

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 WITNESS LESLIE M. SCHENK
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.
AND VAL-PAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T43-1-7)

The United States Postal Service hereby provides the response of witness Schenk to the following interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc.: VP/USPS-T43-1-7, filed on October 11, 2001.

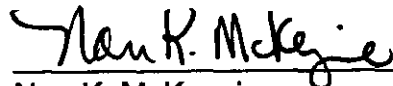
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.**

VP/USPS-T43-1. Please refer to USPS-LR-J-58. In the files Lr58aecr and Lr58areg, which refer respectively to Standard ECR and Standard Regular Mail, a number of tabs contain graphical depictions that plot cost on the vertical axis and weight on the horizontal axis, similar to those found in Postal Service witness Daniel's testimony (USPS-T-28) in Docket No. R2000-1. Witness Daniel's prior testimony concerning the effect of weight on costs, which your testimony updates, also contained regressions computed on the basis of the data depicted in her graphical presentations.

- a. For Standard ECR Mail, did you compute any regressions of the weight-cost relationship?
- b. For Standard Regular Mail, did you compute any regressions of the weight-cost relationship?
- c. Unless your answer to the preceding parts a and b is an unqualified negative, please provide the results for each regression which you computed, or indicate where those regressions results can be found in the extensive files contained in the electronic version of USPS-LR-J-58 or elsewhere.
- d. For each graphical presentation within Standard Mail for which a regression could be computed and where witness Daniel did in fact compute a regression, but you elected not to do so, please explain why you opted not to compute and present the results of a regression.

RESPONSE:

- a. No.
- b. No.
- c. Not applicable.
- d. Regression results were not computed or presented because they were not needed for any analysis presented by Postal Service witnesses in this docket.

**Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.**

VP/USPS-T43-2. Postal Service witness Hope's testimony, USPS-T-31, (i) at page 13, Table #3, contains data on the unit cost of piece-rated and pound-rated Standard ECR pieces at both a 3.0 ounce dividing line, and a 3.5 ounce dividing line, and (ii) at page 15, Table #4, contains data on the distribution of Standard ECR pieces by weight.

- a. Did you provide witness Hope with the unit cost data shown in her above-referenced Table #3?
- b. Regardless of whether you provided witness Hope with the unit cost data in her Table #3 and the piece distribution in Table #4, what other guidance, data or information (other than your testimony and the library references which you sponsor) did you provide to her with respect to the weight-cost relationship for Standard ECR Mail?

RESPONSE:

- a. Yes.
- b. None, other than the distribution of costs by weight increment for Standard ECR mail provided in USPS-LR-J-58, which is sponsored in my testimony (USPS-T-43).

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to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.**

VP/USPS-T43-3.

- a. Does your testimony, your library reference USPS-LR-J-58, or any other document sponsored by you in this docket, contain one or more estimates of the weight-cost relationship for Standard ECR Mail that exceeds the 3.3 ounce breakpoint? If so, please indicate where such estimate or estimates can be found.
- b. If you have developed more than one estimate of the weight-cost relationship for Standard ECR Mail, do you consider any one of those estimates to be more reliable than the others? If so, please indicate which and provide every reason on which you rely for your selection as the most reliable, or "best" depiction of the weight-cost relationship.

RESPONSE:

- a. The only examination of costs by weight increment for Standard ECR Mail that I provide in this Docket is the analysis in Excel workbook LR58AECD.xls in USPS-LR-J-58. Since costs are provided by ounce and half-ounce increments, no estimate for Standard ECR mail that exactly exceeds the 3.3-ounce breakpoint is provided.
- b. Not applicable.

**Response of United States Postal Service Witness Leslie M. Schenk
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Association, Inc.**

VP/USPS-T43-4.

- a. For Standard ECR and Standard Regular Mail, regarding the costs that were assigned to individual ounce increments, what percentage was assigned on the basis of direct IOCS tallies, and what percentage was "distributed" to ounce increments using any basis other than IOCS tallies for said distribution?
- b. For each distributed cost, please provide the basis (or "key") used for the distribution, and explain the rationale for selecting that basis (or "key") as the best available to capture the underlying weight-cost relationship.

RESPONSE:

- a. For Standard Regular Mail, 75.5 percent of total volume variable costs were distributed to ounce increments using IOCS tallies, and 24.5 percent were distributed to ounce increments using other methods.

For Standard ECR Mail, 46.8 percent of total volume variable costs were distributed to ounce increments on the basis of direct IOCS tallies, and 53.2 percent were distributed to ounce increments using other bases.
- b. The following table provides the basis used for each distributed cost in USPS-LR-J-58.

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RESPONSE CONTINUED:

Keys Used To Distribute Subclass/Shape Costs to Weight Increments In USPS-LR-J-58	
Cost	Key
Total Mail Processing	IOCS tally analysis
Window Service	IOCS tally analysis
City Delivery In-Office	IOCS tally analysis
City Delivery Route	Volume
City Delivery Access	Volume
City Elemental Load	Weight
City Delivery Support	Other city delivery costs
Vehicle Service	Cube
Rural Delivery	Volume
Air/Water Transportation	Weight
Highway/Rail Transportation	Cube

b. (continued) The general rationale used to select distribution keys is to select the key that best represents the cost driver for the cost segment modeled, consistent with CRA methodology to the extent possible. Exceptions to this rationale used to distribute costs to weight increment in USPS-LR-J-58 are described in my response to VP/USPS-T43-7b.

**Response of United States Postal Service Witness Leslie M. Schenk
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Association, Inc.**

VP/USPS-T43-5

- a. Aside from sponsoring the technical work in USPS-LR-J-58, would it be correct to state that it is not the purpose of your testimony to offer any guidance or interpretation of the data and numerical results concerning whether, or the extent to which, those data capture the underlying cost-weight relationship for Standard ECR and Regular Mail (or what you consider to be the most reliable measure of the weight-cost relationship)?
- b. Unless your answer to the preceding question is an unqualified affirmative, please explain the purpose of your testimony as it relates to analyzing, interpreting and offering advice to the Commission and interested parties regarding the quantitative results as they are presented in USPS-J-58.

RESPONSE:

a-b. The purpose of my testimony in regard to sponsoring USPS-LR-J-58 is to present distributions of cost by weight increment for certain mail subclasses and shapes. By replicating witness Daniel's methodology in R2000-1 without comment, I am implicitly incorporating her interpretations and caveats concerning this exercise, as noted in USPS-T-23/R2000-1. I am satisfied that the other Postal witnesses in this docket have used the results in USPS-LR-J-58 with the understanding that they are not intended to be an exact quantification of costs for every individual weight increment.

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VP/USPS-T43-6 Witness Hope's testimony, USPS-T-31, at page 13, Table #3, contains data on the unit cost of piece-rated and pound-rated pieces (i) at a 3.0 ounce dividing line, and (ii) at a 3.5 ounce dividing line which she cites as being obtained from you. In Docket No. R2000-1, Postal Service witness Moeller (USPS-T-35) presented similar data for Standard ECR Mail. Commenting on those data, the Commission at paragraph 5541 of its *Opinion and Recommended Decision* stated:

Witness Moeller's implicit markups reflect the mix of mail on either side of the break point. However, pieces above and below the break point have different worksharing profiles and different shape profiles. The Commission believes that implicit markups comparison should be adjusted for these differences.

- a. Did the unit cost data which you supplied to witness Hope make any or all of the adjustments called for by the Commission?
- b. Unless your answer to part a is an unqualified negative, please indicate which adjustments were made, where they are described, and where they can be found in your testimony, library references sponsored by you, or any other documents sponsored by you in this docket.
- c. If you made any of the adjustments called for by the Commission, but did not document or describe them adequately, please do so in response to this interrogatory.

RESPONSE:

- a. Yes, to the extent that the unit cost data I supplied to witness Hope are developed by shape and weight increment. Those data do not make any adjustments for worksharing differences. It is my understanding that no adjustments are needed, since the costs I provided are consistent with the revenues witness Hope uses, in that both reflect the different profiles above and below the breakpoint.

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Association, Inc.**

RESPONSE CONTINUED:

- b. See USPS-LR-J-58, workbook LR58AECR.xls for the development of costs by shape.
- c. Not applicable.

**Response of United States Postal Service Witness Leslie M. Schenk
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Association, Inc.**

VP/USPS-T43-7. The Commission's *Opinion and Recommended Decision* in

Docket No. R2000-1 stated:

[t]he Commission calls on the Service to conduct a new analysis addressing the matters described at the conclusion of this section. [para. 5457]

While the estimates of IOCS costs for pieces above and below the break point are statistically reliable, the Commission has not closely examined the basis upon which transportation and delivery costs are distributed. If the Commission is to make proper further use of the implicit markups in setting the pound rate, the basis for distributing transportation and delivery costs must be subject to more scrutiny. [para. 5539]

- a. Please describe any and all new analysis (other than data updates) conducted by you in USPS-LR-J-58 in response to the Commission's call for such analysis.
- b. Please explain fully the basis for distributing transportation and delivery costs in USPS-LR-J-58, and note explicitly all changes and improvements made since the study was conducted by witness Daniel in Docket No. R2000-1.

RESPONSE:

- a. Other than the data updates, I conducted no new analysis in USPS-LR-J-58, compared with that presented in USPS-LR-I-91, 92, and 93 in Docket No. R2000-1.
- b. The bases used in USPS-LR-J-58 for distributing transportation and delivery costs are provided in VP/USPS-T43-4b, and are the same as those used by witness Daniel in USPS-LR-I-91, 92, and 93 in Docket No. R2000-1.

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RESPONSE CONTINUED:

Air and water transportation costs are distributed to ounce increment based on weight. This methodology is consistent with CRA methodology. Highway and rail costs are distributed to ounce increment based on cube. This distribution key is a proxy for cubic foot miles (as used in the CRA methodology). Data on cubic foot miles are not available by weight increment.

City delivery in-office costs (cost segments 6.1 and 6.2) are distributed to ounce increment based on IOCS tallies. This methodology is consistent with CRA methodology.

Delivery access costs and rural delivery costs are distributed to ounce increment based on volumes. This methodology is basically consistent with the costing methodology presented in USPS-T-11.

Delivery route costs are distributed to ounce increment based on volumes. In the CRA methodology, delivery route cost segments are distributed based on volume or weight. Since most delivery route costs are distributed based on volume in the CRA methodology, this key was used to distribute delivery route costs to ounce increment.

Delivery support costs are distributed to ounce increment based on the distribution of all other delivery costs, since support costs are

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RESPONSE CONTINUED:

related to all delivery aspects (this methodology is consistent with
CRA methodology).

In USPS-LR-J-58, delivery elemental load costs are distributed to
ounce increment based on weight. In the CRA methodology,
elemental load costs are distributed based on volumes. But as
discussed by witness Daniel in Docket No. R2000-1, the purpose in
distributing elemental load costs across weight increments (within
subclass and shape) using weight instead of volume is to set an upper
bound of the effects of weight for city carrier costs (see Tr. 4/1395 in
Docket No. R2000-1). As reiterated by witness Kay, "Ms. Daniel's
distribution of elemental load costs among ounce increments within a
rate category does exactly as she intends and sets an upper bound for
the effects of weight on city carrier costs *within* rate categories."
(USPS-RT-13/R2000-1, at 4). Since previous criticisms of the support
for the pound rate included a concern that the effect of weight was
understated, a distribution key was chosen that would blunt that
criticism. Note that in USPS-LR-J-58, elemental load costs are
distributed across subclass and shape using CRA methodology. It is
only when elemental load costs within subclass and shape are
distributed across weight increment that costs are distributed by

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RESPONSE CONTINUED:

weight. Weight was chosen as a distribution key in this instance for illustrative purposes.

If elemental load costs were distributed across weight increments (within subclass and shape) by volume instead of by weight, witness Hope's use of these data in her proposal would strengthen her argument for lowering the ECR pound rate, since the gap in implicit coverage between piece-rated and pound-rated pieces would be wider. An alternative version of her Table 3, including unit cost estimates developed using a volume distribution key for Standard ECR elemental load costs, is provided in Attachment A.

The version of unit costs in Attachment A that is developed using volume to distribute elemental load costs to weight increment is consistent with CRA methodology. The version of unit costs in Attachment A that is developed using weight to distribute elemental load costs to weight increment sets an upper bound for the effects of weight on city carrier costs within subclass and shape. Both versions of unit costs support witness Hope's proposal.

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ATTACHMENT A

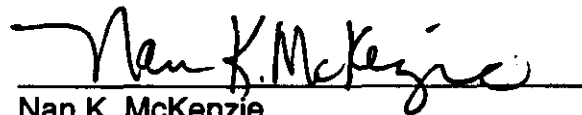
USPS-T-31, Table 3 (alternative)										
	BEFORE RATES					AFTER RATES				
	Unit Revenue	Unit Cost (weight)*	Implicit Coverage	Unit Cost (volume)**	Implicit Coverage	Unit Revenue	Unit Cost (weight)*	Implicit Coverage	Unit Cost (volume)**	Implicit Coverage
3.0 ounce dividing line										
Piece-rated	0.14245	0.0675	211.0%	0.0707	201.5%	0.15074	0.0675	223.3%	0.0707	213.2%
Pound-rated	0.20655	0.0827	249.8%	0.0753	274.3%	0.20887	0.0827	252.6%	0.0753	277.4%
3.5 ounce dividing line										
Piece-rated	0.14245	0.0684	208.3%	0.0712	200.1%	0.15057	0.0684	220.1%	0.0712	211.5%
Pound-rated	0.20655	0.0839	246.2%	0.075	275.4%	0.20895	0.0839	249.1%	0.075	278.6%

*Distribution of delivery elemental load costs within subclass and shape by weight

**Distribution of delivery elemental load costs within subclass and shape by volume

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.


Nan K. McKenzie

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October 25, 2001