

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

RECEIVED
MAY 9 4 35 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS O'TORMEY TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA
(MPA/USPS-ST42-1-9 and 10)

The United States Postal Service hereby provides the responses of witness O'Tormey to the following interrogatories of Magazine Publishers of America: MPA/USPS-ST42-1-9, filed on April 26, 2000 and MPA/USPS-ST42-10, also filed on April 26, 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



Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990 Fax -5402
May 9, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-1 Please refer to Library Reference I-193, the Report of the Periodicals Operations Review Team (March 1999) (Joint Industry/USPS Report) that was sponsored by the American Business Press, the Magazine Publishers of America, and the United States Postal Service, and which is referenced on page 19. lines 19-22 of your testimony where you note that "[f]ifteen recommendations were issued in the Team's March 1999 Report, and its work is ongoing."

a. Please confirm that the following individuals, listed on pages 41-42 of the Joint Industry/USPS Report as members of the Review Team were employees of the United States Postal Service during the time they participated in preparing the Joint Industry/USPS Report: Jeffrey Colvin, Manager Cost Attribution; Joe Dipietropolo, Processing Operations; Tony Dobush, Operations Superintendent; Barry Elliott, Operations Requirements; Harvey Slentz, Manager Strategic Operations Planning; Ron J. Steele, Manager, Costs Systems.

b. On page 3, the Joint Industry/USPS Report states "[t]he team concluded that it had observed system inefficiencies in both postal and mailer processes along with other inherent characteristics that likely have contributed to, but do not explain fully, the large increases in Periodicals costs." Do you agree with this statement?

c. If your answer is other than yes, please explain.

Response:

a) Confirmed. In addition, Scott Davis, Economist, a U.S. Postal Service employee was a member of the Review Team.

b) Yes. The issues identified in the Joint Industry/USPS Report could have contributed to an increase in Periodical costs.

c) N/A

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-2 Starting on page 20 of your testimony, you describe current improvement efforts for reducing flats processing and delivery costs in the future. The first opportunity you describe is the AFSM 100.

a. On page 21, you state, "...the performance of the AFSM in Baltimore (the pre-production unit site) has met our expectations." Please state whether you expect performance of the AFSM to be better than planned, and better than what Baltimore results have shown, based on changes in the production model.

RESPONSE:

Yes, based on design modifications to the pre-production AFSM 100, I expect the performance of the AFSM 100 production units to exceed our preliminary expectations.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-3 On page 22 of your testimony, you describe an opportunity you entitle "Productivity."

a. Are the "more aggressive performance targets in the coming years" completely accounted for in witness Tayman's cost reduction programs?

b. If so, please provide all references to where witness Tayman accounts for these cost reduction programs.

c. If not, please fully describe all cost reductions that are not accounted for in witness Tayman's cost reduction programs and estimate the Test Year cost savings that will result from these targets.

d. Please provide in an electronic spreadsheet format manual flat sorting productivity for the last ten years and the productivity you expect to achieve in the Test Year.

e. If there are opportunities other than more aggressive performance targets included in these productivity opportunities, please describe them.

f. If there are other opportunities cited in (e) above that will generate savings in the Test Year that are not accounted for in the testimony of witness Tayman, please quantify the Test Year savings and provide all cost estimating assumptions and calculations in an electronic spreadsheet format.

RESPONSE:

a) No.

b) N/A

c) See response to TW/USPS-9(b)

d) See response to ANN/USPS-ST42-11. Additional information is still being compiled and will be furnished shortly.

e) See response to TW/USPS-9(b)

f) See response to TW/USPS-9(b)

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-4 Please refer to page 24 of your testimony, where "Mail Preparation" is listed as an opportunity. In particular, you state, "The Periodicals industry and the Postal Service are looking at changes in preparation requirements for Periodicals that may create more efficient preparation."

- a. *Please describe all changes that you are considering.*
- b. *For each change listed in (a), please provide an estimate of the Test Year cost savings that will result from the change in mail preparation, describe the method you used to quantify the savings, and provide all underlying calculations in an electronic spreadsheet format.*

RESPONSE:

- a) The Postal Service is currently considering changes to mail preparation for Periodicals which include: (1) allowing barcoded and non-barcoded bundles in the same sack; (2) elimination of CRRT skin sacks; (3) requiring that basic rate carrier route Periodicals mail be in line-of travel (LOT) sequence; and, (4) mandatory compliance with the L001 option.
- b) (1) I've been advised that savings associated for Periodicals with mixed barcoded/non-barcoded sacks is about \$8 million; (2) See response to MPA/USPS-ST42-5; (3) I've been advised that savings associated with LOT for Periodicals is about \$23 million; (4) I've also been advised that the savings for Periodicals associated with L001 is about \$3.6 million, for Test Year 2001.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

It is my understanding that documentation for the savings associated with #1, #2,
& #4 will be provided in USPS-LR-I-332. Documentation for #3 is contained in
USPS -LR-I-307.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-5 Please refer to page 24 of your testimony, where you state: "Skin Sacks": One of the possibilities being explored is the elimination of CRRT 'skin sacks (sacks with fewer than 24 pieces). These sacks are often prepared by the periodicals industry to improve or protect service. The theory is that pieces in direct sacks, i.e., sacks that do not have to be opened until they reach the carrier are less likely to be delayed during interim processing steps (sack sorting, opening, dumping, distributing bundles, etc.). Eliminating that sacking option but allowing 'skin sacks at the 5-digit level would reduce the number of sack handlings in the system without jeopardizing service since those sacks would not be opened until they were at the delivery unit."

a. Please provide an estimate of the cost savings in the Test Year that would result from eliminating Periodicals CRRT skin sacks but allowing skin sacks at the 5-digit level.

b. Please state whether these savings have been incorporated into the Postal Service's roll forward. If so, please provide a citation to where they were incorporated.

RESPONSE:

a) I've been told that the elimination of CRRT skin sacks for Periodicals can be worth about \$1.6 million. I understand that documentation for these saving will be provided in USPS-LR-I-332.

b) It is my understanding that these savings have not been incorporated into the Postal Service's roll forward.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-6 Please refer to the instruction on bundle recovery that you sent to the field and that witness Kingsley later provided as an attachment to her response to MPA/USPS-T-10-6. In particular, refer to the section that states:

Clearly, the most economical method of package breakage recovery is to recover the broken packages as originally secured by the mailers at induction and re-band them using rubber bands and/or strapping machines and re-induct them into the system. This is the preferred method and should be utilized whenever the package integrity is sufficient to identify the contents because it retains the correct presort level. If the packages have broken and lost their integrity, they should be recovered and, whenever possible faced and put directly into the proper container...for further processing on the appropriate Flat Sorter Machine (FSM) sort program.

The least economical method is incurred when the broken package is keyed as individual pieces on the Small Parcel Bundle Sorters (SPBS). Productivity's are considerably lower on the SPBS as compared to the FSM. Not only is the process a great deal more expensive, it also inflates SPBS volumes. At no time should this method be used as a processing option.

Please also refer to page 26 of LR-I-193, Report of the Periodicals Operations Review Team. In particular, refer to where it states, 'The cost impact of SPBS bundle breakage may be magnified, because SPBS employees choose to key individual pieces in such bundles rather than to salvage partially broken bundles. The cost implications of such practices should be investigated closely and quickly.'

Finally, please refer to page 22-23 of your testimony, where you state: "(g) Methods: We continually strive to improve work methods at the operating level. Toward that end, we have recently issued instructions to the field on various operating procedures specifically related to the following: the induction of flats bundles into the SPBS, preferred recovery methods for bundles which have been broken prior to reaching piece distribution operations and instructions regarding individual piece distribution on the SPBS."

a. Please describe all efforts that the Postal Service is making to improve its bundle recovery methods.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

b. Please confirm that you expect these efforts to improve the bundle recovery methods used by the Postal Service in the Test Year.

RESPONSE:

- a) My December 30, 1999 correspondence to the field concerning Periodical Package Breakage Recovery Methods has been the foundation for emphasis on broken bundle recovery. Included was an analysis for different recovery methods, processing options, and instructions for handling single pieces from broken bundles. This information has been used by the field for training and analysis. Attached is a copy of the Mail Flow and Cost Analysis for Broken Periodical Packages which accompanied my correspondence.
- b) Confirmed.

MAIL FLOWS AND COST ANALYSIS FOR BROKEN PERIODICAL PACKAGES

Assigning precise cost for package breakage is difficult to achieve with certainty, even under the most rigorous analysis. We have tried to identify the costs of processing broken packages showing the different recovery methods and processing options utilizing current rates, costs, and productivities.

ASSUMPTIONS

A labor rate of \$28.44/hour was used in assigning cost.

An average of 12.66 pieces per package.

An average of one-half minute (30 seconds) taken to repackage and reintroduce broken packages.

An average keying cost per 1000 of \$50.44 on FSM based on FY 99 final numbers.

An average productivity of 246 pieces per hour on SPBS.

Periodicals are incoming distribution being processed in a mechanized plant.

SUMMARY

- A.) Package broken, recovered at induction intact and reinducted.
Cost of repackaging package approximately .018 per piece/.237 per package.
No other expense incurred.
- B.) Package broken recovered at induction, loses identity and is sent to FSM.
Cost of repackaging package approximately .018 per piece/.237 per package plus the following added costs depending on sortation level.
1. A carrier route (CR) package could incur two additional sortations on an FSM at a cost of approximately .100 per piece/1.266 per package.
 2. A 5-digit (5D) package could incur one additional sortation on an FSM at cost of approximately .050 per piece/.633 per package.
 3. All other packages incur no additional sortation.
- C.) Package broken and keyed individually.
Cost of keying each piece individually on SPBS of approximately .115 per piece /1.463 per package plus the following added expenses.
1. A CR package could incur two additional sortations on an FSM at a cost of approximately .100 per piece/1.266 per bundle.
 2. A 5D package could incur one additional sortation on an FSM at a cost of approximately .050 per piece/.633 per bundle.
 3. All other packages incur no additional sortations.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-7 Please refer to page 22-23 of your testimony, where you state: "(g) Methods: We continually strive to improve work methods at the operating level. Toward that end, we have recently issued instructions to the field on various operating procedures specifically related to the following: the induction of flats bundles into the SPBS, preferred recovery methods for bundles which have been broken prior to reaching piece distribution operations and instructions regarding individual piece distribution on the SPBS." Please refer further to page 21-22 of your testimony, where you state: "(d) SPBS: Material handling activities are an important component of total flats costs. In an earlier part of this testimony I highlighted the impacts of broken bundles on those operations. As part of their ongoing effort to find ways to improve the performance of all of our equipment, our engineering group is exploring options for improving equipment where broken bundles occur."

a. Please describe all efforts that the Postal Service is making to reduce bundle breakage.

b. Please confirm that you expect these efforts to reduce bundle breakage in the Test Year.

RESPONSE:

a) *There is an effort in the Postal Service's Engineering, Research, and*

Development organization to identify how the equipment used to dump containers of bundles might be modified to reduce bundle breakage. Several modifications have been implemented. In addition, the Postal Service is considering changes in mail preparation requirements that would reduce bundle breakage. Finally, the emphasis on bundle recovery has focused attention at the sack opening/dumping operation to minimize bundle breakage.

b) Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-8 Do you expect the performance of the AFSM 100s to be better than what was assumed in LR-I-126? If so, please quantify the additional Test Year cost savings.

RESPONSE:

Yes. I am told that the additional cost savings associated with the AFSM 100 for Test Year 2001 will be about \$23 million overall and about \$4 million for Periodicals.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-9 Does the Postal Service plan to deploy any new equipment or modify existing equipment in the Test Year beyond what was identified in LR-I-126? If so, please quantify the additional Test Year cost savings.

RESPONSE:

The Postal Service plans to modify the FSM 1000 with an optical character reader (OCR) and automatic feeder. However, this program has yet to be presented to the Board of Governors. Based on the program's current timelines, any savings for the Test Year 2001 will be around \$1 million overall and about \$250,000 for Periodicals.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'TORMEY
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-ST42-10 Please provide your best estimate of the Test Year cost savings that will result from the Postal Service's efforts to reduce bundle breakage and improve bundle recovery methods. Please provide cost savings estimates individually for Periodicals and Standard (A) flats.

RESPONSE:

I'm hopeful the MTAC work group recommendations will be successfully implemented and that those changes to industry bundle preparation practices coupled with the USPS efforts described in MPA/USPS-ST42-6&7 will result in about a 25% reduction in broken bundles. I've been advised that based on witness Yacobucci's model, a 25% reduction would result in savings of about \$15 million for Periodicals and \$14 million for Standard A,

DECLARATION

I, Walter F. O'Tormey, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Walter F. O'Tormey

Dated: 5-9-00

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990 Fax -5402
May 9, 2000