

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

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS DANIEL TO INTERROGATORIES OF  
THE NEWSPAPER ASSOCIATION OF AMERICA  
(NAA/USPS-T29-1-8)

The United States Postal Service hereby provides responses of witness Daniel to the following interrogatories of the Newspaper Association of America: NAA/USPS-T29-1-8, filed on August 20, 1997.

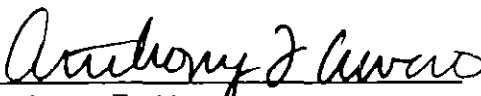
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
Anthony F. Alverno

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September 3, 1997

**RESPONSE OF U.S. POSTAL SERVICE WITNESS DANIEL TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T29-1.**

Please refer to Exhibit USPS-29C, page 3.

- (a.) Please confirm that "Regular" as used in this exhibit includes the Standard Regular and Standard ECR subclasses, but no non-profit subclasses. If you cannot confirm, please explain why not.
- (b.) Please explain why letters and non-letters are assumed to have the same unit transportation costs in this exhibit.
- (c.) Do the unit transportation costs for Enhanced Carrier Route (ECR) mail in this exhibit reflect the current overall level of dropshipping for all Standard A Regular mail? If not, what adjustment is made to the transportation costs to reflect a different level of dropshipping.
- (d.) Please provide separate unit transportation costs for the average ECR letter and the average ECR non-letter at current levels of dropshipping.
- (e.) Please provide separate unit transportation costs for the average ECR letter and the average ECR non-letter assuming no dropshipping.

**RESPONSE:**

- a. Confirmed for the title heading to Exhibit USPS-29C; however, ECR subclass categories are identified in the row headings.
  
- b. The only unit costs on page 3 of Exhibit USPS-29C used in this docket are the entries in the cells with borders in the "Total" column for Automation 5-Digit 100% DBCS dropship letters and ECR Basic letters. These costs are used by witness Moeller to project the cost of ECR Basic letters migrating Automation 5-Digit in his workpaper 1, page 24. Using an average transportation cost is reasonable because it is expected that mailers of the migrating letters will continue to exhibit similar dropshipping practices; therefore, transportation costs for these pieces are not expected to differ substantially. The remaining figures reported in Exhibit USPS-29C page 3 are not used by any witness in this proceeding.

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c. The unit transportation cost in Exhibit USPS-29C, page 3, is the average across all shapes and both subclasses and reflects an overall level of dropshipping. See response to NAA/USPS-T29-1(b).

d-e. Transportation unit costs by shape are not available nor are they needed for setting discounts in this docket. See PRC Opinion MC95-1, page IV-132, para. 4293.

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**NAA/USPS-T29-2.**

Please refer to Exhibit USPS-29C, page 3.

- (a.) Please explain how you derived the mail processing cost of 3.0523 cents per piece for the "100% DBCS dropship like ECR" letters migrating to Automation 5-Digit mail.
- (b.) Please explain how you derived the delivery costs of 3.316 cents per piece for the 100% DBCS dropship like ECR" letters migrating to Automation 5-Digit mail.

**RESPONSE:**

a. The mail processing costs for letters migrating from ECR Basic to Automation 5-Digit are derived from the model on pages 7 and 8 of Appendix I. As presented on pages 7-8 of Appendix I, all 10,000 pieces are entered on DBCS. This yields a mail processing model cost of 2.4373 cents, and a total unit cost of 3.372 cents, after the model cost is multiplied by the proportional CRA adjustment factor of 1.0661, and the fixed CRA adjustment is added to this product. This mail processing unit cost is adjusted by subtracting 0.3197 cents, the difference in dropshipping costs of ECR Basic migrating letters (0.5497 cents) and total other letters (0.2300 cents), as reported on page 5 of Exhibit USPS-29D.

b. The delivery unit cost is a weighted average of the cost of delivering non-delivery point sequenced (DPS) letters (4.6 cents) and DPS letters (3.2 cents) from witness Hume's testimony (Exhibit USPS-18B page 6) using the DPS percentage of 90.25 percent as indicated in the mail flow on page 7 of Appendix I.

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**NAA/USPS-T29-3.**

Please refer to Exhibit USPS-29D, page 3. Please confirm that the unit cost avoidances used in this exhibit represent total unit cost savings -- both transportation and non-transportation -- associated with dropshipping.

**RESPONSE:**

Confirmed.

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**NAA/USPS-T29-4.**

Please refer to Exhibit USPS-29C, page 2. Please explain why the entire dropship savings -- both transportation and non-transportation cost savings -- are added to the ECR mail processing costs when computing the unit costs in this exhibit, rather than the non-transportation savings only.

**RESPONSE:**

Ideally, only non-transportation cost savings would have been added to the ECR mail processing costs.

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**NAA/USPS-T29-5.**

Please refer to Exhibit USPS-29C, page 3, footnote 5. Please confirm that ECR transportation costs total 0.1877 cents per piece. If you cannot confirm, please provide the correct number.

**RESPONSE:**

Confirmed.

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**NAA/USPS-T29-6.**

Please refer to Exhibit USPS-29C, page 3, footnote 5. Please confirm that Regular Other transportation costs total 0.9196 cents per piece. If you cannot confirm, please provide the correct number.

**RESPONSE:**

Confirmed, assuming that "Regular Other" in the question refers to "Regular subclass".



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**NAA/USPS-T29-7.**

Please refer to Exhibit USPS-29D, page 3.

- (a.) Please confirm that the average Standard ECR letter weighs 1.023 ounces. If you cannot confirm this weight, please provide the average weight of an ECR letter.
- (b.) Please confirm that the average Standard ECR non-letter weighs 3.138 ounces. If you cannot confirm this weight, please provide the average weight of an ECR non-letter.
- (c.) Assuming no dropshipment, would the average ECR non-letter have a unit transportation cost equal to 3.067 times the unit transportation cost of the average ECR letter.
  - (i) If no, please explain why transportation costs are not proportional to weight within ECR mail and describe how to compute the difference in the unit transportation cost by shape.

**RESPONSE:**

- a. According to the FY96 Billing Determinants (USPS LR-H-145), the average Standard ECR letter weighs 1.023 ounces.
- b. According to the FY96 Billing Determinants (USPS LR-H-145), the average Standard ECR nonletter weighs 3.138 ounces.
- c. Transportation unit costs are outside the scope of my testimony; however, I understand that assuming no dropshipment, the average ECR nonletter would not have unit transportation costs equal to a multiple of 3.067, which represents the ratio of average weight of an ECR nonletter to the average weight of an ECR letter. This is because cubic foot miles, as opposed to weight, are the driver of highway transportation costs.

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**NAA/USPS-T29-8.** Please refer to Exhibit USPS-29C, page 2.

- (a.) Please explain why the mail processing costs for Standard Regular Other (non-ECR) mail have not been adjusted to reflect zero percent dropshipping.
- (b.) Do the cost differences between letters and nonletters for Standard Regular Other mail in this exhibit include the cost difference arising from differences in the level of dropshipping? If no, what adjustment was made to remove the differences in the level of dropshipping between letters and non-letters.

**RESPONSE:**

- a. Different methodologies were used between the two subclasses. For the Regular subclass, the mail flow model methodology used is not affected by differing levels of dropshipping. The CRA-based methodology in ECR, however, relies on cost data which include the effects of different levels of dropshipping, thereby making an adjustment appropriate.
  
- b. The costs for Standard Regular do not include cost differences arising from different levels of dropshipping; therefore, no adjustment was needed.

**DECLARATION**

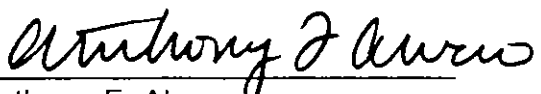
I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
SHARON DANIEL

Dated: September 3, 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

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