

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
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA
(MPA/USPS-4-9)

The United States Postal Service hereby provides its responses to the following interrogatories of Magazine Publishers of America: MPAUSPS-4-9, filed on October 26, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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November 14, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE
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MPA/USPS-4. Please refer to your response to MPA/USPS2(e) where the Postal Service's estimate of cost savings resulting from the implementation of the L001 requirement, 24-piece CRRT sack minimums, and the requirement that automation and nonautomation pieces be combined in containers at the 5digit level is discussed. You state, "The Docket No. R2000-1 calculations were based on assuming implementation for an entire test year." Please refer further to USPS-LR-J-61, Period.xls, worksheet WAGE RATES and USPS-LR-I-332, method-Pallet-bb-dadc.xls, worksheet Wages.

(a) Please confirm that these new requirements will be implemented before the beginning of Test Year 2003 and therefore will be in effect for the entire test year. If not confirmed, please explain fully.

(b) Please confirm that the Postal Service's Docket No. R2000-1 cost savings estimate used a Test Year wage rate of \$28.244. If not confirmed, please provide the Test Year wage rate.

(c) Please confirm that the Test Year wage rate used by USPS witness Miller (USPS-T-24) for activities other than Labor Distribution Code 15 (Remoted Encoding Centers/Video Coding System) in USPS-LR-J-61 is \$30.840. If not confirmed, please provide the Test Year wage rate.

Response:

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

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MPA/USPS-5. Please refer to your response to MPA/USPS2(e) where you state, "Among other things, the base is different, the economy is different, and the operating environment is different."

(a) Please confirm that the mail preparation improvements identified in MPA/USPS-2 will go into effect after the end of the base year. If not confirmed, please explain fully.

(b) Please confirm that the state of the economy has no effect on the workhour savings that will result from improved mail preparation. If not confirmed, please explain fully how the economy will influence the workhour savings that will result from improved mail preparation.

(c) Please confirm that the cost savings from the changes in mail preparation requirements identified in MPA/USPS-2 result primarily from improved containerization. If not confirmed, please explain fully.

(d) Taking into account your response to subpart (c) of this interrogatory, please identify all differences in the Postal Service operating environment and the operating environment that was envisioned when the Postal Service filed USPS-LR-I-332 in Docket No. R2000-1 that will significantly change the cost savings resulting from the improved mail preparation requirements identified in MPA/USPS-2. For each difference, please describe in detail why the difference will significantly change the cost savings estimate.

Response:

(a) Confirmed.

(b) Not confirmed. Workhour savings resulting from improved mail preparation are dependent on the volume of mail. If the state of the economy has some influence on mail volume and that mail volume decreases, the workhour savings would be less. For example, even with improved mail preparation of Periodicals, the volume decrease forecasted in this case results in a decrease in workhour savings.

(c) Confirmed.

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Response continued:

- (d) The operating environment as used in the response to MPA/USPS2(e) refers not to the mail flows through operations, but rather it refers to the overall environment the Postal Service finds itself in. This definition is used in conjunction with the two earlier points that the base is different and the economy is different. An important example of this expanded definition is the budget process operating between the field and Headquarters. Prior to BPI, or *Bold Actions*, cost savings initiatives were more defined for the field by Headquarters. Initiatives were targeted on functions, specific operations, type of facility, etc. Under BPI/*Bold Actions*, more discretion is left to the field to achieve overall savings targets. Initiatives are more general because the field knows what functions and which plants offer the best opportunities to realize the savings.

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MPA/USPS-6. Please refer to your response to MPA/USPS2(e) where you state, "To the extent the mail preparation savings discussed in the interrogatory are included in the R2001-1 rollforward, they can be considered a portion of the estimated Breakthrough Productivity Initiatives (BPI) shown for Clerks and Mailhandlers." Please refer further to USPS-LR-J-49, Exhibits A and E.

(a) Please provide the Postal Service's official definition of BPI.

(b) Does the Postal Service consider cost reductions resulting from decreases in mail volume (which reduce total USPS workload) part of BPI cost savings? If your response is anything other than an unqualified "no", please explain your response fully.

(c) Does the Postal Service consider cost reductions resulting from changes in mail mix from high-cost mail (e.g., Basic Nonautomation flats) to low-cost mail (e.g., 5-Digit Automation flats), which reduce total USPS workload, a part of BPI cost savings? If your response is anything other than an unqualified "no", please explain your response fully.

(d) Does the Postal Service consider cost reductions resulting from improved mail preparation (e.g., improved containerization), which reduces total USPS workload, a part of BPI cost savings? If your response is anything other than an unqualified "no", please explain your response fully.

(e) When the Postal Service developed the BPI Other Program and Cost Reduction Program cost reduction estimates that were included in Docket No. R2001-1, did it explicitly include the cost savings that will result from (i) the implementation of a L001 requirement for Periodicals, (ii) the increase in Periodicals CRRT sack minimums to 24 pieces, and (iii) the implementation of the requirement for periodicals mailers to combine automation and nonautomation pieces in containers at the 5-digit level? If so, please provide the workpapers that the Postal Service used to include these cost savings.

(f) Please explain in detail the method that the Postal Service used to distribute total BPI Other Program and Cost Reduction Program cost savings to mail classes and subclasses.

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Response:

(a) Breakthrough Productivity Initiative (BPI) is the former name for what is now termed "Bold Actions". Please refer to pages 5 and 8 of the FY 2002 Integrated Financial Plan, provided as Attachment I to OCA/USPS-T6-7.

(b) No.

(c, d) Yes, but only in a limited sense. The shift from high-cost mail to low-cost mail that results from deliberate actions of the Postal Service could qualify as BPI. Examples of such deliberate actions are: working directly with the mailing community to modify mailing behaviors (both at a local and a national level), implementing incentives to influence shifts to the low-cost mail, and implementing disincentives for continuing to use high-cost mail. Also, it is difficult for the Postal Service to quantify the savings that might result from mail preparation requirements because it does not know what mailers will participate or their level of participation. For example, with the advent of Line-of-Travel, some mailers stopped making carrier route sortations, which resulted in higher cost mail for the Postal Service.

With those caveats in mind, the Order No. 1294 mail preparation cost savings are contemplated in the cost savings in this case as laid out in MPA/USPS-2, Attachment 1. They are incorporated either explicitly or in the form of providing the means for field managers to achieve cost saving reductions. For instance, it might be difficult to specify to each of the thousands of postal facilities affected by the five-digit scheme change what

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Response continued:

their portion of the total savings would be. Instead, it is grouped with a variety of programs that provide an opportunity for savings.

(e) No.

(f) In the rollforward, the BPI cost reductions and other programs are distributed as shown on the following table:

<u>Cost Segment</u>	<u>Components</u>
2	4, 7, 9, 13, 14, 16, 17, 18, 15, 680, 26, 29, 30, 31, 32, 600, 601, 674, 675, 676, 677, 678, 33
3	35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 471, 41, 227, 228
6&7	43, 44, 45, 46, 48, 49, 50, 52, 53, 54
10	69, 70
11	74
12	84, 685, 82, 83, 85, 86, 543, 88, 545, 548
14	142, 143
15	168
16	177
18	193

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MPA/USPS-7. Please refer to your response to MPA/USPS-3(a) where you state, "The conversion, and resulting savings estimates, referenced in the memo began in May 2000. The conversion occurred more quickly than anticipated and was completed by Quarter 1 of Fiscal Year 2001. As such, most of the savings would be included in the Base Year 2000 costs that appear in the testimony of witness Meehan (USPS-T-11). Any further savings occurring after the beginning Docket No. R2001-1 of Fiscal Year 2001 can be considered a portion of the Breakthrough Productivity Initiatives in R2001-1, which can be found in USPS-LR-J-49."

(a) When the Postal Service developed the BPI Other Program and Cost Reduction Program cost reduction estimates that were included in Docket No. R2001-1, did it explicitly include the cost savings that will result from the conversion of routes to the Delivery Point Sequencing Vertical Flats Casing (DPS VFC) work method? If so, please provide the workpapers that the Postal Service used to include these cost savings.

(b) If your response to subpart (a) is yes, when developing the BPI Other Program and Cost Reduction Program cost reduction estimates that were included in Docket No. R2001-1, what percentage of the savings from converting routes to the DPS VFC work method did the Postal Service assume were reflected in Base Year 2000 costs? If you cannot provide a precise estimate, please provide your best guess.

(c) Please identify by month the total number of routes that were converted to the DPS VFC work method from the beginning of the conversion to its completion in the first quarter of Fiscal Year 2001. If you cannot provide a precise estimate, please provide your best guess.

(d) Please confirm that the \$70 million cost savings estimate developed by Mr. Spates related only to converting the first 50k routes. If not confirmed, please explain fully.

Response:

(a) No.

(b) Not applicable.

(c) There was no monthly tally of the number of routes converted. On February 1, 2001 a count was taken and at that point 95,663 routes had been

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Response continued:

converted. Dividing that total by ten months yields an average of 9,566.3 per month.

(d) Confirmed.

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MPA/USPS-8. Please refer to USPS-LR-J-49, Exhibit H and confirm that the Test Year (TY) 2003 wage rate for city carriers is \$32.70 (\$58,002/1,774 workhours). If not confirmed, what is the TY 2003 wage rate for city carriers? Docket No. R2001-1.

Response:

Confirmed.

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MPA/USPS-9. Please refer to MPA/USPS-2, Attachment 1, which contains a comparison of R2001-1 Reductions and R2000-1 Order No. 1294 Update Cost Reductions.

(a) Please identify the cost reduction programs that were included in the row titled "All Other (USPS-LR-I-410, Volume D, Part I)."

(b) Please confirm that the TY2001 cost savings shown in the R2000-1 Order No. 1294 Update, Total City Carrier and Total Clerk/Mail Handler rows of Attachment 1 exclude the cost savings that were included in the Postal Service's original Docket No. R2000-1 filing. If not confirmed, please explain fully.

(c) Please confirm that in the Postal Service's original Docket No. R2000-1 filing, the Postal Service included TY2001 cost savings for the following clerk/mailhandler cost reduction programs. If not confirmed, please explain fully.

- (i) Flat Mail Optical Character Reader
- (ii) Accelerate Automated Flat Sorting Machine (AFSM) Buy into 2001
- (iii) Additional AFSM to Upper Bound
- (iv) Improve Function 4 Productivity
- (v) Increase Manual Flat Productivity

Response:

(a) The "All Other" line is the "Grand Total" line minus the "Total City Carrier" and "Total Clk/MH" lines. The "Grand Total" line consists of the Total Cost Segment 3 amount of 72,796 minus the 26,392 amount on the "Total Clk/MH" line (further detail on these cost reductions is available on page 2 of USPS-LR-I-408). The "Grand Total" line also contains the Total Cost Segments 6 and 7 amount of 31,861 minus the 30,000 amount on the "Total City Carrier" line (further detail on these cost reductions is available on page 3 of USPS-LR-I-408). Additionally, the "Grand Total" line contains the Cost Segment 11 cost reduction of 42 for TMS and MTEC (further detail on

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Response continued:

these cost reductions is available on page 2 of USPS-I-408). Lastly, the "Grand Total" line contains 8,354 of Cost Segment 14 transportation cost reductions.

(b) Confirmed.

(c) Confirmed.

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.



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