LR-I-283. The data available for the years prior to FY93, employ a different data editing procedure than for the data available for FY93 and after. In order to assist users of this data we have provided the results using three different editing procedures, including the results of alternative editing procedures for a portion of the years. MODS FSM and manual flats sorting productivities, workhours, and TPH for FY 89 to FY 96 are provided based on the "scrubbed" data from Dr. Bradley's testimony, USPS-T-14, from Docket No. R97-1. The "unscrubbed" data was not readily available. These same data for the years FY93 to FY98 are provided based on the "unscrubbed" data set from Dr. Bozzo's testimony, USPS-T-15. In addition, a third set of productivities, workhours, and TPH data for FY96 to FY99 is provided, which was developed by eliminating the observations containing the highest one percent and lowest one percent of the productivities. It is this method which has been used to provide the productivities for mail processing cost models in both Docket No. R97-1 and this case.
- e. Costs can not be provided, in a meaningful way, by operations or groupings of operations using the costing methodology for processing costs contained in POIR No. 4. Doing so requires use of MODS based costing, which is not available for the requested time period as discussed in my response to POIR No. 4.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

POST COM/USPS-T-21-1. Please refer to Attachment 1 to DMA/USPS-T-21-2. Supply the same information, as it is estimated, for FY99, FY00 and FY01.

Response:

See the attached productivities for FY99. Similar information for FY00 and FY01 are not available. The data available for FY00 has been provided in response to TW/USPS-1, and is contained in USPS LR-I-190.

**ATTACHMENT TO
POST COM/USPS-T21-1**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

National MODS Productivities

	Volumes (in 000s)	Workhours	Productivity(PPH*)
FY99			
FSM 881	16,857,616	27,640,684	610
FSM 1000	6,251,222	10,450,937	598
Manual Flats	6,256,220	15,390,590	406
Total of Above	29,365,058	53,482,211	549
SPBS	3,356,697	14,096,518	238

Note: Productivity is Volume/Workhour. Volume is Total Pieces Fed (TPF) for all operations except manual flats, for which it is Total Pieces Handled (TPH). FY99 productivities based on methods used in USPS-LR-I-107, section III.

*PPH is Pieces Per Hour.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

POST COM/USPS-T-21-2. Please refer to your response to DMA/USPS-T-21-2(e).

- a. By whom were you "told that the decline in the FFM 881 productivity may reflect the increase[d] focus on service"?
- b. What do you interpret the phrase "increase[d] focus on service" to mean?

Response:

- a. Witness Linda Kingsley told me that increased flat processing costs were related to increased attention to improving service. Witness Kingsley indicated that this was based on information from various Area and field managers.
- b. It is my understanding that the Postal Service added additional staff at the end of FY98 for the FY99 fall mailing season in anticipation of larger volume increases than what actually occurred. This was done to address industry's concerns to ensure improved service over the previous fall mailing season by reducing on-hand volumes at BMCs, plants and delivery units.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross examination? Mr. Wiggins?

3 MR. WIGGINS: Mr. Chairman, Frank Wiggins for the
4 Association for Postal Commerce.

5 CROSS EXAMINATION

6 BY MR. WIGGINS:

7 Q Mr. Smith, I handed you before we convened two
8 copies of a document styled Response of the United States
9 Postal Service Witness Smith to PostCom Interrogatories
10 (PostCom/USPS-T21-3).

11 Have you had a chance to look at that document?

12 A Yes, I have.

13 Q And is it what the title describes it to be?

14 A Yes, it is.

15 Q And if I were to ask you today the questions that
16 are set out in T21-3 from PostCom, would your responses be
17 the same as recorded in that document?

18 A Yes, they would.

19 MR. WIGGINS: Mr. Chairman, I would like to hand
20 the reporter those two copies of the document and ask that
21 they be entered into the record.

22 CHAIRMAN GLEIMAN: It is so order. The additional
23 designated written cross examination will be entered into
24 evidence and transcribed into the record.

25 [Additional Designated Written

1 Cross Examination and Response of
2 Marc A. Smith, PostCom/USPS-T21-3,
3 was received into evidence and
4 transcribed into the record.]
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Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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Postal Rate and Fee Changes

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS SMITH TO POSTCOM INTERROGATORIES
(POSTCOM/USPS-T21-3)

The United States Postal Service hereby provides the responses of witness
Smith to the following interrogatories of the Association for Postal Commerce:
POSTCOM/USPS-T21-3, filed on March 30, 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


Richard T. Cooper

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(202) 268-2993; Fax: -5402
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April 14, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

PostCom/USPS-T-21-3. In your response to ANM/USPS-T-21-11, you rely on USPS-LR-G-120 of Docket No. R94-1 as support for adding 34.66 % additional space to the "4,537,035 square feet of total WSU for Test Year FSM equipment."

(a) Please disclose your understanding of how the "apportionment or share of the space for these support purposes" was calculated in USPS-LR-G-120 and your understanding of the rationale for that distribution.

(b) Are you clear that the USPS-LR-G-120 calculation does not include the "15 percent additional space for staging of mail" to which your answer refers?

(i) If so, explain the basis for this conclusion.

(ii) If not, explain why the inclusion of the 15 percent factor is appropriate.

(c) You say that the number "6,126,832 shown at page I-14, line 18, column 1" is "virtually the same" as the number derived by multiplying 1.3466 by 4,557,035. If your answer to the ANM interrogatory accurately describes your analysis, why are the numbers not identical?

Response:

- a. A description of how the apportionment of support space was made to operational space and the rationale for doing so is described in pages III-18 and III-19 of USPS-LR-G-120. As I noted in my response to ANM, for each operation on the workroom floor there is much additional support space needed for operational space. Space is needed for aisle space, main corridors, empty equipment storage, stairwells, elevators, custodial, heating and building maintenance. The required amount of such space is a function of the amount of operational space. The more operational

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space a facility has, the greater amount of supporting aisle, stairwells, elevators, space for empty equipment storage, heating, custodial and building maintenance space. As a result, such support space is considered to be indirectly related to operational activities and is volume variable and distributed in the same way as the operational space it supports. This support space is therefore apportioned to operational space in proportion to the relative size of the operational space. In other words, if FSMs use one-tenth of operational space, then one-tenth of support space is included in the FSM space.

The FY92 survey of facility space showed that the space for support purposes accounts for a significant share of space. The survey showed that of the total 217.0 million square feet of interior space (at "mailhandling" facilities) there is:

- 9.5 million sq. ft. workroom corridors, stairwells, elevators
- 10.7 million sq. ft. workroom storage, including staging empty equipment
- 21.9 million sq. ft. for general space for custodial, building maintenance, corridors, stairwells, elevators, HVAC and electrical power and other.¹

¹ Other support space for employee facilities (cafeteria, locker rooms, restrooms, etc.), office space, and equipment maintenance are separate space categories as shown in my Attachment 8, lines 45 to 48.

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The 9.5 million sq. ft. of workroom corridor, stairwells and elevators is apportioned to all workroom operations including lobby, processing and delivery (as indicated in item no. 2 of page III-19). The 10.7 million workroom storage (including empty equipment staging) is apportioned to all processing and delivery operations (as indicated in item no. 3 of page III-19). Finally, the 21.9 million sq. ft. in general building space is apportioned to all operations and functions including lobby, processing, delivery, employee facilities, office and equipment maintenance (as indicated in item no. 4 of page III-19). The result of this apportionment for FSM space, as described in my ANM response, was as follows. In FY 1992 we found that the FSMs occupied 2,326,750 square feet (see Docket No. R94-1, USPS-LR-G-120, Schedule 4, Page 1). The space for FSMs was adjusted to include an apportionment or share of the space for these support purposes, discussed above, leading to total FSM space of 3,133,107 square feet (see Docket No. R94-1, USPS-LR-G-120, Schedule 5, Page 1). Thus, the inclusion of the support space adds 34.66 percent additional space.

- b. The space for staging mail for the FSMs would likely have been included in the 2,326,750 square feet directly measured as FSM space. Instructions to the surveyors were to include the space for staging mail for an operation (if it could be identified as such) as part of that operation

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(see page C-39 of USPS-LR-G-120). In addition, the measured space of 2,326,750 is an average of 2,883 sq. ft. per FSM 881 (for 807 FSM 881s deployed at that time). This is nearly identical to FSM 881 "Work Space Units" (WSU) of 2875 sq. ft. – which includes the 15 percent staging allocation described in the Witness Kingsley's response to NNA/USPS-T10-13. Thus the support space, which is apportioned in USPS-LR-G-120, would generally not have included the "15 percent space for staging of mail."

- c. The difference is due to the small difference between the surveyed space per machine of 2,883 sq. ft. and the total WSU of 2,875 sq. ft. per machine.

DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R2000-1 interrogatory responses are true to the best of my knowledge, information, and belief.

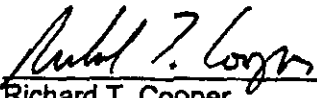


Marc A. Smith

4/14/2000
Date

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.


Richard T. Cooper

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
April 14, 2000

1 CHAIRMAN GLEIMAN: Anyone else? If not, that
2 brings us to oral cross. Two parties requested oral cross
3 examination. American Bankers Association -- National
4 Association of Presort Mailers and the Association for
5 Postal Commerce -- I understand from Mr. Hart that American
6 Bankers/NAPM does not intend to cross examine this witness,
7 so Mr. Wiggins, on behalf of Association for Postal
8 Commerce, when you are ready.

9 MR. WIGGINS: Thank you, Mr. Chairman. Let me
10 apologize to the Commission --

11 CHAIRMAN GLEIMAN: Excuse me. Are there other
12 parties that wish to cross? There are none. Thank you. I
13 apologize for the interruption.

14 MR. WIGGINS: Now let me apologize twice. I
15 apologize to the Commission and the Staff. My effort at
16 indicating my desire to cross examine was sorely deficient.
17 I have the same problem -- I warn you -- tomorrow with
18 regard to Mr. Crum, but I am sure that I won't have that
19 problem again.

20 CROSS EXAMINATION

21 BY MR. WIGGINS:

22 Q Mr. Smith, in your answer to the interrogatory
23 that I just handed to you, PostCom/USPS-T21-3, we had asked
24 you about an answer that you had earlier given to ANM --
25 that as ANM/USPS-T21-11.

1 In that ANM answer you explained that in
2 calculating the number of square feet preparatory to
3 calculating the cost of square feet associated with FSM
4 operations, you calculated the actual footprint of those
5 machines. You then added, mimicking Ms. Kingsley, a 15
6 percent factor, and then, and this is the testimony on which
7 our follow-up will focus, you added an additional 34.66
8 percent of space. Did I get that mostly right?

9 A Yes.

10 Q And we asked you -- and that 34.66 number came
11 from a Library Reference in an earlier case, Library
12 Reference-G-120 in R94, right?

13 A That's right.

14 Q And we asked you whether you understood, what your
15 understanding was of how G-120 performed the calculation or
16 performed the apportionment that led you to this 34.66
17 number.

18 You tell me that support space is therefore
19 apportioned to operational space in proportion to the
20 relative size of the operational space -- do you see that
21 over on page 2 of 4, bottom of the carryover paragraph?

22 A Yes.

23 Q I tried to examine that proposition and ran into
24 some difficulties. Do you have Library Reference G-120 with
25 you?

1 A I do.

2 Q Could you take a look at the places you pointed me
3 to in the ANM answer for the calculation that you made were
4 page 1 of Schedule 4 and page 1 of Schedule 5 of that
5 document. Do you have those? I have copies here if you
6 would like to have the two pages in a more concise form.
7 Would that be helpful?

8 A Not today. I have this, thanks. Thank you.

9 MR. WIGGINS: Okay, good.

10 MR. COOPER: I would appreciate a copy.

11 MR. WIGGINS: Oh, you would like a copy. Would
12 the bench care for copies?

13 CHAIRMAN GLEIMAN: No.

14 BY MR. WIGGIBS

15 Q The numbers that you employed to make the 34.66
16 calculation, if I'm right, are to take the number from page
17 1 of Schedule 5 associated with the flat sorting machine
18 line, and divide that by the comparable line from Schedule
19 4, page 1, is that correct?

20 A That's right.

21 Q Okay, and that gives you the 34.66, or a little
22 less than that, actually. In order to check the hypothesis
23 that these numbers were created in proportion to size, let
24 me make sure I have it right:

25 The far right-hand column in each of those pages

1 is square feet; is that correct?

2 A That's right.

3 Q Okay, so I compared another set of square feet,
4 and I divided the row, Row 40, for sorting to flat cases,
5 from Schedule 5, page 1, by Schedule 4, page 1. Is that a
6 valid comparison?

7 A Yes, it should be similar, but it won't be the
8 same. The actual calculation is done by sample strata, and
9 so you'd need to actually do it by the individual groupings.

10 So, for instance, Schedule 5, page 3, shows the
11 results for --

12 Q Can you hang with me just for a second? I don't
13 have page 3 immediately in front of me.

14 A Okay.

15 [Pause.]

16 Okay, Schedule 5, page 3, for the column for ADCs,
17 the survey results for ADCs, if you took the FSM amount
18 there, which, let's see, is 1.8 million, and if we divided
19 that by the comparable number --

20 I guess what I'm trying to say is that for any
21 given column, the ADC column, you will have the same ratios,
22 but the column that you referred to with the total column,
23 that ratio is an aggregate, the ratio of the adjusted, total
24 adjusted space to unadjusted.

25 That last column is an aggregate of all the

1 preceding columns. That is, on page 1, the column you were
2 referring to said total, group totals for Groups 1-8, and
3 the individual -- the ratios, the actual calculations are
4 done on the subgroups, and so the ratios will be the same
5 within subgroups.

6 Q But the calculation that you made to come up with
7 the 34.66 percent, that was taken from the far right-hand
8 column on Schedule 4, page 1, and Schedule 5, page 1; is
9 that correct?

10 A That's right; that's the aggregate result for
11 FSMs, and that's what you'd use. Similarly, if you wanted
12 the same result for line 40, you'd use that same column.

13 I'm just saying that the ratio may not be the
14 same.

15 Q Okay, well, I did that calculation for line 40,
16 and I came up with a number that was amazingly, surprisingly
17 close. It was 34.82. Okay, and then I said, okay, if I
18 want to see -- and that means that that number was blown up
19 from Schedule 4, page 1, to a number, 34.8 percent figure on
20 Schedule 5, page 1; is that right?

21 A That's right; the process of adjusting the space
22 to include the custodial, heating, the stairwells,
23 elevators, empty equipment storage.

24 Q If I wanted to know what that inflating factor was
25 for the operation of sorting to flat cases, I would use the

1 number that I calculated, right?

2 A Right, the --

3 Q Assuming that I did the arithmetic right, 34.82?

4 A That's right, that's right.

5 Q And yet the total number of square feet for
6 sorting to flat cases, whether you take it from Schedule 5
7 or Schedule 4, is about half as much as the total for line
8 19, flat sorting machines.

9 Is that consistent with your recitation that the
10 support space is apportioned to operational space in
11 proportion to relative size?

12 A Yes, it is. The amount of support space should be
13 twice as much, approximately, for FSMs, if they occupy about
14 twice as much operational space.

15 Q It's the other -- so they should increase by a
16 proportionate amount; is that right?

17 A Right. I would expect the same proportions on
18 Schedule 5 to be support space.

19 Q The fact that an activity with roughly three
20 million square feet receives an additional 34.82 percent in
21 order to account for hallways and corridors and all the rest
22 of that stuff, is not inconsistent with the fact that a
23 function that has about six million square feet receives the
24 same percentage increase? That's what I'm asking.

25 A That's right.

1 Q Okay. In Note 1 to your answer to PostCom #3 to
2 you, you point to another what I will characterize,
3 provisionally, on your correcting me, as another inflating
4 factor; do you have that?

5 A I'm sorry, which interrogatory?

6 Q Number 3 from PostCom.

7 A Okay, and you said Number?

8 Q The footnote at the bottom of page 2, Footnote 1.

9 A Right, I'm sorry.

10 Q Do you have that?

11 A Yes.

12 Q And this is talking to other support space for
13 employee facilities?

14 A That's right.

15 Q And that's another factor by which you increase
16 the amount of space associated with any given activity such
17 as flat sorting machines; is that right?

18 A Yes, although that isn't included in the totals
19 shown on Schedule 5, page 1. That, the cost for employee
20 facilities, or the employee facilities space and its costs
21 -- and that would include cafeteria, locker rooms, rest
22 rooms, as well as office space and equipment, maintenance
23 space -- those are all distributed to classes of mail in
24 proportion to, in the case of employee facilities, in
25 proportion to the overall labor costs.

1 Q And that comes from Library Reference I-77 in this
2 case; is that right? Have a look perhaps at your answer to
3 ANM/USPS-T-21-5.

4 A Yes. That calculation is shown there in Library
5 Reference 77, but the calculation for the base year and the
6 test year, of course, are as part of those -- part of those
7 testimonies, but for the purposes of the piggyback factor
8 calculations, it's shown in the Library Reference 77.

9 Q Do you have 77, bulky as it is, handy as well?

10 A Yes.

11 Q Could you look, please, at pages -- you cite in
12 the ANM-T-21-5, the pages 398 and 451, which are, I believe,
13 in the case of 398, the base year calculation of mail
14 processing facility-related costs. And 451 is the test year
15 equivalent of that.

16 Did I figure that out right?

17 A It sounds right. I'm sorry, 398 is the page?

18 Q Actually, in photocopying, I cut it off, but, yes,
19 398 and 451 is what you cite to.

20 A Okay.

21 [Pause.]

22 All right, I have those.

23 Q And we see again that there is a line, line 10,
24 for flat sorting machines.

25 A Yes.

1 Q And that's the case on both of those, 398 and 451?

2 A Yes.

3 Q And there are a number of columns on each of the
4 pages with at the columns 10 and 11, that have a header that
5 says Summary. Are they a summation of columns 1-9?

6 A Column 10 is a sum of certain other columns, 1
7 through 9, and 11 is the sum of certain of the other
8 columns. Do you want me to indicate -- in fact, it is
9 listed at the bottom.

10 Q Yeah, I misspoke. The imputed rent columns, 3, 6
11 and 9, are excluded from that summation, correct?

12 A Well, those items are summed in Column 12.

13 Q Correct. They are not included in 10 and 11?

14 A Right.

15 Q Okay. Are the numbers that are included in 10 or
16 11, for, say, row 5 -- did I say 5? -- row 10, flat sorting
17 machines, are those numbers, in any fashion comparable to
18 the numbers that we just looked at for flat sorting machines
19 from the earlier Library Reference, Number G-120 from R94?

20 A Let's see. The costs, the direct calculations
21 based on the facilities survey are shown in Columns 1
22 through 3 of each of those pages. That shows the cost for
23 rent, imputed rents, the cost for custodial and heating and
24 lighting, supplies and services. So, Columns 1, 2 and 3
25 show the costs, for instance, in row 10, Columns 1, 2 and 3

1 show the costs for the space identified as being occupied by
2 FSMs.

3 The other columns, Columns 4 through 6, are the
4 facility related costs associated with the equipment
5 maintenance for FSMs. Columns 7, 8 and 9 are the facility
6 related costs associated with the employee facilities,
7 office space, mail transport equipment space. Let's see, I
8 think that covers it.

9 So there is a an apportionment of the costs for
10 this type of space made to the FSM function based on the
11 relative amount of employees working at FSMs. So that is
12 what the Columns 4 through 9 would reflect -- or Columns 7
13 through 9.

14 Q Okay. So, those are the restrooms and lunchrooms
15 and the like that your footnote talks about, is that right?

16 A That's right.

17 Q I would look at 7, 8 and 9 to get those numbers?

18 A That's right.

19 Q Thanks. Have a look, please, at your answer to
20 ANM/USPS-T-21-2.

21 A Okay. Okay, I have got that.

22 Q And there you are giving us the square feet that
23 you associate with an individual unit of FSM 881, an
24 individual FSM 1000, and an individual AFSM 100, correct?

25 A Yes.

1 Q And those numbers are the built-up numbers that we
2 were talking about, they are inflated by the additional
3 associated space factor, is that correct, the 36.44?

4 A I think it is the 34.66, but the --

5 Q 34.66, yes.

6 A Yeah. In other words, it includes the corridors
7 and stairwells, elevators, custodial space. It doesn't
8 include the employee facilities and office space, things
9 like that, though.

10 Q It is just that first inflating factor that you
11 and I talked about?

12 A That's right.

13 Q Should I be able to -- and you make reference in
14 here at some point, to the space footprints that Ms.
15 Kingsley offered in response to NNA/USPS-T-10-13. Should I
16 be able to walk between her numbers and yours?

17 A I think for the most part, yes.

18 Q I couldn't do it. I took her numbers, for
19 example, she tells me that an FSM 881 increased by the 15
20 percent factor that she uses is 2875 square feet, and I
21 multiplied that by the 34.66 and didn't get your number. Is
22 there some reason -- did I do something wrong, or is there
23 something methodologically wrong with that?

24 A No, well, I think the number you get would be
25 pretty close, and there should be a difference due to -- the

1 number that Witness Kingsley provides is the engineering
2 work space units, it is the engineering specification for
3 the amount of space FSMs should take, whereas, the number I
4 am providing comes from the facilities survey, which was --
5 the results were fairly close.

6 Q The numbers were quite close, I didn't mean to
7 mislead you. I just wanted to be clear that you didn't
8 build your numbers from hers?

9 A That's right.

10 Q Her numbers are close to those from which you
11 built yours?

12 A That's right. The survey did reflect -- well, the
13 survey only included FSM 881, since there wasn't any
14 deployment of FSM 1000s or AFSM 100s. And, so, my use of
15 engineering numbers, I made use of engineering numbers to
16 reflect the space for this newer equipment, for the FSM
17 1000s and the AFSM 100. But my number -- I made use of that
18 in making -- in adjusting for this new equipment.

19 Q Look with me at ANM/USPS-T-21-3, please.

20 A Okay.

21 Q And you are talking here about the depreciation
22 history of some of the flat sorting machines, right?

23 A Yes.

24 Q You tell me in subpart (a) of that response that
25 533 of 812 FSM 881s were being depreciated in FY '98. Does

1 that mean that the difference between those two numbers,
2 which I make to be 279 FSM 881s, were fully depreciated in
3 1998?

4 A Yes.

5 Q And then you tell me, and this is where I got a
6 little confused. I understood that part. But in (b),
7 subpart (b) of your answer, you tell me that the number of
8 FSMs that are fully depreciated by the end of FY 2000 is
9 272, or fewer than were fully depreciated in 1998, and that
10 got me downright confused. Can you help me out with that?

11 A Okay. Let me see here.

12 Q 812 less 533 is 279, I believe.

13 A 812 less 533. Okay. I think that -- let me do
14 this calculation.

15 Q I'm sorry, I didn't mean for this to be an
16 arithmetic test. I thought maybe there was some logic that
17 I was missing out on.

18 A Okay. Okay. The answer in part (b) is referring
19 to those that are being depreciated in 1998. So, in other
20 words, it is an additional --

21 Q I see. An additional 272. So, if we add 279 and
22 272, we would know the total number fully depreciated for
23 1998 through 2000, is that right?

24 A That's right.

25 Q Good. Thank you. Have a look now at

1 ANM/USPS-T-21-4.

2 A Okay.

3 Q And, again, we are talking about depreciation.

4 And in Subpart D, you tell me about changes in depreciation
5 between FY 1998 and the test year.

6 And you cite me to some parts of Library Reference
7 I-83. Boy, I tried to follow that, and just couldn't.

8 Could you help me out with that? Do you have I-83
9 with you?

10 A Yes. That's a small one.

11 Q Yes, that's a good one. It's small in size, but I
12 found it impenetrably dense. Could you just give me an
13 example of one of the illustrations that you give in this,
14 any one of the illustrations that you give in this
15 interrogatory answer, to how you figure out changes in
16 depreciation?

17 A Okay. Let me just take a moment to read the
18 question again.

19 Q Sure.

20 A This is Part D?

21 Q Subpart D, yes.

22 A Okay.

23 [Pause.]

24 Okay, you're asking me to choose one of these
25 numbers and explain?

1 Q Well, you cite me over toward the end of that
2 answer to pages Roman IV-II to Roman IV-VII, and maybe the
3 easier thing is for you just to get those pages in front of
4 you and tell me what they mean and how they fit together.
5 That's what I'm really looking for.

6 A Okay.

7 Q You tell me which thing is easier, explaining the
8 calculation or just walking me through those pages? What's
9 going to be most efficient, assuming that I'm educable?

10 A Let's see, why don't I trace one of these numbers
11 through all those pages, and that will cover us.

12 Q Perfect, thank you.

13 A Okay. The depreciation for the individual types
14 of FSMs can be most readily compared by comparing page Roman
15 IV-II to Roman IV-V.

16 And so --

17 Q Roman IV-II being the test year, and IV-V -- I'm
18 -- IV-II being the base year, and IV-V, the test year?

19 A That's right, thank you. For the 881s, the
20 depreciation goes from 17.7 million to 22.1 million.

21 Q Now, pause with me there for just a moment. And
22 there has not been an increase in the number of 881s, base
23 year to test year; correct?

24 A That's right.

25 Q Why does the depreciation go up?

1 A Due to the addition of the OCR to the FSM 881.

2 Q And would I find that somehow in the OCR line of
3 each of those pages, the very first line that's called OCRs?

4 A No, no. The OCR component -- the OCR, since it is
5 a component of the 881, it's been included in the
6 depreciation for the FSM 881s.

7 Q So I'd never see it separately stated in this
8 material?

9 A That's right.

10 Q Okay, that explains to me, IV-II and IV-V. IV-III
11 is just a continuation of IV-II; is it not?

12 A Okay, IV-III is the apportionment of tray
13 transport and staging systems costs, line 17 on page 2. And
14 in the base year, that gets apportioned to OCRs, mail
15 processing bucket sorters, DBCSs and LSMs, and gives us the
16 results on page 4.

17 Q I see. Page 4 is page 2 beefed up by page 3; is
18 that correct?

19 A Right, with these tray transport and staging
20 equipment distribution, so it's the results, the same as
21 results of page 2, but the distribution of the tray
22 transport and staging costs.

23 Q And the same thing is true of 5, 6, and 7, for the
24 test year, the same relationships?

25 A Yes.

1 Q That's perfect, thank you. That wasn't so bad.
2 Take a look now, please, at ANM/USPS-T-21-7.

3 A Okay, I have it.

4 Q In subpart (b) you are quantifying the gross or
5 total cost savings in manual sorting of flats that are
6 anticipated to result from deployment of the AFSM-100 in
7 2000 and the test year and you say I can't do it for 2000,
8 and then you proceed to do it for the test year, right?

9 A That's right. This was a calculation I did as an
10 input into the calculation of the piggyback factors as shown
11 in Library Reference-I-77.

12 Q And as you describe the calculation that you made,
13 you say you borrowed two numbers, 36.6 million and 53.2
14 million from Witness Kashani, and I found those in his
15 testimony -- I was heartened to find.

16 You then say, you give a very precise citation
17 which I might say is much appreciated by poor dumb lawyers
18 trying to make their way through this stuff -- you then say
19 that you added AFSM staffing costs of 185 million and you
20 cite me to page 446 of Library Reference-I-77.

21 Can you look at 446 with me for just a minute?

22 A Okay, I've got it.

23 Q And the 185 million, is that really the number
24 184,956,000 that I see over in column 3 across from AFSM
25 parcel sorting or in column 4, total, across from AFSM?

1 A That's right.

2 Q And the other numbers on this page, though you
3 called them -- I think that's what maybe got me confused --
4 you call them in your answer to ANM Number 7 to you
5 "staffing costs." Would it be more accurate to say staffing
6 cost reductions?

7 A In terms of the 185 million?

8 Q Yes. Is that a cost or a cost saving?

9 A That is the additional cost to staff the AFSM-100
10 under my estimate. It is not -- I did that based on the
11 costs associated with the FSM-881.

12 Q Go back now to Part (b) of ANM Number 7 to you.
13 You say, "The gross cost savings is \$274.8." I added up
14 36.6, 53.2 and 185 and got that number. Was that the
15 correct calculation to get that number?

16 A Yes.

17 Q Why are you including costs of staffing the
18 AFSM-100 as a part of the gross cost savings?

19 A For the purposes of the piggyback factor
20 calculations I needed an estimate of the savings in manual
21 flat sorting and the cost reduction numbers only provide the
22 net savings. In other words, they would provide the -- with
23 a new program like the AFSM-100 you'll have additional
24 expenses to run the AFSM-100 and then there will also be
25 reductions in staff associated with manual flat sorting, and

1 the cost reductions reported by Witness Kashani are just the
2 net of the two, but I needed a calculation of both the
3 staffing costs and the total change in the manual flat
4 sorting costs and so I did, I made these estimates.

5 Q You used the projected cost for running the new
6 AFSMs in the test year as a surrogate for the manual sorting
7 costs that they replaced, is that right?

8 A As a surrogate for the additional, in other words
9 the savings reported as the cost reduction is part of the
10 savings but then in addition the savings in manual flat
11 sorting would also include, should also be the same amount
12 as the additional staffing costs -- the additional savings
13 needed to get to the gross savings should be the staffing
14 costs for the AFSM-100.

15 Q Does that entail an assumption that the manual
16 sorting labor, the gross cost of manual sorting labor that
17 is going to be made unnecessary because of the AFSM is the
18 same as the gross cost of the new labor required to run the
19 AFSMs in the test year?

20 A I'm sorry, could you say that again?

21 Q Sure. Are you assuming that the 185 million,
22 which represents labor costs to run the AFSMs in the test
23 year, right?

24 A Right, that's my estimate of that cost.

25 Q Right. Those are the people huddled around the

1 machine running it, and we know they are there huddled and
2 running, and we also know that if things go according to
3 plan the Phase I deployment of the AFSM is going to replace
4 some manual sorting activity. Correct?

5 A That's right.

6 Q Is that your understanding?

7 A Yes.

8 Q Okay, and what we are trying to do is to estimate,
9 because you don't have a hard number for it, the gross labor
10 costs of those manual sorters who are not going to be
11 huddling around anymore because they have been replaced by
12 the AFSM-100, correct?

13 A That's right. That is what I was trying to do,
14 that and also get a cost of the staffing for the AFSM-100.

15 Q Right, well, you had to do the first before you
16 could make the assumption about the second, correct?

17 A Right.

18 Q Is there still a further assumption embedded in
19 there, Mr. Smith, is there an assumption about the relative
20 efficiency of the vanished employees? I don't mean to say
21 they are out of the Postal Service, but they are no longer
22 doing manual sorting -- those who are not any longer manual
23 sorting -- in comparison with the work that is being done by
24 those who are now running AFSM machines?

25 Is there any assumption about relative

1 productivity?

2 A I don't make any assumptions on relative
3 productivities. I suppose you could argue implicit in the
4 program is an assumption or an estimate that productivities
5 are going to increase, but I haven't made any --

6 Q So you don't know whether this same \$185 million
7 worth of person power is going to be sorting more or fewer
8 flats when they are huddling around the AFSM-100 than when
9 they were huddling around the flats casing area?

10 You haven't examined that?

11 A No, not -- I haven't.

12 Q In your answer to ANM/USPS-T21-12, you make a
13 statement that I want to be sure I understand. In the
14 second sentence you say "I have not, as your question
15 implies, included any additional facility space for the
16 additional 88 AFSM-100s for the test year" -- and I have two
17 sort of clarifying questions.

18 First, have you in the test year added additional
19 space, and let us be clear with one another that when I say
20 additional space I mean space in addition to that in the
21 year 2000 for Phase I, the first 173 AFSM-100s?

22 Is there any space in the test year in addition to
23 that in 2000 for the first 173 AFSM-100s?

24 A Yes, there is. There's those additional 173 for
25 the most part will be deployed most of the year, so they

1 are -- based on the average numbers -- average amount of
2 deployment time, I am counting 166, approximately 166, of
3 those 173 in my facility space calculations.

4 Q 166.5, wasn't it, to be precise?

5 A That sounds right.

6 Q And your explanation though for no additional
7 space for the 88, the Phase II AFSM buy, a little different
8 from that and I want see if you can help me understand that.

9 You go on to say Witness Kingsley indicates that
10 ultimately AFSM-100 will replace the FSM-881 and you give a
11 citation to her testimony.

12 A Yes.

13 Q You say there is no available timetable or
14 information on the removal of FSM-881s, and up above you
15 said "I am unable to make a corresponding reduction in
16 FSM-881 space." Could you just elaborate on all that, just
17 a little bit, tell me what -- I am sure you are saying it
18 clearly there but it is not coming through clearly to me.

19 A Okay, what I'm saying there is that I haven't
20 shown any additional -- I don't project any additional space
21 for the AFSM-100 associated with a second buy.

22 And my -- the reason I don't is that along with
23 that deployment, there will be a retirement of some of the
24 FSM-881s. So there will be a facility space reduction at
25 that time, and so the two are going to offset each other.

1 And, moreover, I just don't have the information
2 to do any sort of adjustment, since I don't have information
3 on the amount of -- I didn't really have deployment
4 information for the second buy or the removal of the 881s,
5 at least at the time I was doing my work.

6 Q Okay. Take a look now, if you would please, at
7 DMA/USPS-T-21-2, and, particularly, Subpart C of your answer
8 there.

9 A I'm sorry, which one?

10 Q DMA Number 2 to you, and I'm focusing initially on
11 Subpart C as in Charles, of your answer.

12 A Okay, yes.

13 Q In the last sentence of C, you say I am told that
14 increased bundle breakage may have led to more sortations
15 for both mechanized and manual flat sorts, right?

16 A That's right.

17 Q Can I ask you who told you that?

18 A Witness Kingsley.

19 Q And did she seek to quantify the level of increase
20 that she anticipated or that she observed, I guess? This is
21 past tense; is it not?

22 A That's right. No, she didn't provide any
23 quantification.

24 Q And now have a look at a PostCom interrogatory,
25 having used up everybody else's. Take a look at

1 PostCom/USPS-T-21-1, if you would, please?

2 A Okay. I'm sorry, which one?

3 Q Number 1 from PostCom.

4 A Right.

5 Q And what you did there was to expand on some
6 information that you had earlier provided to the DMA in
7 DMA/USPS-T-21-2.

8 And what one sees across this progression, and
9 what we've got is in the DMA part of it, Fiscal Year '96,
10 '97, and '98, and you provided us with '99.

11 A Yes.

12 Q And what you're giving us there is productivities
13 in '96 for the FSM-881 and manuals, in '97, and '98, the 881
14 and 1000, as in the case of -- and also manual -- as is the
15 case in '99, right?

16 A That's right.

17 Q The productivities seem, in every instance,
18 regularly to fall as we cascade across those years. Do you
19 have an explanation for that or an understanding of why it
20 happened?

21 A No, I don't.

22 Q Did you seek to examine the question?

23 A Well, I guess what I'm saying is that I don't have
24 an further explanation, other than the one I provided in
25 Part C of my response to DMA-T-21-2(c).

1 And my information there -- I sought information
2 from Witness Kingsley and did a report of that in my answer
3 to Part C, and also further report of that on my response to
4 your Question Number 2, PostCom Question Number 2 to me.

5 So I don't have any further information on that.

6 Q Let's think about your answer to
7 PostCom/USPS-T-21-2, for just a moment, and particularly
8 Subpart B of that, in which you say one of the reasons for
9 declining 881 productivity was that the Postal Service added
10 additional staff at the end of FY99 Fall mailing season, and
11 there turned out not to be as much boom in volume as was
12 anticipated.

13 But when you have more people in expectation of
14 volume and you don't get the big volume, productivity goes
15 down; is that the essence of it?

16 A Yes.

17 Q Do you know whether those extra people who were
18 hired at the end of '98 were in any sense tenured employees
19 of the Postal Service?

20 A No, I don't.

21 Q Did you examine that question at all?

22 A I haven't.

23 MR. WIGGINS: Thank you. Mr. Chairman, I have no
24 further questions. Thank you, that was very helpful, if
25 tedious, and I'm sorry.

1 CHAIRMAN GLEIMAN: Is there any followup?

2 [No response.]

3 CHAIRMAN GLEIMAN: Questions from the Bench?

4 COMMISSIONER GOLDWAY: Mr. Chairman.

5 CHAIRMAN GLEIMAN: Commissioner Goldway?

6 COMMISSIONER GOLDWAY: You indicated that you did
7 not have any information about the savings that would result
8 from the new buy of AFSM-100s in the test year, I believe.
9 You had gone through the 163 buy, but you weren't sure about
10 the remainder.

11 You said at the time you did your work, you didn't
12 have that information. Do you have that information now?
13 Could you get that information now?

14 THE WITNESS: As far as I know, there is no
15 schedule as far as the removal of the FSM 881s at this time.
16 There is more information, perhaps, on the deployment of the
17 second buy of the AFSM-100s, but the second half of that
18 isn't available.

19 Let me just clarify that my -- Witness Kashani
20 does include savings due to this second deployment. Now,
21 what I -- in my work, I didn't include any additional space,
22 any additional costs for facilities space for this second
23 AFSM-100 buy, with the notion that that additional space, a
24 lot of that would be offset by reductions in the space being
25 used by the FSM-881.

1 So it's just a question of the amount of
2 space-related costs that are part of my work.

3 COMMISSIONER GOLDWAY: The reason I ask is because
4 if we have known and certain costs, we would, at the time we
5 make our review, we would like to have them, and it -- the
6 way you worded your answer, I thought perhaps you had more
7 information.

8 THE WITNESS: I think there is more information on
9 the deployment schedule for the second buy of FSM-100s, but
10 I'd still be missing the part on the retirement of the
11 FSM-881s.

12 COMMISSIONER GOLDWAY: Thank you.

13 CHAIRMAN GLEIMAN: Any other questions from the
14 Bench?

15 Followup to questions from the Bench?

16 MR. WIGGINS: No, thank you.

17 CHAIRMAN GLEIMAN: That brings us to redirect.
18 Would you like some time with your witness?

19 MR. COOPER: Five minutes.

20 CHAIRMAN GLEIMAN: Five minutes it is.

21 [Recess.]

22 CHAIRMAN GLEIMAN: Mr. Cooper?

23 MR. COOPER: We have no redirect.

24 CHAIRMAN GLEIMAN: That being the case, Mr. Smith,
25 that completes your testimony here today. We appreciate

1 your appearance, your contributions to the record. We thank
2 you, and you are excused.

3 THE WITNESS: Thank you.

4 CHAIRMAN GLEIMAN: Mr. Tidwell asked if you would
5 take all that stuff of the edge of the desk there, too.

6 THE WITNESS: I could easily get it lost in my
7 stuff here.

8 [Witness excused.]

9 MR. TIDWELL: That is our plan.

10 [Pause.]

11 CHAIRMAN GLEIMAN: Mr. Tidwell, do you want to
12 identify your witness?

13 MR. TIDWELL: The Postal Service calls Michael
14 Miller to the stand.
15 Whereupon,

16 MICHAEL W. MILLER,
17 a witness, having been called for examination and, having
18 been first duly sworn, was examined and testified as
19 follows:

20 DIRECT EXAMINATION

21 BY MR. TIDWELL:

22 Q Mr. Miller, on the table in front of you are two
23 copies of a document entitled "The Direct Testimony of
24 Michael W. Miller on Behalf of United States Postal
25 Service." It has been designated as USPS-T-4 for purposes

1 of this proceeding. Have you had a chance to examine that
2 document?

3 A Yes. I think you said T-4, did you mean T-24?

4 Q T-24, yes.

5 A Yes, I have.

6 Q It was prepared by you or under your supervision?

7 A Yes, it was.

8 Q You filed some errata with the Commission on this
9 testimony on March 3rd, March 31st and April 11th. Can you
10 confirm that those errata are reflected in that, in the
11 copies of the document before you?

12 A Yes, they are.

13 Q Are there any additional changes you need to make
14 to the document?

15 A Yes, there is one more revision that needs to be
16 made to page 4. On line 20, the term "work sharing related
17 fixed cost pool" needs to be changed to "non-work sharing
18 related fixed cost pool."

19 Q And that is the only change you have to offer
20 today?

21 A Yes, it is.

22 Q With that change, if you were to give this
23 testimony orally today, would it be the same?

24 A Yes, it would.

25 MR. TIDWELL: Mr. Chairman, the Postal Service

1 then moves the direct testimony of Mr. Miller into the
2 record evidence.

3 CHAIRMAN GLEIMAN: Is there any objection?

4 [No response.]

5 CHAIRMAN GLEIMAN: Hearing none, if counsel would
6 please provide two copies of the corrected testimony of
7 Witness Miller to the court reporter, I will direct that the
8 testimony be received into evidence, and, as is our
9 practice, it will not be transcribed.

10 [Direct Testimony of Michael W.
11 Miller, USPS-T-24, was received
12 into evidence.]

13 CHAIRMAN GLEIMAN: Mr. Tidwell, do you have any
14 Category 2 Library References?

15 MR. TIDWELL: Yes, Mr. Chairman, we do.

16 BY MR. TIDWELL:

17 Q Witness Miller, is it not the case that you rely
18 on Postal Service Library Reference 164?

19 A Yes, I do.

20 Q And are you sponsoring that Library Reference in
21 support of your testimony here today?

22 A Yes, I am.

23 CHAIRMAN GLEIMAN: That being the case, the
24 Library Reference in question will be entered into the
25 record as evidence. It won't be transcribed.

1 [Library Reference 164 was received
2 into evidence.]

3 CHAIRMAN GLEIMAN: Mr. Miller, have you had an
4 opportunity to examine the packet of designated written
5 cross-examination that was made available to you earlier
6 today?

7 THE WITNESS: Yes, it was.

8 CHAIRMAN GLEIMAN: And if those questions were
9 asked of you today, would your answers be the same as those
10 you previously provided in writing?

11 THE WITNESS: Yes, they would.

12 CHAIRMAN GLEIMAN: Counsel, if you would please
13 provide two copies to the reporter, I will direct that the
14 designated written cross-examination of Witness Miller be
15 received into evidence and transcribed into the record.

16 [Designation of Written
17 Cross-Examination of Michael W.
18 Miller, USPS-T-24, was received
19 into evidence and transcribed into
20 the record.]

21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MICHAEL W. MILLER
(USPS-T-24)

Party

Interrogatories

American Bankers Association and
National Association of Presort Mailers

ABA&NAPM/USPS-T24-2-3, 5-7, 12, 16, 20-21,
26-28, 34, 36, 39, 41
ABA&NAPM/USPS-T33-10b-d redirected to T24
MMA/USPS-T24-13

E-Stamp Corporation

E-Stamp/USPS-T24-1-2
MMA/USPS-T24-21b
PB/USPS-T33-1a-c redirected to T24

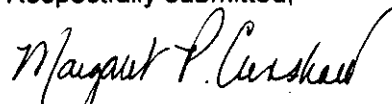
Major Mailers Association

ABA&NAPM/USPS-T24-5, 7-8, 12, 20-23, 26-28,
36, 39, 42
DFC/USPS-T24-6
MMA/USPS-T24-1, 2b-c, e-f, 4-9, 11, 13-19, 21

Office of the Consumer Advocate

DFC/USPS-T24-6
OCA/USPS-T24-5-6

Respectfully submitted,



Margaret P. Crenshaw
Secretary

DESIGNATED RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MICHAEL W. MILLER (T-24)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

ABA&NAPM/USPS-T24-2
ABA&NAPM/USPS-T24-3
ABA&NAPM/USPS-T24-5
ABA&NAPM/USPS-T24-6
ABA&NAPM/USPS-T24-7
ABA&NAPM/USPS-T24-8
ABA&NAPM/USPS-T24-12
ABA&NAPM/USPS-T24-16
ABA&NAPM/USPS-T24-20
ABA&NAPM/USPS-T24-21
ABA&NAPM/USPS-T24-22
ABA&NAPM/USPS-T24-23
ABA&NAPM/USPS-T24-26
ABA&NAPM/USPS-T24-27
ABA&NAPM/USPS-T24-28
ABA&NAPM/USPS-T24-34
ABA&NAPM/USPS-T24-36
ABA&NAPM/USPS-T24-39
ABA&NAPM/USPS-T24-41
ABA&NAPM/USPS-T24-42
ABA&NAPM/USPS-T33-10b redirected to T24
ABA&NAPM/USPS-T33-10c redirected to T24
ABA&NAPM/USPS-T33-10d redirected to T24
DFC/USPS-T24-6
E-Stamp/USPS-T24-1
E-Stamp/USPS-T24-2
MMA/USPS-T24-1
MMA/USPS-T24-2b
MMA/USPS-T24-2c
MMA/USPS-T24-2e
MMA/USPS-T24-2f
MMA/USPS-T24-4
MMA/USPS-T24-5

Designating Parties:

ABA&NAPM
ABA&NAPM
ABA&NAPM, MMA
ABA&NAPM
ABA&NAPM, MMA
MMA
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ABA&NAPM, MMA
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ABA&NAPM, MMA
ABA&NAPM
ABA&NAPM, MMA
ABA&NAPM, MMA
ABA&NAPM
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ABA&NAPM
ABA&NAPM
MMA, OCA
E-Stamp
E-Stamp
MMA
MMA
MMA
MMA
MMA
MMA
MMA
MMA

MMA/USPS-T24-6	MMA
MMA/USPS-T24-7	MMA
MMA/USPS-T24-8	MMA
MMA/USPS-T24-9	MMA
MMA/USPS-T24-11	MMA
MMA/USPS-T24-13	ABA&NAPM, MMA
MMA/USPS-T24-14	MMA
MMA/USPS-T24-15	MMA
MMA/USPS-T24-16	MMA
MMA/USPS-T24-17	MMA
MMA/USPS-T24-18	MMA
MMA/USPS-T24-19	MMA
MMA/USPS-T24-21	MMA
MMA/USPS-T24-21b	E-Stamp
OCA/USPS-T24-5	OCA
OCA/USPS-T24-6	OCA
PB/USPS-T33-1a redirected to T24	E-Stamp
PB/USPS-T33-1b redirected to T24	E-Stamp
PB/USPS-T33-1c redirected to T24	E-Stamp

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-2

- a. Please confirm that your "non-worksharing fixed" costs are listed as mail processing costs in the audited version of the annual CRA.
- b. Please confirm that these costs were included in the calculation of discounts by the USPS and the Commission in R97-1.
- c. Please confirm that there have been no substantive changes to the technology of mail processing for workshared letters since R97-1.

RESPONSE:

a. It can be confirmed that the "non-worksharing related fixed" costs are included in the Test Year CRA mail processing unit cost estimates for various categories, as included in the testimony of Postal Service witness Smith (USPS-T-21, Attachment 17). However, it should be noted that these mail processing unit cost estimates include costs above and beyond those found solely in Cost Segment 3.1, "Mail Processing Direct Labor." The CRA mail processing unit cost estimates also contain indirect ("piggyback") costs that are found in other cost segments (see USPS-T-21, page 16).

b. Confirmed.

c. Not confirmed. The term "substantive changes" is subjective. I consider the letter automation projects that the Postal Service has implemented, and continues to implement, to be substantive (see USPS-T-10, Section II.A.4 "Automation Update" and Section II.A.5 "Description of Future System").

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-3

- a. Are the volume variability factors you adopt from USPS-T-17 less than 100% volume variability for mail processing labor?

RESPONSE:

a. The volume variability factors that I use to calculate the marginal productivities (MODS productivity / Volume Variability Factor) can be found in Appendices I (page I-43, column 1), II (page II-30, column 1), and III (page III-30, column 1) of my testimony. In most cases, these factors are less than 100%. However, the factors related to the Remote Encoding Centers (REC) and Letter Mail Labeling Machine (LMLM) operations are both 1.005, or 100.5%, which is greater than 100%.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-5 By cost pool, how, if at all, do the piggyback, premium pay, and MODS productivities/BCS accept rates factors "associated with your testimony" (page 2, line 22) vary quantitatively from those used by USPS in R97-1? For each difference, list the difference, the cost pool, and explain why the piggyback, premium pay, or MODS productivities/BCS accept rates factors have changed from those used in R97-1.

RESPONSE:

In general, the inputs used in my cost models consist of average data or, where possible, data by subclass (e.g., premium pay factors). The CRA proportional adjustment factors are applied to the cost model results in order to compensate for: 1.) the fact that average data are used, and 2.) the fact that simplified processing assumptions (e.g., no circular mail flows) are used.

Piggyback Factors: The operation specific piggyback factors associated with my testimony are taken from the testimony of witness Smith (USPS-T-21, Attachment 14). In general, the factors used in Docket No. R97-1 are close in magnitude to those used in this docket. I made one significant change regarding piggyback factors in my testimony. In Docket No. R97-1, the Mail Processing Bar Code Sorter (MPBCS) piggyback factor was used for all automation operations. In reality, both the Delivery Bar Code Sorter (DBCS) and MPBCS are used to process automation mail. For example, the DBCS is now used to process roughly 96% of the mail in the outgoing primary operations (871/891). The DBCS, however, is used to a lesser extent for operations that are further "downstream." Therefore, I have developed weighted MPBCS/DBCS piggyback factors based on the volume of mail that is processed on each machine for each operation (see USPS-T-24, page 9, lines 20-29). As a result, some automation piggyback factors have changed significantly in this docket.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

RESPONSE to ABA&NAPM/USPS-T24-5 (Continued)

The Letter Mail Labeling Machine (LMLM) piggyback factor also changed significantly (44.72%) in this docket. This change has occurred because the LMLM piggyback factor is basically a new factor. In Docket No. R97-1, the same piggyback factors were used for both the Remote Encoding Center (REC) and the LMLM. In this docket, separate factors have been calculated to reflect the fact that LMLM machines are located at plants and not at REC sites.

<u>Piggyback Factor</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
Outgoing ISS	2.001	2.095	- 0.094	- 4.70%
Outgoing REC	1.516	1.450	0.066	4.35%
Outgoing OSS	1.757	1.719	0.038	2.16%
Outgoing LMLM	2.623	1.450	1.173	44.72%
Outgoing Prim Auto	2.263	1.719	0.544	24.04%
Outgoing Prim Man	1.360	1.372	- 0.012	- 0.88%
Outgoing Sec Auto	1.236	1.719	- 0.483	-39.08%
Outgoing State Man	1.360	1.372	- 0.012	- 0.88%
Incoming ISS	2.001	2.095	- 0.094	- 4.70%
Incoming REC	1.516	1.450	0.066	4.35%
Incoming OSS	1.621	1.719	- 0.098	- 6.05%
Incoming LMLM	2.623	1.450	1.173	44.72%
Incoming MMP	2.151	1.719	0.432	20.08%
Incoming ADC Man	1.396	1.372	0.024	1.72%
Incoming SCF/Prim Auto	2.024	1.719	0.305	15.07%
Incoming SCF/Prim Man	1.360	1.372	- 0.012	- 0.88%
Incoming 5-Digit BC Sort	2.024	N/A	N/A	N/A
Incoming Sec Auto Cart	2.063	1.719	0.344	16.67%
Incoming Sec Auto 3-Pass DPS	1.854	1.948	- 0.094	- 5.07%
Incoming Sec Auto 2-Pass DPS	2.290	2.434	- 0.144	- 6.29%
Incoming Sec Man Plant	1.360	1.372	- 0.012	- 0.88%
Incoming Sec Man DU	1.360	1.372	- 0.012	- 0.88%
Box Section DPS	1.396	1.366	0.030	2.15%
Box Section Other	1.396	1.366	0.030	2.15%
Tray Bundle Sort (FCM)	1.542	1.607	- 0.065	- 4.22%
Tray Bundle Sort (STDA)	1.528	1.600	- 0.072	- 4.71%

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

RESPONSE to ABA&NAPM/USPS-T24-5 (Continued)

Premium Pay Factors: The premium pay factors that support my testimony can be found in the testimony of witness Smith (USPS-T-21, Attachment 15). These factors are nearly identical to those used in Docket No. R97-1.

<u>Premium Pay Factor</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
First-Class Mail	1.023	1.011	0.012	1.17%
Standard (A) Regular	0.961	0.958	0.003	0.31%
Standard (A) Non Profit	0.961	0.958	0.003	0.31%

MODS Productivities: The MODS productivities associated with my testimony can be found in USPS LR-I-107. The values listed below are the MODS values only; they are not the "marginal productivities" that have been adjusted using volume variability factors (where appropriate). The unadjusted MODS productivities are being compared here because the volume variability methodology between dockets has also changed. I have made one significant change regarding the productivities in my testimony. In this docket, the productivities have been de-averaged by operation.

For example, in Docket No. R97-1, an average productivity was used for the Input Sub System (ISS) operations. In this docket, separate productivities have been calculated for both the outgoing and incoming ISS operations. As a result, the outgoing ISS productivity (6,847) is higher than the average value used in Docket No. R97-1 (5,779), while the incoming ISS (4,370) productivity is lower than that used in Docket No. R97-1.

The REC productivity used in this docket is lower than that used in Docket No. R97-1 because that figure represented the "images lifted" per Data Conversion

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

RESPONSE to ABA&NAPM/USPS-T24-5 (Continued)

Operator (DCO) hour. In other words, the impact from the Remote Computer Read (RCR) system was imbedded in the productivity value. In this docket, the RCR finalization rate has been considered separately. This change has been made to enhance model flexibility because the RCR finalization rate continues to increase as image recognition technology improves. Therefore, the finalization rate itself can be changed to reflect different processing scenarios. As a result, the REC productivity that is being used in this docket is the "images keyed" per DCO hour, rather than the "images lifted" per DCO hour.

The Output Sub System (OSS) productivities in this docket are lower than those used in Docket No. R97-1. This may be the result of DBCS-OSS deployments. The productivity used in Docket No. R97-1 was based on the MPBCS-OSS operation numbers only. In this docket, the DBCS-OSS operation numbers have also been included. The DBCS is generally considered to have higher machine throughputs than the MPBCS, but the number of bins and machine configuration result in a greater amount of sweeping time.

The BCS automation operations have all been de-averaged in a manner similar to that described previously for the ISS. Some operation productivities are therefore lower, while others are higher, than the average value used in Docket No. R97-1. In addition, these productivities may be lower overall because the DBCS is carrying a greater workload burden for non-incoming secondary operations than it did in the past.

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The manual productivities that have changed may be due to the fact that the specific MODS operation numbers used in this docket do not always match those used in Docket No. R97-1.

Finally, the last four productivity values listed below have not changed at all because Docket No. R97-1 data have also been used in this docket.

<u>MODS Productivity</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
Out ISS	6,847	5,779	1,068	15.60%
Inc ISS	4,370	5,779	- 1,409	- 32.24%
REC	673	816	- 143	- 21.25%
LMLM	3,871	4,999	- 1,128	- 29.14%
Out OSS	8,976	11,321	- 2,345	- 26.13%
Inc OSS	8,118	11,321	- 3,203	- 39.46%
Out BCS Primary	5,729	7,054	- 1,325	- 23.13%
Out BCS Secondary	8,323	7,054	1,269	15.25%
Inc BCS MMP	5,565	7,054	- 1,489	- 26.76%
Inc BCS SCF/Primary	5,896	7,054	- 1,158	- 19.64%
Inc BCS Sec Carrt	5,214	6,266	- 1,052	- 20.18%
Inc BCS Sec DPS	8,737	7,929	808	9.25%
Inc CSBCS Sec DPS	13,334	17,124	- 3,790	- 28.42%
Manual Out Primary	486	527	- 41	- 8.44%
Manual Out Secondary	477	551	- 74	- 15.51%
Manual MMP	601	605	- 4	- 0.78%
Manual Inc SCF/Prim	638	714	- 76	- 11.91%
		448	190	29.78%
Manual Inc Sec MODS	511	515	- 4	- 0.78%
Manual Inc Sec Non-MODS	1,143	1,143	0	0.00%
P.O. Box Sort DPS	2,341	2,341	0	0.00%
P.O. Box Sort Other	1,171	1,171	0	0.00%
Tray Open Bundle Sort	160	160	0	0.00%

BCS Accept Rates: The BCS accept rates can also be found in USPS LR-1-107.

In general, the BCS accept rates changed very little between Docket No. R97-1 and Docket No. R2000-1. The biggest change, in percentage terms, occurred in the non-Delivery Point Sequencing (DPS) incoming secondary operation (a 6.45% increase).

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<u>BCS Accept Rate</u>	<u>Docket R2000-1</u>	<u>Docket R97-1</u>	<u>Difference</u>	<u>% Change</u>
Out BCS Primary	95.20%	95.00%	0.20%	0.21%
Out BCS Secondary	95.80%	95.00%	0.80%	0.84%
Inc BCS MMP	95.80%	95.00%	0.80%	0.84%
Inc BCS SCF/Primary	95.70%	95.00%	0.70%	0.73%
Inc BCS Sec Carrt	96.10%	89.90%	6.20%	6.45%
Inc BCS Sec DPS Pass1	97.50%	95.00%	2.50%	2.56%
Inc BCS Sec DPS Pass 2	97.50%	95.00%	2.50%	2.56%
Inc CSBCS Sec DPS Pass1	98.90%	98.50%	0.40%	0.40%
Inc CSBCS Sec DPS Pass2,3	98.90%	99.00%	- 0.10%	- 0.10%

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ABA&NAPM/USPS-T24-6 On page 3, lines 11 and 12, you assert you have excluded certain costs from mail processing unit costs because they are "non-worksharing related costs."

- a. State why, in your opinion, these costs are "non-worksharing related" costs.
- b. Were these costs excluded by the Postal Service in its R97-1 calculation of mail processing costs? If your answer is "No.", explain why.
- c. Were these costs excluded by the Postal Service in MC95-1, or in earlier rate cases? If your answer is "No." explain why for each case.
- d. Were these costs excluded by the Commission in its O & RD in R97-1, in MC95-1, in R94-1, in R90-1?
- e. Have you similarly excluded any cost pools in this case for Standard Mail A in connection with setting worksharing discounts for that class of letter mail. If not explain, why not.

RESPONSE:

- a. See my response to ABA&NAPM/USPS-T24-12.
- b.c.d. These questions do not always afford a "yes" or "no" response because the cost methodology being used has been changing over time. For example, the use of cost pools, as well as the number of cost pools, has changed.
- e. The cost pools that have been classified as "non-worksharing related fixed" for the Standard (A) Regular and Standard (A) Non Profit CRA mail processing unit cost categories have also been excluded from the worksharing related savings calculations.

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ABA&NAPM/USPS-T24-7

- a. Do you agree that a "hybrid" cost methodology (page 3, line 3) is in principle inferior to a pure cost methodology, for example a CRA that measured actual rather than modeling mp costs by rate category? If not, explain fully why not.
- b. Referencing line 23 of page 4 in your testimony, has the USPS ever tried to upgrade the CRA to rate category level? Please list all information as to why the USPS has not made such an effort, or if it has, why the work was not completed.

RESPONSE:

a. No, I do not agree. As per PRC Op. MC95-1 paragraph 4214, it may be more appropriate to use a specific cost methodology under specific circumstances. For, example, when new discounts are offered, "clearly capturable cost avoidance" methodologies are often used, rather than "hybrid" or "full cost difference" methodologies. In addition, I would think that the In-Office Cost System (IOCS), as with any work sampling system, would always have limitations in terms of how various data can be grouped and categorized. Therefore, I could see where it would not always be possible to calculate CRA mail processing unit costs, for example, at the rate category level.

b. Redirected to the Postal Service.

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ABA&NAPM/USPS-T24-8 On page 4, line 9-10, you state that your definition of fixed cost pools include costs that do not vary directly as a result of the "specific worksharing options chosen by a given mailer."

- a. Which of your fixed costs vary indirectly, if not directly, with specific worksharing options chosen?
- b. Do your fixed costs vary with the volume of mail workshared at rate category levels combined, or are they fixed regardless of volume?

RESPONSE:

a. See the cost pools classified as "Other Worksharing Related (Fixed) Mail Process Cost Pools" in USPS-T-24, Appendices I (pages 7-15), II (pages 5-6) and III (pages 5-6).

b. In my testimony, I do not use the term "fixed cost" to refer to costs that do not vary with volume, as that term is used in economics. The "fixed" cost pool classification means that those costs are assumed to be the same for the rate categories that are being de-averaged using cost models.

For example, the automation basic, 3-digit, and 5-digit letter cost models are used to de-average the CRA mail processing unit costs for "First-Class automation non-carrier route presort letters." The "LD 49" (Computerized Forwarding System) cost pool is classified as "worksharing related fixed." This classification simply means that the costs are affected by worksharing and are assumed to be the same for all three rate categories.

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ABA&NAPM/USPS-T24-12 Please identify every component of mail processing costs included in the annual CRA, and which components you have excluded from your own measures of mail processing costs for the purpose of measuring worksharing savings. For each excluded CRA component, justify the basis for your exclusion of the CRA measure.

RESPONSE:

In this docket, I have used a more conservative hybrid cost methodology to calculate the worksharing related savings for each rate category when compared to that used in Docket No. R97-1. Rather than assuming that all cost pools are affected by mailer worksharing (prebarcoding and presorting) activities, I have only included those cost pools that contain presort letter/card piece distribution and/or package distribution costs. The remaining cost pools have been classified as "non-worksharing related fixed" cost pools. The rational behind the cost pool classifications is as follows:

1. **BMC NMO** FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains costs for processing Non Machinable Outside (NMO) parcels at Bulk Mail Centers (BMC) and should not be affected by mailer worksharing activities related to letters and cards.

2. **BMC OTHR** FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to allied labor at BMCs. First-Class Mail is not processed at BMCs and would therefore be classified as indicated. Standard (A) Mail is processed at BMCs, but this cost pool does not involve piece distribution or package distribution activities. Therefore, it has been classified as indicated.

3. **BMC PLA** FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to platform operations at BMCs. First-Class Mail is not processed at BMCs and is therefore classified as indicated. Standard (A) Mail is processed at BMCs, but this cost pool does not involve piece distribution or package distribution activities. Therefore, it has been classified as indicated.

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| 4. | BMC PSM | FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed |
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This cost pool contains the costs related to Parcel Sorting Machines (PSM) at BMCs and should not be affected by mailer worksharing activities for letters and cards.

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| 5. | BMC SPB | FCM: Non-Worksharing Related Fixed
STDA (Nonauto): Worksharing Related
Proportional
STDA (Auto): Worksharing Related Fixed |
|----|---------|---|

This cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) operations at BMCs. First-Class Mail is not processed at BMCs and would therefore be classified as indicated. The SPBS, however, is used to process Standard (A) bundles at BMCs. Standard (A) nonautomation presort letter trays can contain bundles and bundle sorting costs are included in the cost models; therefore a "worksharing related proportional" classification is used. Standard (A) automation presort letter trays should not contain bundles. In this instance the classification "worksharing related fixed" is used. Automation letters are still classified as "worksharing related" in order to maintain the proper cost relationship between nonautomation and automation presort letters. However, a "fixed" classification is used so that the cost relationships between the automation rate categories themselves are not skewed when cost models are used to de-average CRA mail processing unit costs.

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6. BMC SSM FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Sack Sorting Machines (SSM) at BMCs. First-Class Mail is not processed at BMCs and is therefore classified as indicated. Standard Mail (A) is processed at BMCs, but this cost pool does not involve piece distribution or package distribution activities. Therefore, it has been classified as indicated.

7. MODS BCS/ FCM: Worksharing Related Proportional
 STDA: Worksharing Related Proportional

This cost pool contains the costs related to Bar Code Sorter (BCS) operations at MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

8. MODS OCR/ FCM: Worksharing Related Proportional
 STDA: Worksharing Related Proportional

This cost pool contains the costs related to Optical Character Reader (OCR) operations at MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

9. MODS FSM/ FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Flat Sorting Machines (FSM) at MODS facilities. This cost pool does not include costs related to the piece distribution

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or package distribution of letters or cards. Therefore, it has been classified as "non-worksharing related fixed."

10. MODS LSM FCM: Worksharing Related Proportional
 STDA: Worksharing Related Proportional

This cost pool contains the costs related to Letter Sorting Machine (LSM) operations at MODS facilities. As witness Kingsley indicated in her testimony (USPS-T-10, page 3, line 27 to page 4, line 3), very few LSMs remain in the field. The cost models do not include LSM operations as a result of this fact. Despite the assumption that LSMs are no longer used, this cost pool has been classified as "worksharing related proportional" to reflect the fact that some sites may still be using the LSM for piece distribution of letters and cards.

11. MODS MECPARC FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to mechanized parcel sorting operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

12. MODS SPBS OTH FCM: Non-Worksharing Related Fixed
 STDA (Nonauto): Worksharing Related
 Proportional
 STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) bundle sorting operations at MODS facilities. The SPBS is not typically used to process First-Class Mail letter bundles. It is, however, used to process Standard (A)

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letter bundles. Standard (A) nonautomation presort letter trays can contain bundles and bundle sorting costs are included in the cost models; therefore a "worksharing related proportional" classification is used. Standard (A) automation presort letter trays should not contain bundles. In this instance the classification "worksharing related fixed" is used. Automation letters are still classified as "worksharing related" in order to maintain the proper cost relationship between nonautomation and automation presort letters. However, the "fixed" classification is used in order not to skew the relationships between the three automation rate categories that are being de-averaged using cost models.

13. MODS SPBS PRIO FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Small Parcel and Bundle Sorter (SPBS) priority mail sorting operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

14. MODS 1SACKSM FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to mechanized sack sorting operations at MODS facilities. On occasion, these sorting machines may be used to process letter trays. However, these operations are not related to piece distribution or package distribution of letters or cards. Therefore, the "non-worksharing related fixed" classification is used.

15. MODS MANF FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to manual flat sorting operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

16. MODS MANL FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to manual letter sorting operations in MODS facilities. These costs are included in both the First-Class Mail and Standard (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

17. MODS MANP FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to manual parcel sorting operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

18. MODS PRIORITY FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to manual priority mail sorting operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

19. MODS LD15 FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to Labor Distribution Code (LDC) 15 operations in MODS facilities. This LDC contains the costs related to REC keying operations and LMLM operations. These costs are included in both the First-Class Mail

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and Standard (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

20. MODS 1BULKPR FCM: Worksharing Related Fixed
STDA: Worksharing Related Fixed

This cost pool contains the costs related to tray sortation (based on the next operation) once presort mail has been accepted and verified by the Bulk Mail Entry Unit (BMEU). These costs have therefore been classified as worksharing related. However, it is assumed that these costs are identical for rate categories that use cost models to de-average a CRA mail processing unit cost category. As a result, the "worksharing related fixed" classification is used.

21. MODS 1CANCMMP FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to cancellation and meter mail preparation operations in MODS facilities and should not be affected by mailer worksharing activities related to presort letters and cards.

22. MODS 1OPBULK FCM (Nonauto): Worksharing Related Proportional
FCM (Auto): Worksharing Related Fixed
STDA (Nonauto): Worksharing Related Proportional
STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to opening units and package sorting operations in MODS facilities. For both the First-Class Mail and Standard Mail (A) nonautomation presort rate categories, these costs are classified as "worksharing related proportional" because package sorting costs are included in the cost models.

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For the automation presort rate categories, these cost pools are still classified as "worksharing related" in order to maintain the proper cost relationships between the nonautomation presort rate categories and the automation presort rate categories. However, a fixed classification is used so that the cost relationships between the automation rate categories themselves are not skewed when the cost models are used to de-average CRA mail processing unit costs.

23. MODS 10PPREF FCM (Nonauto): Worksharing Related Proportional
FCM (Auto): Worksharing Related Fixed
STDA (Nonauto): Worksharing Related Proportional
STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to opening units and package sorting operations in MODS facilities. For both the First-Class Mail and Standard Mail (A) nonautomation presort rate categories, these costs are classified as "worksharing related proportional" because package sorting costs are included in the cost models. For the automation presort rate categories, these cost pools are still classified as "worksharing related" in order to maintain the proper cost relationships between the nonautomation presort rate categories and the automation presort rate categories. However, a fixed classification is used so that the cost relationships between the automation rate categories themselves are not skewed when the cost models are used to de-average CRA mail processing unit costs.

24. MODS PLATFORM FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed
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This cost pool contains the costs related to platform operations at MODS facilities. These operations do not involve piece distribution or package distribution activities. Therefore, the cost pool has been classified as indicated.

25. MODS POUCHING FCM (Nonauto): Worksharing Related Proportional
FCM (Auto): Worksharing Related Fixed
STDA (Nonauto): Worksharing Related Proportional
STDA (Auto): Worksharing Related Fixed

This cost pool contains the costs related to package sorting operations in MODS facilities. For both the First-Class Mail and Standard Mail (A) nonautomation presort rate categories, these costs are classified as "worksharing related proportional" because package sorting costs are included in the cost models. For the automation presort rate categories, these cost pools are still classified as "worksharing related" in order to maintain the proper cost relationships between the nonautomation presort rate categories and the automation presort rate categories. However, a fixed classification is used so that the cost relationships between the automation rate categories themselves are not skewed when the cost models are used to de-average CRA mail processing unit costs.

26. MODS 1SACKSH FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to manual sack sorting operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

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27. MODS SCAN FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool includes the costs for activities related to the Air Contract Data Collection System (ACDCS) that is used to route First-Class air shipments. These operations do not involve piece distribution or package sorting activities. In addition, the costs are affected by whether mail is local or non-local, rather than whether mail is prebarcoded and/or presorted. As a result, it has been classified as "non-worksharing related fixed."

28. MODS BUSREPLY FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs for postage due activities. In a sense, its title is a misnomer. Some Business Reply Mail (BRM) costs (e.g., accounting) will fall into this cost pool. However, the automation and manual BRM sorting operations do not have their own operation numbers. As a result, some BRM costs will be found in other cost pools (e.g., BCS/, MANL). In any event, these costs are not related to the piece distribution or package distribution of presort letters and cards. Therefore, a non-worksharing related fixed classification has been used.

29. MODS EXPRESS FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to express mail operations in MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

30. MODS MAILGRAM FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to mailgrams and should not be affected by mailer worksharing activities related to letters and cards.

31. MODS REGISTRY FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to registered mail operations and should not be affected by mailer worksharing activities related to letters and cards.

32. MODS REWRAP FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to rewrap operations and should not be affected by mailer worksharing activities related to letters and cards.

33. MODS 1EEQMT FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to empty equipment operations and should not be affected by mailer worksharing activities related to letters and cards.

34. MODS INTL FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to international mail sorting operations and should not be affected by mailer worksharing activities related to letters and cards.

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| 35. | MODS LD41 | FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional |
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This cost pool contains the costs related to automated distribution at Customer Service MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification is used.

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36. MODS LD 42 FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to mechanized distribution at Customer Service MODS facilities. These costs are not included in the First-Class Mail and Standard Mail (A) cost models. However, they are classified as such for the same reasons described earlier for cost pool number 10 (LSM/).

37. MODS LD43 FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to manual distribution at Customer Service MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification is used.

38. MODS LD44 FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to Post Office box distribution at Customer Service MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification is used.

39. MODS LD48EXP FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs for express mail operations at Customer Service MODS facilities and is classified as "non-worksharing related fixed" for the same reasons specified for cost pool number 29 (EXPRESS).

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40. MODS LD48SSV FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to special service operations at Customer Service MODS facilities and should not be affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification is used.

41. MODS LD49 FCM: Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to Computerized Forwarding System (CFS) operations at MODS facilities. These costs are worksharing related in the sense that First-Class presort mailers are required to meet strict addressing standards. However, these costs are not included in the cost models. As a result, this cost pool is classified as "worksharing related fixed." For Standard Mail (A), this cost pool is classified as "non-worksharing related fixed" as this mail is not forwarded.

42. MODS LD79 FCM: Worksharing Related Fixed
STDA: Worksharing Related Fixed

This cost pool contains the costs related to Bulk Mail Entry acceptance and verification at MODS facilities. These costs are obviously worksharing related, but they are not included in the cost models. As a result, the "worksharing related fixed" classification is used.

43. MODS 1SUPPF1 FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to support operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

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44. MODS 1SUPPF4 FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to support operations at MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

45. NONMODS ALLIED FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to allied and platform operations at Non-MODS facilities. This cost pool does not involve piece distribution or package distribution activities and has therefore been classified as indicated.

46. NONMODS AUTO/MECH FCM: Worksharing Related Proportional
STDA: Worksharing Related Proportional

This cost pool contains the costs related to automation and mechanization operations at Non-MODS facilities. These costs are included in the First-Class Mail and Standard Mail (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

47. NONMODS EXPRESS FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

This cost pool contains the costs for express mail operations at Non-MODS facilities and is classified as "non-worksharing related fixed" for the same reasons specified for cost pool number 29 (EXPRESS).

48. NONMODS MANF FCM: Non-Worksharing Related Fixed
STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to manual flat sorting operations in Non-MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

49. NONMODS MANL FCM: Worksharing Related Proportional
 STDA: Worksharing Related Proportional

This cost pool contains the costs related to manual letter sorting operations in Non-MODS facilities. These costs are included in both the First-Class Mail and Standard (A) cost models and are directly affected by mailer worksharing activities for letters and cards. Therefore, a "worksharing related proportional" classification has been used.

50. NONMODS MANP FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to manual parcel sorting operations in Non-MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

51. NONMODS MISC FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

This cost pool contains the costs related to miscellaneous support activities in Non-MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

52. NONMODS REGISTRY FCM: Non-Worksharing Related Fixed
 STDA: Non-Worksharing Related Fixed

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This cost pool contains the costs related to registered mail operations at Non-MODS facilities and should not be affected by mailer worksharing activities related to letters and cards.

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ABA&NAPM/USPS-T24-16 What is the justification for using only one month's mail volume data from a single accounting period as the sole basis for estimating certain piggyback factors, and hence certain indirect costs, as you claim to do at page 9, line 25? Is one month's data statistically reliable for this estimation?

RESPONSE:

Over time, the Delivery Bar Code Sorter (DBCS) has been increasingly relied upon to process mail in operations that are "upstream" from the incoming secondary operations. The AP 11 FY 1999 MODS volume data are used to determine the percentage of mail that is processed in these operations using the DBCS versus the Mail Processing Bar Code Sorter (MPBCS). This specific AP was chosen because it was the most recent data available at the time the models were constructed. Therefore, the data reflected the most current mail processing environment. The results show that the DBCS shoulders a greater portion of the processing burden for outgoing operations than it does for operations that are further downstream. These findings are consistent with current field practices.

The data have not been evaluated in purely statistical terms. However, the usage of these data to de-average indirect cost "piggyback" factors is an improvement over the methods that were used in Docket No. R97-1, when no such analysis was performed. In addition, CRA adjustment factors are applied to compensate for the many assumptions that must be made in developing cost models.

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ABA&NAPM/USPS-T24-20 Please cite all cost data that you used to develop BMM mail processing unit costs. Note each and every instance in which the cost pool is not based on a direct measurement of BMM mail, but is based on a proxy for that cost pool. Give a complete description for each proxy used.

RESPONSE:

The BMM letters mail processing unit cost estimate that I use in my testimony can be found in LR-I-81. The CRA cannot be used to isolate the costs for BMM letters. As a result, the mail processing unit costs by cost pool for all metered letters are used as an estimate. The one exception is the "1CANCMMP" cost pool, which is set to zero. This cost pool is set to zero to reflect the assumption that BMM letters are entered in trays. These letters would therefore bypass the operations associated with isolating, facing, and traying mail. The costs for these operations are contained in the "1CANCMMP" cost pool. Therefore, that cost pool is set to zero.

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ABA&NAPM/USPS-T24-21

a. Cite any data or studies you have which supports the assertion that BMM is the mail most likely to convert to worksharing in First-Class.

b. Does any Standard A mail convert to First-Class? What amounts?

RESPONSE:

a.b. Volume forecasts can be found in the testimony of witness Tolley (USPS-T-6). However, to the best of my knowledge, no such studies have been conducted that are specific to First-Class Bulk Metered Mail (BMM) letters.

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ABA&NAPM/USPS-T24-22

- a. Cite any data or other quantitative measurements you have of the amount and percentage of BMM entered in full trays.
- b. Please confirm that the cost difference between single piece letters as a whole and the BMM subset could be due to BMM mail not being entered in full trays.
- c. Why should the delivery costs for BMM be assumed to be the same as the nonautomation presort category rather than single piece letters? Without a direct measurement of such costs for BMM, how can you assume one proxy over the other?

RESPONSE:

- a. Redirected to the Postal Service.
- b. Not confirmed.
- c. The average delivery unit cost for First-Class single-piece letters is 5.362 cents (USPS-T-28, Table 5, page 26). In order to determine the delivery unit cost for BMM letters using witness Daniel's methodology (USPS-T-28), this figure would have to be de-averaged for the many mail types that can be found within the single-piece rate category. In order to accomplish this task, it would have been necessary to develop cost models and calculate Delivery Point Sequencing (DPS) percentages for all single-piece mail types.

As an alternative, the delivery unit costs for nonautomation presort letters (5.229 cents) and BMM letters are assumed to be identical. It should be noted, however, that the DPS percentage from the metered letters cost model (70.39%) is much higher than the corresponding weighted percentage from the nonautomation letters cost models (52.90%).

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Given the relatively small difference between the delivery unit costs for single-piece letters and nonautomation presort letters ($5.362 - 5.229 = 0.133$), it is not unreasonable to expect that a delivery unit cost estimate for BMM letters based on de-averaging might have been lower than the estimate used in my testimony. In that case, the worksharing related savings results for rate categories that use BMM letters as a benchmark would be lower than those found in my testimony. If anything, the assumption I have made has probably led to conservative results.

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ABA&NAPM/USPS-T24-23

a. Referencing page 16, line 29, list the specific technology improvements for First-Class prebarcoded letter mail that have been made since R97-1, with associated increases in productivity for each change. Be specific by machine type and operation.

b. Do the same for BMM and First-Class single-piece letter mail.

RESPONSE:

The technology improvements that affect the three mail types are listed below.

The number of technology changes that affect Bulk Metered Mail (BMM) letters and single-piece letters are greater than the number that affect prebarcoded presort letters.

This is the reason why I stated that the worksharing related savings associated with the presorting and/or prebarcoding of letters and cards may be decreasing, or at the very least, may be suppressed over time (USPS-T-24, page 16, lines 23-29).

a. The technology improvements that affect prebarcoded presort letters are listed below:

1. DBCS Enhancements (USPS-T-10, page 5, line 13 to page 6, line 5)

Many DBCS have been expanded to include more bins. This change would affect the density tables (Miller Workpaper 1). I have not attempted to quantify the impact that this enhancement would have on the mail processing costs for specific mail types.

b. The technology improvements that affect BMM letters and First-Class single-piece letters are listed below:

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1. AFCS Deployments (USPS-T-10, page 3, lines 15-26)

Since Docket No. R97-1, this program has been fully deployed. It is my understanding that some additional Advanced Facer Canceler System (AFCS) may be purchased in the future. I have not studied the productivity impact associated with the increased usage of the AFCS.

2. MLOCR Enhancements (USPS-T-10, page 4, lines 4-15)

The enhancements discussed in witness Kingsley's testimony (e.g., co-directory) would affect BMM letters and single-piece costs. These changes would probably not affect the productivity so much as they would affect the acceptance rates. I have not attempted to quantify the impact that these enhancements have had on mail processing costs for specific mail types.

3. Low Cost MLOCR Deployments (USPS-T-10, page 4, lines 16-24)

This machine has been initially deployed to SLOCR sites. This change would affect costs in terms of: improved acceptance rates, less reprocessing of mail in downstream operations (due to an increase in the number of bins), and increased machine throughput. I have not attempted to quantify the impact that these changes have had on mail processing costs for specific mail types.

4. RBCS Enhancements (USPS-T-10, page 9, lines 24-25)

The Remote Computer Read (RCR) finalization rate continues to improve. In Docket No. R97-1, the finalization rate was built into the Remote Encoding Center (REC) productivity used in the cost models (although cost models have not typically been developed for BMM letters or single-piece letters). The finalization rate at that

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time was thought to be roughly 25%. In this docket, the finalization rate is a separate cost model input and is assumed to be 69.03% (USPS LR-1-164). Mail that is finalized by RCR would bypass the REC keying operation and avoid mail processing costs.

5. DBCS Enhancements (USPS-T-10, page 5, line 13 to page 6, line 5)

Many DBCS have been expanded to include more bins. This change would affect the density tables (Miller Workpaper 1). In addition, many machines have been retrofitted to be an Output Sub System (OSS). This change would affect the OSS accept rates, productivities, and density tables as mail is moved from an Mail Processing Bar Code Sorter-OSS to a DBCS-OSS. I have not attempted to quantify the impact that these changes have had on mail processing costs for specific mail types.

6. ID Code Sortation (USPS-T-10, page 6, line 29 to page 7, line 8)

For unreadable bar codes, it will be possible to sort mail pieces using the information contained in the Remote Bar Code System (RBCS) ID tag. These deployments have already begun. I have not specifically studied the impact that this change will have on mail processing costs by mail type.

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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.

Attachment to ABAIAPM/USPS-T24-27

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

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

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.

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- 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.

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ABA&NAPM/USPS-T24-34 Page I-1 of Appendix I to your testimony sets forth First Class unit cost estimates for, inter alia, the Bulk Metered FCLM Benchmark, non-automated presort FCLM and automated FCLM. Please confirm that these unit cost estimates do not reflect any cost differences as a result of the move update requirements which are applicable to non-automated presort and automated FCLM, and which are not applicable to the Bulk Metered FCLM benchmark; and explain why these move update savings were not included in R2000-1. If you cannot confirm this fact please explain why not. If you believe that your testimony does capture cost savings of move update requirements, does this include not only mail processing savings, but also the savings of transportation and delivery of forwarding/returning Undeliverable As Addressed Mail?

RESPONSE:

See my response to MMA/USPS-T24-21(d). That response only addresses the mail processing unit costs and delivery unit costs found in my testimony.

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ABA&NAPM/USPS-T24-36 In your testimony on page 17, lines 12-17, you state that the use of an R97-1 methodology for estimating non-automation presort unit mail processing costs resulted in a 7.199 cent measure while the different methodology used in this case results in a 10.337 cent measure for the same rate category.

- a. How much of this change is due to a change in methodology, and how much is due to a change in other factors, e.g., mail processing wage rates?
- b. Assuming, as your discussion implies, that the difference is mostly due to your change in methodology, please explain what credibility the USPS mail processing cost methodology procedures have if the estimation for one rate category is 44% different than the estimation of R97-1?
- c. Please confirm that, ceteris paribus, if the methodology in R97-1 underestimated "true" unit mail processing costs for non-automation presort, then: (i) it overestimated true unit mail processing costs for the other three rate categories in the "non-carrier route presort" category; (ii) underestimated mail processing cost avoidances for the other three rate categories in the "non-carrier route presort" category.

RESPONSE:

a. I have not attempted to determine the extent to which the change in mail processing unit costs between Docket No. R97-1 and this docket are due to cost methodology changes compared to other factors, such as increasing wage rates. However, I would suspect that the change that has had the biggest affect on the results is the separation of CRA "nonautomation presort letters" mail processing unit costs from the corresponding costs for "automation non-carrier route presort letters."

b. I might suspect the credibility of a specific cost methodology if the results were to change dramatically between dockets, given that an identical cost methodology had been used. However, if a cost analyst discovers that the IOCS system can be used to isolate CRA mail processing unit costs for a rate category that had previously been modeled (as is the case in this docket), I would not necessarily question the credibility of the results. I view the change that has been made in this docket as a means to obtain more accurate cost estimates.

c. Not confirmed. I have not conducted any analysis using the Docket No. R97-1 data and would therefore have no basis for drawing these conclusions.

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INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-39 On page 7 of your testimony, lines 18-19, you state that "you rely upon the estimated test year finalization rate" in a publication entitled RCR 2000 Decision Analysis Request (DAR).

- a. Please confirm that your RCR percentages for First Class single piece and metered mail are hypothetical, that is in the nature of a forecast DAR for test year 2001.
- b. Please confirm that the finalization rate for the last year of actual data is 53%, while your test year forecast is 69%.
- c. Please confirm that the conclusions about the reduced unit costs of processing single piece and metered mail in your test year models hinge on the hypothetical number in a. being an accurate forecast.

RESPONSE:

a. Not confirmed. The percentage used in my testimony is an aggregate value for all mail pieces that are processed through the RCR system. This percentage is not specific to a given mail type. It is an estimate using the projected finalization rate for the Test Year, which can be found in LR-I-164.

b. Not Confirmed. The RCR finalization rates are as follows (as per the Corporate Information System):

FY 1998 Actual	32.7%
FY 1999 Actual	48.1%
FY 2000 (YTD AP 7) Actual	58.5%
FY 2001 Forecast (DAR)	69.0%

c. Not confirmed. I do not use the cost models in my testimony to develop "single piece" letters costs. My testimony includes a cost model for metered letters, but that cost model is used for comparison purposes only. The Bulk Metered Mail (BMM) letters mail processing unit costs shown in Appendix I, page I-7, are CRA-derived and do not rely upon the model costs.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-41 In your testimony at page 11 you characterize your mail processing cost methodology as differing from USPS witness Hatfield's in R97-1 primarily in that you separate mail processing "fixed costs" into "worksharing related" and "non-worksharing related," while USPS witness Hatfield assumed all fixed costs to be worksharing related. However, comparing witness Hatfield's percentages in his Figure III-A (R97-1, USPS-T-25, page 6) to your in Appendix I, pages 12 and 13, (nonautomation presort and automation non-carrier route presort respectively), you appear in the first instance to have moved many costs out of witness Hatfield's "proportional" cost pool into your two "fixed" cost pools. For example, Hatfield's proportional costs for his benchmark CRA (non-carrier route presort) at 4.2 cents are 91.3% of his total CRA benchmark costs (4.6 cents) while your proportional costs for your benchmark (automation non-carrier route presort) are only 65.85% of your total CRA benchmark costs [and 80% of your nonautomation presort costs, the fourth rate category in the Hatfield aggregate benchmark].

- a. Please confirm that you have reclassified several proportional cost pools from R97-1 as fixed cost pools in this case. List each such change for your 52 cost pools.
- b. Please justify each and every such change in a cost pool that you have made from proportional to fixed (whether worksharing related or non-worksharing related). That is explain why that cost pool was classified as proportional up through R97-1, and why it is suddenly no longer so classified.

RESPONSE:

In Docket No. R97-1, witness Hatfield (USPS-T-25) calculated the total mail processing unit cost estimates for First-Class letters and cards. He did not calculate the cost difference (referred to as "worksharing related savings" in this docket) in his testimony. The cost difference calculations were performed in the testimony of witness Fronk (USPS-T-32). In my opinion, these calculations should be the responsibility of the cost witness. As a result, I have included them in my testimony in this docket and have given them a greater amount of scrutiny.

- a. Confirmed. The following cost pools were classified as "proportional" in Docket No. R97-1, but have been classified as either "worksharing related fixed" or "non-worksharing related fixed" in my testimony in this docket.

Fsm/
Mechparc
SPBSOth

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
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RESPONSE to ABA&NAPM/USPS-T24-41 (Continued)

SPBSPrio
Manf
Manp
Priority
1Bulkpr
1CancMMP
1OpBulk
1OpPref
1Pouching
1Scan
BusReply
Express
Mailgram
Registry
Rewrap
1Eqmt
Intl
LD 48 Exp
LD 48 SSv
LD 49
LD 79
1SuppF1
1SuppF4

b. I classify a cost pool as "worksharing related proportional" if it represents a piece distribution or package sorting activity that is actually included in a specific model. In my opinion, these should be the only cost pools that the cost model results are tied to "proportionally" because the CRA proportional factors are used as a means to adjust the results to compensate for the fact that the models rely on average data inputs and simplified processing assumptions. In general, I rely on the MODS operation numbers that are "mapped" to each cost pool as a means to determine its cost pool classification. These operations can be found in LR-I-106. See my response to ABA&NAPM/USPS-T24-12 for the rationale behind each cost pool classification.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-42

- a. Please group by number of bins the current array of MLOCRs in use by the Postal Service for First Class Letter Mail. For example, 100 OCRs have 60 bins, 150 have 90 bins, etc.
- b. What assumption concerning the number of sweepers per MLOCR for each grouping identified above underlies your mail processing cost studies for First Class Letter Mail?

RESPONSE:

a. It is my understanding that the 875 MLOCR-ISS machines described by witness Kingsley (USPS-T-10, page 4, line 5) have either 44 or 60 bins. In checking my equipment inventory resources, I was unable to find information that specifically mentioned how many of each machine type are currently in the field. However, the number of MLOCR-ISS bins would have affected the density tables results. Therefore, the number of bins would have been incorporated into the cost estimate results found in my testimony.

b. I made no specific assumptions regarding the staffing of MLOCR-ISSs in my testimony. The impact of MLOCR-ISS staffing would be imbedded in the marginal productivity values that I use for these operations.

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ASSOCIATION OF PRESORT MAILERS REDIRECTED FROM WITNESS FRONK**

ABA&NAPM/USPS-T33-10 Refer to footnote 2 on page 18.

b. Do the BMM activities of traying the mail, and metering it, save the Postal Service any costs, and if so what costs at what levels?

c. Please confirm that worksharing mailers perform traying operations that save the Postal Service costs, including the front end activity of building the trays and cardboard flats, and removing USPS tags from the trays.

d. Please confirm that use of the BMM benchmark denies worksharing mailers the avoided costs of traying and metering even though they perform this activity.

RESPONSE:

b. c. d. The worksharing related mail processing unit costs and delivery unit costs for Bulk Metered Mail (BMM) letters are used as the benchmark in this docket for the First-Class Mail nonautomation presort letters and automation basic presort letters rate categories. As stated in my testimony (page 12, lines 9-10), it is assumed that BMM letters are entered in trays. As a result, the unit costs related to the activities specified in this interrogatory have not been studied and are not included in the worksharing related savings calculations.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF DOUGLAS F. CARLSON**

DFC/USPS-T24-6 Does Postal Service headquarters request or require P&DC's to provide holdouts on their BCS machines for FIM mail destined to certain large-volume recipients? Please discuss and provide the number of such recipients, if available.

RESPONSE:

Yes. It is my understanding that plants are currently required to maintain 7 specific firm direct separations in their automation outgoing primary operations. This requirement, however, is undergoing review as some facilities do not receive large volumes of mail for those firms. For the remaining FIM, mail volume dictates what firm direct holdouts receive a dedicated bin on a given sort plan at a given plant.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF E-STAMP CORPORATION**

E-STAMP/USPS-T24-1 On page 18 of your testimony there is a table listing all of the work-sharing related cost savings by rate categories. That table shows that non-automated presort letters have total mail processing unit costs of 10.337 cents, 0.091 cents less than bulk meter mail letters. This table also shows that, in the case of automation basic letters, there are work-sharing related savings of 4.919 cents per piece compared to bulk meter mail letters (including 0.901 cents of delivery cost savings).

(a) In the case of non-automation presort letters, where the work-sharing savings is shown to be 0.091 cents per piece compared to metered mail, is all of that 0.091 cents savings attributable to the fact that the letter is presorted? Please explain any negative answer.

(b) Do these numbers suggest that, compared to a bulk meter mail letter, a basic automated presort letter costs 4.919 cents less per piece due solely to the fact that the letter is automated and is basic presorted? Please explain any negative answer.

(c) If the answer to (a) and (b) above are in the affirmative, does it also follow that, of the work-sharing related savings of 4.919 cents per piece for automation basic letters, all but 0.091 cents, or 4.828 cents, of the 4.919 cents savings is attributable to the fact that it is automated, and only 0.091 cents of the 4.919 cents is attributable to the fact that it is presorted? Please explain any negative answer.

(d) USPS witness Campbell, on page 40 of his testimony, states that QBRM mail costs 3.38 cents per piece less than handwritten single piece letters; and in response to E-Stamp/USPS-T29-1, states that the cost difference between a QBRM piece and a metered mail piece is 1.75 cents. If these responses are correct, then this would mean that the difference between a handwritten piece and a piece of metered mail is 1.63 cents (3.38 cents minus 1.75 cents). If you have confirmed in (c) above that the cost avoidance is due solely to automation, compared to a metered mail piece, is 4.828 cents per piece, then is it not the case that the cost difference between a handwritten single piece letter and an automated basic letter, due solely to the fact that it is automated, would be 6.458 cents per piece (4.828 cents plus 1.63 cents)? Please explain any negative answer.

RESPONSE:

(a) No. The worksharing related savings shown in Table 1 (page 18) of my testimony reflect the cost difference between the worksharing related mail processing

RESPONSE to E-STAMP/USPS-T24-1 (Continued)

and delivery unit costs for the Bulk Metered Mail (BMM) letters estimate and the corresponding costs for the First-Class nonautomation presort letters estimate. These numbers are strictly CRA-based and reflect all cost differences between the two mail categories, including the savings associated with presorting nonautomation letters. There may, however, be other cost causing characteristics (e.g., weight distribution differences, the percentage of mail that is entered at the destinating facility, etc) that affect the worksharing related savings results to some extent. It is not possible to completely exclude these other cost causing characteristics using CRA data nor is it possible to determine the extent to which they may be affecting the results.

(b) No. The worksharing related savings shown in Table 1 (page 18) of my testimony reflect the cost difference between the worksharing related mail processing and delivery unit costs for the Bulk Metered Mail (BMM) letters estimate and the corresponding costs for the First-Class automation basic presort letters estimate. The BMM letters figure is strictly CRA-based. The automation basic letters figure is indirectly CRA-based in that cost models are used to de-average the CRA mail processing unit costs for First-Class automation non-carrier route presort letters. As a result, the worksharing related savings results reflect all cost differences between the two mail categories, including the savings associated with barcoding and presorting automation basic letters. There may, however, be other cost causing characteristics (e.g., weight distribution differences, the percentage of mail that is entered at the destinating facility, etc.) that affect the worksharing related savings results to some

RESPONSE to E-STAMP/USPS-T24-1 (Continued)

extent. It is not possible to completely exclude these other cost causing characteristics using CRA data nor is it possible to determine the extent to which they may be affecting the results.

(c) The response to (a) and (b) have not been answered in the affirmative.

(d) The answer to (c) has not been answered in the affirmative.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF E-STAMP CORPORATION
REVISED 4/12/2000**

E-STAMP/USPS-T24-2

In Appendix I, page 1, you have listed a summary of First Class letters where in you compare Bulk Metered Mail letters as a benchmark to the various presort categories of First Class letters, and estimate the work sharing related savings for each category. Please provide the same information for the non-automation presort letters and automation basic presort letters, using a benchmark of handwritten letters rather than Bulk Metered Mail letters.

RESPONSE:

As stated on page 1, the purpose of my testimony is to develop cost estimates related to the First-Class Mail presort letters and cards and the Standard Mail (A) presort letters rate categories. I have not attempted to develop worksharing related savings estimates using specific single-piece mail types as benchmarks, other than Bulk Metered Mail (BMM) letters. In order to develop a handwritten estimate using a cost methodology that is consistent with the remainder of my testimony, it would be necessary to de-average the First-Class single-piece letters mail processing unit costs from LR I-81 for all single-piece mail types. I have not performed the background work necessary to accomplish this task as it is clearly outside the scope and purpose of my testimony.

In order to develop First-Class handwritten letters cost estimates, the following tasks would have to be performed: (1) a new CRA mail processing unit cost category would have to be calculated, (2) a single-piece EXCEL workbook would have to be created from the base model workbook, (3) the density tables would have to be revised, and (4) the delivery unit costs for single piece letters would have to be created.

(1) CRA MAIL PROCESSING UNIT COSTS

The single-piece letters rate category contains the following mail types: Courtesy Reply Mail (CRM) letters, Business Reply Mail (BRM) letters, handwritten letters, machine printed letters, and metered letters. One of these mail types, BRM letters, has a unique rate and fee structure. As a result, it would at least be necessary to calculate a CRA mail processing unit cost category that excludes BRM. Since LR-I-81 already contains

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RESPONSE to E-STAMP/USPS-T24-2 (Continued)

the unit costs for single-piece metered letters, it may be best to calculate the mail processing unit costs for "single piece non-metered non-BRM letters."

In addition, it may also be necessary to evaluate the impact that weight differences between the mail types would have on the final result. For example, it is likely that the average weight for a CRM letter is less than that for a handwritten letter. These weight differences could affect the results. Therefore, this issue would have to be investigated.

The RPW system can be used to obtain single-piece letters mail volumes by ounce increment, but cannot be used to determine the single-piece letters mail volumes by mail type. On the other hand, the ODIS system can be used to determine the single-piece letters mail volumes by mail type, but cannot be used to obtain single-piece letters mail volumes by ounce increment. It is therefore possible to apply the ODIS percentages by mail type to the RPW volumes, but it is not possible to further break down those volumes by both mail type and ounce increment. Since the RPW volumes are a crucial element in calculating CRA mail processing unit costs, it is not possible to limit the impact that weight differences between mail types might have on the final result.

It is estimated that it would take at least one week to determine and calculate the proper CRA mail processing unit cost category for single-piece letters. I would consider this optimistic based on my cost estimating experience as it is rare that some unforeseen issue does not surface.

(2) FIRST-CLASS SINGLE-PIECE LETTERS EXCEL WORKBOOK

I would also have to create a new single-piece letters EXCEL workbook from my base model workbook. This workbook would consist of mail flow spreadsheets and cost

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RESPONSE to E-STAMP/USPS-T24-2 (Continued)

spreadsheets for CRM letters, handwritten letters, and machine printed letters (assuming that "First-Class single-piece non-metered non-BRM letters" proves to be the proper CRA mail processing unit cost category). In addition, a supporting summary spreadsheet and CRA adjustment spreadsheet would have to be created. The latter spreadsheet would rely on mail volume data. Therefore, both ODIS volumes and RPW volumes for these mail types would have to be obtained and analyzed. I estimate that it would take at least 2 weeks to complete these tasks in a manner where I would feel confident in the results.

(3) DENSITY TABLES

The density tables that have been updated in this docket (see USPS-T-24, Appendix IV and Miller Workpaper I) would also have to be recalculated to include single-piece mail volumes that were ignored when the presort tables were calculated last fall. In updating those tables, I analyzed the End-Of-Run reports, bin-by-bin, for all the sort plans used for a given set of operation numbers from 38 different plants. The raw data alone involves hundreds of spreadsheets that would have to be reviewed and changed to include single-piece mail volumes. In addition, it may be necessary to develop multiple tables for the different mail types. This point would require further investigation.

The process of updating the tables last fall required 6 weeks of full-time data entry and consolidation. I would estimate that the process of revising these tables would take at least 2 weeks and could very well require more time.

(4) DELIVERY UNIT COSTS

I assume that the average single-piece letters delivery unit costs would be used as a proxy for handwritten letters. It is my understanding that the process of de-averaging the single-piece letters delivery unit costs is more complicated than that used to

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RESPONSE to E-STAMP/USPS-T24-2 (Continued)

de-average presort letters delivery unit costs. As a result, if E-Stamp wishes to have the single-piece letters delivery unit costs de-averaged, additional time would be required. It is difficult to estimate the time necessary to perform this task as single-piece letters delivery unit costs are not typically de-averaged.

Accordingly, I would suggest using data that exists within some other data source (e.g., LR-I-81) as a proxy for the mail processing costs for single-piece handwritten letters.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
REVISED 3/21/2000**

MMA/USPS-T24-1 On page 11 of your prepared testimony, you state that platform costs should be fixed and not related to worksharing. You also note that in Docket No. R97-1, bulk metered mail (BMM) platform costs were .212 cents higher (or 84%) than the platform costs for First-Class non-carrier route presorted letters.

(a) If this difference is not presort-related, please explain why metered mail platform costs are so much higher than presorted letter platform costs.

(b) If this cost is not presort-related, doesn't removing this cost from your analysis implicitly assume that the unit labor costs for this operation are the same for non-carrier route presorted and BMM letters. Please explain your answer.

(c) If your answer to part (b) is no, then please explain how any other factors which affect costs will not undermine your entire CRA-derived unit costs for the five First-Class mail categories included in Appendix I, pages I-7 through I-I 1.

(d) If these costs were, in fact, not related to worksharing, and if, in fact, these costs were the same for each of the two categories of mail, then wouldn't inclusion of these costs have no impact on the derived cost differences between the unit labor costs? If no, please explain.

RESPONSE:

(a) CRA mail processing unit costs for Bulk Metered Mail (BMM) letters are not available. As a result, the CRA mail processing unit costs for all metered letters are used as an estimate. One modification is made to reflect the assumption that BMM letters are entered in full trays; the costs for the "1CANCMMMP" cost pool are set to zero. Therefore, the collection costs normally associated with isolating, facing, and traying metered letters are ignored. However, some costs that are related to collections (e.g., loading and unloading trucks at the dock) are still imbedded in the "1PLATFORM" cost pool. As a result, were it possible to isolate the platform costs for BMM letters, those costs would likely be lower than the platform costs for all metered letters (which is the value contained in the estimate).

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In addition, if mailer presortation were a primary cost driver for the "1PLATFORM" cost pool, it is unlikely that the costs for the BMM letters estimate (0.761 cents) would be nearly identical to those for the nonautomation presort letters category (0.752 cents). One might suspect that other factors, such as mail piece weight, might be affecting these costs. (BMM letters and nonautomation presort letters can weigh up to 13 ounces, but automation presort letters are limited to 3.3103 ounces.)

(b) No. The exclusion of platform costs from the worksharing related savings calculations means that those costs should not be affected by worksharing. It does not mean that the platform costs for different mail types should be identical. For example, the weight limitations for BMM letters (13 ounces) and automation presort letters (3.3103 ounces) are not identical. Therefore, one would not expect the mail processing unit costs to be identical.

(c) The mail processing unit cost estimates and worksharing related savings estimates contained in my testimony are developed using the best data available. There are many limitations associated with the development of any cost estimate. Cost is obviously an important factor, but Postal Service pricing witnesses consider all nine factors specified by U.S.C. §3622(b) when proposing rates and fees.

(d) As stated in (b), the platform costs for different mail types would not necessarily be the same. Therefore, the inclusion of these costs could erroneously affect the worksharing related savings results, even though these costs are not affected by mailer worksharing activities.

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

MMA/USPS-T24-2 On page 12 of your prepared testimony, you set the value of the cancellation and metered mail preparation cost pool (1Cancmmp) to zero in order to further isolate the costs for bulk metered mail ("BMM") letters from those for metered letters.

- (a) Please provide copies of all Postal regulations that are applicable to the entry requirements for BMM.
- (b) In deciding to set the 1Cancmmp cost pool to zero, did you assume that postal service personnel perform no acceptance procedures to insure that BMM letters tendered to the Postal service meet all applicable entry procedures, including confirmation that the mailer has affixed the proper postage to the BMM letters? If yes, how can you justify a zero cost? If no, please justify your answer?
- (c) Are the model costs for BMM in all other respects (other than the 1Cancmmp cost pool), the same as for non-bulk metered mail? If not, please explain.
- (d) Do postal personnel ever pick up BMM at the mailer's place of business? If not, please provide copies of the relevant Postal regulations which prohibit postal service personnel from picking up BMM at the mailer's place of business.
- (e) Do you assume that BMM and non-bulk metered mail exhibit all of the same cost characteristics, except that the former is brought to the post office in trays whereas the latter is not? If not, please explain.
- (f) What was the cost figure for 1Cancmmp before you assumed it to be zero?

RESPONSE:

(a) Redirected to the Postal Service.

(b) No. The "1CANCMMMP" cost pool contains the costs for culling, facing, and canceling single-piece mail. Bulk Metered Mail (BMM) letters are assumed to be entered in bulk, similar to presort letters. Therefore, this mail would bypass these cancellation and metered mail preparation operations. This is the reason why the "1CANCMMMP" costs are set to zero.

Like all metered letters, BMM letters must be "deposited in locations under the jurisdiction of the licensing post office," as per DMM 55, Section D100.2.1. In terms of

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INTERROGATORIES OF MAJOR MAILERS ASSOCIATION**

RESPONSE to MMA/USPS-T24-2 (Continued)

postage payment, BMM letters are subject to the same postage and payment method requirements that are specified for all metered letters in DMM 55 Section P030.

(c) No. The CRA cannot be used to isolate the mail processing unit costs for BMM letters. As a result, those costs are assumed to be identical to the mail processing unit costs for all metered letters (bulk and non-bulk), with the exception that the "1CANCMMP" cost pool has been set to zero.

(d) Redirected to the Postal Service.

(e) I assume that BMM letters exhibit the same cost characteristics as all metered letters, with the exception that BMM letters are entered in trays. In developing the cost estimate, this assumption is used because the CRA does not provide mail processing unit costs specific to BMM letters.

(f) The "1CANCMMP" cost pool value is 0.300 cents as shown in LR-I-81 for "F-C Single Piece Metered Letters."

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

MMA/USPS-T24-4 On page 12 of your prepared testimony, you indicate that the 1.83-cent average unit cost difference between BMM and First-Class nonpresorted letters is "relatively narrow."

- (a) Confirm that the comparable cost difference in Docket No. R97-1 was 1.16 cents. (See USPS Response to Presiding Officer's Information Request Nos. 5, 19G) If you cannot confirm, please explain.
- (b) Do you agree that, all things being equal, the following factors affect the average unit cost difference between BMM and First-Class nonpresorted letters in the manner described below? If you disagree, please explain.
 - (1) Increase in labor rate—increases the difference;
 - (2) Technological advances in mail processing—decreases the difference;
 - (3) Redefining labor costs into three categories rather than two—decreases the difference;
 - (4) Utilizing marginal productivities that assume costs do not vary 100% with volume—decreases the cost difference;
 - (5) Increase in the number of prebarcoded reply envelopes returned by nonpresort mailers—decreases the cost difference;
 - (6) Cost model results that overstate (as opposed to understate) actual (CRA) costs—decreases the cost difference;
 - (7) Please list any other factor(s) that you can think of and state the effect such factor(s) has on the apparent cost difference.
- (c) Confirm that it is not appropriate to compare directly the 1.83-cent average unit cost difference between BMM and First Class nonpresorted letters developed by you in this case and the 1.16 cents average unit cost difference developed in the Docket No. R97-1 proceeding, because of the changes in methodology that you have implemented in your cost models in this case. If you cannot so confirm, please explain.
- (d) How much of this cost difference is due solely to your assumption in this case that mail preparation costs for BMM are zero?

RESPONSE:

- (a) Not confirmed.

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

RESPONSE to MMA/USPS-T24-4 (Continued)

As stated in my testimony in footnote 17, the comments and cost comparison on page 12 reference PRC Op., R97-1, paragraph 5098 where the Commission states:

"In recommending the adoption of BMM as the benchmark, the Commission notes some concern over the narrow difference in the mail processing unit cost of single-piece and BMM (14.10 cents versus 12.58 cents)."

This cost difference (14.10 – 12.58) is equal to 1.52 cents. In this docket, the cost difference is 1.83 cents, which is also relatively narrow. Given the Commission's concern in Docket No. R97-1, I thought I would directly address this issue and offer some reasons in my testimony as to why this might be occurring.

(b1) I agree, given that the labor rates increase and there are no simultaneous changes related to any of the other factors. However, I do not think that it is realistic to expect one factor to change without seeing changes in other factors simultaneously.

(b2) In general, technological advances reduce mail processing costs. However, I can neither agree nor disagree with this question because it is focusing a general term ("technological advances") on the cost difference between two specific mail types. A technology change could affect one or both mail types and, as a result, the cost difference could either decrease or increase. It depends on the specific change.

(b3) I assume this question refers to the three CRA cost pool classifications described on page 4 of my testimony. I agree given that the non-worksharing related fixed cost pools are excluded from the savings calculations, which has not been the case in past dockets.

(b4) I can neither agree nor disagree with this question. It would be necessary to

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complete an entirely separate analysis based on a specific change to the volume variabilities because the variabilities do not solely affect the marginal productivities; they also affect the CRA mail processing unit costs and corresponding CRA adjustment factors.

(b5) I do not agree with this statement. An increase in the volume of prebarcoded Courtesy Reply Mail (CRM) will affect the mail processing unit costs for the single-piece rate category. However, CRM is not the only mail type within that rate category. A change to the mail mix between the various mail types is what would actually have an impact on the average single-piece mail processing unit costs.

(b6) I do not agree. The cost difference between single-piece letters and BMM letters that is referenced on page 12 of my testimony was based solely on CRA mail processing unit costs. It did not rely on cost modeling.

(b7) Any operational change or change to the sampling systems that would enhance the Postal Service's ability to isolate the CRA mail processing unit costs for BMM letters would also affect the cost difference. Such an improvement would probably increase the difference, but it is difficult to say what the magnitude of that increase might be.

(c) Not confirmed. As stated in (b6), cost models were not used to calculate the mail processing unit costs for single-piece letters or BMM letters in either docket. Those costs are CRA-based mail processing unit costs.

(d) The "1CANCMMP" cost pool that was set to zero is not directly related to the single-piece letters mail processing unit costs. The specific cost pool in question can

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be found in a subset of single piece letters referred to as "F-C Single Piece Metered Letters," as specified in LR-1-81. In that library reference, the mail processing unit costs for "F-C Single Piece Metered Letters" are 10.770 cents. When the "1CANCMMMP" cost pool (0.300 cents) is set to zero, the mail processing unit costs decrease to 10.470 cents (10.770 cents - 0.300 cents). This value is referred to as "F-C Single Piece Bulk Entered Metered Letters" in LR-1-81 and is what I use as a BMM letters mail processing unit cost estimate in my testimony.

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MMA/USPS-T24-5 Please refer to your Appendix I, p. I-43.

- (a) Please Confirm that for manual operations, your cost variability factor is 73.5%. If you cannot confirm, please explain.
- (b) Please confirm that for manual operations, USPS witness Hatfield's cost variability factor in Docket No. R97-1 was 80%. (See LR-H-113, p. 100) If you cannot confirm, please explain.
- (c) Please confirm that for automated operations, your cost variability factor is 89.5%. If you cannot confirm, please explain.
- (d) Please confirm that for automated operations, USPS witness Hatfield's cost variability factor in Docket No. R97-1 was 94%. (See LR-H-113, p. 100) If you cannot confirm, please explain.
- (e) Do you agree that, as compared to USPS witness Hatfield's findings in Docket No. R97-1, (i) your marginal productivities for manual and automated operations have increased, and (ii) the amount of labor costs attributed by the Postal Service for manual and automated operations has decreased? If you cannot confirm, please explain.
- (f) Do you believe it is fair to compare the results from USPS Witness Hatfield's cost models in the last rate case directly to the results of your cost models in this case? Please explain your answer.
- (g) Do you believe it is fair to compare the results from the Commission's cost models in the last rate case to the results of your cost models in this case? Please explain your answer.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e-i) For manual operations, I do not agree. It depends on the specific operation.

Some marginal productivities have remained virtually the same in this docket, while others have either increased or decreased.

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--Marginal Productivity--

Operation	(LR-I-113)	(LR-I-107)
Description	Docket No.	Docket No.
	<u>R97-1</u>	<u>R2000-1</u>
Manual Outgoing Primary	662	661
Manual Outgoing Secondary	691	649
Manual MMP (State Distr.)	759	818
Manual Incoming SCF/Prim	896/562	868
Manual Incoming Secondary	646	695

For automation operations, I do not agree. In Docket No. R97-1, average marginal productivities were used for some operations. In this docket, the marginal productivities are de-averaged by operation in a manner similar to the manual marginal productivities. Some of the automation productivities are therefore higher than the averages that were used in Docket No. R97-1, while some are lower.

--Marginal Productivity--

Operation	(LR-H-113)	(LR-I-107)
Description	Docket No.	Docket No.
	<u>R97-1</u>	<u>R2000-1</u>
Outgoing OSS	11,984	10,029
Incoming OSS	11,984	9,070
Outgoing BCS Primary	7,467	6,401
Outgoing BCS Secondary	7,467	9,299
Incoming BCS MMP	7,467	6,218
Incoming BCS SCF/Prim	7,467	6,588
Incoming BCS Sec Carrt	6,633	5,826
Incoming BCS Sec DPS	8,393	9,762
Incoming BCS Sec CSBCS	17,424	14,898

(e-ii) I do not agree. For example, the attributable costs for the "/BCS" and "/MANL" cost pools have increased in Docket No. R2000-1 for Bulk Metered Mail (BMM) letters.

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<u>CRA Category</u>	<u>Cost Pool</u>	(LR-H-106)	(LR-I-81)
		Docket No. R97-1 (Cents)	Docket No. R2000-1 (Cents)
BMM Letters	/bcs	1.766	1.973
BMM Letters	/manl	1.646	1.681

(f) I believe it is fair in the sense that Postal Service pricing witnesses used witness Hatfield's results as a cost basis for establishing discount proposals in Docket No. R97-1 and have now used my results as a cost basis for establishing discount proposals for the same rate categories in Docket No. R2000-1.

(g) I believe it is fair in the sense that the Commission used their results as a cost basis for their discount recommendations in Docket No. R97-1 and Postal Service pricing witnesses have now used my results as a cost basis for establishing discount proposals for the same rate categories in Docket No. R2000-1.

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MMA/USPS-T24-6 In Appendix I, p. I-7 you derive the CRA First-Class letter mail processing unit costs for BMM letters by dividing up the individual cost pools into the following three cost classifications: (1) worksharing related and related to volume, (2) worksharing related but fixed, (3) non-worksharing related but fixed.

(a) For each of the following cost pools, please provide the standard definition or description of the specific processing operations covered by such cost pool and explain in detail why you claim that the particular cost is worksharing related but unrelated to volume:

- (1) MODS 22 10PBULK;
- (2) MODS 23 10PPREF;
- (3) MODS 25 1POUCHING;
- (4) MODS 41 LD49;
- (5) NONMODS 46 AUTO/MECH; and
- (6) NONMODS 49 MANL.

Please provide all documents that define or describe each of the foregoing cost pools and how costs are assigned to such cost pool.

(b) For each of the following cost pools, please provide the standard definition or description of the specific processing operations covered by such cost pool and explain in detail why you claim that the particular cost is non-worksharing related and unrelated to volume.

- (1) MODS 24 1PLATFORM;
- (2) MODS 26 1SACKSH;
- (3) MODS 43 1SUPPF1;
- (4) MODS 44 1SUPPF4;
- (5) NONMODS 45 ALLIED; and
- (6) NONMODS 51 MISC.

Please provide all documents that define or describe each of the foregoing cost pools and how costs are assigned to such cost pool.

(c) Since your new methodology of classifying costs in various cost pools in the manner described above disaggregates costs down to a lower level of cost measurement, what further analyses did you perform to insure that the individual cost pools are, in fact, accurate? Please explain your answer in detail and provide any documents, or references to portions of the Service's filing in this case, you relied upon in formulating your response.

RESPONSE:

First of all, I would like to clarify that cost pool classification (1) as specified in the

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question should have used the term "worksharing related proportional," not "worksharing related and related to volume."

(a1,2,3) The MODS operation numbers and corresponding descriptions for these cost pools can be found in LR-I-106 ("1OPBULK" - page I-21, "1OPPREF" - pages I-21 to I-22, and "1POUCHING" - pages I-22 to I-23).

These cost pools contain the costs for some package sorting activities. Therefore, I classified them as worksharing related because I wanted to maintain the proper cost relationships between the Bulk Meter Mail (BMM) letters benchmark (which can contain packaging), the nonautomation presort letters rate category (which can contain packaging), and the automation presort letters rate categories (which should not contain packaging).

In addition, these cost pools also contain the tray sortation costs typically associated with opening units. I therefore classified them as fixed, rather than proportional, because the latter classification would have skewed the cost relationships between the three automation presort letters rate categories (basic, 3-digit, and 5-digit). Opening unit costs for these rate categories are avoided based on whether a mail piece is entered at the destinating facility. These costs are not necessarily avoided based on the level of presortation. Therefore, I have assumed that the "1OPBULK" costs for these rate categories are roughly the same and classified them as "worksharing related fixed."

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(a4) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("LD49" - page I-28). This cost pool contains the costs for Computer Forwarding System (CFS) operations. Therefore, I wanted to maintain the appropriate cost relationships between BMM letters (which do not have to meet specific addressing standards) and the presort letters rate categories (which do have to meet specific addressing standards).

This cost pool is classified as fixed, rather than proportional, because the level of presortation should not affect these costs. For example, automation basic, 3-digit, and 5-digit presort letters must meet the same addressing standards. Therefore, one would expect that the CFS costs for these three rate categories would be roughly the same. As a result, a fixed classification is used.

(a5,6) These cost pools are non-MODS cost pools developed using dollar-weighted tallies as specified in LR-I-106, page I-2. In addition, it is assumed that these cost pools have been erroneously included in this question as they have been classified as "worksharing related proportional" in my testimony.

(b1) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("1PLATFORM" - page I-22). I classified this cost pool as "non-worksharing related fixed" for the reasons discussed in the response to MMA/USPS-T24-1.

(b2) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("1SACKSH" - page I-23). I classified this cost pool as "non-worksharing related fixed" because letter mail processing is predominantly tray

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based. The MODS operation numbers mapped to this cost pool are all related to manual sack sortation, not tray sortation.

(b3,4) The MODS operation numbers and corresponding descriptions for this cost pool can be found in LR-I-106 ("1SUPPF1" and "1SUPPF4" are subsets of "1SUPPORT" - page I-25). These costs pools contain the costs for clerical activities (e.g., mail processing stewards) that are not related to mailer presorting and prebarcoding activities. Therefore, this cost pool has been classified as non-worksharing related fixed.

(b5,6) These cost pools are non-MODS cost pools developed using dollar-weighted tallies as specified in LR-I-106, page I-2. They contain the same types of activities for non-MODS facilities that are found in the "1PLATFORM" and "1SUPPORT" cost pools for MODS facilities. Since I classified these cost pools as "non-worksharing related fixed" for MODS facilities, I also classified them as such for non-MODS facilities.

(c) As an input to my cost studies, I assume that the mail processing unit costs by cost pool are accurate. The discussion regarding how mail processing unit costs are developed at the cost pool level can be found in LR-I-106.

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MMA/USPS-T24-7 Please refer to Appendix I, pages I-1, 7, and 16 where you derive CRA and cost model unit variable labor costs for First-Class metered mail letters.

- (a) Does the cost model on Appendix I, p. I-16 for "First-Class Metered" letters represent the processing costs for bulk metered mail (BMM) letters? If not, please explain.
- (b) Please confirm that the mail processing work-sharing related unit cost figure of 8.330 cents for BMM letters shown on Appendix I, p. I-1, is derived from your analysis of CRA costs for BMM letters, as shown on page I-7 (Unnumbered Total Line (6.979 cents + 1.351 cents), with no CRA adjustment. If you cannot confirm, please explain.
- (c) Please explain how the cost model unit variable cost of 5.269 cents for "FIRST-CLASS METERED" shown on Appendix I, p. I-16, Column (10) was utilized in your testimony.
- (d) What is the relationship between the CRA variable unit cost of 6.979 cents derived on Appendix I, p. I-7 for BMM, and the 5.269 cent variable unit cost for "metered" letters derived from your cost model on page I-16, Column (10)?
- (e) Please explain why your cost-model derived unit variable cost for BMM letters (5.269 cents shown on Appendix I, p. I-16) is 25% lower than your CRA-derived unit variable cost for such letters (6.969 cents shown on Appendix I, p. I-7).
- (f) Please confirm that you did not use a CRA Adjustment factor for Bulk Metered Mail in your testimony. If you cannot confirm, please explain.

RESPONSE:

(a) The cost model on page I-16 of Appendix I in my testimony relies upon accept and upgrade rates from Docket No. R97-1 LR-H-130 for all metered letters. Therefore, it does not contain cost data specific to Bulk Metered Mail (BMM) letters.

(b) Confirmed. No CRA adjustment is required because the CRA mail processing unit costs themselves are used to develop the estimate.

(c) The cost model on page I-16 in Appendix I of my testimony is not used to

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support any of the total mail processing unit cost estimates or worksharing related savings estimates related to BMM letters on page I-1. This model was developed for comparison purposes only as a second means to evaluate the relationship between metered letter mail processing unit costs and nonautomation presort letter mail processing unit costs. It was created because the separation of the CRA "nonautomation presort mail processing unit costs" from the "automation non-carrier route presort mail processing unit costs" had a significant impact on the cost results, when compared to the cost relationships in Docket No. R97-1.

(d) As stated in (c), the cost model on page I-16 has been created for comparison purposes only. I did not intend to compare the model cost result (5.269 cents) to the worksharing related proportional mail processing unit costs for BMM letters on page I-7 (6.979 cents). Cost models are used to de-average a CRA mail processing unit cost benchmark when that benchmark contains costs for more than one rate category. In this instance, there is no other category or mail type other than metered letters. The application of CRA adjustment factors based on the CRA data on page I-7 and the one cost model on page I-16 would lead to the same BMM letters results as shown on page I-1.

(e) The cost models rely on average data inputs and simplified processing assumptions such that the weighted model cost results will not always be equal to the CRA mail processing worksharing related proportional costs. The CRA worksharing related proportional adjustment factors are applied to the final model cost results to compensate for this fact.

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(f) Confirmed. The total mail processing unit costs and worksharing related savings calculations that are related to BMM letters and found on page I-1 of Appendix I in my testimony are CRA-based numbers and do not rely on cost modeling methodology.

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MMA/USPS-T24-8 Please refer to Appendix I, pages I-8, 18, 20, and 22 where you derive CRA and cost model unit variable labor costs for First-Class non-automation presorted letters.

- (a) What is the relationship between the CRA variable unit cost of 7.700 cents, derived on Appendix I, p. I-8 for non-automation presorted letters, and cost-model variable unit costs derived for letters that are
- (1) non-automation OCR upgradable: 4.872 cents (Appendix I, p. I-18);
 - (2) non-automation OCR upgradable: 5.790 cents (Appendix I, p. I-20);
 - (3) non-automation non-OCR upgradable: 7.947 cents (Appendix I, p. I-22)?
- (b) Please explain why your cost-model derived weighted average unit variable cost for non-automation presorted letters (6.296 cents shown on Appendix I, p. I-4) is 18% lower than your CRA-derived unit variable cost for such letters (7.700 cents shown on Appendix I, p. I-8).
- (c) Please explain how the weighted average cost-model derived unit variable cost of 6.296 cents for non-automation presort letters (shown on Appendix I, p. I-4) is used in your testimony.

RESPONSE:

(a) (c) The cost models found in Appendix I, pages I-18, I-20, and I-22 of my testimony are not used to support the total mail processing unit cost estimates or worksharing related savings estimates related to nonautomation presort letters on page I-1. These models are developed for three reasons.

The first is to provide a DPS percentage for the nonautomation presort rate category to witness Daniel (USPS-T-28). The weighted DPS percentage can be found in Appendix I, page I-4, column (2) of my testimony.

These models are also developed as a second means to evaluate the relationship between metered letters mail processing unit costs and nonautomation presort letters mail processing unit costs as described in response to MMA/USPS-T24-7(a). The weighted average model cost for the nonautomation presort letters rate category can be found in Appendix I, page I-4, column (3).

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The third reason is to provide a "nonautomation CRA proportional adjustment factor" (1.223) to witness Campbell (USPS-T-29). This factor is calculated to be the 7.700 cents (worksharing related proportional costs) on page I-8, divided by the weighted model cost of 6.296 cents on page I-4.

(b) The cost models rely on average data inputs and simplified processing assumptions such that the weighted model cost results will not always be equal to the CRA mail processing worksharing related proportional costs. The CRA worksharing related proportional adjustment factors are applied to the final model cost results to compensate for this fact.

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MMA/USPS-T24-9 Please refer to Appendix I, pages I-5, and 9 where you derive CRA and cost model unit variable labor costs for First-Class automation presorted letters.

- (a) Please explain why your cost-model derived weighted average unit variable cost for automation letters (2.886 cents shown on Appendix I, p. I-5) is 12% higher than your corresponding CRA-derived average unit variable cost for such letters (2.553 cents, as shown on Appendix I, p. I-9).
- (b) To your knowledge, has any cost model presented by any other Postal Service witness ever resulted in a derived unit cost that was higher than the corresponding CRA cost?
- (c) Please confirm that within the RBCS operation, as depicted by your cost models,
 - (1) the ISS culls, faces, cancels and reads an address using an optical character reader;
 - (2) the RCR and REC operations obtain and place a barcode on a letter through other, more costly means;
 - (3) the OSS sorts the mail by using a barcode sorter; and
 - (4) the LMLM operation places a label on the letter onto which a barcode can be applied.

If you cannot confirm, please further explain.

RESPONSE:

(a) The cost models rely on average data inputs and simplified processing assumptions such that the weighted model cost results will not always be equal to the CRA mail processing worksharing related proportional costs. The CRA worksharing related proportional adjustment factors are applied to the final model cost results to compensate for this fact.

(b) Yes. The cost model results from witness Daniel in Docket No. R97-1 for Standard Mail (A) Nonprofit letters resulted in a CRA proportional adjustment factor that was less than 1. (See Docket No. R97-1, USPS-T-29, Appendix III, page 1.)

(c1) The Advanced Facer Canceler System Input Sub System (AFCS-ISS)

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culls, faces, applies RBCS ID tags, lifts images, cancels mail, and sorts mail into one of four bin types (rejects, prebarcoded FIM A and C, script, and all other). The AFCS-ISS, however, is not included in the cost model as these models are used primarily to calculate the costs for presort rate categories that should bypass the cancellation operation.

The Multi Line Optical Character Reader Input Sub System (MLOCR-ISS) applies RBCS ID tags, detects POSTNET barcodes, reads addresses, applies POSTNET barcodes, lifts images, and sorts mail as dictated by the sort plan. The MLOCR-ISS is the ISS that is included in my cost models.

(c2) Mail pieces that cannot be finalized on the ISS have their images forwarded to the Remote Computer Read (RCR) and/or the Remote Encoding Center (REC). These mail pieces require additional processing steps and therefore incur additional costs. The RCR and REC, however, do not "obtain and place" a barcode on the mail piece.

The RCR is a computer system that uses image recognition technology to finalize the images lifted from the ISS. If the RCR software is able to determine the appropriate depth-of-sort ZIP Code, then the result is sent to another computer system, the Decision Storage Unit (DSU).

Mail pieces that the RCR cannot finalize are then sent over T-1 (telephone) lines to the REC. At the REC, a Data Conversion Operator (DCO) keys the address image data for a given mail piece as seen on a Video Display Terminal (VDT) until the

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appropriate depth-of-sort ZIP Code is obtained. The result is then also sent back to the DSU at the plant.

(c3) The Mail Processing Bar Code Sorter Output Sub System (MPBCS-OSS) and the Delivery Bar Code Sorter Output Sub System (DBCS-OSS) can detect POSTNET barcodes, read RBCS ID tags, access the corresponding depth-of-sort ZIP Code from the DSU, apply the appropriate POSTNET barcode, and sort mail as dictated by the sort plan.

(c4) The Letter Mail Labeling Machine (LMLM) can be used to place a label on the back of a mail piece so that a "clean" ID tag can be applied. The LMLM can also be used to place a tag on the front of a mail piece so that a "clean" POSTNET barcode can be applied.

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MMA/USPS-T24-11 Please refer to your cost models in Appendixes I and II.

- (a) Please confirm that you use identical productivities by operation in all of your models for both First-Class letters and Standard Mail (A) letters.**
- (b) Assuming you confirm part (a), please explain why it is appropriate to use the same productivities by operation for First-Class letters and Standard Mail (A) letters.**

RESPONSE:

(a) Confirmed.

(b) The Postal Service does not maintain separate MODS operation numbers that can be used to distinguish Standard (A) letters mail processing from First-Class letters mail processing. In addition, these classes of mail are sometimes processed through the same operations at the same time (e.g., DPS incoming secondary processing). It would be very expensive and difficult to calculate separate input data for those same rate categories and/or mail types. As a result, it is often necessary to use average data (for all rate categories and/or mail types) when developing cost models. For example, I use average marginal productivities in my cost models. The worksharing related proportional CRA adjustment factors are applied to the model cost results as a means to compensate for the fact that average data must, on occasion, be used.

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MMA/USPS-T24-13 Please refer to Appendix I, pages I-7 and I-9 to your prepared testimony. In those analyses you have removed non-worksharing related (fixed) labor costs for Bulk Metered Letters (2.141 cents) and Automation Non-Carrier Route Presorted Letters (.843 cents) from the cost differences that you derive.

- (a) Please confirm that had these costs not been removed, the derived cost differences would be as much as 1.3 cents higher (the difference between the unit costs for Bulk Metered Mail Letters (2.141 cents) and Automation Non-Carrier Route Presorted Letters (.843 cents). If you cannot confirm, please explain.
- (b) If this difference is not related to worksharing characteristics, what causes this very significant difference?

RESPONSE:

(a) This can be confirmed for the automation basic presort letters rate category, which is the only automation First-Class Mail presort letter rate category that used BMM letters as the benchmark when calculating the worksharing related savings. The remaining automation First-Class Mail presort letter rate categories use other automation rate categories as benchmarks and would not be affected.

(b) The majority of this cost difference is due to the "1PLATFORM" and "ALLIED" cost pools $[(0.761 + 0.435) - (0.293 + 0.185) = 0.718 \text{ cents}]$. These cost pools represent 55% $[0.716 / (2.141 - 0.843)]$ of the difference between the non-worksharing related fixed mail processing cost pools for BMM letters and the corresponding cost pools for automation non-carrier route presort letters. They also contain the costs for platform type operations at MODS and non-MODS facilities. Platform costs are discussed in detail in the response to MMA/USPS-T24-1. As discussed in that interrogatory, BMM letters can weigh up to 13 ounces while automation presort letters must weigh 3.3362 ounces or less. As a result, weight could also be a factor that is influencing the cost differences that exist between cost pools.

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MMA/USPS-T24-14 In order to qualify for automation rates, First-Class mailers are required to meet strict address requirements to make sure that the addresses are correct and current.

- (a) Do you agree that mailers' compliance with such addressing requirements causes mailers to incur extra costs and reduces forwarding and return costs for the Postal Service? If you do not agree, please explain.
- (b) Are the savings to the Postal Service that result from mailers' compliance with these address requirements incorporated in First-Class Automation presort cost savings you have derived? Please explain any affirmative answer.
- (c) For the latest calendar year for which the data are available, please provide:
 - (1) the volume of First-Class Presorted Letters that were forwarded or returned;
 - (2) the volume of First-Class Nonpresorted Letters that were forwarded or returned;
 - (3) the unit cost to forward or return a First-Class Presorted Letter;
 - (4) the unit costs to forward or return a First-Class Nonpresorted Letter.

RESPONSE:

(a) I possess no knowledge as to how mailer compliance with addressing requirements affects total mailer costs. I also have not specifically studied the effect of mailer address hygiene on Postal Service forwarding costs. However, the effect that mailer address hygiene has on forwarding costs should be reflected in the worksharing related savings calculations because the impacted cost pools (e.g., "/bcs," "manl," and "LD49") are classified as either "worksharing related proportional" or "worksharing related fixed."

(b) Yes. As stated in (a), the costs pools that would be affected by a change to Postal Service forwarding costs have been classified as either "worksharing related proportional" or "worksharing related fixed," and would therefore have been included in

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RESPONSE to MMA/USPS-T24-14 (Continued)

the worksharing related savings calculations found in USPS-T-24, Appendix I, pages I-1 and I-2. For example, the costs for the Computer Forwarding System (CFS) cost pool "LD49" have been classified as "worksharing related fixed."

(c1) Redirected to the Postal Service.

(c2) Redirected to the Postal Service.

(c3) Redirected to the Postal Service.

(c4) Redirected to the Postal Service.

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MMA/USPS-T24-15 In order to qualify for automation presorted rates, First-Class mailers who want to include reply envelopes in their outgoing letters are required to use envelopes that are prebarcoded and automation-compatible.

- (a) Do you agree that such a requirement causes mailers to incur extra costs and reduces the costs incurred by the Postal Service for processing and delivering nonpresorted letters? If you do not agree, please explain.
- (b) Are these savings to the Postal Service incorporated in your derivation of First-Class Automation presort cost savings? Please explain.
- (c) For the base year, what volume of First-Class Automation Letters included a prebarcoded reply envelope?
- (d) What percent of the reply envelopes distributed via First-Class Automation Letters was returned as First-Class Single Piece letters?

RESPONSE:

(a) I possess no knowledge as to how reply envelope requirements affect total mailer costs. I have collected data pertaining to reply envelopes in the past (e.g., Docket No. R97-1, USPS-RT-17, Exhibit USPS-RT-17A), but have never specifically studied the address quality of mailer-provided reply envelopes. To the extent that these envelopes meet all the requirements specified in DMM 55, I would expect that they reduce First-Class single-piece letters mail processing unit costs, when the mailers' customers elect to use them over CRM alternatives (e.g., handwritten envelopes, electronic bill payment).

(b) No. Courtesy Reply Mail (CRM) envelopes enter postal facilities as part of the First-Class single-piece letters mail stream. The cost characteristics related to CRM would therefore be imbedded in the CRA mail processing unit costs for First-Class single-piece letters found in LR-1-81.

(c) Redirected to the Postal Service.

(d) Redirected to the Postal Service.

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MMA/USPS-T24-16 On page 1-9 of your Appendix I you provide the CRA cost derivation for automation non-carrier route presort. On that table you show that certain costs are considered non-worksharing related and fixed.

(a) For each of the following MODS cost pools, please confirm that in Docket No. R97-1, the Commission treated these costs as worksharing related and variable.

- (1) 1CANCMMP
- (2) 1EEQMT
- (3) 1SCAN
- (4) 1SUPPORT

(b) For each of the following MODS cost pools, please confirm that in Docket No. R97-1, the Commission treated the costs as worksharing related and fixed.

- (1) 1PLATFORM
- (2) 1SACKSH
- (3) 1SACKSM

(c) Please confirm that, for each of the MODS cost pools referenced in parts (a) and (b), you classified the particular costs as "unrelated to worksharing and fixed" and removed such costs from your unit cost differences you derived. If you cannot confirm, please explain.

(d) For each of the MODS cost pools referenced in parts (a) and (b), is it your objective not to reflect these particular costs in your theoretical mail flow models?

(e) For each of the MODS cost pools referenced in parts (a) and (b), please indicate what changes, if any, you made since Docket No. R97-1 in your theoretical mail flow models, to insure that the particular cost pools cited would not be reflected in those mail flow models.

RESPONSE:

(a) Confirmed, but the term used was "proportional," not "variable."

(b) Confirmed.

(c) Confirmed. These costs were classified as "non-worksharing related fixed" and were not included in the worksharing related savings calculations in my testimony.

(d) (e) The cost models have focused on piece distribution costs and have not included the costs for those activities listed in (a) and (b). The cost models used in

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RESPONSE to MMA/USPS-T24-16 (Continued)

Docket Nos. MC95-1 and R97-1 also focused on piece distribution costs and did not include the costs for those activities listed in (a) and (b). Therefore, no changes have been made.

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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.

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(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

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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.

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MMA/USPS-T24-18 Please refer to your response to MMA/USPS-T24-2(b). There you explain why the "1CANCMMMP" 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 1CANCMMMP 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 1CANCMMMP 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 1CANCMMMP 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 1CANCMMMP 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 "1CANCMMMP" 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 "1CANCMMMP" 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

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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.

<u>Cost Pool</u>	<u>BMM Letters</u>	<u>Nonauto Letters</u>	<u>Auto Letters</u>
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 1CANCMP	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

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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."

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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,

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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).

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OCA/USPS-T24-5 Please refer to your testimony at page 20, lines 23-30. You describe how a mail piece with a nonstandard aspect ratio might not be culled by an AFCS. (Please consult witness Kingsley if necessary.)

(a) When you refer to a piece that may end up on its side rather than its long edge, are you referring to "square" pieces - i.e., pieces with an aspect ratio less than 1.3? If not please explain why a piece with an aspect ratio greater than 2.5 would be likely to end up on its side.

(b) Please confirm that perfectly square pieces (aspect ratio of 1.0) should be properly faced 50 percent of the time simply by chance. If you do not confirm, please explain.

(c) Please confirm that pieces with an aspect ratio between 1.0 and 1.3 should be properly faced more than 50 percent of the time - i.e., such pieces have less propensity to "tumble" than perfectly square pieces and therefore are more likely to be properly faced. If you do not confirm, please explain.

(d) Please describe the specific operations and pieces of equipment where a piece with an aspect ratio of less than 1.3 would be likely to "tumble."

(e) Please provide an estimate of the proportion of pieces with an aspect ratio less than 1.3 that are properly faced and canceled by AFCSes.

(f) Please provide an estimate of the proportion of pieces that are nonstandard solely because of an aspect ratio less than 1.3

RESPONSE:

(a) The comments made on page 20, lines 23-30 of my testimony refer to mail pieces that have aspect ratios of 1 (i.e., are square shaped), or mail pieces that have aspect ratios close to 1 (i.e., are nearly square shaped).

(b) Not confirmed. Cancellation operations are not performed in a controlled laboratory environment. Mail pieces processed through the AFCS are affected by the mail pieces next to them as well as their own mail piece characteristics. I would have no basis for hypothesizing that a specific mail piece would tumble 50 percent of the

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time. In addition, the question relates this probability to "facing." For a mail piece to be properly faced, it must pass through multiple systems on the AFCS, all of which would, I assume, have separate probabilities associated with their ability to successfully process a mail piece. I have not conducted any studies that would attempt to address aspect ratios and how they might, or might not, "tumble" on postal mail processing equipment.

(c) Not confirmed. See my response to (b).

(d) Aspect ratios could become problematic in any operation performed on mail processing equipment that is used to process letters and cards. However, as I stated in my response to (b), I have not conducted any studies that would attempt to address aspect ratios and how they might, or might not, cause "tumbling" on postal mail processing equipment.

(e) (f) To the best of my knowledge, these data do not exist. In addition, these data would be very difficult to obtain in a "real world" environment due to the fact that the volume of nonstandard letters is quite small and nonstandard letters are mixed with other letters as they move through the postal mail processing network.

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OCA/USPS-T24-6 Please refer to Attachment USPS-T24B. (Please consult witnesses Kingsley or Pafford if necessary.)

(a) Please describe precisely how the nonstandard volumes by shape of First Class single piece mail are estimated.

(b) Is a First Class piece that is nonstandard solely because its aspect ratio is less than 1.3 just as likely to be counted as other nonstandard pieces? Please explain how equal likelihood is ensured.

(c) Are nonstandard First Class pieces identified by RPW solely on the basis of the postage they pay? By measurement? How are they identified?

(d) Do the proportions of nonstandard First Class pieces by shape found in AFCS reject bins match the RPW proportions of nonstandard pieces by shape? Please explain the basis for your response.

(e) Please explain how the estimates of under and over payment of postage provided in response to interrogatory OCA/USPS-69 are made.

(f) Please provide a version of your Appendix I, pages 34-35, that reflects the actual proportions of and down flow densities for nonstandard (i) First Class letter-shaped pieces that enter automation mail flows from the AFCS and (ii) First Class letter-shaped pieces with an aspect ratio less than 1.3 that enter automation mail flows from the AFCS. If you cannot provide a complete response to this request, please provide all input data you can and state whether the estimates of nonstandard letter-shaped First Class unit cost would increase or decrease if full data were available.

(g) Please explain why the cost difference between CRA SP flats and letters is a reasonable proxy for the additional costs of nonstandard First Class flats and parcels. Please provide a version of Part B of Attachment USPS-T-24B that uses the unit costs from LR-I-91.

(h) Please provide a version of Part B of Attachment USPS-T-24B that uses the unit costs from LR-I-91 and reflects the actual proportions of and down flow densities for pieces that enter automation or mechanization. If you cannot provide a complete response to this request, please provide all input data you can and state whether the estimate of nonstandard First Class unit cost would increase or decrease if full data were available.

RESPONSE:

(a)(b)(c) The nonstandard letter single-piece mail volumes shown in Attachment USPS-T-24B are RPW volumes that have been disaggregated by shape (letters, flats,

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and parcels). The total volume tracks to the number found in the First-Class Billing Determinants (USPS LR-I-125). My understanding is that it is possible to disaggregate this data because the RPW data collectors are asked to record both: (1) mail piece shape (USPS LR-I-37, page 3-71), and (2) whether that mail piece is a "nonstandard" mail piece (USPS LR-I-37, page 3-74). On this latter point, the Data Collector's User's Guide (USPS LR-I-37, page 3-74) instructs data collectors as to what constitutes a nonstandard mail piece. I would assume that a nonstandard mail piece with an aspect ratio that is less than 1.3 is as likely to be sampled as any other nonstandard letter given the fact that the RPW system is a sampling system.

(d) I am not aware of any special studies that have been conducted in AFCS operations in an attempt to validate the RPW estimates.

(e) Redirected to the Postal Service.

(f) Density information has not been collected and compiled which is specific to nonstandard single-piece letters (or subsets thereof). It is doubtful that such an undertaking would be feasible given the relatively small volume of nonstandard letters and the fact that nonstandard letters are mixed with other single-piece letters when they are processed through the postal network. Since I have not collected this information, I have no basis for hypothesizing how the cost estimates would be affected.

(g) As stated in my testimony (page 22, lines 15-17), "it may be difficult to precisely estimate CRA mail processing unit costs by both ounce increment and shape for low volume categories such as nonstandard First-Class Mail pieces." As a result, I use the mail processing cost difference between an average single-piece flat and an average single-piece letter as a proxy for the cost difference between an average single-piece parcel and an average single-piece letter. I use this approach in order to be conservative. As requested, however, I have revised USPS-T-24B to include the cost difference between an average single-piece parcel and an average single-piece letter (see Attachment).

(h) Given my response to (f), I assume that the attachment associated with my response to (g) sufficiently answers this request.

ATTACHMENT USPS-T-24B (REVISED 2/22/2000)
FIRST-CLASS NONSTANDARD SURCHARGE COSTS

Response to
OCA/USPS-T24-6g
Page 1 of 1

A. INPUTS

1. AVERAGE TEST YEAR MAIL PROCESSING UNIT COSTS (CRA)

<u>Shape</u>	<u>First-Class Single Piece (Cents)</u>	<u>First-Class Presort (Cents)</u>
Letters	12.296	4.717
Flats	38.105	
Parcels	76.324	

2. VOLUMES BY SHAPE

<u>Shape</u>	<u>First-Class Single Piece FY 98 Volume</u>	<u>First-Class Single Piece FY 98 Percent</u>	<u>First-Class Presort FY 98 Volume</u>	<u>First-Class Presort FY 98 Percent</u>
Letters	64,552,853	17.41%	10,559,356	14.27%
Flats	287,299,988	77.47%	61,873,570	83.59%
Parcels	18,994,784	5.12%	1,583,073	2.14%
	370,847,625	100.00%	74,016,000	100.00%

3. MANUAL LETTER MAIL PROCESSING UNIT COSTS (MODELS)

<u>Shape</u>	<u>First-Class Single Piece (Cents)</u>	<u>First-Class Presort (Cents)</u>
Letters	23.941	9.675

B. RESULTS

Formula:

(Manual Model SP Letters - CRA SP Letters) * (% SP Letters)
 + (CRA SP Flats - CRA SP Letters) * (% SP Flats)
 + (CRA SP Parcels - CRA SP Letters) * (% SP Parcels)
Additional Nonstandard Single Piece Letter Costs

<u>First-Class Single Piece (Cents)</u>	<u>% Total Cost</u>
2.027	8.01%
19.995	79.03%
3.280	12.96%
25.301	100.00%

Formula:

(Manual Model Prst Letters - CRA Prst Letters) * (% Prst Letters)
 + (CRA SP Flats - CRA SP Letters) * (CRA Prst Letters / CRA SP Letters) * (% Prst Flats)
 + (CRA SP Parcels - CRA SP Letters) * (CRA Prst Letters / CRA SP Letters) * (% Prst Parcels)
Additional Nonstandard Presort Letter Costs

<u>First-Class Presort (Cents)</u>	<u>% Total Cost</u>
0.707	7.44%
8.277	87.04%
0.525	5.52%
9.509	100.00%

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORY OF PITNEY BOWES REDIRECTED FROM WITNESS FRONK**

PB/USPS-T33-1 Your testimony at page 19, lines 2-4, states that "[c]onsistent with precedent, the discounts the Postal Service is proposing here use the same approaches as in Docket No. R97-1, that is, the bulk metered benchmark is used in conjunction with mail processing and delivery costs to measure costs avoided."

(a) For (i) Base Year 1998 and (ii) Test Year 2001, what is the estimated unit cost of First-Class bulk metered mail (as defined in footnote 2 at page 18 of your testimony)?

(b) For (i) Base Year 1998 and (ii) Test Year 2001, what is the estimated unit cost of *all* First-Class single piece nonpresort mail (i.e., *including* bulk metered mail)?

(c) For (i) Base Year 1998 and (ii) Test Year 2001, what is the estimated unit cost of all First-Class single piece nonpresort *excluding* bulk metered mail?

RESPONSE:

The mail processing unit costs that I have used in my testimony can be found in USPS LR-I-81. The delivery unit costs can be found in USPS LR-I-95.

(a) In LR-I-81, the Base Year mail processing unit cost estimate for Bulk Metered Mail (BMM) letters is 9.87 cents (page I-2). The Test Year mail processing unit cost estimate is 10.47 cents (page I-4). In LR-I-95, the Base Year delivery unit cost estimate is 4.98 cents. The Test Year delivery unit cost estimate is 5.48 cents. [Note: The First-Class Mail nonautomation presort letters delivery unit costs are used as a proxy for BMM letters. This is consistent with the methodology used in Docket No. R97-1.]

(b) In LR-I-81, the Base Year mail processing unit cost estimate for all First-Class single-piece letters is 11.65 cents (page I-1). The Test Year mail processing unit cost estimate is 12.30 cents (page I-3). In LR-I-95, the Base Year delivery unit cost estimate is 5.21 cents. The Test Year delivery unit cost estimate is 5.36 cents.

(c) The CRA cannot be used to isolate costs specific to Bulk Metered Mail (BMM) letters. As a result, the mail processing unit costs for all metered letters are used as a proxy, with the exception that the "1CANCMP" cost pool is set to zero. In addition, the delivery unit costs for First-Class nonautomation presort letters are used as a proxy for BMM letters. It is therefore not possible to exclude BMM letters costs and calculate the mail processing and delivery unit costs for all other single-piece letters.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. Three parties have requested oral cross-examination,
6 American Bankers Association, National Association of
7 Presort Mailers, Major Mailers Association, and the Office
8 of the Consumer Advocate.

9 Does any other party wish to cross?

10 [No response.]

11 CHAIRMAN GLEIMAN: Mr. Hart, you don't want to
12 pass on this cross-examination, too?

13 MR. HART: No thanks.

14 CHAIRMAN GLEIMAN: In that case, fire when ready.

15 MR. HART: Thank you. Is the mike on?

16 CHAIRMAN GLEIMAN: It is on, but you have to pull
17 it a little closer.

18 CROSS-EXAMINATION

19 BY MR. HART:

20 Q Again, for the record, my name is Henry Hart,
21 representing the National Association of Presort Mailers.
22 Good afternoon, Mr. Miller.

23 A Good afternoon.

24 Q Could you please turn to Table 1 of your
25 testimony, which is page 18. I think that was one of the

1 pages that was revised on April 11.

2 A Yes.

3 Q In that table you set forth mail processing unit
4 costs and work sharing related savings for, among others,
5 First Class letter mail. Do you agree that the work sharing
6 related savings reflected in that Table 1 are smaller than
7 what would have resulted had you used the same methodology
8 that was utilized by the Postal Service in R97?

9 A Could you define what you mean by the same
10 methodology?

11 Q If you had used the same methods that Hatfield and
12 Daniel --

13 A Are you referring to using the total mail
14 processing costs, as opposed to what I called the work
15 sharing related mail processing costs?

16 Q Yes.

17 A Yes, I can confirm that.

18 Q When you adopted the work sharing related savings
19 method that is reflected in your testimony, in particular
20 that includes labeling some cost components as non-work
21 sharing related fixed, were you not aware that that would
22 result in smaller cost savings than had you utilized the
23 former method, the R97 method?

24 A Are you talking about the results from R97
25 compared to this docket?

1 Q No. In other words, had you -- when you
2 determined, in preparing your testimony, that you were going
3 to label certain cost components as non-work sharing related
4 and exclude them from the measurement of work sharing
5 related savings, in doing that, you were aware of the fact
6 that that was going to reduce the measurement of work
7 sharing savings, is that correct?

8 A Well, had I excluded those cost pools using the
9 R97 numbers, and with the R97 methodology, it would have had
10 that result, compared to the R97 results.

11 Q And, of course, had you not excluded the cost
12 pools at all, I mean you knew at the time, by excluding
13 them, that that was going to reduce your measurement of work
14 sharing related savings?

15 A Well, that was why I was asking if you were
16 talking compared to this rate case, because there were other
17 changes made. So, if you are talking about the end result
18 for R2000 compared to R97, I would have not really known
19 what the ultimate result would have been. But if I was
20 talking about making the change to the R97 data, or using
21 the R97 data, then I would have expected the savings to be
22 lower. But I would also like to clarify that, although I
23 excluded the non-work sharing related cost pools, there were
24 some cost pools that were classified as non-work sharing
25 related in the last rate case, by the cost witnesses.

1 Q I want to go back to something you just said,
2 because I don't think it was -- you may have answer a
3 question that I didn't ask. I am not asking you whether the
4 cost savings that were measured in this case are greater or
5 lesser than were measured in R97. What I am asking you is
6 when you elected to adopt this method of labeling over 22
7 cost components as non-work sharing related, when you
8 elected to do that, and, thereby, took them out of the
9 measure of what you considered in measuring work sharing
10 related savings, you were aware, were you not, that that was
11 reducing the measure of work sharing savings?

12 A I guess that is why I was using the example from
13 R97, that had I made this change, or excluded those cost
14 pools in R97, the savings would have been lower than what
15 the result was in R97. Because when you are talking R2000
16 compared to R97, you have increased wage rates. We
17 de-averaged some of the CRA cost categories, we did a lot of
18 things. So, I wouldn't -- on a rate category level, I
19 wouldn't have really been able to know what the result, how
20 it would have been impacted.

21 Q So what you are saying is that you did know that,
22 had the R97 witnesses excluded the cost components that you
23 excluded, they would have come up with smaller work sharing
24 savings?

25 A That would have been true, yes, but, as I said,

1 the R97 witnesses classified some cost pools as non-work
2 sharing related. And, actually, that was the starting point
3 where I reevaluated the cost pools and decided to have three
4 classifications in this rate case, and I changed the actual
5 terminology they used. They called them fixed, but they,
6 also, in their testimony, said they were non-work sharing
7 related.

8 Q Turn, if you would, to the interrogatory
9 responses. One is your response to Major Mailers,
10 MMA/USPS-T-24-18, where you set forth cost amounts for
11 several excluding cost pools. That's Major Mailers Number
12 18.

13 A Eighteen.

14 Q And keep your thumb in that, because I'm going to
15 ask you to go to one other one. Actually, for starters, you
16 can just stick at 18.

17 [Pause.]

18 Let me know when you have it.

19 A I have 18.

20 Q Okay, C, Subsection C, asks you to confirm that
21 all of the 22 cost pools which had costs greater than .001
22 cent, which you deemed were non-worksharing-related, fixed,
23 that the BMM unit cost is higher than that for automation
24 presorted letters with the one exception, the one exception
25 being the one CANCMMP, where you assumed zero for BMM.

1 And you say that you can confirm this for the cost
2 pools shown in your response to D, and then in D you set
3 forth those numerous cost pools, right?

4 A Yes, that's true.

5 Q So in every single one of those cost pools that
6 you excluded as worksharing-related -- I'm sorry, as
7 non-worksharing-related, in every one of those, the costs
8 for BMM letters was greater than the cost for auto letters?

9 [Pause.]

10 I'm not trying to trick you. I think that's what
11 you confirmed in your response.

12 A Well, that's why I listed the cost pools, because
13 I wasn't really sure in trying to get 22, and since they
14 weren't specified in your question, I also have other costs
15 pools in there that are not -- that wouldn't be true.

16 But I think for the ones that you meant, that is
17 true.

18 Q So, in excluding these cost pools, it's pretty
19 obvious that you're reducing your measure of
20 worksharing-related savings?

21 A I'm reducing my measurement compared to what?

22 Q Compared to leaving them in?

23 A Had I left them in, would it -- if I used total
24 cost as a premise for measuring the worksharing-related
25 savings, it would have been higher.

1 Q In your response to 18, you stated that in most
2 cases, those cost differences were not significant between
3 the BMM letters and the non-automation. I think that's
4 right about three lines above where you start listing all
5 the cost pools in your response to 18(d).

6 Can you find that statement?

7 A Yes.

8 Q In most cases, the cost difference by cost pool
9 are not significant between BMM letters and non-automation
10 presort letters. Okay, you're saying non-automation presort
11 letters there.

12 So, in total, the difference between BMM letters
13 and automation letters, the total of those cost pools, the
14 difference is about 1.3 cents?

15 I'll tell you where I'm getting that from, is --
16 turn, if you would, to our response to Major Mailers Number
17 13, MMA/USPS-T-24-13.

18 [Pause.]

19 And I think, in particular, (a) asks you to
20 confirm that had the non-worksharing-related fixed labor
21 costs not been removed, there would have been a 1.3 cents
22 difference. I believe that in terms of the effect on basic
23 automated, you confirm that.

24 A Yes, that's true.

25 Q Turning back to 18, the fact that every one of

1 those cost pools listed there the cost for BMM letters is
2 greater than for automated letters and those are cost pools
3 that you are excluding based on a conclusion that they are
4 not related to workshare, and yet every single one of them
5 the cost for the automated letters is less.

6 Doesn't that imply to you that in fact those cost
7 components are affected by worksharing?

8 A I think I have said in some other responses that
9 there are other differences between metered letters and
10 automation presort letters, such as the fact that they have
11 different weight limits. It could have to do with the
12 local/nonlocal nature of the mail as opposed to just
13 measuring avoided operations.

14 Q Exclusive of any attorney-client privileged
15 communications, because I don't expect you to discuss those
16 at all, but did you have any discussions with other USPS
17 officials before you prepared your testimony concerning your
18 approach to measurement of worksharing savings?

19 A Are you talking in terms of the way I classified
20 cost pools and actually performed the savings calculation?

21 Q I mean for example, the decision to eliminate
22 numerous cost components that you determined were
23 non-workshare and related, was that your own idea or did
24 that come from -- and again, I don't expect any, if it is
25 within the attorney-client privilege I don't expect you to

1 address it.

2 A Actually, this all started from reading, when I
3 was assigned the task in this rate case I was reading the
4 testimonies of Witness Hatfield and Witness Daniel in the
5 last rate case, and they both, they used terminologies for
6 their cost pools which were referred to as proportional and
7 fixed.

8 In their testimonies both of them said that fixed
9 cost pools were not related to worksharing. The problem is
10 the actual savings calculation in the last rate case was not
11 performed in their testimonies and that is one reason why I
12 brought it back into my testimony in this rate case, because
13 I thought the cost witness was more qualified to evaluate
14 those costs, but they did classify some cost pools as
15 non-worksharing fixed but I didn't -- that is something that
16 I came up with after reading through their testimonies but I
17 did talk to, for example, my manager about it.

18 Q Is it fair to say that the Postal Service or your
19 manager, the people you talked with in the preparation of
20 your testimony, were of the opinion that worksharing savings
21 in R97 were overstated?

22 A I don't know if anyone really said -- I don't
23 recall hearing anyone say anything along those lines. Most
24 of the discussion had to do with the methodologies that were
25 used and there are so many elements that go into coming out

1 with the final result such as that that's in Table 1 of my
2 testimony that it is more of an issue of just evaluating the
3 different approaches you could use.

4 Q So you think there was no predisposition on the
5 part of the Postal Service to narrow the cost measurements
6 of workshare and savings in this case?

7 A Well, I was the person that actually first was
8 reading the testimonies, as I said earlier, and spotted that
9 some cost pools had been classified as
10 nonworksharing-related yet they were included and that rate
11 case it was called "cost difference" and no one certainly
12 gave me any direction that that is what they thought or what
13 I should do.

14 Q If you had any inkling that there were some cost
15 savings attributable to worksharing that were not captured
16 in the last case, did you take it upon yourself to try to
17 identify those and if not measure them at least identify
18 them as additional worksharing savings that should be
19 considered?

20 A Had there been any additional worksharing related
21 savings that I was unaware of that came to my attention, I
22 would have attempted to evaluate it.

23 Q Please refer to page 12 of your testimony, lines 9
24 and 10. You state that for purposes of your testimony you
25 assume that the Bulk Metered Mail letters are entered in

1 full trays, is that correct?

2 A Yes, that is correct.

3 Q Can you quantify, and of course the Bulk Metered
4 Mail letters are the benchmark by which the costs -- the
5 workshare-related savings for the basic automated First
6 Class letter mail are determined, can you quantify what the
7 effect on the cost savings was of that assumption?

8 A The assumption that they were entered in trays?

9 Q Yes.

10 A Well, that assumption is reflected in the Bulk
11 Metered Mail letters benchmark by virtue of the fact that
12 for one of the cost pools we set it to zero and the value of
13 that cost pool I believe was .3. It was the ~~one~~ CANCMMP
14 cost pool.

15 Q The one CANCMMP --

16 A The one C-A-N-C-M-M-P -- I assume it stands for
17 Cancellation and Metered Mail Prep.

18 Q Perhaps I was looking too quickly. When I
19 looked -- if you would turn to your lengthy response to ABA
20 and NAPM/USPS-T24-12, where you listed all 52 cost
21 components and explained why you put them as either
22 worksharing related or non-related?

23 I think I just found it. Is Number 21 the
24 CANCMMP?

25 A Yes, that's it.

1 Q Okay, and if you keep your thumb in 12 and turn to
2 Major Mailers 18 -- oh, I'm sorry, you didn't exclude that
3 one, but you set the Bulk Metered Mail at zero. Is that
4 right?

5 A Yes, by assuming that they are entered at postal
6 facilities in trays by the mailers, we are assuming that
7 they would not go through the cancellation meter mail prep
8 operations.

9 Q Do you know why the USPS didn't make that
10 assumption in R97-1?

11 A I believe they did in R97-1. That is my
12 understanding.

13 Q Did the Commission --

14 A I am not really sure of the answer to that
15 question. My understanding was the Commission used the
16 postal methodology with the exception that they did not use
17 the volume variability that was presented in our case, so if
18 they did that, then I'd imagine they probably used that same
19 assumption.

20 Q Are there any postal regulations that would
21 require Bulk Metered Mail letters at which you are paying 33
22 cents for the first ounce, to be delivered in trays?

23 A There's actually an institutional response to
24 MMA/USPS-T24-2 that asked about ^{entry}~~inter~~-requirements and
25 according to that response I believe it says they are the

1 same as for all metered mail letters, as per the DMM.

2 Q By assuming that Bulk Metered Mail is entered in
3 trays, is it correct then that that takes out of the
4 worksharing savings calculation any activities of workshare
5 mailers involved in isolating, facing and traying the mail?

6 A On the part of mailers I am not really sure what
7 sort of task would be required to fill a tray with metered
8 letters. I do know that the Postal Service and their
9 customers have a constant flow of trays that go back and
10 forth, unless there is a problem with the trays falling
11 apart or for whatever reason they don't tend to take them
12 apart and put them back together.

13 Q Are you aware that presort bureaus that deliver
14 workshare mail would typically check for unsealed envelopes
15 or envelopes which are stuck together?

16 A I wouldn't really have any knowledge in that area.

17 Q About the fact that those same presort bureaus
18 check the eligibility of the mail, making sure that its size
19 and shape qualifies for the mailing?

20 A Once again I am not really an expert on presort
21 mailers so I wouldn't know the answer to questions in terms
22 of what they do prior to entering their mail at a postal
23 facility.

24 Q Well, let me ask it a different way. By assuming
25 that worksharing mail is delivered in trays, are you

1 assuming that -- I'm sorry, not worksharing -- that BMM mail
2 is delivered in trays, the benchmark mail, are you assuming
3 that it has been checked for unsealed envelopes and
4 envelopes that are sticking together?

5 A I don't know if I really even considered that. I
6 just considered that the mail was entered in full trays.

7 Q Similarly, let me just run down a list --

8 A Okay.

9 Q Checking the eligibility of the mail such as its
10 size and shape -- the question would be is this BMM mail
11 that's been delivered in a tray, has it also been checked
12 for eligibility for size and shape? Has a tap test been
13 performed on any of the envelopes that might have a window
14 address block to make sure that the window, the information
15 is readable through the window? Has it been checked to see
16 whether there are illegible meter dates? Has it been
17 checked to see whether it is short of postage?

18 A A lot of the tasks you are describing to some
19 extent would be performed in the cancellation operations by
20 the AFCS culling out mail that does not meet the standard
21 size letter definition for length, thickness and height or
22 for checking for indicia and metered mail marks and stamps.

23 Is that what you are asking? It seems to me that
24 what you are basically asking is if you are saying Bulk
25 Metered Mail, by using the assumption that Bulk Metered

1 letters are entered in full trays, it seems to me that you
2 are really questioning whether that is the proper benchmark.

3 Q Well --

4 A I am not sure if that is your question. If you
5 added that back in, perhaps you are saying maybe you think
6 metered letters as a whole is a proper benchmark? I am not
7 sure --

8 Q No, no, I am not asking you to comment on that.

9 The question is does your assumption that Bulk
10 Metered Mail is delivered in trays also assume that as a
11 result of that all these functions that I have just listed
12 have been performed on the mail?

13 [Pause.]

14 THE WITNESS: I guess to some extent it would.
15 Otherwise, if there are problems it would surface later in
16 various operations -- if a postal employee found that there
17 was no postage or there was a problem with the window being
18 aligned, it would be rejected on the machine.

19 BY MR. HART:

20 Q Turn, if you would, I would like you to discuss
21 about four or five of the components that you identified in
22 your response to ABA and NAPM Number 12. That is where you
23 listed the 52 cost components.

24 If you would turn to -- and I am going to ask you
25 to talk about some of the larger, relatively larger ones. I

1 say large -- where the difference in costs between Bulk
2 Metered Mail and Automated Mail was more significant.

3 Number 24, MODS platform --

4 A Yes.

5 Q FCM -- and you have listed that as nonworksharing
6 related fix, which means you took it out of the equation for
7 measuring worksharing related savings, and your
8 justification for that is the cost pool contains the costs
9 related to platform operations at MODS facilities.

10 These do not involve piece distribution or package
11 distribution. Therefore it has been classified as
12 indicated.

13 What are platform operations?

14 A I believe that the operations that are mapped to
15 that cost pool include tasks related to loading and
16 unloading trucks, what they call mule drivers, that tow
17 mail. Generally, tasks that occur out on the dock.

18 Q If you get 10 deliveries instead of 200
19 deliveries, is that going to affect platform operations?

20 A Are you talking in total or a per piece basis?

21 MR. TIDWELL: A point of clarification, for
22 purposes of the question, who is "you"? For purposes of the
23 question, who is "you"?

24 MR. HART: I have forgotten the question.

25 COMMISSIONER LeBLANC: Do you want it read back,

1 Mr. Hart? Do you want it read back?

2 MR. HART: No, I will just try it again.

3 BY MR. HART:

4 Q The Postal Service is what I mean by that. If the
5 Postal Service has a million pieces of mail delivered in 10
6 trucks instead of being delivered in a hundred trucks. It
7 was 10 deliveries instead of a hundred deliveries. Will
8 that affect the platform operations?

9 A I would imagine it would.

10 Q So that if work share mailers reduced the number
11 of deliveries that the Postal Service receives by
12 commingling mail of several mailers, that affects platform
13 operations?

14 A It would have an affect on platform operations,
15 but I haven't really taken into analyzing the costs at that
16 level of detail. I mean it would have to do a lot with the
17 docks, the trucks, how much mail is in each truck, how it is
18 assembled.

19 Q But you excluded the entire component from the
20 work sharing related.

21 A Well, I would also like to say that this cost pool
22 was classified as fixed in the last rate case by both
23 witnesses and, by definition, according to their testimony,
24 they were also classified as non-work sharing related. This
25 isn't a change from the testimony in the last rate case.

1 But I did exclude it all, some reasons I excluded it, for
2 example, is you could have -- a lot of it has to do with
3 whether mail is local or non-local in terms of avoiding
4 platform costs.

5 In the case of Standard A letters, some of the
6 ~~designation~~ ^{destination} entry discounts that you will find in Witness
7 Crum's testimony actually have platform costs as part of
8 their calculations. So, to the extent, if I would have
9 included that cost pool, it seemed to me it would have been
10 double-dipping. Those types of reasons are why I ended up
11 excluding that.

12 Q Could you go to Cost Component Number 44?

13 A Yes.

14 Q Which is MODS ^{1 SUPP F4} ~~1 Supp F4~~. Again, the explanation
15 given there is that for excluding it as non-work sharing
16 related is that the cost pool contains costs related to
17 support operations at MODS facilities. What are the support
18 operations that you are talking about?

19 A I don't actually have the listing of the operation
20 numbers in Library Reference 106, but the title on most of
21 the operations that were mapped to the support cost pools,
22 as well as -- I think, for example, in the last rate case,
23 there was one called Miscellaneous.

24 They were very generic titles that basically just
25 said support. It didn't say presort support, single piece

1 support, it just said support. And my understanding, in
2 talking to other people I used to work with in the field, a
3 lot of them didn't even have any idea what the operation
4 numbers were. And from what I could gather, a lot of them
5 had to do with paper work types of activities and clerical
6 work. And, to me, that really wasn't something that based
7 on the operation number, it had to do with work sharing. So
8 I classified them as non-work sharing related fixed.

9 Q Basically, there wasn't much information on it, so
10 you threw it out?

11 A I don't know if I would say I threw it out. I did
12 not include it because I was trying to determine what was
13 related to work sharing, as opposed to trying to determine
14 -- having the standard of comparison be what is not related
15 to work sharing.

16 Q And if you go back for just a second, keep your
17 thumb in 12, because I want to go by two more of those, but
18 if you go back to Major Mailers Number 18, and if you find,
19 which is where you listed the cost of the cost components,
20 if you go down about eight from the bottom, you will find
21 MODS ^{15 SUPP F4} ~~1 Supp F-4~~, which is this one we are just talking
22 about. Number 18 to Major Mailers. Look up about eight
23 from the bottom of that column, and do you see the MODS ^{15 SUPP F4} ~~1 Supp F-4~~ ¹
24

25 A Yes.

1 Q And doesn't it look like the difference between
2 bulk metered mail and automated letters is about 2. -- .27
3 tenths -- a little more than two/tenths of a cent?

4 A Yes.

5 Q Point 27. Flipping back to 12, if you would,
6 non-MODS -- Number 45, non-MODS allied support.

7 A Actually, that would have been .22, I think, on
8 that -- what you said before.

9 Q You're right. You're right. That is what I have
10 written down.

11 A I'm sorry. And you said the next?

12 Q Number 45, the next one. Back on your response to
13 Number 12 for ABA and NAPM. Another category which you
14 labeled as non-work sharing related fixed, and your reason
15 is that the cost pool contains costs related to allied and
16 platform operations at non-MODS facilities. What are those,
17 allied and platform operations?

18 A A lot of the costs that get mapped to this cost
19 pool, it is my understanding that they have to do with mail
20 handler tasks. For example, a lot of those costs are
21 related to cancellations, or support of cancellation
22 operations, and some of it, it is my understanding, that it
23 is also related to the platform.

24 Oh, I am sorry, this is non-MODS allied. This is
25 really the platform version of the costs at non-MODS

1 facilities, whereas, the platform operation was at MODS
2 facilities.

3 Q It is fair to say that you gave significant
4 thought and devoted significant efforts to arrive at what
5 you felt was an accurate measure of work sharing related
6 savings?

7 A Yes.

8 Q Do you think there are some work share related
9 cost savings which are not reflected in your measurements?

10 A Given the limitations associated with trying to
11 develop any estimate, there could be some costs in some of
12 these cost pools that might be related to work sharing, but
13 the problem is you can't really isolate below that level to
14 determine how much of a given cost pool might be work
15 sharing related.

16 Q Did you make any effort to try to capture work
17 sharing savings resulting from the avoidance of costs which
18 result to the USPS in the event that large volumes of work
19 share mail reverted to the USPS as non-work share mail?

20 A I didn't use that as a basis for my study.

21 Q Reversion was not considered?

22 A No.

23 Q Are you aware of the fact that presort bureaus
24 engage in substantial customer education efforts with their
25 customers, in particular, trying to get them to get the mail

1 in an eligible fashion, size, shape, color, postage amount?

2 A I am not really familiar with the details of
3 presort mailer operations.

4 Q So if the Postal Service has to spend less money
5 on customer education efforts because of the efforts of
6 workshare mailers -- and I say, if -- that's not in your
7 cost savings; is that correct?

8 A That wasn't something I included in my study.

9 Q Could you turn -- I'd like to talk a little bit
10 about -- I've got two more areas now, one of which is mail
11 forwarding costs.

12 And I'd like you to turn, if you would, to your
13 response to Major Mailers Number 21.

14 [Pause.]

15 Do you have that in front of you?

16 A Yes.

17 Q In Question (a) of Number 21, it asks you to
18 confirm that the added work performed by mailers to comply
19 with the move update requirements, should increase the cost
20 savings between the BMM benchmark and automation basic.

21 And you were unable to confirm that in your
22 response to (a), and, in fact, you say that since bulk
23 metered mail -- you cite an institutional response stating
24 that the undeliverable as addressed, UAA mail, there's a
25 higher percentage of presort letters, 1.74 percent that's

1 UAA, than the 1.21 percent of single-piece.

2 And you therefore say that there may not be any
3 associated cost savings related to move update compliance;
4 is that right?

5 A I guess what I was implying there was that when
6 you're measuring worksharing-related savings between a
7 benchmark and rate category, as I've done in my testimony,
8 that the costs related to return and forwarding are part of
9 the cost pools that are included in the savings calculation.

10 I don't know if it would be possible to isolate
11 what the cost difference is between the benchmark and any
12 given rate category specific to those tasks, but it should
13 have been included in that.

14 But given that the percentage is higher, if you're
15 -- for the rate category compared to the benchmark, I was
16 saying there might not be any savings.

17 Q Are you aware that the interrogatory mentioned a
18 Postal Service website that referenced \$1.5 billion worth of
19 savings from mail forwarding, reduction of mail forwarding?

20 A Yes, I'm aware of that.

21 Q Is it correct that the move update requirements
22 which were implemented MC-95 were certainly made in an
23 effort to reduce mail forwarding costs?

24 A I believe that was the intention. I can't really
25 comment on whether that's what's happened. But I can say

1 that's the intention of move update. I haven't studied it,
2 personally, though.

3 Q Are you aware that it was a significant objection
4 by workshare mailers to having the move update requirements
5 imposed on them; that that was a -- if you're not aware
6 that's --

7 A No, I wasn't aware of that.

8 Q If you get a figure like \$1.5 billion of potential
9 savings, and you realize that a program, move update, was
10 proposed to reduce forwarding costs, and you don't see it
11 showing up anywhere in your figures, doesn't that make you
12 think, if you're so concerned with accuracy, that maybe I
13 ought to look at little harder at this mail forwarding?
14 That's a lot of savings.

15 A Well, I believe I also said in this interrogatory
16 that if there was a major problem with the presort percent
17 of mail that was forwarded or returned, and they're
18 correcting that problem -- and, once again, I haven't
19 studied this, so I don't know how move update originated,
20 that I don't know if I would really consider that
21 worksharing, if the intent was to fix a problem.

22 But, I mean, it's in everyone's interest to make
23 sure that each mail piece they mail is addressed properly.

24 Q Are you at all familiar with the 1995 Price
25 Waterhouse study on UAA mail and the costs of forwarding and

1 sending it?

2 A Is the same one that you were referring to that
3 was on the website?

4 Q No, that is, I believe, a 1998 --

5 A Oh, 1998.

6 Q Would you be surprised if I told you that a 1995
7 Price Waterhouse study that was actually a Library Reference
8 in MC-95, showed that 2.69 percent of First Class Mail was
9 UAA, and that 88 percent of that was from businesses, as
10 opposed to from households?

11 A I'm sorry, could you repeat that?

12 Q Two figures: That the percentage of single-piece
13 mail in that 1995 study, which was shown to be UAA, was 2.69
14 percent, and that 88 percent of that First Class UAA mail
15 originated from businesses and not from households?

16 A I guess, no, I wouldn't be surprised by that.

17 Q So, and you agree that the move update
18 requirements were intended to reduce mail forwarding costs;
19 is that correct?

20 A I assume that; I don't really know what the origin
21 of the move update program was.

22 Q So, if you were looking for a category of mail
23 that might have a real UAA problem, you would probably look
24 to mail coming from businesses, right?

25 A If that's where the bulk of the problem existed, I

1 guess I would.

2 Q And can you think of a category that might be a
3 real potential problem because it's coming from businesses,
4 but doesn't have any move update requirements imposed on it?

5 A I haven't read that study.

6 Q Do you want a hint? How about bulk metered mail?
7 That's coming from businesses, right, and it doesn't have
8 move update, right?

9 A At this point, I'm not sure what your question
10 was.

11 Q Okay. Does bulk metered mail come predominantly
12 from businesses?

13 A I would assume so.

14 Q Is it subject to a move update requirement?

15 A Not that I know of.

16 Q Wouldn't you expect the UAA problems for bulk
17 metered mail to be substantially higher than for automated
18 First Class letter mail?

19 A I don't know if I'd necessarily say that. I would
20 think bulk metered mail, each mail piece would have likely
21 have gotten more attention than the automation mail pieces
22 because I would think the latter relies more on mailing
23 lists and automated processing to address a mail piece, and
24 if there were problems with mailing lists or something like
25 that.

1 Q You have got a response in 21(d) to the Major
2 Mailers Association interrogatory saying, again, saying that
3 no attempt has been made to quantify what savings would or
4 should be attributed to mailer move update compliance based
5 on a percentage of return to forwarded mail. Again, are you
6 comfortable with the accuracy of your measurement of work
7 sharing savings in light of the fact that you have got
8 potential savings of one-and-half-billion-dollars due to
9 move update and it appears that the biggest culprit on mail
10 forwarding problems is your benchmark, BMM mail?

11 A I am comfortable given what I knew at the time I
12 constructed my testimony, and, actually, even what I know
13 now, because I haven't investigated this, and I have no
14 reason to know what caused the problems or how move update
15 came about. It might be something to investigate in the
16 future, but from what I know so far, I have no reason to not
17 be comfortable with what I have done.

18 Q A couple of more questions, if I may. Would you
19 agree that if, in fact, it is established that Bulk Metered
20 Mail does have substantially higher mail forwarding costs
21 than automated mail, that that should be reflected in the
22 work sharing savings?

23 A I'm sorry, did you say higher move update costs or
24 did you say higher return and forwarding costs?

25 Q I meant the latter.

1 A Well, as I said, the return and forwarding costs
2 would somehow fall out in the CRA cost pools for the bar
3 code sorter, the manual letter sortation, the CFS operation.
4 And, so, to the extent that there is any cost difference
5 between Bulk Metered Mail letters and a specific rate
6 category, it should be measured already in my testimony.

7 Q And if it is not, it should be?

8 A I am not sure I really understand that question.
9 If the costs that are related to return forwarding are
10 already mapped to some cost pools, I don't understand why it
11 wouldn't be in the estimates already.

12 Q Well, you said there are a lot of -- in your
13 testimony, you point to a lot of characteristics of Bulk
14 Metered Mail to say that it is cheaper. You exclude a lot
15 of work sharing components, a lot of cost components. You
16 assume that it is trays. These are the benefits that you
17 get from using a Bulk Metered Mail benchmark, it lowers the
18 work sharing savings.

19 If it turns out -- I understand you are saying
20 that you think, based on what you have studied, that there
21 is not a demonstration that Bulk Metered Mail is much more
22 expensive from a forwarding standpoint than automated, but
23 if it turns out that you have missed something, and that, in
24 fact, Bulk Metered Mail has a much higher percentage of mail
25 that has to be forwarded and returned than does automated,

1 that should be reflected in the work sharing savings that
2 are used to set work sharing discounts. Would you agree
3 with that?

4 A Well, if the costs that are related to return and
5 forwarding Bulk Metered Mail letters, regardless of what the
6 percentage of return and forwarded mail is for that
7 category, are already mapped to the CRA cost pools, I don't
8 understand how it could not be included in the cost
9 estimates of my testimony as they are.

10 Q But if you have missed them somehow, and we
11 establish that, and it turns out that they are a lot higher,
12 they ought to be considered, right? In other words, a
13 reduction in mail forwarding savings, if, in fact, it can be
14 established that it is attributable to automated mail?

15 A So, are you talking about what the percent of Bulk
16 Metered Mail letters that are returned and forwarded would
17 have been had there been no move update, is that what you
18 are referring to? Or are you talking about as they are now?

19 Q No. I am simply saying, would you agree that if
20 it turns out that one of the characteristics of Bulk Metered
21 Mail is that it has a very forwarding and return percentage,
22 that the costs resulting from that should be reflected in
23 the work sharing savings that you measure and, therefore, be
24 reflected in the discount for work sharing mail?

25 A I guess I am still not following what you are

1 asking, because an input to my analysis is not the percent
2 of mail that is returned or forwarded. Whatever that
3 percentage is, as it exists in the test year, should be
4 embedded in those costs.

5 Q Would you agree that that if the benchmark by
6 which work sharing related savings is measured is
7 inaccurate, that the measurement of the related savings for
8 work sharing mail will be inaccurate?

9 A That is true, it could be either higher or lower.

10 Q But it clearly is going to have a direct impact on
11 your measurement of the savings if it is inaccurate, right?

12 A That is true.

13 Q So, if your assumption about BMM mail being
14 delivered in trays is inaccurate, then your measurements of
15 work sharing savings are going to be inaccurate?

16 A I would be more likely to say that, if that is the
17 case, that our definition of what we perceive as Bulk
18 Metered Mail letters is inaccurate. If they are not entered
19 in full trays, then -- my understanding is that is what
20 everyone has always referred to as Bulk Metered Mail
21 letters. So, if they are not really entered in full trays,
22 then -- or in trays, there is no such thing as Bulk Metered
23 Mail letters.

24 Q Is it correct, there have been no studies done? I
25 believe you said that in response to ABA & NAPM Number 6,

1 that there have been no studies done that you are aware of
2 on whether Bulk Metered Mail is, in fact, the most likely
3 candidate of various mail groups to convert to work sharing
4 mail?

5 A This was MMA 6?

6 Q I'm sorry, ABA & NAPM Number 6.

7 A No, I don't think that's your question.

8 Q Hang on. Well -- don't work about the cite to the
9 interrogatory. Are you aware of any studies that have been
10 made to determine whether or not Bulk Metered Mail is the
11 most likely candidate to convert to worksharing -- and I am
12 not trying to trick. Look at 21(a) and your response --

13 A I was looking in my index to find it. ABA --

14 Q ABA and NAPM Number 21.

15 A You were asking if I am aware of any studies?

16 Q Yes. Correct.

17 A No.

18 Q Two more questions, if I may.

19 Do you believe that workshare mailers are unable
20 to automate a substantial portion of stamped mail, that is
21 single piece mail that is not metered?

22 A I'm sorry, could you repeat that question?

23 Q Do you believe that the worksharing mailer
24 community is unable or in the test year will be unable to
25 automate a substantial volume of stamped single piece mail?

1 A I would think that is true.

2 Q If the automation capabilities of the industry
3 change so that it looks as though they can now go to the
4 so-called "dirtiest mail" -- beyond the BMM mail to the
5 single piece stamped mail, and upgrade it, automate it, get
6 a barcode on it and get it to the Postal Service, at that
7 point in time don't you think that the BMM as a benchmark
8 will have had its heyday and be ready to be retired?

9 A I don't know if I could really answer that
10 question unless I had more specific information about what
11 sort of change to the current system you are talking about.
12 It would depend, I suppose, on the volume.

13 Q We'll put it another way. Your use of the Bulk
14 Metered Mail as a benchmark, doesn't that essentially
15 reflect a conclusion on your part that stamped mail is not a
16 candidate for workshare, we can't bring it into the system,
17 and would you agree that if the Commission were to be
18 convinced otherwise or that there was substantial evidence
19 to convince the Commission otherwise that stamped single
20 piece mail was a candidate to be brought into the
21 worksharing system, that the BMM would then be an
22 inappropriate benchmark?

23 A I guess I could then agree that it would maybe
24 need to be re-evaluated.

25 MR. HART: That's all I have. Thank you.

1 Thank you, Mr. Miller.

2 THE WITNESS: Yes.

3 CHAIRMAN GLEIMAN: Mr. Hall?

4 CROSS EXAMINATION

5 BY MR. HALL:

6 Q Good afternoon, Mr. Miller. My name is Mike Hall,
7 and I'm going to ask you some questions on behalf of the
8 Major Mailers Association.

9 First, I'd like to start with filling in some
10 additional questions that I had, based on the discussions
11 that you had just recently with Mr. Hart.

12 In those -- in your testimony, you indicated that
13 as part of your preparation for this case, you had certain
14 discussions with your manager before deciding what to do; is
15 that correct?

16 A I don't know if it was before I decided what to
17 do. It was in the process of while I was developing my
18 testimony, I presented what I was doing, and he agreed with
19 the approach I was taking.

20 Q Okay. What's the name of your manager?

21 A Douglas Madison.

22 Q And what's his title?

23 A He's the Manager of Special Studies.

24 Q Okay, thank you.

25 Now, also in your cross examination by Mr. Hart, I

1 believe you indicated that witnesses Daniel and Hatfield in
2 the last case, identified certain costs and said they were
3 -- or characterized them as not worksharing-related; do you
4 recall that testimony?

5 A Yes.

6 Q Now, in this case, you have excluded those costs
7 from your calculation of worksharing savings; is that right?

8 A Yes.

9 Q But in the last case, Witness Daniels and Hatfield
10 didn't exclude those costs; did they?

11 A Well, the purpose of their testimony, I believe,
12 was, as they stated it, was to calculate the total mail
13 processing costs.

14 They did not actually perform what was called the
15 cost difference calculation. I believe that was in the
16 testimony of the pricing witnesses.

17 Q Well, in any event, those costs that you referred
18 to were not excluded; were they, in that case?

19 A No.

20 Q Now, you've not made any additional studies with
21 respect to the costs that you have excluded in this case to
22 determine that they should, in fact, be excluded; have you?
23 Isn't what you've done basically a logical exercise?

24 A I guess I'm not really sure what you're asking. I
25 can say the basis that I used for determining how to

1 classify the cost pools was taken from Library Reference
2 106.

3 It was the listing of Mods operations, mapped to
4 each cost pool.

5 Q Okay, well, let me have you turn to your response
6 to Interrogatory MMA-T-24-18 where you list the various cost
7 pools.

8 [Pause.]

9 And I think there's already been some discussion
10 of this, so I don't want to burden or overburden the record
11 any more than I have to.

12 But let's look, for example, at Mods ^{1 PLATFORM} ~~platform~~
13 costs. The costs for BMM letters is higher by .468 cents
14 than the costs for presort automation letters; isn't it?

15 A Yes, it is.

16 Q And similarly, for Mods ^{1 SUPPFI} ~~Supp F-1~~, the difference
17 between BMM letters and presort automation letters is .077
18 cents?

19 A That's true.

20 Q And for the next one, the cost difference in the
21 same direction is .22 cents? I believe you confirmed that
22 with Mr. Hart?

23 A Yes.

24 Q And finally, for non-Mods allied costs, the cost
25 difference is .25 cents, right?

1 A Yes.

2 Q Now, those are observed cost differences, right,
3 but you made no study to determine whether or not they were
4 related to presort; is that correct, presortation or
5 worksharing?

6 [Pause.]

7 A I think what I said in response to maybe part of
8 this interrogatory and other interrogatories is that one
9 thing that I evaluated when I was determining what cost
10 pools might or not be worksharing-related, was comparing
11 bulk metered mail letters to non-automation letters, which
12 are also listed in this interrogatory.

13 And as you can see, with the exception of the ~~one~~
14 1 SUPP F-4 cost pool, the value between bulk metered mail
15 letters and non-automation letters is very close.

16 And so I don't know if I could say that the
17 difference would be -- for example, in that case, I don't
18 see the difference related to presortation.

19 And in addition, bulk metered mail letters and
20 automation letters both have weight limits up to 13 ounces,
21 and automation presort doesn't, so I wouldn't really expect
22 the costs to always be the same.

23 Q Okay, well, let's take some of those answers as
24 you've listed them. First, I was puzzled that you made the
25 statement in this response that in most cases, quote, "in

1 most cases, the cost differences by cost pool are not
2 significant between BMM letters and non-automation presort
3 letters."

4 The question only asked you to compare BMM letters
5 and presort automation letters; didn't it?

6 [Pause.]

7 A That's true, but as I also stated in that
8 response, when I was determining what cost pools were
9 worksharing-related, I didn't just look in a vacuum at one
10 rate category compared to the benchmark; I was looking at
11 relationships between all the CRA categories that I was
12 using, including non-automation letters.

13 Q But the fact remains that there are significant
14 differences; aren't there, between BMM letters, differences
15 by cost pool, are significant between BMM letters and
16 presort automation letters; aren't there?

17 A That's true between BMM letters and automation
18 presort.

19 Q Okay, now, I believe we haven't totaled up the
20 category of costs that we've just talked about, but will you
21 accept, subject to check, that that's 1.015 cents?

22 A That's the cost difference between bulk metered
23 mail letters and automation ^{on} carrier route letters?

24 Q Yes, for the four categories that we've discussed.

25 A Just for those four?

1 Q Yes.

2 A Yes, I'll accept that, subject to check.

3 Q And, I believe, in response to another area of
4 cross examination by Mr. Hart, you indicated that the total
5 difference for all of these cost pools was approximately 1.3
6 cents; is that right?

7 A That's correct.

8 Q Okay, now, you suggest that in this answer -- and
9 I assume that you're using the term, e.g., to mean for
10 example -- you suggest that different weight limits may be
11 one of the costs -- one of the explanations why there are
12 differences in the cost pools between BMM letters and what
13 you term here as auto letters, presort automation letters;
14 is that correct?

15 A That's correct. I believe you listed -- you
16 actually did a pretty good job of listing different costs
17 characteristics in the questions for MMA/USPS-T-24-17, and
18 weight was one of them.

19 Q Okay, I'd just like to stick with weight for the
20 moment. But I think we'll go back to those others.

21 In terms of weight limits, do you know what
22 percentage of the mail stream is -- this is for First Class
23 letters -- is above 3.5 ounces?

24 Let me help you out here.

25 A I believe it's in the response. That is what I

1 was looking for or actually it wasn't in the response. I
2 believe it was a question that either came from the MMA or
3 ABA and NAPM.

4 Q Let me refer you to MAA-T24-17(b) where you didn't
5 find what we were pointing you to, but you found an
6 independent source to verify the number.

7 What we are talking about here is you are saying
8 there is a difference between BMM letters and Presort
9 Automation letters in that Presort Automation letters have a
10 weight limitation, an outside weight limitation of about 3.3
11 ounces, is that right?

12 A That's true.

13 Q Whereas the BMM letters could be as heavy as 13
14 ounces, is that right?

15 A That's true.

16 Q So now that we have the framework here, do you
17 know, can you tell us what proportion of the First Class
18 single piece letters are over 3.5 ounces?

19 A I believe you have it listed in your question. In
20 part (b) you say that it is 1.6 out of 1000 letters but that
21 doesn't really analyze weight in any detail in terms of the
22 distribution by ounces or any other characteristic related
23 to weight. It just talks about the percentage that is over
24 a specific weight limit.

25 Q Well, you said the difference in weight limits

1 could be significant, could be a significant factor, wasn't
2 that your testimony?

3 A Well, weight could be a factor. It could be like
4 the distribution by ounces. I would think some of the
5 higher weight pieces would have a disproportionate amount of
6 the costs.

7 It is not something that has been screened out I
8 guess is what my point was in saying that there could be
9 other elements that are causing the cost difference between
10 Bulk Metered Mail letters and Automation Presort letters.

11 Q Okay, well, but that's the one thing that you did
12 tell us there, that weight could be the difference. You
13 used that as your "for example" --

14 A In that response that is what it says, yes.

15 Q Right, and when we are talking about the
16 proportion of First Class letters that are over 3.5 ounces,
17 so we are clear here, we are talking about .16 percent of
18 all letters, is that right?

19 That is what you found in this --

20 A I think it was. What you said was "all single
21 piece letters" -- in Part (b) in your question.

22 Q That's right, single piece letters, right.

23 A Yes.

24 Q Now so do you think that weight differences
25 involving such a small percentage of the single piece mail

1 stream is going to have the impact of 1.3 cents in terms of
2 the differences between BMM and Automation Presorted mail?

3 A As I said, I haven't really screened out the
4 results for weight. It wasn't something that I specifically
5 studied in relation to this, but part of the reason I listed
6 weight as a possible factor that might be impacting those
7 costs is because non-Automation Presort, which also has the
8 same weight limit, is very close in value to the Bulk
9 Metered Mail letters in several of the CRA cost pool
10 categories.

11 Q Well, all I want is your judgment whether it is
12 reasonable to say that .16 percent of the letters is going
13 to be the cost driver that changes the, that accounts for a
14 difference of 1.3 cents.

15 A Well, I haven't studied this and --

16 Q Okay.

17 A -- and also it is 1.6 for all of single piece, so
18 I mean obviously you would want to try to narrow that down
19 further to Bulk Metered Mail letters.

20 Q Okay, well, if you haven't studied it, that's
21 fine.

22 Now back to MMA-T24-17(c), and in that question we
23 list a bunch of different factors and ask you the extent to
24 which you are taking them into account in determining
25 whether they could explain the differences in your CRA

1 derived unit costs. Do you see that?

2 A Yes.

3 Q And I believe you have indicated that they could
4 all conceivably, all these factors could conceivably affect
5 the CRA mail processing unit costs and delivery unit costs
6 that you used to calculate the worksharing related savings,
7 is that right?

8 A That's true.

9 Q Did you implicitly assume that all of these other
10 cost-causing attributes essentially affected the derivation
11 of unit costs equally?

12 A I believe I said --

13 Q That is for Bulk Metered Mail versus Automation.

14 A I believe I said I hadn't really studied it and
15 wasn't aware of any studies where someone tried to isolate
16 the impact of any given one of them.

17 I don't know if I would say equally or really what
18 you mean by that.

19 Q All I am asking is if you didn't study them,
20 didn't you implicitly assume that they affected the costs
21 for these two types of mail essentially equally or that they
22 cancelled each other out?

23 A I didn't specifically make that assumption.

24 Q Okay. If you don't know that, how do you know
25 that you have isolated worksharing?

1 A I believe, as I said in my response to (g) that I
2 haven't studied the effect of those attributes but given the
3 limitations of the data that is available I used the best
4 data that I could find.

5 Q So, in other words, you are telling us that,
6 although you used the best data, you don't really know that
7 you have isolated those cost differences that are
8 attributable to presort?

9 A I isolated the work sharing related savings to the
10 best of my ability, given the data that was available.

11 Q Let's go back to MMA-T-24-18, if we could. Back
12 to the MODS ^{1 PLATFORM} ~~platform~~ costs, where I think you agreed that
13 the difference between BMM letters and auto letters was .468
14 cents, is that correct?

15 A Yes.

16 Q And, by the way, that is the biggest difference in
17 all of these cost pools, isn't it?

18 A I believe it is, and, as I said, it also was
19 classified as non-work sharing related in the last rate case
20 as well. This specific cost pool has not been classified
21 any differently.

22 Q But in the last case, they left the costs in, is
23 that correct?

24 A Well, in the last case, the savings calculation
25 was in the testimony of the pricing witnesses, and that is

1 part of the reason why I brought it back into the cost
2 witness testimony this time, because both the cost witnesses
3 classified this cost pool as fixed and stated that their
4 fixed cost pools were not work sharing related. So, in my
5 opinion, if they are not work sharing related, they
6 shouldn't have been included in the savings calculation.
7 But I think it may have been a disconnect because of where
8 the calculation was actually performed.

9 Q Well, in any case, this -- they didn't exclude it
10 in the last case, right?

11 A No, it wasn't excluded.

12 Q And your exclusion of it in this case reduces work
13 sharing savings by approximately half a cent, isn't that
14 right?

15 A It reduces it by half a cent had I not excluded
16 it. I am not sure if you are comparing R97 to R2000. If I
17 hadn't excluded it -- or if I had included it in the savings
18 calculation, the savings would have been .468 cents higher.

19 Q Thank you. Now, I think you have agreed that you
20 didn't do a study to determine that it should be excluded,
21 is that right?

22 A I think I also said that I -- the reason I
23 classified each cost pool the way I did is in the response
24 to ABA & NAPM/USPS-T-24-12, and that I based those decisions
25 on the MODS cost pool listing by operation -- or MODS

1 operation listing by cost pool, that is in Library Reference
2 106. I think I also stated some reasons why, for this
3 specific cost pool, I thought it should be classified as
4 non-work sharing related fixed.

5 Q Now, previously, the Postal Service excluded
6 incoming secondary sortation costs on the same basis, that
7 they weren't work sharing related, isn't that right?

8 A When you say previously, what time period are you
9 referring to?

10 Q I am referring to the time period, I think R84-1.
11 Excuse me, maybe I went back too far. But certainly R87-1
12 and R90-1.

13 A I wouldn't really know the answer to that
14 question.

15 Q Okay. Then you also wouldn't know the answer to
16 the question, but, subsequently, in MC95-1, the incoming
17 secondary sortation costs were included.

18 A I have seen enough of MC95-1 that I think I could
19 say that I knew they were included. The incoming secondary
20 costs?

21 Q Incoming secondary sortation costs.

22 A Yes.

23 Q Oh, and delivery costs as well.

24 A Yes, I believe that is true.

25 Q Thank you. Could you turn to your response to

1 interrogatory MMA-T-24-21, please? There you are discussing
2 in part (a) the 1.74 percent which is the percentage of
3 First Class non-presorted letters that is forwarded or
4 returned. Pardon me. First Class presort letters is 1.74
5 percent and First Class non-presort letters forwarded or
6 returned is 1.21 percent. Do you see that?

7 A Yes.

8 Q And your following suggestion that there may not
9 be any associated cost savings related to move update
10 compliance?

11 A To the extent that you are comparing Bulk Metered
12 Mail letters which may have a lower percentage of return and
13 forwarded mail to a presort category that has a percentage,
14 there may not be any savings. But the cost differences
15 should be reflected in the savings calculation by virtue of
16 the fact that I designated those cost pools as work sharing
17 related.

18 Q Okay, BMM is, as you said in your response there,
19 a subset of non-presorted letters; is that right?

20 A That's true.

21 Q So, do you have a separate percentage in mind for
22 that subset?

23 A I believe I stated earlier as well, that the
24 percent of return and forwarded mail is not an input to my
25 cost analysis, but costs related to those operations are

1 mapped to the cost pools, and those cost pools have been
2 classified as worksharing-related, so any difference related
3 to whatever the percentage of return and forwarded mail is,
4 between a benchmark and the rate category should be embedded
5 in the savings calculation.

6 Q Is there any such thing as BMM cost pools?

7 A Are you referring to a cost pool that's specific
8 to BMM operations?

9 Q That's correct.

10 A I don't believe there's a cost pool specific to
11 really any mail type. The cost pools are specific to
12 operation numbers, and so mail types that are processed
13 through those given operations should have costs showing up
14 in those cost pools.

15 Q And the only cost that would show up there was for
16 metered mail; isn't that right?

17 A Are you referring to the ^{bulk}~~booked~~ metered mail
18 letters benchmark?

19 Q No, I referring to -- I was asking you about where
20 I would find the cost pools for BMM or bulk metered mail, as
21 you've called it, but isn't it correct that the cost pools
22 would show up as metered mail cost pools, and you're just
23 assuming that bulk metered mail equals metered mail; that
24 there's no difference between the two for this purpose?

25 A Well, I think, as I said, the cost pools are

1 defined by operation number and like all the mail types for
2 letters, we don't really have in most case, operation
3 numbers specific to mail type.

4 So to the extent that they're processed on any of
5 the operations that are mapped to given cost pools as
6 they're defined in Library Reference 106, there should be
7 costs for any given mail type.

8 Q Okay, well, when you concluded -- let's pass that
9 on now -- when you concluded that there may not be any
10 associated cost savings related to move update compliance,
11 first, you didn't provide these two UAA percentages; did
12 you?

13 A I believe they were institutional responses to
14 MMA/USPS-T-24-14(c).

15 Q Right, but the original questions went to you. It
16 was just they had to be redirected to the Postal Service
17 because you didn't know the answers; is that correct?

18 A That's true.

19 Q Well, can you tell me --

20 MR. TIDWELL: It's also because the witness wasn't
21 the source of the information.

22 CHAIRMAN GLEIMAN: Mr. Tidwell, we can't hear a
23 word you're saying.

24 MR. TIDWELL: I'm sorry, I was saying -- it was an
25 extraneous comment. We can skip it, no need to repeat it.

1 BY MR. HALL:

2 Q Okay, well, let's see, I'm trying to make some
3 sense out of the numbers that the institution has given me,
4 and the numbers that appear in Library Reference I-82, which
5 is the Price Waterhouse study, I believe, of UAA, that was
6 done in 1998.

7 And, for example, what we did with the two numbers
8 that the institution provided with the numbers you put in
9 your interrogatory response here, was to develop --

10 A Well, it was an institutional response; it wasn't
11 my response.

12 Q Well, I'm looking at number (a).

13 A Oh, you mean, that I referenced in my response?

14 Q Right, you referenced them.

15 A Yes.

16 Q And suggested that there might not be any
17 associated cost savings related to move update compliance,
18 based on those numbers, right?

19 A [No audible response.]

20 Q Isn't that what you did?

21 A Well, I referenced those numbers and said, to the
22 extent that that is the percent of return and forwarded mail
23 for non-presort or single-piece mail and presort mail, there
24 may be no savings in terms of return and forwarding costs
25 between the bulk metered mail letters benchmark and the

1 automation presort letters rate category, because those
2 costs are embedded in those cost pools.

3 Q Well, the UAA study that I just referred to, which
4 is Library Reference I-82, has a UAA percentage, if you
5 will, of 2.72 percent.

6 And I believe that relates to Fiscal Year 1998.
7 Is that generally consistent with your understanding?

8 A I wasn't involved in the development of the UAA
9 study, so I'm not really sure what percentage is in there.

10 Q Well, again, I'm just trying to make sense of the
11 numbers. We developed, for example, using the two numbers
12 that you have used here, the two percentage numbers that you
13 used here, we developed a weighted average percent of UAA
14 mail for all First Class, and came up with -- and I'm going
15 to ask you to accept this, subject to check -- 1.45 percent.

16 A What did the --

17 Q Will you accept that, subject to check?

18 A Yes.

19 MR. TIDWELL: Could you make clear how you derived
20 the numbers or what the sources are so that we can check?

21 MR. HALL: The source -- the way we derived the
22 numbers was to use the determinants for -- we used the
23 volumes for FY99, and applied them to the separate
24 percentages shown there.

25 So we had the volumes, for example, for presort

1 letters, and we applied it to the 1.74 percent, and then we
2 applied the separate volume for non-presorted letters, and
3 applied that to the 1.21 percent.

4 And that's how we developed the 1.45 percent that
5 I've asked you to accept, subject to check.

6 MR. TIDWELL: FY99 from what source?

7 MR. HALL: I believe it was Library Reference
8 I-91.

9 THE WITNESS: The billing determinants?

10 MR. HALL: I'm sorry --

11 THE WITNESS: 125?

12 MR. HALL: It was the billing determinants.

13 THE WITNESS: I think that's FY98 that was 125. I
14 know that.

15 MR. HALL: Then that's -- if we can have a moment,
16 we'll confirm that.

17 [Pause.]

18 I am advised it is Library Reference 259.

19 BY MR. HALL:

20 Q Do we have a question? Have you accepted that
21 weighted average percentage?

22 A Yes, subject to check. Yes.

23 Q Now, 1.45 percent is a fair drop from 2.72
24 percent, isn't it?

25 A Well, as I said, I wasn't involved in that study

1 and, so far, I haven't heard -- I don't think you guys said
2 what the 2.72 percent reflected.

3 Q Well, I was going to ask you what it reflected.

4 A I wasn't involved in that study, so I have no idea
5 what the measurement for 2.72 percent, if it was a specific
6 mail type, I don't know the answer to that.

7 Q Well, could it be all classes, could it be First
8 Class, right?

9 A I don't know.

10 Q Okay. Well, maybe that is part of the problem,
11 because in order to determine if there were any associated
12 cost savings, wouldn't it be helpful if you knew what the
13 1.74 percent was for presorted letters prior to the
14 implementation of the move update programs? Wouldn't you
15 also like to know what the percentage of UAA mail was
16 non-presorted letters prior to that time?

17 A In my last sentence, or the last sentence to my
18 response to (d) for Interrogatory 21, I think I said that I
19 had made no attempt to quantify what the savings would or
20 should be attributed to mover -- or, I am sorry, mailer move
21 update compliance based on a percentage of return and
22 forwarded mail that might have been the result of different
23 circumstances such as the absence of such a program. That
24 was not an input, that was not something that was part of my
25 analysis.

1 Q Right. Well, in any case, Library Reference 84
2 refers to \$1.5 billion of savings, right?

3 A I wasn't involved in the UAA study. I have seen
4 that number, but I have no idea what it was measured over or
5 what was involved in that study.

6 Q Okay. Well, certainly, it is not chump change is
7 it?

8 A \$1.5 billion?

9 Q Right.

10 A No.

11 Q Okay. Now, if the Postal Service imposes move
12 update requirements on presort mailers, and presort mailers
13 spend a lot of money to comply with the program, and the
14 program is successful and reduces Postal Service costs by
15 \$1.5 billion in one year, then could you imagine that
16 perhaps presort mailers might be asking for some portion of
17 the savings?

18 A I think I also stated earlier that I have no
19 knowledge as to what was involved in move update
20 implementation, why it came about. As I stated in my
21 response, if there was a problem with the percentage of mail
22 that was returned and forwarded for presort mailers, and
23 they were correcting that problem by implementing move
24 update, I don't know if I would view that as being work
25 sharing related.

1 It also says, and the one thing I do remember from
2 the UAA studies, it said it is in everyone's best interest
3 to make sure their mail is addressed correctly, because it
4 ensures that our costs in general are kept low.

5 Q Well, I am certainly sure that we could all agree
6 on that statement. By the way, I couldn't find that
7 statement where you said it was. Do you know where it is?

8 A I don't have that study with me. I would have to
9 look, I could get back to you.

10 Q Well, I have it here.

11 A Is this Library Reference 82?

12 MR. HALL: Yes.

13 MR. TIDWELL: Is the witness looking for a
14 particular quote in about a 150 page document?

15 THE WITNESS: Well, the thing is I have never read
16 this particular document. What I read was off the -- their
17 reference to what is on the USPS Internet web site and that
18 is not the UAA study.

19 CHAIRMAN GLEIMAN: Well, wait a minute. Time out
20 here. What document do you have in your hand? Let's look
21 at the front cover and read it, so we know what you have
22 got.

23 THE WITNESS: This is Library Reference I-82.

24 CHAIRMAN GLEIMAN: Okay.

25 MR. HALL: It is right here.

1 CHAIRMAN GLEIMAN: Mr. Hall, do you have a
2 particular question or a particular page you want to refer
3 this gentleman to?

4 MR. HALL: Yes. Well, I am referring him
5 specifically to his response to part (c) to interrogatory
6 MAA-T-24-21, where he states, "Finally, as the study pointed
7 out on page 14, it is to everyone's benefit to ensure that
8 the addresses they place on a given mail piece are accurate
9 because it results in postage costs that are lower than they
10 otherwise would have been."

11 THE WITNESS: That page reference was taken from
12 what you cited in your question as the Internet web site, I
13 believe.

14 MR. TIDWELL: Which is the address deficiency
15 study, which is 182 -- 192.

16 THE WITNESS: Yeah, that is where it came from.

17 CHAIRMAN GLEIMAN: Mr. Tidwell, you know, I don't
18 know whether there is something wrong with the microphone,
19 or whether you just are under-powered today, or whatever it
20 is, but we just can't hear.

21 MR. TIDWELL: Have you been talking to Mrs.
22 Tidwell by any chance?

23 CHAIRMAN GLEIMAN: Not that I can recall. Not to
24 the best of my recollection. I am practicing up to be a
25 Postal Service witness.

1 [Laughter.]

2 CHAIRMAN GLEIMAN: No offense, Mr. Miller, that
3 wasn't directed at you. It is just a general statement.

4 MR. TIDWELL: Just kind of a test, how is this?

5 CHAIRMAN GLEIMAN: That is somewhat better, but I
6 do think we may have a problem with the mike, so you are
7 going to have shout into it or something like that.

8 MR. TIDWELL: Okay.

9 MR. HALL: I don't think that is a question of
10 great moment in any event. We do have the other study as a
11 different Library Reference. We did not bring that one with
12 us today, but we did search for it.

13 CHAIRMAN GLEIMAN: Okay. Well, we have got a
14 document that you handed the witness. You have got looked
15 at the interrogatory response and talked about a page that
16 has been quoted. Where does that leave us? I mean is there
17 a question that you want to put to the witness?

18 MR. HALL: No, I am going to move along and we
19 will leave it with --

20 CHAIRMAN GLEIMAN: Sounds good.

21 MR. HALL: With Mrs. Tidwell.

22 BY MR. HALL:

23 Q What was the source of the 1.74 percent the 1.21
24 percent UAA figures that we have been discussing?

25 A My understanding is that they are ODIS figures.

1 MR. HALL: I see. Could we get the same
2 information with the same breakdown for the last five years?
3 In other words, beginning in a representative period before
4 implementation of the move update programs.

5 MR. TIDWELL: If I understand the request clearly,
6 counsel is asking for this witness to provide ODIS data for
7 the last five years that would match the ODIS data that the
8 Postal Service provided in an institutional interrogatory
9 response back in February. If that is the request, and
10 since the request doesn't pertain to the testimony of this
11 witness, and follows up on a February 22nd interrogatory
12 response, if the Postal Service is willing to provide the
13 information, I would like to ask if the Postal Service could
14 have the full 14 days instead of seven days to respond,
15 since it doesn't follow up on the witness' testimony.

16 CHAIRMAN GLEIMAN: And what if we find out the
17 Postal Service is not willing, will you let us know that in
18 advance of 14 days?

19 MR. TIDWELL: I will impose my will on the Postal
20 Service and make them willing.

21 CHAIRMAN GLEIMAN: Will you be satisfied to have
22 that information within 14 days?

23 MR. HALL: We would prefer to have it within seven
24 days. I don't think it is probably that difficult to get.
25 If it is, I will certainly be willing to wait 14 days. But

1 we do have to be preparing our testimony, so we need --

2 CHAIRMAN GLEIMAN: A week from this Friday. We
3 will split the difference more or less, since nobody wants
4 to come in that weekend to see if a document arrives. That
5 is the best I can do.

6 MR. HALL: A Solomonic resolution.

7 CHAIRMAN GLEIMAN: I get that way right before
8 Passover.

9 BY MR. HALL:

10 Q Mr. Miller, could you turn to Interrogatory
11 MMA-T24-15, please.

12 First, you were the QBRM witness in the last case,
13 weren't you?

14 A Yes, I was.

15 Q And you provided the cost savings that supported
16 the 30 cent First Class rate for QBRM pieces, is that
17 correct?

18 A Yes, I did.

19 Q And the cost savings that you determined that
20 supported that rate was 4 cents, is that correct?

21 A That is correct.

22 Q And the cost savings resulted solely from
23 pre-barcoding, is that correct?

24 A I think I stated it from what I recall in terms of
25 the cost savings was a result of a pre-barcoded mail piece

1 not going through the RBCS system.

2 Q Right. You compared, if I can refresh your
3 recollection, you compared pre-barcoded letters with
4 handwritten letters, didn't you?

5 A Yes.

6 Q Thank you. Now the same is true of CRM, isn't it?

7 A I am not sure what you are asking. What is true?

8 Q Well, you have the same cost savings associated
9 with CRM, don't you?

10 A Yes.

11 Q Now the addresses on QBRM and CRM are pretty
12 accurate, aren't they?

13 A I haven't specifically studied the quality of
14 those types of addresses, but I would assume they have a
15 high degree of accuracy.

16 Q Well, certainly for QBRM you are aware, aren't
17 you, that the mail piece is submitted to the Postal Service
18 for a determination that it is accurate and correct --

19 A Actually, I think both CRM and QBRM are supposed
20 to meet those standards. I just mean in the sense that from
21 time to time there are some problems that occur, but I
22 haven't really studied the extent to which that might occur.

23 Q Okay. Your answer is very helpful. The fact that
24 these addresses are very accurate helps to reduce the
25 overall percentage of non-presorted First Class letters that

1 incur UAA expenses, doesn't it?

2 A I am not sure I follow that question. You are
3 connecting QBRM and CRM mail piece design with costs for
4 UAA?

5 Q Maybe I left something out here. Those are
6 entered in the system as single piece mail, aren't they?

7 A Yes, they are.

8 Q And so that that would help -- and they are
9 non-presorted, obviously.

10 A That's true.

11 Q And so the fact that those addresses are highly
12 accurate would help to reduce the overall percentage of
13 non-presorted First Class letters that require UAA, wouldn't
14 it?

15 [Pause.]

16 THE WITNESS: I understand what you are asking but
17 I am not really sure I could respond to that because I
18 haven't really studied it, first of all, but the percentage
19 of CRM and QBRM as a function of total single piece, I think
20 there are other mail types that -- it actually depends on
21 the mail mix, I guess.

22 BY MR. HALL:

23 Q Well, certainly we have agreed that these are
24 letters which have by definition highly accurate addresses
25 and bar codes.

1 A That's true.

2 Q And you can imagine that there's other mail,
3 perhaps all the rest of or most of the rest of what is
4 called single piece mail, that is certainly not subjected to
5 prequalification standards applicable to CRM and QBRM,
6 correct?

7 A That's true.

8 Q So wouldn't it be logical to assume then that the
9 accuracy of the addresses and prebarcodes on QBRM and CRM
10 would tend to lower the overall percent of First Class
11 single piece letters that require UAA?

12 A I would say to the extent that the percent of
13 those mail pieces where they have accurate addresses, if
14 that percentage is higher than the residual single piece
15 volume then I would say that is true, but I don't really
16 know because I haven't studied it.

17 Q But just from a matter of logic, you would expect
18 it to be, right?

19 A Well, based on the fact that there are
20 requirements you would, but there are also issues that come
21 up from time to time with those types of mailers where the
22 barcode is not -- doesn't match the address block or the
23 address is incorrect.

24 I just haven't studied it so I don't really know.

25 Q Okay. Well, if that is -- I don't want to push

1 you into something that you haven't studied or are
2 uncomfortable in opining on.

3 CHAIRMAN GLEIMAN: Mr. Hall, do you have a sense
4 of how much longer you are likely to go?

5 MR. HALL: Probably not more than half an hour.

6 CHAIRMAN GLEIMAN: If that is the case, I would
7 like to take a break now for about 10 minutes or so. I
8 think witness could use one. I know the reporter could and
9 I know I could.

10 [Recess.]

11 CHAIRMAN GLEIMAN: Whenever you're ready, Mr.
12 Hall.

13 BY MR. HALL:

14 Q Mr. Miller, would you please turn to your response
15 to Interrogatory MMA-T-24-5?

16 [Pause.]

17 A I'm sorry, did you say 5?

18 Q Yes.

19 A Okay.

20 Q Do you have it?

21 A Yes.

22 Q In Part G, we asked you, do you believe it is fair
23 to compare the results from the Commission's cost models in
24 the last case, last rate case, to the results of your cost
25 models in this case? Please explain your answer.

1 And your answer is, and I quote, "I believe it is
2 fair in the sense that the Commission used their results as
3 a cost basis for their discount recommendations in Docket
4 Number R97-1, and Postal Service pricing witnesses have now
5 used my results as a cost basis for establishing discount
6 proposals for the same rate categories in Docket Number
7 R2000-1."

8 Do you see that?

9 A Yes.

10 Q Now, I'd like to point out some differences to
11 you. Isn't it the case that you excluded what the Postal
12 Rate Commission included, what you characterized as
13 non-worksharing-related fixed mods cost pools?

14 A Yes.

15 Q And it's also true, isn't it, that your costs were
16 based on a methodology that assumes that labor costs do not
17 vary 100 percent with volume; is that correct?

18 A I don't know if I'd use that terminology. I would
19 have said that the numbers I rely on use the Postal
20 Service's volume variability methods.

21 Q Well, do those --

22 A Which are not identical to the Postal Rate
23 Commission's.

24 Q And is the difference that the -- let's try to
25 work it the other way. In R97-1, isn't it the case that the

1 Postal Rate Commission's costs were based on an assumption
2 that labor costs do vary 100 percent with volume?

3 A Well, I hate to get caught up on this one issue,
4 but my understanding is that the volume variability factors
5 or whatever factors you want to call them, aren't actually
6 100 percent.

7 They're close to 100 percent. That's why I tried
8 to say that my numbers rely on the Postal Service method as
9 opposed to the Postal Rate Commission method.

10 Q In any case --

11 A Exactly.

12 Q -- their's is almost 100 percent?

13 A Yes.

14 Q Good enough for windage, probably. And yours is a
15 lot lower?

16 A Well, for -- I believe it was ~~100~~¹¹ cost pools that
17 it was lower.

18 Q Okay, thank you.

19 But the result of your using these different
20 methodologies that we've been discussing, is that you derive
21 a worksharing-related savings of -- I believe, on a revised
22 or corrected basis, of 5.1 cents; is that correct?

23 I'm sorry, I'm trying to focus you here on basic
24 automation letters.

25 [Pause.]

1 A Did you say 5.178 cents? Is that the number
2 you're referring to?

3 Q I just said 5.1 cents.

4 A Where did that number come from?

5 Q I'm advised that you're correct that it is 5.178.
6 It comes from page 18, Table 1, Revised.

7 A That's the actual figure for automation basic
8 letters.

9 Q That's right. Now, in a compelled response of the
10 United States Postal Service to ABA and NAPM/USPS-T-24-1,
11 received April 13 at the Commission, the Postal Service is
12 providing a calculation of worksharing-related savings.

13 Again, I'm focusing on automation basic letters,
14 based upon the Commission's methodologies in the last case.

15 Is that your understanding of what's been done
16 there?

17 A [No audible response.]

18 Q Do you have a copy of it?

19 A Yes.

20 I don't know if I would say it's the Commission's
21 methodologies, because there were several other changes that
22 were made between R97 and R2000, such as separating the
23 non-automation presort letters costs from the automation
24 presort letters costs.

25 And all those changes had an effect on the result.

1 Q Okay, but in any case, the result is 6.88 cents?

2 A Yes, that's true.

3 Q And would you say that that's comparable to the
4 Commission's results in the last case?

5 A [No audible response.]

6 Q Do you know what the results of the Commission's
7 cost models --

8 A I don't have the opinion or recommended decision
9 with me, no.

10 Q Well, would you accept, subject to check, that for
11 automation basic letters, it was 7.2 cents?

12 A I accept that.

13 Q So would you characterize the 6.88 cents in the
14 interrogatory response that we've been -- compelled
15 interrogatory response that we've been discussing --
16 comparable?

17 A I guess I'm not really sure what you mean by
18 comparable. Are you saying close in value?

19 Are you saying, using the same methods?

20 Q The latter.

21 A Well, as I said earlier, there were a lot of
22 things that were changed in the methodology between rate
23 cases, and those are still reflected in this 6.880 number.
24 So I'm not sure --

25 Q Well, as compared with --

1 A If you're talking about using total mail
2 processing costs as a basis for the worksharing-related
3 savings calculations, using the PRC volume variabilities,
4 then I can say that those costs are comparable.

5 Q Could you now please turn to your responses to
6 MMA-T24-6? I am referring you specifically to your response
7 to part (c) and also your response to MMA-T24-19 as well.

8 Now there I think you are saying pretty much the
9 same thing. Our question asked you basically since your new
10 methodology of classifying costs in various cost pools has
11 the effect of disaggregating costs down to a lower level of
12 cost measurement, did you perform any additional analyses to
13 ensure that the individual cost pools are in fact accurate,
14 or in effect were you concerned about that issue?

15 I believe your responses in both situations were
16 that you simply took these costs as an input, what you call
17 an input in your analysis and you assumed that the costs
18 were accurate, is that correct?

19 A I don't know if I was asked. I don't think I was
20 asked if it concerned me but I did say that as an input to
21 my analysis I assume they were accurate.

22 Q Okay, and you also indicated that you didn't
23 perform any statistical analysis for the specific cost
24 pools, right?

25 A That's true.

1 Q Okay. Now you said you talked to your manager. I
2 believe you said that was Mr. Madison, is that correct?

3 A Yes.

4 Q Now if he expressed any concern about the accuracy
5 of costs when you are getting down to the lower cost pool
6 levels, would that be something that you think you should
7 take into account?

8 A I would take that into account if someone brought
9 it to my attention or there was some reason to believe
10 there's a problem, if you are looking at the data and it
11 seemed like there was an anomaly in one of the cost pools
12 for just one category of mail -- maybe that would be some
13 sort of indication there is a problem.

14 Q Okay, thank you. Now could you look at your
15 responses to ABA-T24-12 and I believe also T24-22.

16 A That is ABA-22?

17 Q Yes. I think we may have the wrong first
18 designation but just bear with me a moment -- no -- I have
19 it here.

20 It is part of your introductory response. You say
21 that you have used a more conservative hybrid cost
22 methodology -- do you see that language?

23 A Yes.

24 Q And similarly in response to T24-22 you say, "If
25 anything, the assumption I have made has probably led to

1 conservative results."

2 Now by "conservative results," or a more
3 conservative cost methodology, do you mean that you have
4 been careful not to overstate the workshare cost savings?

5 A is your question in reference to a specific
6 interrogatory, because these two questions are not about the
7 same topic I don't think. One of them is about delivery
8 unit costs.

9 Q That's part of the cost savings, right?

10 A Yes.

11 Q In both of these interrogatories, you have used
12 the same type of language to characterize what you have
13 done, and I am just trying to figure out with you what you
14 mean by "more conservative" --

15 A Well, I'm sorry, in response to the first one,
16 which is ABA/NAPM/USPS-T24-12, my response addresses the
17 cost pool so my comment was related to the cost pools and
18 how I classified them.

19 Q And so what you are saying is that as compared
20 with the classification in R97-1, your classification in
21 this case resulted in lower worksharing related savings, is
22 that correct?

23 A Actually I meant it more in terms of the amount or
24 the number of cost pools that were classified as being
25 proportional.

1 There were fewer cost pools in the last rate case
2 that were classified as fixed.

3 Q Well, from whose point of view is that
4 conservative?

5 A I guess it is conservative in the sense that I
6 didn't automatically assume that cost pools were worksharing
7 related. I actually went through each cost pool and looked
8 at the operations that were mapped to each cost pool and
9 only classified them as worksharing related if the
10 operations that were being mapped to that cost pool were
11 related to letter^{pre}sortation.

12 Q So then the answer to my original question was
13 that you were conservative in being careful not to overstate
14 worksharing related savings, isn't that right?

15 A I guess you could say that would be the end result
16 of my conservative methods that I used to classify the cost
17 pools.

18 Q Thank you. Now I would like to ask you some
19 questions about the your BMM benchmark if we could.

20 Did you choose the BMM benchmark because it
21 essentially has the attributes of Presort or Automation
22 Mail, except for the actual presortation and application of
23 a barcode?

24 A Actually, I selected Bulk Metered Mail letters as
25 the benchmark because, as I stated in my testimony on page

1 12, line 4, that as the Commission discussed in Docket
2 Number R97, this is the mail most likely to convert to
3 worksharing.

4 Q Okay --

5 A And I agreed with that statement.

6 Q Okay, so you -- did you make any independent
7 determination that BMM letters were the most likely to
8 convert to worksharing?

9 A No.

10 Q So your choice of the benchmark was related solely
11 to the Commission's choice of a benchmark in the last case,
12 is that right?

13 A That's true and in addition I believe it has also
14 been used by Postal Service witnesses in previous cases.

15 Q Okay, I would like to sort of determine how
16 much -- and we actually tried to determine how much Bulk
17 Metered Mail there is out there, and so we propounded to you
18 a question which was Interrogatory MMA-T24-3.

19 Do you see that?

20 A Yes.

21 Q Okay. But, actually, what happened here was you
22 didn't answer any of those questions that we put there to
23 you. It is, I guess, probably (a) through (j) or (a)
24 through (k). Several questions, and you didn't answer them.
25 You directed all but -- redirected all but (k) to the Postal

1 Service for an institutional response, and (k) you
2 redirected to Witness Fronk for his response. And I am a
3 little puzzled, because we are just trying to get some basic
4 information about, you know, the volume of First Class
5 letters that was entered as BMM during the base year and
6 similar information about the benchmark mail that you have
7 chosen. Why was it that you felt you couldn't answer this
8 question, or these questions?

9 A Are you asking me why they were redirected as
10 institutional responses, or, in the one case, redirected to
11 Witness Fronk?

12 Q Yes. Well, I am asking why you didn't answer
13 them. I mean you are the one that chose this benchmark.

14 A Well, most of these questions relate to volumes
15 and there are other witnesses that are relied upon to
16 provide volume estimates. That is not something that I am
17 typically familiar with or would have done in my own
18 testimony. So it is not something that I would have been
19 calculating.

20 Q Okay. But I guess no other witness picked up that
21 ball, did they?

22 A I guess I am not sure what you mean by that.

23 Q Well, you said other witnesses would be more
24 familiar than you about that, but we didn't get a response
25 from any other witnesses either, what we got was an

1 institutional response. Does that -- should be conclude
2 from that that there was no other witness in the case that
3 dealt with volumes that cared to answer this particular
4 question about Bulk Metered Mail?

5 MR. TIDWELL: I am going to object to that
6 question. That gets into the reasoning as to why the
7 interrogatory was answered institutionally, as opposed to by
8 some other witness, and that gets into matters well outside
9 the scope of this witness' testimony. I hope that came
10 across on the microphone.

11 CHAIRMAN GLEIMAN: I heard you.

12 MR. HALL: Well, maybe, I don't want to make a
13 secret of this, but, basically, we are convinced that there
14 really is no such thing as -- there ain't no such animal as
15 Bulk Metered Mail. This is just a theoretical construct
16 that has been used for pricing purposes.

17 CHAIRMAN GLEIMAN: You will get a chance to argue
18 that both when you file Major Mailers' case and on brief.
19 But for right now, I think that the witness chose -- I am
20 not exactly sure how it works at the Postal Service, but the
21 witness felt that he could not respond and they were
22 referred for institutional responses or to another witness.
23 I don't know how pursuing the whys and wherefores of a
24 referral of an interrogatory is going to further the
25 arguments that you started to present a moment ago, so I

1 think we ought to move on to another area.

2 MR. HALL: Okay.

3 BY MR. HALL:

4 Q Well, it would be fair to say that, based upon
5 your analyses, such as they were, you don't know if there
6 is, in fact, any Bulk Metered Mail out there, do you?

7 A I haven't specifically studied that, but I would
8 also like to point out that in several interrogatory
9 responses, I stated that the Bulk Metered Mail letters
10 estimate is actually the cost for all metered letters with
11 one cost pool set to zero.

12 Q And that was, for example, in your interrogatory
13 response to MMA-T-24-2?

14 A Did you say 2?

15 Q Yes.

16 A Well, I think, yes, it would be in 2(c).

17 Q Right. Well, as it is defined, I guess, does Bulk
18 Metered Mail, it has to be clean and have a printed or
19 typewritten address, doesn't it?

20 A I don't think that is necessarily true. Metered
21 mail refers to how the postage is applied, and you can apply
22 metered strips to any mail piece, whether it is handwritten,
23 CRM, typewritten.

24 Q Well, does use of that benchmark assume that it is
25 clean mail?

1 A I don't think that is necessarily true.

2 Q Okay.

3 A It just assume that it is metered mail that comes
4 from mailers that have a large volume, so they put it in
5 trays before they give it to the Postal Service.

6 Q Okay. Does it have to be uniform in weight, shape
7 and size?

8 A No.

9 Q Does it have to be properly faced?

10 A I believe that if you look at the institutional
11 response to MMA/USPS-T-24-2, where in Part A the question
12 had to do with regulations for entry for BMM, the response
13 states that they're the same for all metered letters as per
14 the DMM.

15 Q So what's the answer?

16 A I'm not sure what it states in the DMM. I don't
17 think there are any specific requirements to tray mail or --
18 at all in the DMM for metered letters.

19 Q So the same would then be true of BMM, right?

20 A True.

21 Q But you've assumed -- I think you discussed this a
22 little bit in your colloquy with Mr. Hart -- that all of
23 this BMM, all of these BMM letters, if they exist, are
24 brought to a Postal facility; is that correct, by the
25 mailer?

1 [Pause.]

2 A I don't recall saying that. I think what I meant
3 is that it's entered at a Postal facility.

4 What I was looking at is a response to 2(b) that
5 asked is Postal personnel ever pick up BMM at mailer's place
6 of business.

7 And, once again, the response was that the
8 requirements for BMM letters would be the same as for all
9 metered letters.

10 So if they don't have a requirement for that, for
11 metered letters, it wouldn't be there for BMM letters.

12 Q Okay, now, you've also assumed in your testimony,
13 haven't you, at -- I believe it's page 12, but maybe you can
14 help me out here -- the assumption that BMM letters are
15 entered in full trays; is that correct?

16 A Yes, that's what it states.

17 Q Okay, and did you tell Mr. Hart that there's no
18 requirement in the DMM that they be presented in trays?

19 A I'm not sure if I said that to Mr. Hart, but as
20 the response to Interrogatory 2 says, there are no
21 requirements for BMM letters by themselves; they're the same
22 as for all metered letters.

23 Q Okay, so, once again, the question is, so what is
24 the requirement? Is there a requirement?

25 A No.

1 Q Okay. So, the basis for your assumption that they
2 are all entered in full trays is what?

3 A It's the assumption that these are mailers that
4 have enough mail volume where they would probably in their
5 own internal operations be traying up mail and have enough
6 that they bring it to the Postal Service in trays rather
7 than giving it to a carrier or throwing it in a blue box or
8 something like that.

9 But by making that assumption, that assumption is
10 just made so -- I mean, the result of that assumption would
11 be that the one cost pool was set to zero.

12 Q Okay. And that had the effect of reducing the
13 workshare cost savings by one-half cent, approximately;
14 didn't it?

15 A It was .3 cents.

16 Q Okay, I stand corrected. Now, this BMM mailer,
17 wherever he exists, or she exists, they've got a tray out
18 there.

19 How many letters can you put in a tray? These are
20 letters of an ounce or less.

21 A I think usually the number, 500, is what I recall.
22 I think it's 500 pieces per tray.

23 Q And what's a poor mailer to do if the mailer
24 doesn't have 500 pieces? He's only got 300. Are they
25 supposed to wait till they can fill up a tray?

1 MR. TIDWELL: What category of mail would this be?

2 MR. HALL: This is First Class Mail. This is the
3 First Class, the magical -- the unicorn mail, we'll call it,
4 the --

5 THE WITNESS: Actually, a better way to phrase
6 that in my testimony would have been to say that the BMM
7 letters are entered in trays, as opposed to full trays, the
8 assumption being that it bypasses the cancellation and
9 metered mail preparation operations.

10 BY MR. HALL:

11 Q Okay, so now the mailer doesn't have to have --
12 well, what's the definition of bulk?

13 A I didn't really try to apply a definition of bulk;
14 I just made the assumption that these are mailers that have
15 enough mail that they would bring the mail in trays to the
16 Postal Service, or would enter the mail in trays to the
17 Postal Service.

18 Q Okay. And let's figure out what is the Postal
19 Service offering mailers in return for doing all of these
20 things that we've been discussing, so that you can avoid all
21 of the mail prep costs?

22 A Offering them in terms of what?

23 Q Dollars and cents.

24 A Well, I believe if you look at the institutional
25 response to MMA/USPS-T-24-3, Part F, it says there are

1 currently no rate incentives for BMM letters.

2 Q Okay. So, in other words, no incentive?

3 A I believe that's what it said.

4 Q Okay. Well, let's say one of our BMM mailers
5 lives in Vienna, but actually the convenient Post Office to
6 go to is McLean? It's just geographically easier, it
7 involves less traffic or whatever.

8 If he's got a -- if he got his meter -- since the
9 mail's got to be metered mail, right?

10 If he got his meter in Vienna, can he take it to
11 McLean?

12 A I'm not completely sure, but I think if you look
13 at the metered mail entry requirements in the DMM, there is
14 language in there that states that you can make agreements
15 locally with Postmasters, and it all depends on a lot of
16 factors like that.

17 So I think it would be dependent on whether the
18 Postmaster at that facility wanted to accept it.

19 Q Okay, so our bulk metered mail person who's not
20 going to get any incentive for doing any of this, has to go
21 and make a special arrangement with the McLean Postmaster?

22 Because, normally, he would have to take his
23 metered mail and deposit it in the Postal facility where it
24 was licensed or in the jurisdiction where it was licensed;
25 isn't that right?

1 A I'm not sure what the specific requirements are in
2 the DMM for metered mail.

3 MR. HALL: Those are all my questions, thank you.

4 CHAIRMAN GLEIMAN: Mr. Costich?

5 MR. COSTICH: Thank you, Mr. Chairman.

6 CROSS EXAMINATION

7 BY MR. COSTICH:

8 Q Good evening, Mr. Miller. I'm Rand Costich.

9 A Good evening.

10 Q Could you turn to your response to Interrogatory
11 DFC/USPS-T24-6?

12 COMMISSIONER LeBLANC: Mr. Costich, I know it is
13 late, but you are going to have to speak up, please.

14 MR. COSTICH: Let me see if I can squeeze a little
15 more power out of this microphone.

16 BY MR. COSTICH:

17 Q Do you have that, Mr. Miller?

18 A Yes.

19 Q Here you say that mail processing plants are
20 required to maintain a certain number of firm specific
21 separations on their outgoing primary operations, is that
22 correct?

23 A Yes.

24 Q Can you tell me why that is?

25 A I can't really tell you why this is currently

1 happening. All I know is in attempting to answer Mr.
2 Carlson's question I talked to some Operations people and
3 someone in logistics told me that currently that is the
4 requirement, but they also stated, as I mentioned later,
5 that it is under review and she wasn't really sure what was
6 going to happen later.

7 Q Would it make sense for a local plant to try to
8 separate out at the earliest possible time turn-around mail
9 that was going to a large recipient, larger in terms of
10 volume?

11 A In general, I think as I state at the end of this
12 response, that in most plants mail volume dictates what firm
13 direct holdouts receive a dedicated bin --

14 Q That sounds to me --

15 A -- on a given sort plant so it depends on what the
16 mail on a given sort plan and what the volume is for any
17 given mailer on that sort plan.

18 Q Well, you can create a sort plan that does
19 virtually anything in terms of an individual mailer, can't
20 you?

21 I guess "mailer" again is not the right term. We
22 are talking about recipients but large volume recipients you
23 can always --

24 A Yes, you can program a sort plan to do anything
25 based on the zip code information.

1 Q But you have no idea what local plants might put
2 into these seven firm separations?

3 A I am not sure really what you are asking -- on the
4 local level what firms would be holding out?

5 Q What kind of firms? Say, utilities, cable
6 companies?

7 A Well, it depends on the given plant, I guess, but
8 in general on the outgoing primary or an outgoing primary
9 for example in a large metropolitan area you would probably
10 have bins for your larger volume mail recipients

11 Q Such as utilities and cable companies?

12 A Utilities, phone bills, cable companies.

13 Q Do the local plants maintain records on how much
14 volume goes into these seven separations?

15 A I don't know if they keep records in the sense
16 that they document it and save that information but at most
17 large plants they have a software system called End-of-Run
18 that you can access so you can look at any given bin on any
19 sort plan for most letter automation and determine what
20 volume went to that bin.

21 Q That would be literally at the end of a run,
22 correct?

23 A Well, you can group the information in different
24 ways, like there may be more than one actual end of a run
25 report. They may have run the same sort plan more than once

1 and you could get the aggregate information for a given a
2 day or a week.

3 Q And when you say that the requirement is
4 undergoing review, you suspect that whoever is conducting
5 the review would be looking at those end-of-run reports?

6 A Actually I think there's maybe some confusion on
7 my response to this. What I meant in my response is there
8 are seven specific actual mail recipients that according to
9 what I was told, that every plant is required to have a "bin
10 for" on their outgoing sort plan. Is that what you thought?

11 Q No, that's not what I thought.

12 A I think there was some confusion, yes.

13 Q So we are talking about seven huge
14 national recipients of mail, aren't we?

15 A Maybe in total nationwide, but I think as I said
16 in this response it is undergoing review because many
17 facilities are saying they don't have very much volume for
18 those specific recipients. I think that is why it is
19 undergoing review but I don't know how it got to this point.
20 I am sorry about the confusion.

21 Q All right. Let's see how fast we can do
22 nonstandard surcharge.

23 Would you look at page 19 of your testimony, lines
24 3 through 7.

25 Here you are attempting to address criticisms of

1 the nonstandard surcharge that arose in the last rate case?

2 A Yes.

3 Q And there's three of them that you are addressing?

4 A Yes.

5 Q And could we summarize all of your testimony by
6 saying that you haven't fixed any of those three?

7 A I don't know if I would say that.

8 Q Okay. I guess we can't do it fast. With respect
9 to the first criticism, the validity of the definition of a
10 non-standard piece, --

11 A Yes.

12 Q -- you contend that the current generation of mail
13 processing equipment relies on that definition, is that
14 correct?

15 A Yes.

16 Q And you refer to some operating manuals for an OCR
17 and BCS?

18 A Yes, I do.

19 Q And that is at page 21, lines 8 through 11?

20 A Yes, that is true.

21 Q The handbooks that you refer to are in Library
22 Reference I-154, is that correct?

23 A Yes.

24 Q Do you have that with you?

25 A No, I don't.

1 Q Well, maybe you will remember the small part of it
2 that matters. For the OCR, the requirements that are shown
3 there are maximum height, length, thickness and minimum
4 height, length, and thickness, is that correct?

5 A I believe that is true.

6 Q And that is for both an OCR and BCS?

7 A Yes.

8 Q In terms of current generation mail processing
9 equipment, the handbooks you referred to aren't current
10 generation, are they?

11 A Actually, those two specific handbooks I put in
12 there deliberately because they weren't current generation
13 equipment, because I was using it to support my statement on
14 page 21, line 13, where I say these requirements are the
15 focal point around which the current letter mail processing
16 network has been designed, and that this wasn't a carryover
17 from 20 years ago. It has always been there, including in
18 the '70s when it first came about, in the '80s when we had
19 the Bell and Howell bar code sorter and the Burroughs OCR,
20 and including now when we have the AFCS, which feeds all of
21 the other current generation of equipment.

22 Q Let's get back to the actual limits that are
23 listed in the operating handbooks. They don't list an
24 aspect ratio, is that correct?

25 A That is true.

1 Q So, at least in terms of aspect ratio, you have
2 nothing in your testimony now to support the particular
3 choices there, the aspect ratio must be between 1.3 and 2.5,
4 is that correct?

5 A I haven't specifically studied aspect ratios.

6 Q But is there in your testimony any support for the
7 specific aspect ratios that currently exist as part of the
8 definition of non-standard?

9 A Well, I believe I address what can happen to mail
10 pieces that may not meet the aspect ratio requirements, but
11 I believe I also state that it is somewhat problematic in
12 that our systems aren't able to always screen out mail
13 pieces that may violate the aspect ratio.

14 Q The piece of equipment that is supposed to do that
15 is the AFCS, right?

16 A I don't know if I would say it is supposed to do
17 it, that would be the best place, if it were possible to
18 screen out the mail pieces that don't meet the aspect ratio.
19 To the best of my knowledge, we are not able to pull those
20 mail pieces out now.

21 Q Now, with respect to the second criticism that you
22 were addressing, the question of whether non-standard pieces
23 receive 100 percent manual processing, you acknowledge that
24 not all non-standard mail is manually processed, correct?

25 A Correct.

1 Q If you could look at page 21 again, lines 21 and
2 22, you say in some cases non-standard letters are
3 successfully processed through one or more operations,
4 correct?

5 A Correct.

6 Q Now, if a piece makes it through the OCR or the
7 OSS, it will be sorted to some level, will it not?

8 A I'm sorry, could you repeat that?

9 Q If a non-standard piece actually is successful in
10 making it through the OCR or an OSS operation, that means it
11 will be in a sort bin, correct?

12 A So you are defining successful as, I assume,
13 having a bar code? Well, I am just asking because the OCR,
14 if it is a handwritten address, it is likely that the OCR
15 itself is not going to apply a bar code.

16 Q Well, that is what the OSS does, isn't it?

17 A Yes, that is why I was asking, are you defining
18 successful as it has a bar code applied?

19 Q I guess I don't understand whether it would get
20 sorted into a sort bin off of an OCR or OSS without --

21 A It will get sorted into a bin no matter what. It
22 just could be a reject bin. That is why I am asking.

23 Q Well, okay, I was trying to distinguish a sort bin
24 from a reject bin when I --

25 A So then it would have a bar code, I guess you are

1 saying.

2 Q Okay. So a successful sort on the OCR means it
3 gets a bar code and it gets into a bin other than a reject
4 bin.

5 A Okay.

6 Q If it has done that, then it has gone through what
7 amounts to an outgoing primary, correct?

8 A I think of an outgoing primary as either operation
9 871, which is on a regular mail processing bar code sorter,
10 or 891, which is ^Q~~on~~ delivery bar code sorter. I am not sure
11 what you mean by outgoing primary.

12 Q Well, OCRs have bins on them, right?

13 A Yes.

14 Q Some degree of sortation is accomplished on the
15 OCR?

16 A Yes.

17 Q Do you have another name for that other than
18 outgoing primary?

19 A Well, their outgoing primaries aren't -- they are
20 called outgoing primary on an OCR, but that operation
21 specifically, because of the changes that were made over
22 time, and the smaller number of bins compared to other sort
23 plans, or pieces of equipment, its function really now is to
24 lift an image of a mail piece. It is not so much sortation,
25 so that -- I was just trying to understand what you were

1 asking me. But the operation and number itself might
2 officially be called outgoing primary.

3 Q Well, the OCRs have, what, 96 sort bins on them?

4 A Actually, they have either 44 or 60. The MPBCS
5 has 96.

6 Q So, if we knock off the reject bins, at least 40
7 possible separations on an OCR?

8 A Well, it depends, I suppose, on the specific
9 facility, but I would assume that is a good estimate.

10 Q And if a piece makes it through there, it is
11 sorted, to some extent, right?

12 A Yes.

13 Q All right. And there is some probability that
14 non-standard pieces, that is pieces with a square aspect
15 ratio, or almost square, will keep on going through the
16 automated system and being successfully processed, correct?

17 A They could be.

18 Q Well, I used some probability in my question.

19 A I haven't really studied probabilities associated
20 with aspect ratios, so I wouldn't know what that probability
21 would be.

22 Q Have you considered the possibility that letter
23 shaped pieces with low aspect ratios are similar in terms of
24 the degree of manual sorting to presorted nonstandard pieces
25 rather than nonpresorted, nonstandard pieces?

1 A So your question was did I compare single piece
2 nonstandard letters that I guess by definition did not meet
3 the aspect ratio requirement, did I compare that to presort
4 letters instead of -- or manual presort letters instead of
5 manual single piece letters?

6 Q Yes. If these square pieces make it through some
7 degree of automated processing and then get rejected into
8 manual, aren't they more like presorted pieces in terms of
9 the manual handling that they receive?

10 A I didn't consider that.

11 Q Could you consider it now?

12 A I am not really sure I am following what you are
13 saying. If they are not presorted, if they went through an
14 outgoing primary I wouldn't consider them presorted so I
15 wouldn't be comparing it to presorted mail pieces.

16 Q In terms of the entry characteristics of presorted
17 mail, some of it is equivalent to mail that has received
18 only an outgoing primary, is that correct?

19 A That's correct.

20 Q And if a square piece made it farther into the
21 automated mail stream, got sorted more finely but then
22 rejected at some point before carrier route, that would also
23 be similar to at least one type of presort mail, would it
24 not?

25 A I guess I am still not really following where you

1 are going with that question, but I can say that the costs I
2 used in Exhibit -- I'm sorry, Attachment B for manual single
3 piece letters were just for manual sortation and to revise
4 that model based on the percent of mail that might violate
5 the aspect ratio yet gets processed successfully at
6 different stages of the postal mail processing network, I
7 would have had to have data that I did not have, so I used
8 manual letter sortation as a proxy, I guess.

9 Q Could you look at page 22, line 1 -- lines 1
10 through 3. Here you are saying it would be costly to try to
11 figure out what we were just talking about, is that correct.

12 A That is correct.

13 Q And you say that the benefits from attempting to
14 study that particular situation would outweigh the costs?

15 A In my opinion, yes.

16 Q And is that because most nonstandard pieces aren't
17 letters anyway?

18 A That might be one factor.

19 Q I mean that is the point you go on to make in the
20 next sentence, correct?

21 A Correct.

22 Q So whether you went to the trouble of determining
23 how many square pieces get sorted on automation or get
24 partially sorted on automation would not affect the ultimate
25 number that you get as the additional cost of nonstandard

1 pieces?

2 A It wouldn't have a significant impact.

3 Q I guess the question becomes if there is no
4 significant impact on cost, why impose the surcharge on
5 these pieces in the first place?

6 MR. TIDWELL: Mr. Chairman, the Postal Service
7 would observe that the questions relating to why a
8 particular surcharge should be imposed are questions which
9 ought to be directed to the witnesses who are designing the
10 rates and surcharges in this case as opposed to the cost
11 witness.

12 MR. COSTICH: Well, Mr. Chairman, I understood
13 this witness to be addressing the criticisms that had been
14 directed at the nonstandard surcharge in the previous case,
15 and it seems to be that is what his testimony is here for,
16 to explain why there is a nonstandard surcharge for these
17 types of pieces.

18 MR. TIDWELL: He is explaining what costs are
19 associated with it and there is another witness who then
20 explains why there ought to be a surcharge associated with
21 those costs, and your question was why charge a surcharge,
22 and so it seems to me that the question is one that is more
23 appropriately directly to the witness sitting to my left,
24 who proposes the rates for First Class Mail.

25 CHAIRMAN GLEIMAN: If we can get an answer out the

1 witness sitting to Mr. Tidwell's left, who I assume will be
2 across from Mr. Tidwell sitting on the witness stand and not
3 have that witness refer us back to this witness when he gets
4 up there, does that satisfy your needs or do you wish to
5 pursue this?

6 There is a cost difference, is that what you are
7 trying to pursue?

8 MR. COSTICH: I am trying to get this witness to
9 acknowledge that there is virtually no cost difference,
10 which I thought I had him acknowledge, and then again it
11 becomes a question of why this particular portion of the
12 nonstandard mail stream gets the surcharge.

13 CHAIRMAN GLEIMAN: Well, we will get that argument
14 as was the case with Mr. Hall when OCA puts on its case
15 and/or files its brief.

16 If I understood you correctly, you -- I think the
17 information you got from the witness is the information you
18 are going to get from the witness, and I think that perhaps
19 you can reserve that question for the pricing witness, whose
20 name, by the way, is?

21 MR. TIDWELL: Mr. Fronk.

22 CHAIRMAN GLEIMAN: Okay -- just so we all
23 remember, and I think I heard some heads shake in the
24 affirmative that Mr. Fronk would not refer it back to Mr.
25 Miller.

1 BY MR. COSTICH:

2 Q Mr. Miller, that's why we are still cross
3 examining.

4 Could you look at page 23 of your testimony, lines
5 5-7?

6 [Pause.]

7 You say that in order to ensure that letters
8 received by the Postal Service are best suited for the
9 current equipment designs, it is important that the
10 non-standard surcharge also be applied to letters with
11 non-standard aspect ratios; is that correct?

12 A That's true.

13 Q But when we were talking about specifications for
14 current generation of mail processing equipment, there was
15 nothing in there about aspect ratios; correct?

16 A There was some testimony discussing aspect ratios
17 and that they can be problematic. Are you asking me if
18 there was information about the aspect ratio in the
19 handbooks?

20 Q I think we agreed there wasn't.

21 A Yes, that's true, but my testimony does discuss
22 the aspect ratio.

23 Q Okay, let's look at lines 3 and 4 on page 23. You
24 say the one element, I guess of your cost analysis, that is
25 not conservative is the assumption that non-standard letters

1 are processed manually; is that correct?

2 A That's correct.

3 Q And this is because some non-standard letters, the
4 ones with the non-standard aspect ratios, do get processed
5 on automation, correct?

6 A In one or more operations, that's correct.

7 Q If we can go back to page 19, lines 3-7, the third
8 criticism you're addressing is the lack of specific
9 supporting CRA cost data; is that correct?

10 A That's correct.

11 Q And what have you done to improve that situation?

12 A On page 22, lines 12 to 14, I state that Witness
13 Daniel responded to that criticism by calculating costs for
14 pieces that weighed one ounce or less.

15 Q And she's done ~~that~~ ^{that} in this case as well?

16 A Well, I believe that wasn't done in the last rate
17 case, but in this rate case, it has been done.

18 Q And how did you make use of Witness Daniel's
19 information?

20 A Well, as I state in the following ~~setence~~ ^{sentence} on page
21 22, it may be difficult to precisely estimate those costs by
22 both ounce increment and shape for mail pieces weighing less
23 than an ounce.

24 So we did calculate those costs; it just may not
25 be possible to rely on those costs.

1 Q And you didn't; did you?

2 A No.

3 Q In fact, there's no change in the methodology for
4 calculating the non-standard cost difference, correct?

5 A Well, there's very little change to the ultimate
6 methodology, but we did attempt to address the concerns from
7 the last rate case.

8 Q And by address the concerns, you mean you
9 calculated costs by shape and weight increment?

10 A Well, that was one area that was investigated.

11 Q Well, that's the area we're focusing on now. You
12 -- or, rather, Witness Daniel calculated those costs and you
13 decided not to use them; is that correct?

14 A I don't know if I would say that I specifically
15 decided not to use them. After discussions with her, I
16 decided not to use them.

17 Q And that's because they're not reliable?

18 [Pause.]

19 BY MR. COSTICH:

20 Q I think you want to look at your Attachment B,
21 although I guess the formula is in the text part of your
22 testimony.

23 A That is actually what I was looking for. I used
24 average costs, I did not use costs for any mail piece,
25 regardless of shape, that weighed less than an ounce. Had I

1 used the costs that weighed less than an ounce, the results
2 in Attachment B would have been higher.

3 Q Well, I guess my question is going beyond that.
4 If we look at page 22, line 29, that is where you have got
5 the cost difference for flats, is that correct?

6 A Yes.

7 Q And what you start with is the average unit cost
8 for single piece flats, correct?

9 A Correct.

10 Q So that is flats of all weights, correct?

11 A Correct.

12 Q What we wish we had there is flats of one ounce,
13 is that correct?

14 A Correct.

15 Q And then you subtract the average single piece
16 cost of letters.

17 A Actually, I should have rephrased what I -- when
18 you said you want the costs for flats that weigh less than
19 an ounce, you want those costs to the extent that you are
20 comfortable with the result that you obtain. And Witness
21 Daniel had costs for all these shapes that weigh less than
22 an ounce for both single piece and presort mail, and after
23 talking to her about it, I made the decision to use average
24 cost as a proxy. But had I used the cost that she did
25 calculate, the result would be higher.

1 Q Okay. That would be, if we look at line 29,
2 replacing average single piece flats unit cost with unit
3 cost of one ounce flats?

4 A You are asking, if I had used her data, is that
5 what it would say?

6 Q Right.

7 A Yes.

8 Q And with respect to what you are subtracting
9 there, average single piece letters unit cost, we would be
10 using the average cost of all single piece First Class under
11 one ounce?

12 A That is correct.

13 Q And is that what you did in response to an OCA
14 interrogatory? Again, it was Number 6 that we were looking
15 at earlier.

16 A That interrogatory, I believe it is labeled as --
17 I'm sorry, that revised Attachment B is labeled the response
18 to 6(g).

19 Q Yes.

20 A Which is discussing the proxy for single piece
21 flats, the cost difference between single piece flats and
22 single piece letters is a proxy for parcels. And, so, in
23 response to that, I have included the cost, average cost for
24 parcels.

25 Q But, again, that is the average for all First

1 Class single piece parcels?

2 A Yes, that is true.

3 Q And you got a higher difference when you did that,
4 right?

5 A Yes.

6 Q Have you anywhere presented what we were talking
7 about a moment before, using Witness Daniel's --

8 A All the cost results for one ounce or less?

9 Q Yes.

10 A No.

11 MR. COSTICH: Mr. Chairman, could we ask that that
12 be provided?

13 CHAIRMAN GLEIMAN: We sure can.

14 MR. TIDWELL: Seven days?

15 CHAIRMAN GLEIMAN: Seven days.

16 MR. COSTICH: No further questions, Mr. Chairman.

17 CHAIRMAN GLEIMAN: Is there any follow-up?

18 [No response.]

19 CHAIRMAN GLEIMAN: There doesn't appear to be any
20 follow-up.

21 Questions from the bench?

22 [No response.]

23 CHAIRMAN GLEIMAN: I just have two real quick
24 ones, I think they are real quick anyway. Question are real
25 quick, I don't know about the answers. ABP/NAPM-USPS-T-24-1

1 was request to you. It was the subject matter of some
2 motion practice, including a motion to compel and we denied
3 the motion to compel with respect to part (a) and directed
4 the Postal Service to respond to part (b). The Postal
5 Service did respond to part (b). Was that response prepared
6 by you or under your supervision?

7 THE WITNESS: Yes, it was.

8 CHAIRMAN GLEIMAN: How long did it take to prepare
9 that?

10 THE WITNESS: I would say roughly one day.

11 CHAIRMAN GLEIMAN: To add up a couple of columns
12 of numbers, would you say that amounted to --

13 THE WITNESS: Well, I think part of, in this case,
14 answering that motion to compel was really trying to
15 understand what people wanted, and we talked quite a bit
16 about -- actually, more than a day in that instance, about *what*
17 we thought people really were asking for, because it wasn't
18 clear to me anyway.

19 CHAIRMAN GLEIMAN: Okay. Thank you.

20 Follow-up to questions from the bench?

21 [No response.]

22 CHAIRMAN GLEIMAN: That brings us to redirect.

23 Mr. Tidwell, would you like some time with your witness?

24

25

EVENING SESSION

[6:00 p.m.]

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2
3 MR. TIDWELL: Yes we would. Could we have 10
4 minutes, please.

5 CHAIRMAN GLEIMAN: You certainly may.

6 [Recess.]

7 CHAIRMAN GLEIMAN: Mr. Tidwell?

8 MR. TIDWELL: Mr. Chairman, the Postal Service has
9 no redirect.

10 CHAIRMAN GLEIMAN: Then there is really going to
11 be a very, very little bit of follow-up.

12 MR. TIDWELL: I don't know. With this crowd you
13 never know.

14 CHAIRMAN GLEIMAN: Zero is a number I was told.

15 MR. HALL: Yes, Mr. Chairman, I think I only have
16 a half an hour of follow-up, so --

17 CHAIRMAN GLEIMAN: Well --

18 MR. HALL: No, I do have one minor procedural
19 matter, with your indulgence.

20 Today I filed a motion to compel more responsive
21 answers to interrogatories that Keyspan had put to USPS
22 Witness Campbell.

23 As to many of those answers, the motion was timely
24 filed. As to some, it probably should have been filed
25 yesterday.

1 In fact, I did try my best to get it on file
2 yesterday but my office was closed up early because of the
3 protest going on in Washington, the office being located
4 within three or four blocks of the World Bank.

5 CHAIRMAN GLEIMAN: We didn't notice anything. We
6 were here.

7 MR. HALL: I didn't say I did either, but my
8 office staff was not available to prepare the motion and get
9 it on file, so I would ask leave to file it one day out of
10 time to the extent that it may be deemed untimely.

11 CHAIRMAN GLEIMAN: Ordinarily I would ask you to
12 file a motion but in light of the fact that it is late in
13 the day I wouldn't dare ask you to file a motion asking for
14 late acceptance and we will accept the late-filed motion to
15 compel and the Postal Service will have an opportunity to
16 respond to the motion.

17 MR. HALL: Thank you, and there is one other
18 matter that counsel for the Postal Service and I have agreed
19 upon, and that is I had requested in here a shortened
20 response period of April 21 and counsel informs me that he
21 needs to be preparing a witness before the end of this week,
22 so I have graciously agreed that the answer could be filed
23 on Monday and he agrees to that as well.

24 MR. TIDWELL: Counsel has graciously agreed that I
25 can work on the response on Easter Sunday is what he has

1 done.

2 [Laughter.]

3 CHAIRMAN GLEIMAN: You have until 4:30 in the
4 afternoon on Easter Monday to file the response, but if need
5 be, have Mrs. Tidwell call me and I will explain the
6 situation to her, that it is all Mr. Hall's fault.

7 [Laughter.]

8 CHAIRMAN GLEIMAN: If there is nothing further
9 that concludes our business for the day.

10 Mr. Miller, we appreciate your appearance here,
11 your contributions to the record. You are excused.

12 [Witness excused.]

13 CHAIRMAN GLEIMAN: We will reconvene tomorrow at
14 9:30 and receive testimony from Postal Service Witness
15 Bradley again, and from Witness Crum.

16 You all have a nice evening.

17 [Whereupon, at 6:14 p.m., the hearing was
18 recessed, to reconvene at 9:30 a.m., Wednesday, April 19,
19 2000.]

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