

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORIES
OF MAJOR MAILERS ASSOCIATION
REDIRECTED FROM WITNESS MILLER
(MMA/USPS-T22-44(C3) and (D))

The United States Postal Service hereby provides its responses to the following interrogatories of Major Mailers Association: MMA/USPS-T22-44(C3) and (D), filed on November 16, 2001. The interrogatories have been redirected from witness Miller to the Postal Service for response. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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MMA/USPS-T22-44 Please refer to your response to Parts A, B, and C of Interrogatory MMA/USPS-T22-10.

...

- C. In your response to Part C you state that had the "Base Year 1998" methodology been employed by the Postal Service for estimating nonautomation and automation letters, both the CRA proportional adjustment factors would have moved closer to 1.000.
3. Is the Postal Service convinced that the "Base Year 1999" methodology is more accurate than the "Base Year 1998" methodology? Please explain your response.
- D. In your response to Part C, you state that the "Base Year 1998" methodology may have resulted in more accurate estimates for nonautomation and automation letters. Which cost estimates are more accurate, the model-derived costs or the CRA-derived costs? Please explain your response.

RESPONSE:

- (C3) Please see Docket No. R2000-1, Tr. 46C/21038. In this docket, the Postal Service has used the BY 1999 In-Office Cost System (IOCS) methodology to develop nonautomation and automation presort letters mail processing unit cost estimates for two reasons. First, the BY 1999 methodology is consistent with Domestic Mail Manual (DMM) requirements, which specify that automation presort letters should contain 11-digit barcodes. Please see DMM Section E140.1.1.f. Second, despite the availability on the record in Docket No. R2000-1 of either the BY 1998 or the BY 1999 methodology, the Commission chose to rely upon the BY 1999 methodology.
- (D) The CRA mail processing unit cost estimates are more complete in that they include tasks not found in the cost models. However, an evaluation regarding the "accuracy" level of the cost models compared to the CRA mail processing unit cost estimates is not possible. First, the CRA mail processing unit cost estimates are not always available at the rate

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RESPONSE TO MMA/USPS-T22-44 (CONTINUED)

category level. Please see the response to MMA/USPS-T22-8(A). Consequently, cost models must be relied on to some extent. Second, the cost models and CRA mail processing unit cost estimates both represent future (test year) costs which are unknown at this point. Finally, both the cost models and the CRA mail processing unit cost estimates are required elements of the "hybrid" cost methodology relied upon in USPS LR-J-60.

In Docket No. MC95-1, the Commission voiced its concern that pure "cost avoidance" approaches (a benchmark model cost less a rate category model cost) understate the worksharing related savings estimates while "full cost difference" approaches overstate those estimates. Please see PRC No. MC95-1 at [4220]. Consequently, "hybrid" cost methodologies, like those used in USPS LR-J-60, are relied upon to develop worksharing related savings estimates. Under a hybrid approach, cost models are used to de-average a CRA mail processing unit cost estimate (e.g., First-Class presort letters) to the rate category level. Hybrid cost methodologies typically result in larger worksharing related savings estimates, when compared to pure cost avoidance methodologies that rely on cost models alone.

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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