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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SCHENK TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC.
(VP/USPS–T43–8-10, 11c & e, 12-13, 14d-f, 15-17)

The United States Postal Service hereby provides the responses of witness Schenk to the following interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc.: VP/USPS–T43-8-10, 11c & e, 12-13, 14d-f, 15-17, filed on November 16, 2001. The following interrogatories were redirected: 11 a, b, and d were redirected to witness Harahush and 14 a-c were redirected to the Postal Service.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC.

VP/USPS-T43-8.

Please refer to your response to VP/USPS-T39-48 (redirected from witness Kingsley), wherein you state that the Postal Service has no data whatsoever which provide the weight of all flats accompanied by detached address labels ("DALs").

a. When an In-Office Cost System ("IOCS") tally is taken of a postal employee (irrespective of whether that person is a carrier, clerk, mailhandler) handling a DAL (as opposed to the associated mailpiece) is the fact that a DAL was being handled recorded by the IOCS tally? If so, in what field?
b. If the DAL and the accompanying mailpiece are Standard ECR, is that fact recorded? If so, in what field?
c. Is the weight of the mailpiece that accompanies the DAL also recorded on the same IOCS tally? If so, in what field? If not, why not?
d. If your answers to preceding parts a, b and c are affirmative, please use the IOCS data base for FY 2000 to provide (i) the average weight of all Standard ECR flat-shaped mailpieces that were accompanied by DALs, and (ii) the distribution of weight of the accompanying Standard ECR flat-shaped mailpieces by half-ounce increment up to 4.0 ounces, and by ounce increment for pieces that weigh 4.0 ounces or more.

RESPONSE:

a. Not generally. Assuming the sampled employee is handing a single piece of mail or the "top piece rule" applies, then it is my understanding that IOCS data collectors are instructed to record shape and related information based on the associated mailpiece when the sampled employee is observed handling a DAL and the associated mailpiece is identifiable. See Handbook F-45, in USPS-LR-I-14 (Docket No. R2000-1), at 12-10 to 12-11. In such cases, it cannot be determined from the data whether the employee was handling the DAL or the associated mailpiece. The fact that a DAL was being handled is only observable if the associated mailpiece cannot be identified by the data collector, in which

case response "K" is recorded in IOCS field F9635. See also witness Shaw's response to VP/USPS-T1-1a.

b. Assuming subclass information is recorded for the tally, the subclass can be determined from the IOCS activity code, field F9805.

c. Not in all cases. The weight of the associated mailpiece would not be recorded if the associated mailpiece is not identifiable by the data collector. Assuming the associated mailpiece is identifiable and weight information is recorded for the tally, then the weight information is contained in fields F165, F166, and F167.

d. Not applicable. Note also that IOCS is not a volume (or weight) measurement system, and IOCS cannot provide estimates of the requested weight information—rather, it provides information on the labor cost involved in handling pieces of certain weight increments.

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VP/USPS-T43-9.

Please refer to USPS-LR-J-59, file named Volumes by Weight Update GFY00.xls, tab Std A ECR, and confirm that the distribution of pieces by shape and weight was as shown below. If you do not confirm, please provide the correct data.

	Volumes (000)			
	(1)	(2)	(3)	(4)
	Under 3.0 Ounces	3.0 to 3.5 Ounces	Over 3.5 Ounces	Total Pieces
Letters	10,176,686	103,062	56,553	10,334,300
Flats	11,984,074	2,008,655	8,433,005	22,426,734
Parcels	11,207	327	3,431	14,964

a. For Base Year 2000, did you compute the average revenue per piece for pieces weighing under 3.0 ounces?
b. If so, were the volume data in column (1) used in the denominator of that computation? If not, what volume data were used?
c. For Base Year 2000, did you compute the average revenue per piece for pieces weighing 3.0 ounces or more?
d. If so, was the sum of the volume data in columns (2) and (3) used in the denominator of that computation? If not, what volume data were used?
e. Was the percentage distribution of the above-referenced data found in USPS-LR-J-59 used as the basis to distribute projected Test Year volumes by weight increments? If not, on what basis were projected Test Year volume data distributed to weight increment?

RESPONSE:

Not confirmed. Note that the above referenced data are for commercial ECR only. The volume of commercial ECR letters under 3.0 ounces is 10,174,686, not 10,176,686 as presented in the table above. The volume of commercial ECR flats under 3.0 ounces is 11,985,074, not 11,984,074. The other data in the table are correct.

a. No. Revenue data are not reported in USPS-LR-J-59.

b. Not applicable.

c. No. Revenue data are not reported in USPS-LR-J-59.

d. Not applicable.

e. No. Assuming you are asking about the calculations used to develop the Test Year volume distribution keys used in LR-J-58 to develop Standard ECR costs by shape and ounce increment, those are provided in the spreadsheet LR58AECR_revised.xls, sheet volume&lbs. The Base Year volumes in the calculation of the Test Year volume distribution key include both commercial and nonprofit ECR volumes.

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VP/USPS-T43-10.

Please refer to your response to VP/USPS-T43-6, part a, where you state that it is your understanding that the unit costs need no adjustments for worksharing differences, in that the unit cost data you supplied to witness Hope are consistent with her unit revenue data insofar as both reflect the different profiles above and below the breakpoint.

a. Please define the term "consistent" as you use it here, and explain in more detail what you mean when you state that unit costs are consistent with revenues.
b. In your opinion, when computing implicit coverages for subdivisions of Standard ECR Mail (e.g., by shape or weight) is it generally important, or at least desirable, for cost data in the denominator to be consistent with revenue data in the numerator? Please explain fully any negative answer.
c. If the Standard ECR unit cost data which you supplied to witness Hope are not consistent with her unit revenue data, would you recommend that she rely on your unit cost data when computing implicit coverages above and below the 3.3 ounce breakpoint and relying on those coverages for policy decisions about rate design for Standard ECR Mail? Please explain your reasoning.
d. Is it your opinion that above and below the 3.3 ounce breakpoint, (i) the unit costs you supplied to witness Hope, or (ii) the unit costs in Attachment A of your response to VP/USPS-T43-7 are consistent with revenues in all respects? If your answer is affirmative, please explain all factors that you investigated or considered to ascertain that this is in fact the case.

RESPONSE:

a. By "consistent," I mean that the unit costs and unit revenues used by witness Hope represent the same underlying groups of mail to the extent possible, given data limitations.

b. In my opinion, it is desirable for the cost data in the denominator to be consistent with revenue data in the numerator to the extent possible, given data limitations.

c. I recommended to witness Hope that she use the unit cost data from USPS-LR-58 to compute implicit coverage factors because these were the best data available for her analysis. In the event that there were some inconsistency

between the cost and revenue data, whether or not witness Hope should employ the data would depend on the materiality of the inconsistency.

d. Given that the costs and revenues involve statistical estimation, it is presumably not possible for the data to be consistent in "all respects." For example, sampling variation in the data used to develop the costs may result in costs being distributed to subclass "A" instead of subclass "B," which would lead to an inconsistency of a sort, albeit one that is statistically immaterial. It is my opinion that the unit cost data I supplied to witness Hope and provided in Attachment A are consistent with unit revenues used to the extent possible, and represent the best available data for the implicit cost coverage calculations.

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VP/USPS-T43-11.

a. Please confirm that in the sample of mail taken for the city carrier cost system, and used as the "volume" basis for distributing costs to mail by class and subclass, as well as by shape and weight, a Standard ECR DAL will be counted as a piece, and the accompanying flat or parcel will also be counted as a piece. If you do not confirm, please explain what is counted and what is not counted.
b. Assuming that Standard ECR DALs are counted when the sample of mail is taken for the city carrier cost system, would they be recorded as letters, or would they be recorded as flats or parcels in accordance with the shape of the accompanying mailpiece?
c. Please confirm that the Revenue, Pieces and Weight ("RPW") System records all revenues from Standard ECR mailings with DALs as being from either flats or parcels; i.e., from the pieces that accompany the DALs. If you do not confirm, please indicate all circumstances where the RPW System records revenues from DAL mailings as being from "letters."
d. Do the data that are recorded in the city carrier cost system distinguish between DALs and other similarly-shaped pieces? That is, if DALs are recorded as letters or letter-shaped pieces, can the data base for the city carrier cost system be used to ascertain the number of percentage of "letters" that in fact were DALs? If so, please provide this information for Base Year 2000.
e. When the sample of mail is taken for the city carrier cost system, is the weight of individual pieces in the sample recorded? If not, please:
    i. Describe the procedure that is used to distribute volume variable city carrier delivery costs by weight increment;
    ii. State explicitly all underlying assumptions involved in that procedure; and
    iii. Explain how those assumptions avoid any mismatch and guarantee consistency between revenues by weight increment and costs by weight increment.

RESPONSE:

a. Redirected to witness Harahush.

b. Redirected to witness Harahush.

c. Confirmed.

d. Redirected to witness Harahush.

e. No. (i.) The distribution keys used to distribute volume variable city carrier costs by weight increment within subclass and shape are discussed in the response to VP/USPS-T43-4(b).

(ii.) The use of the distribution keys specified in the response to VP/USPS-T43-4(b) for city carrier street costs assumes constant volume-variable costs per piece or pound (depending on the distribution key used) by shape.

(iii.) See the response to VP/USPS-T43-10, parts (a) and (d).

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VP/USPS-T43-12.

a. According to your response to VP/USPS-T43-4, city carrier route, access and support costs are distributed wholly or in part on the basis of "volume." Does your reference to "volume" mean pieces? If not, please explain the meaning and interpretation of volume in terms of city carrier cost data base.
b. For Base Year 2000, when those volume variable city carrier costs that are distributed to Standard ECR on the basis of volume (i.e., route, access and support costs) were distributed by shape to Standard ECR letters, flats and parcels, please describe all steps that were taken to assure that those volume variable city delivery costs attributable to DALs were distributed to flats and parcels in a manner consistent with the way that revenues from those pieces were recorded and distributed in the RPW System. That is, what assurance is there that implicit coverage ratios by shape avoid any inconsistency or mismatch whereby costs of DALs are attributed to letters while all revenues associated with DALs are attributed to flats and parcels?
c. If no step was taken such to prevent or correct for such possible inconsistency within Standard ECR, as mentioned in part b, please explain why it was not considered necessary.
d. When the Base Year unit costs for Standard ECR were extrapolated to Test Year unit costs, what steps were taken to assure that no inconsistency in the treatment of Standard ECR DAL costs occurred between the estimated revenues and costs by shape for the Test Year? If nothing was done to prevent or correct for such possible inconsistency, please explain why it was not considered necessary.

RESPONSE:

a. The "volumes" used to distribute city carrier route, access, and (implicitly) a portion of support costs by shape to weight increment are estimated test year RPW pieces by shape and weight increment.

b. The CRA costs for the city carrier route and access components (and, implicitly, the support costs distributed to those components) are developed by subclass, and subsequently distributed to shape and weight increment using RPW volumes in the USPS-LR-J-58 spreadsheets. Inconsistency is avoided because the volumes by shape and weight increment are derived from the same system as the revenues.

c. See the response to part (b), above.

d. See the response to part (b), above.

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VP/USPS-T43-13.

a. According to your response to VP/USPS-T43-4, city carrier route, access and support costs are distributed wholly or in part on the basis of "volume." For Base Year 2000, when volume variable city carrier route, access and support costs were distributed to pieces by weight category, please describe all steps that were taken to make certain that the volume variable route, access and support costs attributed to DALs were distributed to the corresponding weight category of the flats and parcels which they accompanied, in a manner consistent with the way that revenues were distributed to the weight of those pieces. That is, what assurance is there that implicit coverage ratios for the weight groupings used by witness Hope avoid any inconsistency or mismatch whereby the carriers' costs of handling DALs are attributed to very light-weight pieces (corresponding to the weight of the DALs), while revenues associated with DALs are distributed to flats and parcels that (i) weighed considerably more than the DAL, and (ii) may have weighed more than 3.0 or 3.5 ounces in many instances?
b. If no step was taken to prevent or correct for such possible inconsistency, please explain why it was not considered necessary before providing witness Hope with unit cost data used to compute implicit coverages of pieces that weigh more or less than 3.0 (and 3.5) ounces.
c. When the Base Year costs were extrapolated to the Test Year, what steps were taken to assure that no such inconsistency in the treatment of DAL costs occurred between the estimated revenues and costs by weight increment for the Test Year? If nothing was done to prevent or correct for such possible inconsistency in the Test Year unit cost data that you supplied to witness Hope, please explain why it was not considered necessary.

RESPONSE:

a.-c. Please see the response to VP/USPS-T43-12(b).

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VP/USPS-T43-14.

a. With respect to the National Mail Count for rural carriers, please provide the evaluated time for every class and subclass of items handled, both in the office and while delivering on the route.
b. In the National Mail Count, would Standard ECR DALs be classified as letters, or would they be classified as flats or parcels in accordance with the shape of the accompanying mailpiece?
c. If Standard ECR DALs are classified as letters in the National Mail Count for rural carriers, is the level of detail contained in that data base capable of distinguishing between ordinary Standard ECR enveloped letters and DALs? That is, if Standard ECR DALs are recorded as letters, or letter-shaped pieces, can the available data from the city carrier cost system be used to ascertain what percentage of Standard ECR "letters" were in fact DALs? If so, please provide this statistic for Base Year 2000.
d. When the evaluated time for rural carriers, in conjunction with the National Mail Count, was used to distribute volume variable rural carrier costs to Standard ECR pieces by shape for Base Year 2000, please describe all steps that were taken to make certain that the evaluated time for handling Standard ECR DALs, and the volume variable costs to which such evaluated time gives rise, was distributed either to the Standard ECR flats or parcels which the DALs accompanied, in a manner consistent with the way the RPW System distributes revenues to those pieces. That is, what assurance is there that Base Year implicit coverage ratios based on shape would avoid any inconsistency or mismatch whereby rural carrier volume variable costs occasioned by handling DALs are attributed to letters, while all revenues associated with DALs are attributed to flats or parcels.
e. If no preventive or corrective measure was taken with respect avoiding a mismatch on account of costs attributable to DALs when distributing rural carrier volume variable costs by shape, please explain why it was not considered necessary.
f. When the Base Year costs were extrapolated to the Test Year, what steps were taken to assure that no such inconsistency in the treatment of DAL rural carrier costs occurred between the estimated revenues and costs by shape for the Test Year? If nothing was done to prevent or correct for such possible inconsistency, please explain why it was not considered necessary.

RESPONSE:

a. – c. *Redirected to the Postal Service.*

d. It is my understanding that DAL pieces are generally recorded as "boxholders" or "other letter" for rural carrier costing purposes. In the development of the data used to

crosswalk the costs for such pieces to DMM C050 shape, the shape of DAL pieces was based on the shape of the accompanying mailpiece, consistent with the RPW system. Thus, no adjustment is necessary to ensure consistent treatment of rural carrier costs by shape for DAL pieces and the associated volumes.

e. Please see the response to part (d), above.

f. Please see the response to part (d), above.

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VP/USPS-T43-15.

a. When the evaluated time for rural carriers, in conjunction with the National Mail Count, was used to distribute volume variable rural carrier costs to Standard ECR pieces by weight, please describe all steps that were taken to assure that the evaluated time for handling Standard ECR DALs, and the volume variable time to which such evaluated time gives rise, was distributed to the weight increment or either the accompanying flats or parcels that (i) weighed considerably more than the DAL, and (ii) may have weighed more than 3.0 or 3.5 ounces in many instances, so that the final result would assure consistency and avoid any mismatch whereby rural carrier volume variable costs occasioned by handling DALs would be attributed to light-weight pieces while all revenues associated with DALs would be attributed to flats or parcels.
b. If no such preventive or corrective step was taken with respect to DALs when distributing rural carrier volume variable costs by weight increment, please explain why it was not considered necessary.
c. When the Base Year costs were extrapolated to the Test Year, what steps were taken to assure that no such inconsistency in the treatment of DAL rural carrier costs occurred between the estimated revenues and costs by shape for the Test Year? If nothing was done to prevent or correct for such possible inconsistency in the Test Year unit cost data that you supplied to witness Hope, please explain why it was not considered necessary.
d. In the National Mail Count for rural carriers, is the weight of individual pieces recorded? If not, please:
   i. Describe the procedure that is used to distribute volume variable rural carrier delivery costs by weight increment;
   ii. State explicitly all underlying assumptions involved in that procedure; and
   iii. Explain how those assumptions avoid any mismatch and guarantee consistency between revenues by weight increment and costs by weight increment.

RESPONSE:

a. Volume-variable rural carrier costs are distributed to weight increments within subclass and shape based on RPW volume (pieces), not on evaluated time or National Mail Count data, as suggested in the question. See the response to VP/USPS-T43-4(a).

b. Please see the response to VP/USPS-T43-14(d).

c. Please see the response to VP/USPS-T43-14(d).

d. It is my understanding that the weight of individual pieces is not recorded in the National Mail Count.

i. Please see the response to VP/USPS-T43-4(a).

ii. Please see the response to VP/USPS-T43-11(e)(ii).

iii. Please see the response to VP/USPS-T43-11(e)(iii).

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VP/USPS-T43-16.

Please refer to the TY Standard ECR unit costs that you provided to witness Hope for use in her computation of implicit coverages above and below, respectively, 3.0 and 3.5 ounces.

a. For each such unit cost that you supplied, please provide the portion, both in absolute amount and percent, that was represented by volume variable city carrier route, access and support costs.
b. For each such unit cost that you supplied, please provide the portion, both in absolute amount and percent, that was represented by volume variable rural carrier cost.
c. If you are unable to provide the information requested in preceding parts a and b (i.e., the breakdown of unit costs above and below the breakpoints), then please provide the requested breakdowns for the total unit cost of Standard ECR Mail.

RESPONSE:

a. See Attachment A.

b. See Attachment A.

c. Not applicable.

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Attachment A: Response to VP/USPS-T43-16, parts a and b
Standard Mail Enhanced Carrier Route
Unit Costs ($/piece)

Shape	Cost	Total	0-3.0 Ounces	3.0+ Ounces	0-3.5 Ounces	3.5+ Ounces
All	Total Unit Cost	0.0721	0.0675	0.0826	0.0683	0.0838
	City Carrier Route Cost	0.0009	0.0009	0.0009	0.0009	0.0009
	City Carrier Access Cost	0.0026	0.0026	0.0026	0.0026	0.0026
	City Carrier Support Cost	0.0047	0.0043	0.0056	0.0043	0.0057
	Rural Carrier Cost	0.0169	0.0175	0.0157	0.0173	0.0157
	Percent City Carrier Route Cost	1.2%	1.3%	1.1%	1.3%	1.0%
	Percent City Carrier Access Cost	3.6%	3.8%	3.1%	3.8%	3.1%
	Percent City Carrier Support Cost	6.5%	6.3%	6.7%	6.3%	6.9%
	Percent Rural Carrier Cost	23.5%	25.9%	19.0%	25.4%	18.7%
Letters	Total Unit Cost	0.0668	0.0655	0.1549	0.0659	0.2420
	City Carrier Route Cost	0.0009	0.0009	0.0009	0.0009	0.0009
	City Carrier Access Cost	0.0026	0.0026	0.0026	0.0026	0.0026
	City Carrier Support Cost	0.0041	0.0040	0.0110	0.0041	0.0151
	Rural Carrier Cost	0.0195	0.0195	0.0195	0.0195	0.0195
	Percent City Carrier Route Cost	1.3%	1.3%	0.6%	1.3%	0.4%
	Percent City Carrier Access Cost	3.9%	4.0%	1.7%	3.9%	1.1%
	Percent City Carrier Support Cost	6.2%	6.2%	7.1%	6.2%	6.2%
	Percent Rural Carrier Cost	29.2%	29.8%	12.6%	29.6%	8.1%
Nonletters	Total Unit Cost	0.0747	0.0693	0.0814	0.0702	0.0826
	City Carrier Route Cost	0.0009	0.0009	0.0009	0.0009	0.0009
	City Carrier Access Cost	0.0026	0.0026	0.0026	0.0026	0.0026
	City Carrier Support Cost	0.0049	0.0045	0.0055	0.0045	0.0057
	Rural Carrier Cost	0.0156	0.0156	0.0156	0.0156	0.0156
	Percent City Carrier Route Cost	1.2%	1.3%	1.1%	1.2%	1.1%
	Percent City Carrier Access Cost	3.5%	3.7%	3.2%	3.7%	3.1%
	Percent City Carrier Support Cost	6.6%	6.4%	6.7%	6.4%	6.9%
	Percent Rural Carrier Cost	20.9%	22.6%	19.2%	22.2%	18.9%

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VP/USPS-T43-17.

a. If some or all of the city and rural carrier volume variable delivery costs attributable to DALs have in fact been distributed to letters and very light-weight pieces, while the RPW System has distributed all revenues derived from those mailings to the heavier-weight flats and parcels that accompanied the DALs, would you agree that when implicit coverages are computed from such data the cost data in denominator may not be consistent with the revenue data in the numerator? Please explain any disagreement.
b. If you agree that the unit cost data you supplied to witness Hope may be inconsistent with the unit revenue data which she used, do the city carrier cost system data base and/or the National Mail Count for rural carriers contain sufficient detail to permit you to check on, quantify and correct for any inconsistencies that may exist? If so, please provide any necessary corrections to your unit cost data, and show how they were derived.

RESPONSE:

a. The situation described in the question, if it were to exist, may lead to an inconsistency between the cost and revenue. However, I do not believe that the treatment of carrier costs of DAL pieces leads to any material inconsistency between costs and revenues.

b. I do not agree that there are material inconsistencies related to the treatment of DAL pieces between the cost and revenue data employed by witness Hope.

DECLARATION

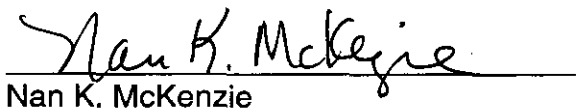
I, Leslie M. Schenk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Leslie M. Schenk

Dated: 12/5/01

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.



Nan K. McKenzie

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