

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, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA
(MPA/USPS-1-3)

The United States Postal Service hereby provides its responses to the following interrogatories of Magazine Publishers of America: MPAUSPS-1-3, filed on October 4, 2001.

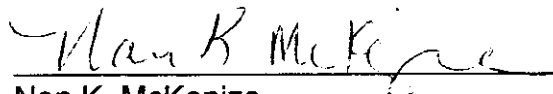
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 18, 2001

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MPA/USPS-1. In Docket No. R2000-1, the Postal Service filed a library reference, USPS-LR-I-332, that contained a bottom-up cost model of Periodicals mail processing costs by entry facility and container type, container and package size, container and package presort level, machinability, and automation compatibility.

- (a) Have the Postal Service or any of its contractors updated this model since it was filed as a library reference in Docket No. R2000-1? If so, please provide a copy of the revised model and any documentation available.
- (b) Have the Postal Service or any of its contractors developed any similar bottom-up models of Periodicals costs since USPS-LR-I-332 was filed in Docket No. R2000-1? If so, please provide a copy of any such cost models and any documentation available.
- (c) Are the Postal Service or any of its contractors in the process of developing any similar models of Periodicals costs? If so, please provide a description of each modeling effort and provide the date by which each model will be complete. When each model is complete, please provide a copy and any documentation available.
- (d) If the Postal Service has not updated the Periodicals cost model filed as USPS-LR-I-332, has the Postal Service performed any analyses that contradict the cost estimates in USPS-LR-I-332? If so, please describe these analyses and explain which cost estimate in USPS-LR-I-332 are contradicted.

RESPONSE:

(a)-(d) The Postal Service had begun the process of updating the model in USPS-I-332. However, with the pressing need to prepare and file this rate case and the limited resources available, the focus had to be placed on updating the elements necessary to support this rate filing. See LR-J-114 for the updated periodical entry profile. In addition, the mail processing mailflow models upon which USPS-I-332 depended have been revised and are presented in the testimony of witness Miller (USPS-T-24).

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MPA/USPS-2. Please refer to Docket No. R2000-1, USPS-LR-I-332, Table 1. In this table, the Postal Service estimated that three changes in mail preparation standards would have the combined effect of reducing Periodicals costs by \$14.885 million: (1) elimination of CRRT skin sacks; (2) LOO1 requirement; and (3) requirement to combine automation/nonautomation pieces in the same containers at the 5-digit level.

(a) Please confirm that the Postal Service did increase the sack minimum for Periodicals CRRT sacks to 24 pieces on January 7, 2001. If not confirmed, please explain fully.

(b) Please confirm that the Postal Service did require the use of the LOO1 sort scheme for Periodicals on January 7, 2001. If not confirmed, please explain fully.

(c) Please confirm that the Postal Service did require automation and nonautomation pieces to be placed in the same 5-digit containers on January 7, 2001. If not confirmed, please explain fully.

(d) Has the Postal Service updated its cost savings figures for these changes in mail preparation standards since it developed its Docket No. R2000-1 estimates? If so, please provide the updated cost savings estimates.

(e) Did the Postal Service include any cost savings from these changes in mail preparation standards in the Docket No. R2001-1 roll forward? If so, please provide a citation to the record where the Postal Service included these savings.

Response:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) No, the Postal Service has not updated these particular cost savings figures for the changes in mail preparation standards discussed in this question.

(e) It should be first noted that most, if not all, the assumptions underlying the cost development in the Order No. 1294 update in Docket No. R2000-1 changed with the

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Response continued:

development of the Docket No. R2001-1 filing. Among other things, the base is different, the economy is different and the operating environment is different. For example, the mail preparation cost savings included in the Order No. 1294 Update were \$9,211 thousand (See USPS-LR-I-408, page 3) and even if none of the aforementioned assumptions had changed, the results would be less than \$9,211 thousand. The Docket No. R2000-1 calculations were based on assuming implementation for an entire test year and the implementation date referenced in parts (a-c) of this question, January 7, 2001, occurs approximately four months into the test year. Thus, the recalculated FY 2001 savings, using the identical assumptions other than the implementation date, would be less by the value of four months of savings.

Despite the tenuous nature of a comparison between the Docket No. R2000-1 Order No.1294 Update and the Docket No. R2001-1 filing, Attachment 1 to this response attempts to lay out the Periodicals reductions as shown in the Update and the reductions as shown in the Docket No. R2001-1 filing. The left section shows the R2000-1 Order No. 1294 Update reductions for the year 2001 and the right section shows the R2001-1 reductions from Fiscal Year 2001 through the Test Year 2003. To the extent the mail preparation savings discussed in the interrogatory are included in the R2001-1 rollforward, they can be considered a portion of the estimated Breakthrough

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Response continued:

Productivity Initiatives (BPI) shown for Clerks and Mailhandlers. Similarly, to the extent City Carrier reductions are included in the R2001-1 rollforward, they can be considered a portion of the estimated BPI shown for City Carriers.

Periodicals ONLY -- All Amounts in 000s of Dollars

R2000-1 Order No. 1294 Update	
Source	FY 2001
LOT (USPS-LR-I-307)	(23,000)
MOU (DMA/USPS-1)	(7,000)
Total City Carrier	(30,000)
Aggressive Targets (DMA/USPS-2)	(1,999)
Add AFSM (DMA/USPS-ST42-2)	(4,000)
New Equipment (DMA/USPS-ST42-3)	(182)
Bundle Breakage (MPA/USPS-ST42-10)	(11,000)
Mail Prep (USPS-LR-I-332 without piggyback)	(9,211)
Total Clk/MH	(26,392)
All Other (USPS-LR-I-410, Volume D, Part I)	(56,661)
Grand Total	(113,053)

R2001 Reductions				
Source	FY 2001	FY 2002	FY 2003	Total
LOT (USPS-T-12 Exhibit 12A)	0	0	(26,710)	(26,710)
Operational Programs & BPI (Patelunas WP-A, WP-C, WP-E)	(2,796)	(2,812)	(2,459)	(8,067)
Total City Carrier	(2,796)	(2,812)	(29,169)	(34,777)
AFSM 100 - 2nd Buy (USPS-T-12, Appendix A)	(2,664)	(20,564)	(1,533)	(24,761)
AFSM 100 - 1st Buy (USPS-T-12, Appendix A)	(21,666)	(5,679)	-	(27,345)
Bundle Breakage (USPS-T-12, Exhibit 12A)	0	0	(7,875)	(7,875)
Other Mail Processing (USPS-T-12, Appendix A)	(3,409)	(2,217)	(21,243)	(26,870)
Estimated BPI (Patelunas WP-A, WP-C, WP-E)	(7,352)	(5,272)	(4,707)	(17,331)
Total Clk/MH	(35,091)	(33,733)	(35,358)	(104,182)
All Other (Grand Total minus City Carriers+Clk/MH)	(15,843)	(1,450)	705	(16,588)
Grand Total (Patelunas WP-A, WP-C, WP-E plus LOT & Bundle Breakage Final Adjustments)	(53,730)	(37,995)	(63,822)	(155,547)

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MPA/USPS3. Please refer to the attached memorandum from Michael Spates to Ralph Moden regarding Flat Casing Methods. In this memorandum, Mr. Spates states, "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." He further states that, "[t]he remaining 38k routes will be converted over a slightly longer period of time."

(a) Has the Postal Service included these cost savings in its Docket No. R2001-1 roll forward? If so, please provide a citation to the record where the Postal Service included these savings.

(b) In which month did the "first full year" that Mr. Spates was referring to begin?

(c) When does the Postal Service expect to convert the "remaining 38k routes"?

(d) Has the Postal Service updated Mr. Spates' cost reduction estimate since this memorandum was sent to Mr. Moden? If so, what is the Postal Service's new cost reduction estimate and when does it expect to realize the savings?

(e) Does the Postal Service still believe that 50 percent of the savings will accrue to flats and fifty percent to letters? If not, what is the Postal Service's current view on the distribution of these cost savings?

Response:

(a) The conversion, and resulting savings estimates, referenced in the memo began in May 2000. The conversion occurred more quickly than anticipated and was completed by Quarter 1 of Fiscal Year 2001. As such, most of the savings would be included in the Base Year 2000 costs that appear in the testimony of witness Meehan (USPS-T-11). Any further savings occurring after the beginning of

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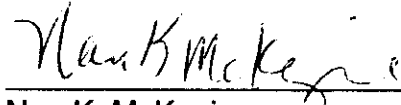
Response continued:

Fiscal Year 2001 can be considered a portion of the Breakthrough Productivity Initiatives in R2001-1, which can be found in USPS-LR-J-49.

- (b) The first full year commenced in May 2000.
- (c) All of the conversion had been completed by the first quarter of Fiscal Year 2001.
- (d) No, there have been no updates to Mr. Spates's cost reduction estimate.
- (e) Yes, the Postal Service still believes that 50 percent of the savings will accrue to flats and 50 percent to letters.

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.



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