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

POSTAL RATE AND FEE CHANGES, 1997                    Docket No. R97–1

## MOTION FOR LATE ACCEPTANCE AND RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF THE ALLIANCE OF NONPROFIT MAILERS (ANM/USPS–T29—1–17)

The United States Postal Service hereby provides responses of witness Daniel to the following interrogatories of the Alliance of Nonprofit Mailers: ANM/USPS–T29—1–17, filed on August 4, 1997. Each interrogatory is stated verbatim and is followed by the response.
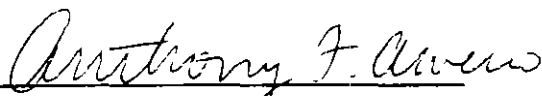
The Postal Service respectfully requests that these responses be accepted one day late. Additional time was needed for review of these responses by other persons familiar with the subject matter of the interrogatories. The Postal Service regrets any inconvenience this delay may have caused, but does not believe that any party has been prejudiced. The Postal Service has further attempted to minimize the effect on ANM by sending a copy of the responses to its counsel by facsimile transmission.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Anthony F. Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
August 19, 1997

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-1.** With reference to Exhibit USPS-T-29C, p. 6, please confirm that note [11] reads as follows: "Column [11] divided by column [2]."

**RESPONSE:**

Confirmed.

# RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-2.** With reference to Exhibit USPS-T-29C, p. 6, please explain what number(s) in column [11] is (are) divided by the numbers shown in column [2]. If that is not correct (or impossible), please explain fully the derivation of the numbers shown in column [11].

## RESPONSE:

Note [11] on page 6 of Exhibit USPS-29C should have read "Column [10] divided by Column [2] multiplied by 100 (to convert to cents)."

# RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-3.** With reference to Exhibit USPS-T-29C, p. 6, please confirm that the "'other' unit costs" for nonprofit and nonprofit ECR combined are 0.5537 (cents), as shown in column [11], and explain the derivation of this datum. If you fail to confirm fully, identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

## RESPONSE:

Confirmed. The derivation of Nonprofit "other" unit costs (0.5537 cents) is the sum of

Nonprofit and Nonprofit ECR total "other" costs in column [10] (62,172 + 11,218)

divided by the sum of Nonprofit and Nonprofit ECR volumes in column [2] (10,123,230

+ 3,132,000) multiplied by 100 to convert to cents.

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
## INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-4.** *If the "'other' unit costs" for nonprofit and nonprofit ECR combined are 0.5537 (cents), please refer to p. 5 of Exhibit USPS-29C and explain why the "other costs" shown in the table on that page for nonprofit mail are equal to the "other costs" for regular rate mail (0.6562 cents) shown on p.6 and not the "other costs" for nonprofit mail (0.5537 cents). Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.*

**RESPONSE:**

Page 5 of Exhibit USPS-29C mistakenly reported "other" costs for Regular categories instead of reporting "other" costs for Nonprofit categories. The figure should be 0.5537 cents.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

**ANM/USPS-T29-5.** In reference to Exhibit USPS-29C, p.5, footnote 6, please confirm that the cost data (27481700 + 16343300) and the volume data (34359010 + 32424240) shown in the right hand side of the equation are the data for regular rate mail shown on p.6 of Exhibit USPS-29C and are not the correct cost or volume data for nonprofit mail. If you fail to confirm fully, identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

**RESPONSE:**

Confirmed.

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-6.** If the cost data (27481700 + 16343300) and the volume data (34359010 + 32424240) shown in the right hand side of the equation are the data for regular rate mail shown on p.6 of Exhibit USPS-29C and are not the correct cost or volume data for nonprofit mail, please supply a copy of p.5 with "other costs" computed using the correct cost and volume data for nonprofit mail.

### RESPONSE

Footnote 6 on page 5 of Exhibit USPS-29C should have read as follows:

"CRA Before Rates Other =(Total cost-CS3.1 * piggy-CS6&7*piggy-CS10*piggy-CS14) costs/volume=(6217200+1121800)/(10123230+3132000)"

The correct "other" costs for Nonprofit categories is 0.5537 cents. A corrected version of the page will be filed.

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
## INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-7.** Indicate all testimony, including yours and other Postal Service witnesses of which you are aware, where the total unit cost data shown on p.5 of Exhibit USPS-29C are utilized or relied upon.

### RESPONSE

Witness Moeller is the only person of whom I am aware uses total unit cost data

calculated on p.5 of Exhibit USPS-29C; however, witness Moeller used total costs

which incorporated the correct Nonprofit "other" costs (instead of Regular "other" costs)

in the calculation on WP 2 page 34 entitled "Adjustment to TYAR Costs to Account for

Migration." Thus, witness Moeller's testimony is not affected by the above referenced

error.

**ANM/USPS-T29-8.** Please confirm that the unit cost for Standard A Regular Rate Basic
Presort letters is estimated to be 14.0657 cents, as shown at p.3 of Exhibit USPS-29C,
and the mail processing cost is estimated to be 9.0252 cents and explain any
nonconfirmation.

**RESPONSE:**

Confirmed.

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
## INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-9.** Please confirm that in Docket No. MC95-1 the unit cost for Standard A Regular Rate Basic Presort letters is estimated to be 17.8552 cents, as shown in USPS-T-12C, p.2 (revised 6/20/95, excludes contingency), and the mail processing cost was estimated to be 13.0067 cents. Explain any nonconfirmation.

**RESPONSE:**

Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

**ANM/USPS-T29-10.** Please provide a nontechnical description of the major factors that
have resulted in a -18.9 (sic) percent decrease in mail processing costs Standard A
Regular Rate Basic between Docket No. MC95-1 and Docket No. R97-1. In your
answer, please distinguish between (i) changes in the cost model (e.g., distinguishing
between UPGR Trays and NON-OCR Trays), (ii) changes in sources or inputs to cost
data (e.g., use of MODS data and estimates of non-modeled costs), and (iii) changes in
input data pertaining to the mail itself (e.g., changes in downflow density data). Identify
all studies, analyses, compilations and other data on which you rely, and produce any
such data that the Postal Service has not yet produced in this case.

**RESPONSE:**

Mail processing costs for Standard A Regular Rate Basic decreased, 30.6

percent, from 13 cents in Docket No. MC95-1 to 9 cents in Docket No. R97-1. The

major factors which contribute to the decrease in the mail processing cost for Standard

A Regular Basic letters include (1) the decline in the model costs and (2) the smaller

adjustment to CRA costs.[1] I address each factor below.

*Model Costs.* The model costs for Regular Basic Presort declined from 8.28

cents in Docket No. MC95-1 to 7.74 cents in this docket, a 6.5 percent decline.

Possible explanations for this decline include the fact that the modeling methodology

has changed and characteristics of the mail stream changed from 28 percent

automation compatible in Docket No. MC95-1 to 53 percent automation compatible in

this docket. In Docket No. MC95-1, the mail characteristics study did not provide an

estimate of machinability. Therefore, a "snapshot" modeling methodology was

employed in Docket No. MC95-1, where the entire Bulk Rate Regular mailstream was

modeled in one mailflow. The Commission criticized this approach, because it

compared the "idealized" automation models with "actualized" nonautomation models.

To respond to the Commission's concerns, in subsequent dockets (MC96-2 and R97-

1), machinability percentages were estimated and costs of separate mailstreams were

estimated using individual "idealized" mailflow models. In Docket No. R97-1, the cost of

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[1] Factors such as (i) an increase in the amount of DPS, (ii) higher wage rates, (iii) an
increase in the costs per sort on DBCS (despite the 95 volume variability of BCS
operations), (iv) an increase in RBCS unit costs, and (v) the elimination of LSMs tend to
increase model costs. Other factors, including (i) decreases in manual sorting costs, (ii)

three mailstreams were weighted together to determine the average cost of Regular
Basic Presort. The cost of Basic Presort letters in UPGR Trays were given a weight of
13 percent, the cost of upgradable Basic Presort letters in NON-OCR Trays were given
a weight 39 percent, and the cost of nonupgradable Basic Presort letters in NON-OCR
Trays were given a weight of 47 percent. Thus, it appears that since MC95-1, the Basic
Presort mailstream has become more automation compatible and therefore somewhat
less costly.[2]

   *CRA Adjustment.* Another reason for the decline in costs is due to smaller CRA
adjustments. There is a 22 percent decline in the CRA-reported volume variable mail
processing letter costs from test year FY95 of Docket No. MC95-1 of 6.8065 cents to
the Docket No. R97-1 test year FY98 cost of 5.3114 cents. However, the average test
year modeled costs for all Standard (A) Regular letters (4.33 cents for TY95 and 4.26
cents for TY98), which are used to calculate the overall adjustment, are virtually
unchanged. The ratio of average Standard (A) Regular letter mail processing model
cost to CRA Standard (A) Regular letter mail processing costs was 1.57 in MC95-1 and
is 1.25 in R97-1. Whereas the entire ratio was applied proportionately in MC95-1, a
ratio of 1.066 is applied proportionately in this docket and 0.77 cents is added as a
constant. The different adjustment level accounts for the remaining 25 percent of the
decline.

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(..continued)
decreases in CSBCS costs, and (iii) the rise in automation coverage factors tend to
offset these increases.
[2] It is important to keep in mind, however, that keeping the costing methodology and
mailstream characteristics constant, model costs have tended to rise. For example, the
model costs for the Regular and Nonprofit Automation categories, for which the
modeling methodologies are the same and the mailstream is more homogenous, are
somewhat higher in this docket than in Docket No. MC95-1.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

**ANM/USPS-T29-11.** Explain why the factors which you discussed in response to the
preceding interrogatory did not affect the unit cost for Standard A Nonprofit Basic letters
in a similar manner. Identify all studies, analyses, compilations and other data on which
you rely, and produce any such data that the Postal Service has not yet produced in
this case.

**RESPONSE:**

First, it is important to bear in mind that not all Nonprofit categories behaved

differently from Regular. As stated in footnote 2 to the response to ANM/USPS-T29-10,

model costs for homogeneous categories such as Automation increased for *both*

Regular and Nonprofit.

For Nonprofit nonautomation categories, unlike nonautomation Regular

categories, the costs increased slightly over the TY in MC96-2. This can be attributed

to an increase in model costs for Nonprofit Basic Presort, which rose 38 percent , from

6.4 cents in MC96-2 to 8.9 cents in R97-1. The modeling methodology for Nonprofit is

the same in both Dockets MC96-2 and R97-1 (both are "idealized" mail flows). This is

not the case in Regular, however, since the modeling methodology for categories in

that subclass changed as described in the response to ANM/USPS-T29-10. Therefore,

the additional cost increase for Nonprofit is most likely due to the change in the

proportion of automation compatible letters in the mailstream. According to the mail

characteristics data, the proportion of automation compatible letters in Regular Basic

Presort increased since MC95-1, thereby reducing costs for this category, but the

proportion of automation compatible letters in Nonprofit Basic Presort decreased since

MC96-2, thereby causing costs for this category to increase.

Much of the increase in the model cost for Nonprofit Basic Presort was offset,

however, by the smaller CRA adjustment. There is an 18 percent decline in the volume

variable mail processing letter costs from test year FY95 of MC96-2 of 5.7 to the Docket

No. R97-1 test year FY98 cost of 4.6. However, the average test year modeled costs

for all Nonprofit categories (5.08 cents for TY95 and 4.97 cents for TY98), which are

used to calculate the overall adjustment, are virtually unchanged. The ratio of average

Standard (A) Nonprofit letter mail processing model costs to CRA Standard (A) Regular

letter mail processing costs was 1.11 in MC96-2 and is 0.93 in R97-1. Whereas the

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
## INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

entire ratio was applied proportionately in MC96-2, a ratio of 0.812 is applied

proportionately in this Docket and 0.59 cent is added as a constant. The different

adjustment level tends to mitigate the increases in modeled costs.

**ANM/USPS-T29-12.** *Please confirm that the unit cost for Standard A Regular Rate 3/5*
Presort letters is estimated to be 11.7504 cents, as shown at p.3 of Exhibit USPS-29C,
and the mail processing cost is estimated to be 6.7389 cents. Explain any
nonconfirmation.

**RESPONSE:**

Confirmed.

# RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-13.** Please confirm that in Docket No. MC95-1 the unit cost for Standard A Regular Rate Basic Presort letters is estimated to be 13.1751 cents, as shown in USPS-T-12C, p.2 (revised 6/20/95, excludes contingency), and the mail processing cost was estimated to be 8.3116 cents. Explain any nonconfirmation.

**RESPONSE:**

Not confirmed. See response to ANM/USPS-T29-8.

**ANM/USPS-T29-14.** Provide a nontechnical description of the major factors that have
resulted in a -18.9 percent decrease in mail processing costs Standard A Regular Rate
3/5-digit letters between Docket No. MC95-1 and Docket No. R97-1. In your answer,
please distinguish between (i) changes in the cost model (e.g., distinguishing between
UPGR Trays and NON-OCR Trays), (ii) changes in sources or inputs to cost data (e.g.,
use of MODS data and estimates of non-modeled costs), and (iii) changes in input data
pertaining to the mail itself (e.g., changes in downflow density data). Identify all studies,
analyses, compilations and other data on which you rely, and produce any such data
that the Postal Service has not yet produced in this case.

**RESPONSE:**

The decrease in the Standard (A) Regular Rate 3/5 letters cost is due to the

same factors discussed in ANM/USPS-T29-10 with respect to Regular Rate Basic

letters. The main difference is that the model costs increased by 6 percent, from 5.3

cents in Docket No. MC95-1 to 5.6 cents in Docket No. R97-1. Thus, the change is

most likely caused by smaller CRA adjustments.

# RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-15.** Explain why the factors which you discussed in response to the preceding interrogatory (ANM/USPS-T-29-14) did not affect the unit cost for Standard A Nonprofit 3/5-Digit letters in a similar manner. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

## RESPONSE:

Standard (A) Nonprofit 3/5-digit letter mail processing costs increased 4 percent, from 5.3 cents in Docket No. MC96-2 to 5.5 cents in Docket No. R97-1. The increase in the Standard (A) Nonprofit 3/5-digit letters cost is due to the same factors discussed in ANM/USPS-T-29-11 with respect to Basic letters. The main difference is that the model costs for Nonprofit 3/5-digit letters increased by a smaller amount, 27 percent, from 4.8 cents in Docket No. MC96-2 to 6.1 cents in this Docket. This increase in model costs was similarly offset by smaller CRA adjustments.

## RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-16.** Among other things, Exhibit USPS-29B, p.1, shows the following:

|  | Model Weights |
|---|---|
| Presort Basic UPGR Trays | 2.81% |
| Presort Basic NON-OCR Trays - Upgradable | 3.93% |
| Presort Basic NON-OCR Trays - Non Upgradable | <u>9.48%</u> |
| Subtotal | 16.21% |

In Docket No. MC96-2, USPS-T-5, Appendix 1, p.5, Section E (Standard Class, Nonprofit, Automation Compatible, Presort Basic and 3/5 Flows), stated that: "The automation compatible unit costs are weighted with the corresponding non-automation compatible unit costs in the same proportion as used in the benchmark model set (65.8% automation compatible and 34.2% non-automation compatible)."

a. For comparing your testimony in this Docket with your testimony in Docket No. MC96-2, please confirm that "UPGR [Upgradable] Trays" are considered automation compatible. Please explain any nonconfirmation. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

b. For comparing your testimony in this Docket with your testimony in Docket No. MC96-2, please confirm that "NON-OCR Trays-Upgradable" are considered automation compatible. Please explain any nonconfirmation. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

c. For comparing your testimony in this Docket with your testimony in Docket No. MC96-2, please confirm that "NON-OCR Trays-Non Upgradable" are considered non-automation compatible. Please explain any nonconfirmation. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

d. Please confirm that in this Docket 41.6 percent of Nonprofit Presort Basic (6.75/16.21) is considered automation compatible. Please explain any nonconfirmation. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

e. Please explain why the share of Nonprofit Presort Basic automation compatible mail declined from 65.8 percent in Docket No. MC96-2 to 41.6 percent in Docket No. R97-1. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

## RESPONSE:

a. Confirmed.

b. Confirmed.

c.    Confirmed.

d.    *Confirmed.*

e.    I do not know why the share of Nonprofit Presort Basic automation compatible
mail declined.  One explanation could be that automation compatible letters previously
entered in the nonautomation categories migrated to the Automation categories,
thereby lowering the proportion of automation compatible letters in the nonautomation
cateogories.

# RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

**ANM/USPS-T29-17.** Exhibit USPS-29B, p.1, shows, among other things, the following:

|  | Model Weights |
|---|---|
| Presort 3/5 UPGR Trays | 2.50% |
| Presort 3/5 NON-OCR Trays - Upgradable | 5.66% |
| Presort 3/5 NON-OCR Trays - Non Upgradable | 13.67% |
| Subtotal | 21.83% |

In Docket No. MC96-2, USPS-T-5, Appendix 1, p.5, Section E (Standard Class, Nonprofit, Automation Compatible, Presort Basic and 3/5 Flows), stated that: "The automation compatible unit costs are weighted with the corresponding non-automation compatible unit costs in the same proportion as used in the benchmark model set (65.8% automation compatible and 34.2% non-automation compatible)."

a.     Please confirm that in this Docket 37.4 percent of Nonprofit Presort Basic (8.16/21.83) is considered automation compatible and 62.6 percent is non-automation compatible. Please explain any nonconfirmation. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

b.     Please explain why the share of Nonprofit Presort Basic automation compatible mail declined from 65.8 percent in Docket No. MC96-2 to 37.4 percent in Docket No. R97-1. Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

## RESPONSE:

a.     Not confirmed. Please see the response to ANM/USPS-T29-16(d).

b.     The share of automation compatible mail declined from 65.8 to 41.6 for Nonprofit Presort Basic. Please see my response to ANM/USPS-T29-16e.
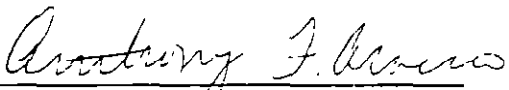
# DECLARATION

I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are

true and correct, to the best of my knowledge, information, and belief.

SHARON DANIEL

Dated· ___August 19, 1997___

# 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.

*Anthony F. Alverno*

Anthony F. Alverno

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August 19, 1997