

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 MILLER
TO INTERROGATORIES OF BROOKLYN UNION GAS COMPANY
(BUG/USPS-T23-1 THROUGH 10)**

The United States Postal Service hereby files the responses of witness Miller to the following interrogatories of Brooklyn Union Gas Company, dated August 22, 1997: BUG/USPS-T23-1 through T23-10.

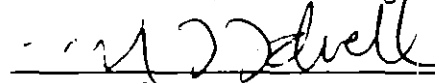
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 2, 1997

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
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BUG/USPS-T23-1. On page 3 (Lines 8-10) of your testimony you indicate that you measured Prepaid Reply Mail ("PRM") cost savings "up to the point where PRM and a handwritten First-Class reply letter receives its first barcoded sortation on a BCS." Does this mean that your models disregard any additional cost savings that PRM provides after the outgoing primary sort? Please explain any no answer.

RESPONSE:

The models themselves did not include any additional cost avoidance beyond the first barcoded sortation. However, I attempted to account for this additional cost avoidance through the application of the First-Class non-carrier route presort CRA adjustment factor as developed by USPS witness Hatfield (USPS-T-25). As stated in my testimony (page 9, lines 8-11), "The application of this factor is appropriate since the models do not consider some elements which would have contributed to further increasing the cost avoidance. These elements include: bin capacity constraints, barcoding limitations, REC keying errors, system failures, and REC productivity."

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BUG/USPS-T23-2. On page 3 of your testimony you discuss the Advanced Facer Canceler System (AFCS) operation that culls, faces, cancels, and sorts collection letters. What is the productivity and unit cost to perform this function?

RESPONSE:

The costs related to AFCS cancelation operations would be the same for both a handwritten reply mail piece and a Prepaid Reply Mail piece. As a result, these costs were not included in my testimony. Furthermore, I am not aware of any study that has been conducted to identify the costs associated with AFCS operations.

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BUG/USPS-T23-3. On pages 8 and 9 of your testimony you discuss how you reconciled your model costs to the CRA. For PRM you applied the First-Class Non-Carrier Route Presort CRA adjustment factor of 1.1586.

- (a) Please refer to Exhibit USPS-T-23D. How did you obtain your adjustment factor of 1.1586 for handwritten letters? Please explain your answer.
- (b) Did you apply a "fixed" cost adjustment factor to each of your model costs, in the same way that USPS witness Hatfield did? (See USPS-25A, page 1). If so, please explain. If not, please explain why not.

RESPONSE:

The testimony included on pages 8 and 9 did not actually reconcile my model costs to actual CRA data for First-Class single-piece mail. It was not possible to perform this calculation due to the fact that full-scale models could not be created. The First-Class non-carrier route presort CRA adjustment factor of 1.1586 was applied as an alternative to account for the fact that some elements were not modeled which could have contributed to further increasing the cost avoidance (page 9, lines 8-9).

- (a) The adjustment factor used for handwritten letters was the same factor that was used for PRM. In both cases the First-Class non-carrier route presort CRA adjustment factor (see USPS-25A, page 1) was used.
- (b) A "fixed" cost adjustment factor was not applied to the model costs for either the handwritten reply mail benchmark or PRM because it would not have affected the magnitude of the cost avoidance.

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BUG/USPS-T23-4. On page 9 of your testimony, you note that your models assume that handwritten and prebarcoded letters are processed to the same depth of sort. Do you agree that if PRM can be sorted to the addressee in fewer sorts than handwritten letters, such an assumption causes you to understate the derived PRM cost savings? Please explain any no answer.

RESPONSE:

Although it was not explicitly stated in this section of my testimony (page 9, lines 12-13), I was referring to handwritten and prebarcoded "reply" mail pieces. Given that fact, I agree that these savings might have been understated were a PRM mail piece to be finalized in fewer sortations than a handwritten reply mail piece. I do not, however, agree that this situation would actually occur. The point at which a mail piece is finalized is dictated by mail volume. A high volume reply mail recipient would receive the same total volume whether households used preapproved, prebarcoded reply envelopes or handwritten reply envelopes. Therefore, the mail pieces in both scenarios should both be finalized at the same point in time (e.g., the first barcoded sortation, the second barcoded sortation, etc.).

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BUG/USPS-T23-5. On pages 9 and 10 of your testimony, you discuss barcode percentages, REC keying errors, system failures, and REC productivity. Do you agree that for each of these situations, your models tend to understate the cost differences between PRM letters and handwritten reply letters. Please explain any no answer.

RESPONSE:

Yes. However, I attempted to account for the impact these situations might have had on the cost avoidance through the application of the First-Class non-carrier route presort CRA adjustment factor.

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BUG/USPS-T23-6. USPS witness Fronk testified that PRM recipients will need to receive a certain "break-even" volume such that the unit postage savings will offset the monthly accounting fee charges. (See USPS-T-32, page 43.) Witness Fronk used a break-even volume of 200,000 pieces annually in his Workpaper III.

- (a) Do you agree with USPS witness Fronk that recipients who wish to join the PRM program are likely to receive significant volumes of mail? Please explain any no answer.
- (b) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to be assigned their own 5-digit ZIP code destination? Please explain any no answer.
- (c) Do you agree that PRM recipients who receive mail in "bulk" quantities, if they are not assigned their own unique 5-digit ZIP code, are likely to be assigned their own 9-digit ZIP code destination? Please explain any no answer.
- (d) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to obtain a final sort to addressee in the incoming secondary sort and by-pass the carrier sequencing operations? Please explain any no answer.
- (e) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to obtain a final sort to addressee in the incoming primary sort and by-pass the incoming secondary sort and carrier sequencing operation? Please explain any no answer.
- (f) Do you agree that PRM recipients who receive mail in "bulk" quantities, particularly if the mail is local, are likely to obtain a final sort to addressee in the outgoing primary sort and by-pass the incoming primary, incoming secondary, and carrier sequencing operations? Please explain any no answer.
- (g) Do you agree that PRM recipients who receive mail in "bulk" quantities are likely to have their mail addressed to a post office box rather than have their mail delivered by a carrier? Please support your answer.
- (h) What proportion of advance deposit Business Reply Mail is currently addressed to a post office box?
- (i) USPS witness Hume testified that First-Class letters cost about 5 cents to deliver. (See USPS-18A, page 6 (Line 16, Column I)). Do you agree that PRM letters delivered in "bulk" quantities and which are addressed to post office box will save the Postal Service a delivery cost of about 5 cents? Please explain any no answer.

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- (j) Can you confirm that your models do not measure any cost savings for PRM which might result from PRM being delivered in "bulk" quantities and to a post office box (or firm holdout)? If not, please explain.

RESPONSE

- (a) Yes.
- (b), (c) I do not know the percentage of mail recipients that are assigned either a 5-digit or 9-digit ZIP code destination, nor am I familiar with how those assignments relate to mail volume.
- (d), (e), (f) It is expected that PRM will be finalized in either the incoming secondary, incoming primary, or outgoing primary operation based on mail volume.
- (g) I would agree that large volume mail recipients would be more likely to have their mail delivered to a post office box rather than have their mail delivered by a carrier.
- (h) I do not know the percentage of BRM that is addressed to a post office box.
- (i), (j) My testimony measures the mail processing cost avoidance only. However, the inclusion of delivery costs in my testimony would not have affected the cost avoidance as the same manner of delivery would have been used for both the handwritten reply mail piece and the PRM mail piece.

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BUG/USPS-T23-7. It is our understanding that, by definition, PRM will never receive free forwarding at the proposed PRM rate of 30 cents.

- (a) Do you expect that PRM will ever receive forwarding? If yes, please explain how this will be accomplished and the rationale for allowing this mail to be forwarded with the recipient being charged only 30 cents.
- (b) Does a handwritten reply letter receive free forwarding and return service? Please explain any no answer.
- (c) Please confirm that your models do not measure any cost difference or cost savings resulting from handwritten reply letters getting forwarded and PRM never receiving forwarding? Please explain any no answer.
- (d) Please confirm that your models do not measure any cost savings resulting from handwritten reply letters requiring use of the central mark-up system to print forwarding addresses and PRM never requiring use of this system? Please explain any no answer.
- (e) Can you quantify any savings that PRM provides since this mail will not incur forwarding or central mark-up charges? Please provide support for your answer.

RESPONSE

- (a) I do not know how often PRM will require forwarding and am not familiar with the basis for your understanding.
- (b) Yes. Like other First-Class mail pieces, handwritten reply mail pieces do not incur any additional charges for forwarding and return services.
- (c) Confirmed.
- (d) I am aware of no basis for attempting such a measurement.
- (e) See my response to (a).

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BUG/USPS-T23-8. Please confirm that your models do not measure any cost savings caused by handwritten reply letters incurring window service costs for mailing and stamp sales whereas PRM does not? Please explain any no answer.

RESPONSE:

Confirmed.

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BUG/USPS-T23-9. You list the productivities that you used as inputs to your model in EXHIBIT USPS-T-23-B.

- (a) Please confirm that you adjusted upward the actual productivities, in a manner similar to that employed by USPS witness Hatfield (see USPS-T-25, pp. 8-10) to reflect the Postal Service's proposed cost methodology whereby USPS labor costs are not 100% attributable? If you cannot confirm, please explain.
- (b) Did you perform your analysis using actual (unadjusted) productivities? If so, please provide those results.
- (c) If your answer to part (b) is no, please confirm that had you used the unadjusted productivities, the cost savings derived for PRM would be higher?
- (d) If your answer to part (b) is no, please provide the unadjusted productivities for each of the operations included in your cost models.

RESPONSE:

- (a) With the exception of the REC keying productivity, my models use the same productivity inputs as USPS witness Hatfield (USPS-T-25, page 8, lines 23-24) which "show volume variabilities for certain mail processing operations that are less than 100 percent." The REC keying operation was determined to be a 100% volume variable operation. Therefore, there is no difference between the actual productivity and the volume variable productivity.
- (b) No.
- (c) Confirmed.
- (d) This information can be found in USPS LR-H-113, p. 100, column E.

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BUG/USPS-T23-10. Under the Postal Service's PRM proposal postage is to be paid by advanced deposit account.

- (a) Will any interest be paid on excess funds kept in PRM advance deposit accounts?
- (b) If your answer to part (a) is no, will the Postal Service experience a financial benefit from excess postage being kept in PRM advance deposit accounts?
- (c) If your answer to part (b) is yes, can you quantify any financial benefit that the Postal Service will enjoy from excess postage being kept in PRM advance deposit accounts? Please provide support for you answer.

RESPONSE:

- (a) I am not familiar with the specific requirements of advanced deposit accounts or what would be considered "excess" funds.
- (b) See response to (a).
- (c) See response to (a).

DECLARATION

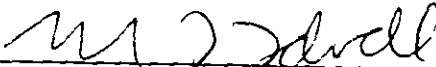
I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Michael W. Miller

Dated: 9-2-97

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

475 L'Enfant Plaza West, S.W.
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September 2, 1997