

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, 1997

Docket No. R97-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS HATFIELD
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T25-1(a)&(d), 2 THROUGH 5, 7 AND 8)**

The United States Postal Service hereby files the responses of witness Hatfield to the following interrogatories of Major Mailers Association, dated August 13, 1997: MMA/USPS-T25-1(a)&(d), 2 through 5, 7 and 8.

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

Objections to MMA/USPS-T25-1(b) and (c) were filed on August 25, 1997.

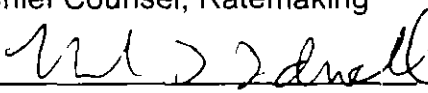
MMA/USPS-T25-6 has been redirected to witness Moden for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-1. On page 3 of your testimony you indicate that for your analysis of First-Class bulk mail cost savings, your benchmark is a "shape specific, product specific mail processing unit cost that includes all volume variable mail processing costs that are captured in the CRA".

(A) Does this mean that your unit benchmark processing costs are consistent with the Postal Service's attributable cost methodology as presented by USPS witness Alexandrovich? Please explain any no answer.

(B) Does this mean that your unit benchmark processing costs differ from those that would be produced under the Commission's approved cost methodology as provided in the last omnibus rate proceeding, Docket No. R94-1? Please explain any no answer.

(C) Please refer to your answer to Paragraph (B) of this Interrogatory. If you had used the Commission-approved methodology, what would be the effect upon the costs for First-Class letters that are shown in Table II-2 on page 4 of your testimony, USPS-T-25? Please provide a version of Table II-2 that shows how the costs for First-Class letters would change if you had used the Commission-approved methodology.

(D) Please provide a version of Table II-2 that shows how the costs for First-Class letters would change if you had used a methodology that attributed all mail processing labor costs as 100 percent variable? Please support your answer.

RESPONSE:

(A) Yes.

(B) Objection filed.

(C) Objection filed.

(D) It is difficult to speculate regarding the effects that using a different cost methodology would have on the unit costs developed in my testimony because such an analysis has not been conducted. It is my understanding that the methodology used in the current case incorporates several improvements over cost methodologies presented in prior dockets. Without undertaking the considerable effort required in analyzing the

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

numerous effects that using a different cost methodology may have on the unit costs developed in my testimony, I am not able to determine how these costs would change.

Since I have not conducted such an analysis, I am not able to provide unit cost estimates based on a cost methodology other than that presented in this docket.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-2. On page 5 of USPS-T-25, you note that the "models yield an average mail processing cost per piece for the average letter in each different rate category".

(A) What is the weight of an "average" letter for each category which the costs of your models reflect?

(B) For these "average" letters, how many weigh under one ounce, between one and two ounces, and between two and three ounces?

(C) How would the costs in your models change if the mail flows reflected letters weighing only up to one ounce? Please explain your answer.

(D) How would the costs in your models change if the mail flows reflected letters weighing only up to two ounces? Please explain your answer.

(E) How would the costs in your models change if the mail flows reflected letters weighing between one and two ounces? Please explain your answer.

(F) Are First-Class prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between one and two ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

(G) Are First-Class prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between two and three ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

(H) Are Standard Mail A prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between one and two ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

(I) Are Standard Mail A prebarcoded automated letters (basic, 3-digit and 5-digit) weighing between two and three ounces sorted on barcode sorters? If your answer is no, can those letters be sorted on barcode sorters? Please explain any no answers.

RESPONSE:

(A) Data are not available that would allow the calculation of the weight of an average letter in each of the rate categories for which I have developed unit costs.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

However, the weight of an average piece within each of the benchmark categories used in my testimony is listed below:

- First-Class non-carrier route presort letters - 0.61 ounces
- First-Class carrier route presort letters - 0.63 ounces
- First-Class non-carrier route presort cards - 0.12 ounces
- First-Class carrier route presort cards - 0.13 ounces

(B) First-Class non-carrier route presort letters (in thousands):

- Under one ounce - 32,248,523
- Between one and two ounces - 620,658
- Between two and three ounces - 105,510

First-Class carrier route presort letters (in thousands):

- Under one ounce - 2,657,557
- Between one and two ounces - 127,298
- Between two and three ounces - 11,129

First-Class non-carrier route presort cards (in thousands):

- Under one ounce - 1,500,512
- Between one and two ounces - 807
- Between two and three ounces - 36

First-Class carrier route presort cards (in thousands):

- Under one ounce - 321,401
- Between one and two ounces - 121

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

- Between two and three ounces - 0

(C) - (E) It is difficult to hypothesize regarding how the mail processing costs for presorted First-Class Mail would differ in a situation where one was able to model the different effects of weight on mail processing costs. As stated by witness Smith in his response to MMA-T10-2B in Docket No. MC95-1, "Weight has a variety of implications for mail processing costs, due to its impact on both labor costs and equipment costs." In some situations, heavier pieces will tend to have higher mail processing costs for various reasons. For example, heavier pieces may lead to lower throughputs on automated equipment and cause more jams and damage.

(F) - (I) Based on the content requirements for automation compatible mail as specified in DMM 810.2.3, it is my understanding that these pieces are processed on *barcode sorters*.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-3. On page 9 of USPS-T-25, you indicate how you “adjusted” productivities (upwards, which lowered costs) to account for the Service’s presentation that not all labor mail processing costs are 100% variable. You also indicate that the “productivities were calculated by dividing the total number of pieces processed through an operation or group of operations for the year by the total number of workhours associated with the operation or group of operations for the year”.

(A) Please confirm that, before adjustment, productivities were based upon actual person-hours worked to process a particular volume of mail.

(B) Referring to Paragraph (A) of this Interrogatory, explain *your* justification for increasing productivities higher than they actually were.

(C) Did you make the adjustment in productivities for any reason other than to conform your analysis to other Service witnesses’ conclusion that direct labor costs do not vary 100 percent with volume. If your answer is other than no, please explain in detail.

(D) Did you perform an analysis without adjusting the productivities? If so, please provide the results of that analysis.

(E) If the Commission concludes that direct labor costs *do* vary 100 percent with volume, would you agree that your cost models underestimate the computed cost savings (under a Commission determination of 100 percent variability)? Please explain any no answer.

RESPONSE:

(A) Yes, but it is my understanding that, if a productivity were calculated based on total workhours from MODS, this productivity would reflect an assumed volume variability of 100 percent.

(B) In estimating the volume variability of mail processing operations, Dr. Bradley (USPS-T-14) showed that for certain operations the volume variability was less than one. A volume variability of less than one indicates that there is a less than proportional increase in the amount of the labor associated with a given volume

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

increase. Therefore, in order to calculate a volume variable cost, a volume variable productivity, or marginal productivity should be used. The unadjusted productivity fails to reflect the higher productivity on the margin. In developing unit mail processing costs for presorted First-Class Mail, I employ volume variable productivities in order to calculate volume variable costs.

(C) See my response to part (B) of this question.

(D) No analysis has been conducted that assumes 100 percent volume variability for all mail processing operations using the most recent and best available data. Partial analyses were conducted in the early stages of preparation for this docket that assumed 100 percent volume variability of mail processing operations; however, since that time other changes and updates have been made that render the earlier analyses obsolete.

(E) If all the necessary analyses were conducted to support an assumption of 100 percent volume variability for all mail processing operations, it is likely that the unit mail processing costs produced in my testimony would increase. Increases in each of the unit costs would imply that, in general, the differences between the unit costs would also increase. However, it is impossible to confirm at this time the specific effects such an analysis would have on each and every unit cost estimate produced in my testimony due to the complexity of the analysis and its reliance on certain data from other sources.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-4. On page 12 of your testimony you note that during your accept and upgrade rate study, "rejects can go to a variety of places depending on the reason for the reject."

(A) Please describe all of the possible reasons for rejects that were experienced and recorded?

(B) For each reason noted in your answer to Paragraph (A) of this Interrogatory, please quantify the (1) cost per-piece for each type of mail rejected, by category of rejection, and (2) rate of occurrence of each type of rejection.

RESPONSE:

(A) Pieces rejected on the output subsystem (OSS) of the remote bar code system (RBCS) were measured in four different categories based on where the rejects would receive their next operation. Below is a list of each of the four categories and the types of rejects that fall into each:

- **Rejects to the RBCS input subsystem:**
 - NOT - pieces with no ID tag
 - DBF - pieces that are double fed
 - MSF - pieces that are misfaced
 - MISS - pieces with missing ID tags
 - HDR/HED - pieces with header information only
- **Rejects to the letter mail labeling machine (LMLM)**
 - VER - pieces with a PostNET verifier error
 - URT - pieces with unreadable ID tags
- **Rejects to the RBCS output subsystem**
 - ZNR - pieces with an unresolved ZIP code
 - ZPR - pieces with a partially resolved ZIP code
 - TMO - pieces that are timed out
- **Rejects to manual**
 - FRG/FGR - pieces of foreign mail
 - NOI - pieces with unreadable images
 - STL/OLD - pieces with old ID tags
 - NOZ - pieces with no ZIP found on the IPSS

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

(B) The accept and upgrade rate study did not measure the different costs associated with different types of rejects. Further, the different types of rejects described in my response to part (A) of this question are not modeled separately in my testimony.

The accept and upgrade study measured the average reject rate for each type of reject described above through a particular operation for different categories of First-Class Mail and Standard Mail. The average reject rates for the OSS that are used in my testimony can be found in Library Reference USPS LR-H-130 and are listed below:

	ISS	LMLM	OSS	Manual
FC Presort non-automation, OCR	0.0363	0.0749	0.0176	0.0133
FC Presort non-automation, Non-OCR	0.0706	0.1136	0.0090	0.0224

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-5. On pages 12-15 of USPS-T-25, you describe mail preparation and entry requirements that have been instituted as a result of Docket No. MC95-1 re-classification. For example, prior to classification reform, automated mail could be prepared in bundles. Now all mail must be prepared in full trays.

(A) Please quantify--for each category of mail affected--the per-piece cost savings due to the Docket No. MC95-1 revisions in mail preparation and entry requirements.

(B) Are the cost savings described in Paragraphs (A) and (B) taken account of in the USPS proposed rates for First-Class automated mail and, if so, how? Please explain.

(C) Are the cost savings described in Paragraphs (A) and (B) taken account of in the USPS proposed rates for First-Class presorted (but not automated) mail and, if so, how? Please explain.

(D) Doesn't your methodology omit any presort cost savings that occur during the mail acceptance and mail preparation operations? Please explain any no answer.

(E) Please provide the productivities for the mail acceptance and mail preparation operations. What is the source of these productivities?

RESPONSE:

(A) On a rate category by rate category basis it is difficult to quantify cost savings associated with specific changes in mail preparation and entry requirements. This is due to the fact that Docket No. MC95-1 fundamentally changed the nature of certain rate categories and the types of mail that can be entered. For example, before the Docket No. MC95-1 decision was implemented, nonbarcoded presorted First-Class Mail rates only applied to mail entered in 3-digit and 5-digit packages. After the decision was implemented, First-Class nonautomation presort mail could be entered in ADC and mixed ADC packages and, for OCR upgradable mail, AADC and mixed AADC containers. These fundamental changes in rate categories make it difficult to isolate

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

the effects of cost changes due to individual changes in mail preparation and entry requirements.

In order to account for the changes in mail preparation and entry requirements along with other changes in rate category requirements, the Postal Service conducted an analysis that is contained in Library Reference USPS-LR-H-126. It is my understanding that the analysis develops an FY 1996 overall unit mail processing cost for the post-reclass categories of mail on a rate category by rate category basis using a mail flow modeling approach similar to the one presented in my testimony. This unit cost is then compared to the actual FY 1996 unit cost representing primarily the pre-reclass categories of mail. The actual FY 1996 unit cost is calculated on an aggregate basis; therefore, comparisons at a rate category level are not possible.

(B) It is my understanding that changes in the mail processing costs of certain types of mail due to the Docket No. MC95-1 decision are accounted for in Library Reference USPS LR-H-126. The cost savings calculated in LR-H-126 are incorporated in the test year rollforward. Because the cost estimates developed in my testimony rely on data from the test year rollforward (through the use of the benchmark unit costs by shape) the cost savings calculated in LR-H-126 are reflected in the unit cost estimates developed in my testimony.

(C) See my response to part (B) of this question.

(D) The methodology used in my testimony develops unit mail processing costs for presorted First-Class Mail rate categories and therefore reflects the

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

differences in mail preparation costs between the categories arising from differences in make up such as bundling vs. full trays. As noted above, USPS LR-H-126 shows the calculation of the changes in costs arising from the implementation of reclassification reform.

(E) I am not aware of any productivity data regarding mail acceptance and mail preparation operations nor did I rely on any such data in preparing my testimony.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-6. On page 18 of USPS-T-25, you state that "the Postal Service intends to reduce LSM processing equipment in automated facilities as much as is operationally feasible" and that in your models, "mail that is rejected from automated equipment is sent directly to manual processing".

Is it the Postal Service's position that, given all of the costs involved, it is less expensive to process non-machinable letters manually rather than on letter sorting machines? Please explain.

RESPONSE:

Redirected to witness Moden.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-7. Please refer to Appendix I of USPS-T-25, where you compute model unit costs for First-Class Nonautomation Presort, Automation Basic Presort, Automation 3-Digit Presort and Automation 5-digit Presort. For each of these four categories of First-Class Mail, please describe where in your mail flow diagrams and computations you take into account the extra costs of processing 2-ounce letters (compared to 1-ounce letters). Can you quantify those costs and, if you can, please provide that quantification.

RESPONSE:

The mail flow diagrams presented in my testimony do not contain distinct considerations for pieces of different weights. The cost of letters that have a specific weight other than the average weight cannot be determined using the methodology and data presented in my testimony.

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T25-8. Over the past few years there have been new requirements that First-Class automated letters must meet. Presumably these were sought by the Postal Service to reduce postal costs.

(A) In your study's derivation of unit mail processing costs, did you quantify and take into account any cost savings due to the new, stricter entry requirements implemented after classification reform? If so, explain in what quantitative manner those cost savings were taken into account.

(B) In your study's derivation of unit mail processing costs, did you quantify and take into account any cost savings due to the requirement that zip codes include 11 digits, instituted in connection with Docket No. MC93-2? If so, explain in what quantitative manner those cost savings were taken into account.

(C) In your study's derivation of unit mail processing costs, did you quantify and take into account the new, stricter address requirements implemented after classification reform? If so, explain in what quantitative manner those cost savings were taken into account.

(D) In your study's derivation of unit mail processing costs, did you quantify and take into account the new requirement that reply envelopes be machineable and pre-barcode? If so, explain in what quantitative manner those cost savings were taken into account.

RESPONSE:

(A) See response to MMA/USPS-T-25-5.

(B) Yes. The adoption of the 11-digit barcode was to enable DPS. The test year projected DPS volumes for each category are determined in the mail flow models *and are used in calculating the mail processing unit costs for each category.* In this way, savings or additional costs for each category are quantified.

(C) Yes. Stricter address requirements will have a direct impact on the accept and upgrade rates of this mail on automation equipment. To the extent that address information on presorted First-Class Mail has improved, the latest study of accept and

RESPONSE OF POSTAL SERVICE WITNESS HATFIELD TO
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

upgrade rates on automated equipment (USPS LR-H-130) will reflect those changes.

Therefore, the accept and upgrade rates used to develop mail processing unit costs in my testimony will reflect the address characteristics of presorted First-Class Mail after Docket No. MC95-1.

(D) My testimony does not estimate the mail processing costs associated with reply mail. Therefore, I have no opportunity to take into account changes in the requirements of reply envelope preparation.

DECLARATION

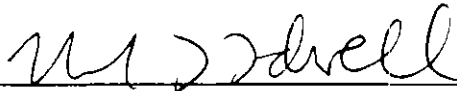
I, Philip A. Hatfield, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Philip A. Hatfield

Dated: 8-27-97

CERTIFICATE OF SERVICE

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


Michael T. Tidwell

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August 27, 1997