

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
TIME WARNER, INC.
(TW/USPS-6-10)

The United States Postal Service hereby provides its responses to the following interrogatories of Time Warner, Inc.: TW/USPS-6-10, filed on April 25, 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

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May 9, 2000

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TW/USPS-6 A comparison of the WS14.4 worksheet in the B series Segment 14 workpapers for FY98 and FY99 shows a large drop in the "passenger air" costs attributed to Periodicals. For regular rate Periodicals the amount dropped from \$15.532 million to only \$5.37 million, and for all Periodicals the drop is from \$18.859 million to \$6.520 million. There are also significant reductions in Periodicals' use of Christmas Air and Eagle Air. Please answer the following.

- a. Confirm that the Postal Service's policy is to transport Periodicals mail by surface and not by air.
- b. Describe all efforts undertaken by Postal management that may have helped reduce the amount of passenger air transportation of Periodicals between FY98 and FY99.
- c. If the Postal Service has made an effort to reduce the air transportation of Periodicals, please state whether it is expected that this effort will lead to a further reduction of such transportation in FY2000 and FY2001, and provide the best available estimate of cost savings to be realized.
- d. If, as appears from the comparison of FY98 and FY99 segment 14 B workpapers described above, there has been a Postal Service effort to reduce air transportation of Periodicals, please state whether the savings from such an effort has been considered in the roll forward process used in this case.
- e. Please state all reasons known to the Postal Service why some Periodicals are put on airplanes and describe all steps taken or planned to be taken to prevent this from happening in the future.

RESPONSE

- a. Confirmed. There are infrequent instances when Periodicals are flown, because no service-responsive alternative is available.
- b. In each quarter of FY 99, Finance provided Logistics with information from TRACS showing the amount of Periodical mail being put on air at originating stops. This information was sent to the field, under a Vice President's signature, via the Area Vice Presidents, in order to stimulate focus on the Postal Service's commitment to keeping surface mail off of air transport.
- c. The Postal Service continues to collect and transmit information on cases where Periodicals mail is found on airplanes. The Postal Service is

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committed to sustaining the reductions in the air transportation of Periodicals mail achieved in FY 99. No estimates of future cost savings have been made.

- d. The rollforward did not include the reduction in Periodicals air transportation costs in projections of cost for FY 2000 or FY 2001.
- e. See response to MH/USPS-1(c).

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TW/USPS- 7 Mr. O'Tormey's testimony refers to a recently signed memorandum of understanding (MOU) with the National Association of Letter Carriers (NALC) addressing a work methods change that should have a positive impact on flats handling costs in carrier operations.

- a. Has the Postal Service conducted any analysis to estimate how much costs might be reduced, per Periodical flat and for other flats, as a result of the MOU referred to by Mr. O'Tormey? If yes, please state what the Postal Service estimates the savings might be, and provide copies of all relevant material supporting this conclusion.
- b. Have any savings related to this MOU been assumed in the Postal Service's "roll forward" projections for FY2001?

Response:

- a) Yes. Total savings of \$70 Million can be attributed to the signing of the Memorandum of Understanding (MOU) National Association of Letter Carriers (NALC) in FY 2001. About \$7 Million of this can be attributed to Periodicals. Included is a copy of a memorandum from Mike Spates, Manager, Delivery.
- b) These savings have not been incorporated into the Postal Service's roll forward.



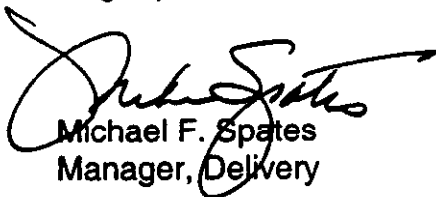
May 3, 2000

RALPH MODEN

SUBJECT: Flat Casing Methods

This is in relation to the information you requested concerning potential savings in city delivery relative to the handling of periodicals. Although city delivery activities related to periodicals are not separated from those of other flats, the following information may be helpful.

Savings may be achieved by converting routes in a DPS environment using the composite bundle work method to the DPS vertical flat casing (VFC) work method. Data from a September 1998 survey of the field indicates that approximately 88k routes fit this category. We anticipate that over the next six months local management can convert somewhere in the neighborhood of 50k routes from the DPS composite bundle work method to the DPS VFC work method. It is estimated that this action has the potential to save ten minutes per route per day or approximately \$70-million in the first full year. The savings are further estimated to be attributable at the rate of 50 percent to cased letters and 50 percent to flats. The remaining 38k routes will be converted over a slightly longer period of time.



Michael F. Spates
Manager, Delivery

cc: Nick Barranca
John Rapp
Pat Mendonca

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TW/USPS- 8 Mr. O'Tormey's testimony refers to opportunities for cost reductions if mailers were to make full use of the "5-digit scheme sort" made possible by the now available L001 list. O'Tormey also indicates that this option "already has had a positive impact on USPS operations" and that the Postal Service is thinking of making it mandatory.

- a. Has the Postal Service conducted any analysis to estimate: (1) how much the availability of the L001 option may already have helped reduce the costs of Periodicals, through the voluntary compliance that has occurred to date; and (2) how much Periodicals costs might be further reduced, if compliance with the L001 option were to become mandatory? If yes, please state what the Postal Service estimates the L001 related savings are and what they might be, and provide copies of all relevant material supporting this conclusion.
- b. Have any savings related to voluntary and/or mandatory use of the L001 list been assumed in the Postal Service's "roll forward" projections for FY2001?

Response:

- a) Part 1, There is no analysis for the reduction of costs to Periodicals due to voluntary compliance with L001. Part 2, Yes, Savings associated with L001 are about \$3.6 million for Periodicals (see MPA/USPS-ST42-4).
- b) Savings for L001 have not been incorporated into the Postal Service's roll forward.

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TW/USPS- 9 Mr. O'Tormey's testimony refers to opportunities for improved productivity through setting of "more aggressive performance targets in the coming years" (USPS-ST42 at 22, l. 11) and states that one result already achieved is increased productivity in manual flat sorting.

- a. Please describe all "aggressive performance targets" affecting the processing, transportation or delivery of Periodicals that the Postal Service either has established or plans to establish in, respectively, FY99, FY2000 and FY2001.
- b. Please also describe the anticipated savings in each year through FY2001 from each "aggressive performance target" and provide copies of all relevant analyses pertaining to the potential cost savings.
- c. Please provide copies of all relevant written instructions establishing "aggressive performance targets."
- d. Have the savings expected from the setting of any "aggressive performance targets" been assumed in the Postal Service's "roll forward" projections for FY2001? If yes, please identify the "aggressive performance targets" already included in the roll forward.
- e. Was the initiative to increase manual flat sorting productivity extended to Non-MODS and/or Function 4 offices? If yes, what was the result?

Response:

- a) In October, 1999, ten major indicators were established as drivers for cost containment in mail processing and delivery. These indicators are reviewed every two weeks and a scorecard for each area is provided on an accounting period basis. The FY-2000 Scorecard for Major Indicators, includes two performance targets which would affect the processing of Periodicals. They are: The FSM 881 Total Pieces Handled (TPH) per AP and, Manual Flat Productivity % to SPLY.

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- b) The only savings expected, not already included in the rollforward, are \$15 Million overall from a 5% increase in manual distribution productivity. Of this, about \$2 million is for Periodicals.
- c) *Attached is a copy of correspondence establishing the Ten Major Indicator Scorecard along with a copy of the scorecard for AP 7, FY 2000.*
- d) Already included in the rollforward are savings from manual flat distribution, Function 4 productivity, and FSM utilization. The additional savings outlined in the response to subpart (b) were not included.
- e) *The rate case already includes savings for Function 4 not identified as flats or letters. The additional savings outlined in the response to subpart (b) were not included.*

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TW/USPS-10 Mr. Unger's and Mr. O'Tormey's recently filed testimonies both appear to argue that year-to-year comparisons of FSM productivity are misleading because they fail to consider the changing degree to which allied labor functions are recorded as part of the FSM cost pool. See USPS-ST-42 at 17, ll. 13-20; USPS-ST-43 at 14, ll. 18-26. Mr. O'Tormey refers to a Postal Service effort to reduce "indirect" (allied?) labor associated with flats distribution that had "a negative impact on reported FSM productivity during the transition." USPS-ST-42 at 17, ll. 19-20.

- a. Please identify the cost pools from which allied labor might have been transferred to the FSM cost pool under the process described by Unger and O'Tormey.
- b. Please identify all types of allied labor activity that may have been fully or partially transferred to the FSM cost pool from other cost pools.
- c. Did the transfer of some allied labor activity to the FSM pool continue in FY99? In FY2000? Will it continue in FY2001?
- d. Does any analysis exist providing estimates of the degree to which allied labor functions may have been transferred to and become part of the FSM cost pool in recent years? If yes, please provide the results of all such analyses as well as copies of supporting documents.
- e. The IOCS data for FY98 filed in this docket and for FY96 in R97-1 indicate very large increases in manual flat sorting costs incurred at non-MODS offices as well as Function 4 MODS offices, even though the separation of barcoded and non-barcoded flats referred to by Mr. Unger is hardly an issue in those offices. Does the Postal Service believe these increases mean that flat sorting clerks in those offices were performing more allied labor functions in FY98 than in FY96? If not, what are the reasons for the apparent large increases in manual flat sorting costs in Non-MODS and Function 4 offices?
- f. Reported FSM productivity has declined every single year since at least FY88 through at least FY99. See Docket No. R97-1, Tr. 1 I/5565. For how many of those years was the decline caused by the inclusion of more allied labor in the FSM cost pool?

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Response:

- a) The activities referenced by witness O'Tormey (and witness Unger) would appear in the opening unit (with SAS codes 1OPPREF and/or 1OPBULK in Table 1 of USPS-T-17) or pouching (SAS code 1POUCHING) cost pools if they were not recorded in a distribution operation. See also the response to part (b), below.
- b) It is the Postal Service's understanding that the activities to which witness O'Tormey (and witness Unger) referred were incremental mail preparation activities required to implement automation modes on the FSM, such as separating mail by readability characteristics and barcode presence.
- c) Yes. It is expected that some allied labor hours may continue to be transferred in the short term. However, with the deployment of the AFSM 100 this trend will reverse. The USPS plans to establish separate MODS operation numbers to track mail preparation work hours related directly to the AFSM 100.
- d) There is no analysis which estimates the degree to which allied labor functions may have been transferred to and become part of the FSM cost pool in recent years.
- e) For a discussion of the factors that have caused flats processing to be performed in delivery units (i.e., non-MODS and Function 4 cost pools), please see witness Kingsley's testimony, USPS-T-10, page 14, lines 4 through 7. The Postal Service has not quantified the effect of these factors.

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- f) As indicated in the response to subpart (d) above, the Postal Service doesn't track this.

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 cursive script, appearing to read "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

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May 9, 2000