

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
) Docket No. R2001-1
POSTAL RATE AND FEE CHANGES)

VOLUME #5

Date: December 18, 2001
Place: Washington, D.C.
Pages: 516 through 957

RECEIVED
Dec 19 3 06 PM '01
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

HERITAGE REPORTING CORPORATION

Official Reporters
1220 L Street, N.W., Suite 600
Washington, D.C. 20005-4018
(202) 628-4888
hrc@concentric.net

ORIGINAL

POSTAL RATE COMMISSION

In the Matter of:)
) Docket No. R2001-1
POSTAL RATE AND FEE CHANGES)

Suite 300
U.S. Postal Rate Commission
1333 H Street, N.W.
Washington, D.C.

Volume 5
Tuesday, December 18, 2001

The above-entitled matter came on for hearing
pursuant to notice, at 9:33 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. RUTH Y. GOLDWAY, VICE-CHAIRMAN
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER

APPEARANCES:

On behalf of the United States Postal Service:

SUSAN DUCHEK, Esquire
NAN K. MCKENZIE, Esquire
RICHARD T. COOPER, Esquire
United States Postal Service
475 L'Enfant Plaza, S.W.
Washington, D.C. 20260
(202) 268-2990/3089/2993

APPEARANCES: (cont'd.)

On behalf of the Major Mailers Association:

MICHAEL S. HALL, Esquire
34633 Bloomfield Road
Round Hill, Virginia 20141
(540) 554-8880

On behalf of Dow Jones/Periodicals Coalition:

MICHAEL F. MCBRIDE, Esquire
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
1875 Connecticut Avenue, N.W., Suite 1200
Washington, D.C. 20009
(202) 986-8050

On behalf of Advo, Inc.:

TOM MCLAUGHLIN, Esquire
Burzio & McLaughlin
1054 31st Street, N.W.
Washington, D.C. 20007
(202) 965-4555

On behalf of OCA:

EMMETT RAND COSTICH, III, Esquire
OFFICE OF THE CONSUMER ADVOCATE
1333 H Street, NW - Suite 300
Washington, DC 20268-0001
(202) 789-6833

C O N T E N T S

WITNESSES APPEARING:
 JOHN T. PICKETT
 MICHAEL D. BRADLEY
 LESLIE M. SCHENK

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
John T. Pickett	522	559	--	--	--
Michael D. Bradley	575	--	--	--	--
Leslie M. Schenk	582	819 874 893	953	953	

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Designation of corrected written cross-examination of USPS witness Michael D. Bradley, USPS-T-16	578
Designation of corrected written cross-examination of USPS witness John T. Pickett, USPS-T-17	526
Designated of corrected written cross-examination of USPS witness Leslie M. Schenk, USPS-T-43	586
Designation of responses to interrogatories by USPS witness Leslie M. Schenk, OCA/USPS-T-39-5 through 7	797
Designation of responses to interrogatories by USPS witness Leslie M. Schenk, Advo/USPS-T-43-1 and VP/USPS-T-43-22 and 27	802
Designation of response to interrogatory by USPS witness Leslie M. Schenk, MMA/USPS-T-43-20	815
MMA-X-1 Through 4	867
Designated Commission XE-1 (Schenk)	942

C O N T E N T SE X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected direct testimony of Michael D. Bradley on behalf of the USPS, USPS-T-16	575	576
Designation of corrected written cross-examination of USPS witness Michael D. Bradley, USPS-T-16	577	577
Corrected direct testimony of John T. Pickett on behalf of the USPS, USPS-T-17	522	584
Designation of corrected written cross-examination of USPS witness John T. Pickett, USPS-T-17	525	525
Corrected direct testimony of Leslie M. Schenk on behalf of the USPS, USPS-T-43	582	584
Designation of corrected written cross-examination of USPS witness Leslie M. Schenk USPS-T-43	585	585
Designation of responses to interrogatories by USPS witness Leslie M. Schenk, OCA/USPS-T-39-5 through 7	796	796
Designation of responses to interrogatories by USPS witness Leslie M. Schenk, Advo/USPS-T-43-1 and VP/USPS-T-43-22 and 27	801	801
Designation of response to interrogatory by USPS witness Leslie M. Schenk, MMA/USPS-T-43-20	814	814
Summary of FY 1993 Non-DPS City Carrier Delivery Costs, MMA-X-1	821	866

C O N T E N T SE X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Derivation of Average Delivery Costs for First Class Single Piece Letters by Indicia, MMA-X-2	821	866
Comparison of FY 1993 and BY 2000 First Class Letter Volumes, MMA-X-3	821	866
Comparison of DPS and Non-DPS Unit Costs, MMA-X-4	821	866
Designated Commission XE-1 (Schenk)	941	941

P R O C E E D I N G S

(9:33 a.m.)

CHAIRMAN OMAS: Today we continue to receive testimony of the Postal Service witnesses in support of Docket No. R2001-1, Request for Rate and Fee Changes.

I want to announce that yesterday the Postal Service submitted a motion submitting a proposed stipulation agreement and requesting the establishment of a preliminary procedural schedule. The Commission will continue its review of this document after today's hearing. I intend to deal promptly with the Postal Service's motion for a preliminary schedule.

Yesterday, the American Bankers Association and the National Association of Pre-Sort Mailers filed a motion for late acceptance of designation of written cross-examination of the United States Postal Service Witness Schenk. That motion designated responses that should have been provided a week before, but had been only filed the previous working day. That motion is granted.

Does anyone have any procedural matters to discuss before we continue today?

(No response.)

CHAIRMAN OMAS: There are three scheduled witnesses to appear here today. They are Witness Pickett, Bradley and Schenk.

1 Ms. Duchek, would you introduce your first
2 witness?

3 MS. DUCHEK: Yes, Mr. Chairman. The Postal
4 Service calls John T. Pickett.

5 CHAIRMAN OMAS: Would you raise your right hand,
6 Mr. Pickett?

7 Whereupon,

8 JOHN T. PICKETT

9 having been duly sworn, was called as a witness
10 and was examined and testified as follows:

11 CHAIRMAN OMAS: Please be seated.

12 (The document referred to was
13 marked for identification as
14 Exhibit No. USPS-T-17.)

15 DIRECT EXAMINATION

16 BY MS. DUCHEK:

17 Q Mr. Pickett, my colleague is handing you two
18 copies of a document entitled Direct Testimony of John T.
19 Pickett on behalf of the United States Postal Service,
20 designated as USPS-T-17. Are you familiar with that
21 document?

22 A Yes, I am.

23 Q Was it prepared by you or under your supervision?

24 A Yes, it was.

25 Q Do you have any changes to make?

1 A I have three editorial changes.

2 CHAIRMAN OMAS: A fire drill. We will come back,
3 hopefully.

4 (Whereupon, a short recess was taken.)

5 CHAIRMAN OMAS: Ms. Duchek, we'll try it again.

6 MS. DUCHEK: Thank you very much, Mr. Chairman. I
7 believe that Mr. Pickett was just about to tell us about
8 some minor changes to his testimony.

9 CHAIRMAN OMAS: Correct.

10 THE WITNESS: In the table of contents on line 10,
11 I corrected the spelling of the word calculation; on page 1,
12 line 2, changed the word five to six; and on page 3, line
13 18, we've changed the spelling or corrected the spelling of
14 the word calculation.

15 BY MS. DUCHEK:

16 Q With those changes, Mr. Pickett, if you were to
17 testify orally today would this still be your testimony?

18 A Yes, it would.

19 MS. DUCHEK: Mr. Chairman, there are also several
20 Category II library references associated with this witness'
21 testimony, USPS-LR-J-36, 37, 38, 39, 40, 41, 42, 43 and 44.

22 BY MS. DUCHEK:

23 Q Are you familiar with those library references,
24 Mr. Pickett?

25 A Yes, I am.

1 Q Do you have any changes to make to them?

2 A No.

3 MS. DUCHEK: Mr. Chairman, I ask that the direct
4 testimony of John T. Pickett on behalf of the United States
5 Postal Service designated as USPS-T-17 and the listed
6 library references be entered into evidence.

7 CHAIRMAN OMAS: Without objection. I will direct
8 counsel to provide the reporter with two copies of the
9 corrected direct testimony of John T. Pickett. That
10 testimony is received into evidence. As is our practice, it
11 will not be transcribed.

12 (The document referred to,
13 previously identified as
14 Exhibit No. USPS-T-17, was
15 received in evidence.)

16 CHAIRMAN OMAS: Mr. Pickett, have you had an
17 opportunity to examine the packet of designated written
18 cross-examination that was made available to you in the
19 hearing room this morning?

20 THE WITNESS: Yes, I have.

21 CHAIRMAN OMAS: If the questions contained in that
22 packet were posed to you orally today, would your answers be
23 the same as those you previously provided in writing?

24 THE WITNESS: Yes, they would.

25 CHAIRMAN OMAS: Are there any corrections or

1 additions you would like to make to those answers?

2 THE WITNESS: No.

3 MR. MCBRIDE: Mr. Chairman?

4 CHAIRMAN OMAS: Yes?

5 MR. MCBRIDE: My name is Michael McBride. I
6 represent Dow Jones & Company, and I'm here on behalf of the
7 Periodicals Coalition.

8 We just received yesterday some further responses
9 of this witness to some follow up interrogatories, and we
10 would like to designate those responses as well. I've
11 discussed this with the Postal Service counsel. They have
12 no objection to this procedure. We do have two copies for
13 the reporter.

14 CHAIRMAN OMAS: If there is no objection, so
15 Ordered.

16 Counsel, would you please provide two copies of
17 the corrected designated written cross-examination of
18 Witness Pickett to the reporter? That material is received
19 into evidence, and it is to be transcribed into the record.

20 (The document referred to was
21 marked for identification as
22 Exhibit No. USPS-T-17 and was
23 received in evidence.)

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS JOHN T. PICKETT
(USPS-T-17)

Party

Magazine Publishers of America

Interrogatories

MPA/USPS-T17-1-5

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS JOHN T. PICKETT (T-17)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

MPA/USPS-T17-1
MPA/USPS-T17-2
MPA/USPS-T17-3
MPA/USPS-T17-4
MPA/USPS-T17-5

Designating Parties

MPA
MPA
MPA
MPA
MPA

Revised 11/19/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T.
PICKETT TO INTERROGATORY OF AOL-TIME WARNER**

MPA/USPS-T17-1. Please refer to USPS-LR-J-43 and to Docket No. R2000-1, USPS-LR-I-60, which both calculate Base Year distance-related transportation costs.

- (a) Please confirm that Base Year 2000 Amtrak costs for Periodicals are comprised of \$78.931 million of railroad passenger costs and \$1.800 million in roadrailer costs. If you do not confirm, please explain.**
- (b) Please confirm that Docket No. R2000-1, Base Year 1998 Amtrak costs for Periodicals were \$59.283 million. If you do not confirm, please explain fully.**
- (c) Please explain generally why Amtrak costs for Periodicals increased over 36 percent from \$59.283 million in Base Year 1998 to \$80.731 million (\$78.931 plus \$1.800 million) in Base Year 2000 and also answer the following specific questions regarding the apparent change in the Postal Service's use of Amtrak to transport Periodicals.**
 - (i) By what percentage did Amtrak unit costs increase between FY 1998 and FY 2000?**
 - (ii) What proportion of Periodicals mail was transported on Amtrak in FY 1998?**
 - (iii) What proportion of Periodicals mail was transported on Amtrak in FY 2000?**
 - (iv) Did the Postal Service make a policy decision to increase its use of Amtrak for Periodicals between FY 1998 and FY 2000? If so, please explain fully why the Postal Service made this decision. If not, please explain the difference between your responses to part (c)(ii) and (c)(iii) of this interrogatory.**

RESPONSE

1. (a) Confirmed.

(b) Not confirmed. As originally filed, Amtrak BY 1998 costs for Periodicals were estimated at \$59.283 million, out of a total \$73.040 million in total Amtrak expenses. In response to Periodicals mailers concerns, the Postal Service conducted a special study of mail on Roadrailer. This study was described in my rebuttal testimony (USPS-RT-9) in that proceeding and a USPS Library Reference I-432 was filed that provided revised Amtrak and Roadrailer

Revised 11/19/01

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORY OF AOL-TIME WARNER

cost distributions. According to these revisions, total Amtrak Periodicals costs for BY 1998 were \$56.946 million. See USPS-LR-I-432, Part A, p. 26.

(c) In general, Amtrak and Roadrailer costs increased from \$73.040 million in BY 1998 to \$100.567 million in BY 2000. This is a 37.9 percent increase. Periodicals Amtrak and Roadrailer costs increased from \$56.946 in BY 1998 to \$80.731, or 41.8 percent.

(i) It is unclear what is meant by "Amtrak unit costs". Since the Postal Service does not retain volumetric information for Amtrak service, it is not possible to calculate a unit cost for either year.

If, however, you are referring to simply dividing Amtrak costs by RPW volume, this calculation shows a 41 percent increase from 0.55 cents per piece to 0.78 cents per piece.

If you are referring to the rates per linear foot that Amtrak charges the Postal Service, I am told that these rates did not change from 1998 to 2000.

(ii) I do not know. No volumetric data specific to Amtrak operations are available.

(iii) I do not know. No volumetric data specific to Amtrak operations are available.

(iv) The Postal Service increased its use of Amtrak with the understanding that Amtrak provided an opportunity for superior service and value to other long-haul surface transportation alternatives, such as inter-BMC highway

Revised 11/19/01

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORY OF AOL-TIME WARNER

and freight rail. Inter BMC highway costs for Periodicals fell from \$49.266 million in BY 1998 to \$38.989 million in BY 2000. Similarly, Freight Rail Periodicals' costs fell from \$16.495 in BY 1998 to \$12.939 in BY 2000. The percentage of Inter-BMC highway costs attributed to Periodicals fell from 19 percent in BY 1998 to 15 percent in BY 2000. Similarly, the percentage of freight rail costs attributed to Periodicals fell from 11 percent in BY 1998 to 10 percent in BY 2000.

Furthermore, inter-BMC contracts contain inflation adjustment clauses to cover increases in fuel costs. From BY 1998 to BY 2000 diesel fuel costs increased by 66 percent. The decline in inter-BMC highway Periodicals costs, therefore, occurred at a time when the rates in these contracts were being adjusted to cover this increase in fuel costs.

I am also informed that, during this same period, rates charged by freight rail carriers increased. It is reasonable to assume that this increase was at least partly in response to the increase in fuel prices. Despite this increase in rates, Periodicals freight rail costs declined during this period.

It is my understanding that the increased reliance on Amtrak reflected in these data is not the result of an explicit policy decision to move more Periodicals to Amtrak. The decision to use Amtrak is typically made on a case by case basis. In some instances, use of Amtrak is considered more economical. In others, Amtrak is thought to provide better service. Moreover, I am told that some, unquantifiable portion of the increase in use of Amtrak is in

Revised 11/19/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T.
PICKETT TO INTERROGATORY OF AOL-TIME WARNER**

response to specific customer requests to do so. Increased mailer interest in Amtrak may have been the result of Amtrak's aggressive efforts to increase its revenues from its express (i.e., freight and mail) business. These efforts were part of Amtrak's strategy to become financially self-reliant.

Finally, there was a 5.4 percent increase in weight per piece for outside county mail, which lead to a 6.2 percent increase in total pounds. These increases tend to increase all transportation costs, including Amtrak.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA

MPA/USPS-T17-2. Please refer to your response to MPA/USPS-T17-1 (c)(i) where you state, "If you are referring to the rate per linear foot that Amtrak charges the Postal Service [sic], I am told that this rate did not change from 1998 to 2000."

(a) Please confirm that the rate that Amtrak charges the Postal Service is a rate per linear foot. If not confirmed, in what unit is the rate that Amtrak charges the Postal Service stated?

(b) In the unit specified in your response to subpart (a), what was the per-unit rate that Amtrak charged the Postal Service in FY 1998?

(c) In the unit specified in your response to subpart (a), what was the per-unit rate that Amtrak charged the Postal Service in FY 1999?

(d) In the unit specified in your response to subpart (a), what was the per-unit rate that Amtrak charged the Postal Service in FY 2000?

(e) In the unit specified in your response to subpart (a), what does the Postal Service project the FY 2003 Amtrak per-unit rate to be?

(f) In the unit specified in your response to subpart (a), how many units of mail did Amtrak transport for the Postal Service in FY 1998?

(g) In the unit specified in your response to subpart (a), how many units of mail did Amtrak transport for the Postal Service in FY 1999?

(h) In the unit specified in your response to subpart (a), how many units of mail did Amtrak transport for the Postal Service in FY 2000?

(i) Please provide all contracts that the Postal Service has or had with Amtrak that cover FY 1998, FY 1999, and FY 2000.

RESPONSE

(a) Confirmed. However, Amtrak rates per linear foot vary depending on the service purchased. For example, the rate per linear foot for 15 linear feet on a daily run between cities 1000 miles apart would be different from the rate per linear foot for 120 linear feet on a five-times-per-week trip between cities 700 miles apart.

(b) Objection filed November 23, 2001.

(c) Objection filed November 23, 2001.

(d) Objection filed November 23, 2001.

(e) Objection filed November 23, 2001.

(f) The requested data are not available.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA

- (g) The requested data are not available.
- (h) The requested data are not available.
- (i) Partial objection filed November 23, 2001. The standard contract language for Amtrak service was provided in Docket No. R2000-1 as USPS Library Reference I-266. This language covers the period in question from July 1, 1998 through FY 2000. The contract language in effect for the period October 1, 1977 to June 30, 1998 was substantially the same.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA

MPA/USPS-T17-3. Please refer to your response to MPA/USPS-T17-1(c)(iv) where you state, "Furthermore, freight rail and inter-BMC [highway] transportation contracts contain inflation adjustment clauses to cover increases in fuel costs. From BY 1998 to BY 2000 diesel fuel costs increased by 66 percent."

(a) Please describe all factor input prices that are included in inflation adjustment clauses for freight rail and inter-BMC highway transportation contracts.

(b) What weight do the inflation adjustment clauses for freight rail and inter-BMC highway transportation contracts place on diesel fuel costs?

(c) By what percentage did inflation adjustment clauses for freight rail and inter-BMC highway transportation contracts increase the rates charged to the Postal Service between FY 1998 and FY 2000?

RESPONSE

(a) There are no adjustment clauses for freight rail contracts. (See the revised response to MPA/USPS-T17-1.) Adjustments to freight rail contracts are made implicitly during contract negotiations. Economic pay adjustments for highway contracts are described in Postal Service Management Instruction PO-530-97-1 (attached).

(b) There are no adjustment clauses for freight rail contracts. (See the revised response to MPA/USPS-T17-1.) It is not known what weight various economic factors have on the rates charged by freight rail carriers. For inter-BMC highway contracts, the weight afforded any particular economic adjustment varies from contract to contract and from one time period to another. The Postal Service has not quantified the weights in question for inter-BMC contracts.

(c) There are no adjustment clauses for freight rail contracts. (See the revised response to MPA/USPS-T17-1.) It is not known what percentage various economic factors have on the rates charged by freight rail carriers. With

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T.
PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF
AMERICA**

regard to inter-BMC highway contracts, the Postal Service does not have this
information.



UNITED STATES
POSTAL SERVICE.

Management Instruction

Economic Pay Adjustments for Highway and Inland Domestic Water Contracts

This instruction establishes guidelines and procedures for making economic pay adjustments for regular and temporary highway and inland domestic water contracts.

Date	4/28/97
Effective	Immediately
Number	PO-530-97-1
Obsoletes	PO-530-89-09
Unit	NMTP

A. Keith Strange

A. Keith Strange
Vice President
Purchasing and Materials

11 Policy

111 General

Section 5005 (b)(1) of title 39, U.S. Code, provides that the Postal Service, with the consent of a mail transportation contractor, may adjust the rate of compensation allowed under the contract because of increased or decreased costs resulting from changed economic conditions occurring during the term of the contract. It is Postal Service policy to allow regular and temporary highway and inland domestic water transportation contractors an adjustment in the rate of compensation when changed economic conditions or operational requirements occur over which the contractor has little or no control, subject to the provisions of this instruction.

112 Scope

This instruction applies only to adjustments in the rate of compensation due to changed economic conditions or operational requirements. Adjustments because of significant service changes must be negotiated between the contractor and the contracting officer before the changes are made and are provided for in the contract.

This instruction does not apply to emergency contracts, except as specifically stated in other sections of this instruction. Refer questions that cannot be resolved by the contracting officer at the Distribution Networks (DN) office level relating to the interpretation of these instructions to the manager of National Mail Transportation Purchasing.

CONTENTS

11	Policy
111	General
112	Scope
12	Authority
121	General
122	Criteria for Approval
13	Basic Principles
14	Limitations and Restrictions
141	Adjustments
142	Proposal Errors
143	Eligibility Periods
144	One-Line Adjustments
145	Fuel Adjustments (Renewal Only)
146	Unanticipated Costs
147	Nonallowable Increases
148	Adjustment Limits
15	Initiating the Request
151	Contractor Responsibility
152	Postal Service Responsibility
152.1	Completion and Verification of Column 1 of Form 7483
152.2	Review of Cost Statement Submitted by Contractor
152.3	Analysis and Approval of Adjustments
152.4	Documentation of Adjustments

CONTENTS (cont'd)

- 16 Processing the Request
 - 161 Completing Within 28 Days
 - 162 Analyzing Form 7463
 - 163 Establishing Period of Comparison
 - 163.1 General
 - 163.2 Percentage Change Formula
 - 164 Approving the Request
 - 165 Denying the Request
 - 166 Contractor Appeals
- 17 Effective Date
 - 171 General
 - 172 Other Than One-Line Adjustments
 - 173 One-Line Fuel Adjustments
 - 174 New Wage Adjustments
 - 175 Documented One-Line Adjustments
 - 176 Replaced Equipment Adjustments
- 18 Changes While Adjustment is Pending
 - 181 Subcontracts
 - 182 Service Change
 - 183 Death
 - 184 Interim Adjustments
 - 184.1 Contracting Officer
 - 184.2 Qualifying Adjustments

12 Authority**121 General**

The contracting officer (CO) or the contracting officer's representative (COR) is responsible for approving or disapproving all contract compensation adjustments covered by this instruction. The manager of National Mail Transportation Purchasing is responsible for conducting periodic reviews of contract adjustments at the DNs. The COR may approve adjustments up to 10 percent of the annual contract rate. Adjustments of more than 10 percent must be approved by the CO. Adjustments made under the provisions of this instruction may be made only with the consent of the contractor except for exceptions noted in other sections of this document and stated in the contract.

122 Criteria for Approval

The contractor's full request for economic adjustment may be granted if:

- a. The requested amount is less than or equal to the allowable amount, or
- b. The contractor has completed the appropriate section of the cost statement in which the contractor requests that the CO complete the cost statement and grant the maximum adjustment based on either:
 - (1) The Consumer Price Index – Urban Wage Earner (CPIW) numbers available when the adjustment is processed, or
 - (2) The application of the new wage determination.

Except as noted above, requests for less than the allowable amount may not be adjusted upward.

13 Basic Principles

The following basic principles apply:

- a. A request for an adjustment in the rate of compensation paid may be initiated by the contractor or the Postal Service. Postal Service-initiated adjustments other than fuel are limited to the amount of increases granted during the term of the contract. Any exception to the above policy must be stated in the contract.
- b. To be eligible for an economic adjustment, the offeror must have submitted, prior to the contract award, a completed Form 7468-A, *Highway Transportation Contract – Bid or Renewal Worksheet*.

- c. **Form 7463, Cost Statement – Highway Transportation Contracts**, is designed to identify the contractor's operating cost items at the beginning and ending of the period for which an adjustment is requested. To receive consideration for an adjustment in compensation, the contractor must provide documented evidence of actual increased costs on those items requiring documentation.
- d. Cases involving suspected fraud require that the CO submit a written report, accompanied by supporting evidence, to the manager of National Mail Transportation Purchasing. The manager may refer the file to the Inspection Service for review and investigation.
- e. When Form 7463 is submitted to the CO, it becomes the basis not only for the requested adjustment but also for comparison with future costs. Therefore, the contractor must submit a completed Form 7463 to receive consideration for the requested adjustment and future contract adjustments.
- f. Do not consider an adjustment in the contract rate to recover a deficiency in income when the proposal or renewal price was predicated on revenue to be derived from other sources that did not materialize or which did materialize but were later lost.
- g. The Postal Service is not permitted to tell a contractor how or when to purchase supplies and equipment, but the contractor is expected to conduct an efficient operation and provide equipment that reflects favorably on the Postal Service's image.
- h. Decreases in the cost of specific items due to the contractor's initiative will be used to offset increases in other items only to the extent that increases were previously granted for these specific items during the contract term, with the following exceptions:
 - (1) When the contractor chooses to initiate fuel conservation measures, the CO will allow the realignment of the cost statement (Form 7463) such that affected line items may be increased to the extent of the corresponding reduction in the fuel line. If, for example, a contractor purchases new equipment that is more fuel-efficient than that presently operated, any cost savings realized from lower fuel consumption may be reallocated to another line item(s). This amount is to be in addition to the consumer price index (CPI) computation normally allowed for the change in equipment.
 - (2) When contractors request a realignment of costs under these provisions, they must identify in writing to the CO the specific conservation action they propose to take or have taken and the corresponding line item(s) in the cost statement to be adjusted.
 - (3) The Postal Service does not expect to benefit directly from a contractor's reduced operating costs. Only increased costs applicable to the specific contract services may be considered.

14 Limitations and Restrictions

141 **Adjustments**

Adjustments are allowed only for cost changes that occur during the contract term or as otherwise specified herein.

142 **Proposal Errors**

Proposal errors or omissions in the contractor's cost statement are the responsibility of the contractor. The Postal Service does not allow adjustments for them, except as provided for under the mistake in proposal procedures in the *Purchasing Manual*.

143 **Eligibility Periods**

Adjustments are not allowed before the beginning of the 14th accounting period after proposal closing or the beginning of the 8th accounting period (including the accounting period in which the renewal was effective) after the effective date of the contract renewal and not before the beginning of the 14th accounting period (including the accounting period of the last effective adjustment) thereafter, except that one-line adjustments may be allowed as stated in 144. The CPIW comparison date on a novated or subcontracted contract is the same as the previous contractor's comparison date.

144 **One-Line Adjustments**

One-line adjustments must be processed and approved as outlined in 16. In instances where a one-line adjustment will result in a changed cost to another line item, the affected line item(s) may also be adjusted, e.g., change in equipment, fuel cost or insurance (gross receipts). Adjustments that increase or decrease the contractor's compensation may be processed as one-line adjustments due to the changed conditions listed below:

- a. Fuel price changes.
- b. Wage rate changes that were previously scheduled (union agreement, special agreement, collective bargaining agreement, etc., Department of Labor Wage Determination).
- c. Insignificant minor service changes that affect one-line item.
- d. Documented line items. These may be adjusted as part of a regular economic pay adjustment or in conjunction with a, b, and c above or with a negotiated service change. Adjustments to documented line items will be retroactive to the date costs were incurred provided that the contractor notified the CO of increases within 60 days of the contractor's knowledge of increases.

145 Fuel Adjustments (Renewal Only)

The following limitations apply to renewal fuel adjustments:

- a. At the time of negotiation of a renewal contract, the contractor will show the then-approved cost for fuel as the cost of fuel for the renewed contract. On the effective date of renewal, if the contractor's average cost of fuel for the immediately preceding 28-day period has increased or decreased by 5 cents or more per gallon from the renewal price, a one-line fuel adjustment effective on the day of the renewal may be allowed, provided that the request is received within 60 days after the renewal date. The effective date for a fuel cost adjustment received later than 60 days after the renewal date will be calculated as outlined in 173. If the CO has reason to believe that a contractor's cost for fuel has decreased sufficiently since signing the renewal contract, the CO will require the contractor to complete a new certification of the fuel cost for the immediately preceding 28-day period. If the contractor's cost of fuel has in fact decreased by 5 cents or more, the new cost will be effective as of the date of renewal.
- b. In instances where a contractor's average cost of fuel has not increased or decreased by 5 cents or more per gallon on the effective date of renewal, there will be no change in the rate. However, the contractor will be allowed a one-line fuel adjustment in accordance with the current instructions whenever the average cost of fuel changes by 5 cents or more per gallon from the renewal cost.

146 Unanticipated Costs

All adjustments during the first 13 accounting periods (APs) of a new contract, or during the first 7 APs of a renewal contract are further restricted to those items that could not have been reasonably anticipated at the time of the proposal submission or contract renewal, whichever is later. Adjustments in rate of compensation during the first 7 or 13 APs for any reason other than those listed in 144 may be made only with the prior written approval of the manager of National Mail Transportation Purchasing.

147 Nonallowable Increases

Nonallowable increases consist of:

- a. Cost increases for items that were omitted in the original or renewal cost statement.
- b. Increased labor cost resulting from a contractor's choice to hire a driver or supervisor in lieu of personal operation during the term of the contract, except as provided for below in 162.q(4).

- c. Rate of pay on emergency contracts. Exceptions are made for fuel cost increases after an emergency contract has been in effect for 56 days. One-line fuel adjustment shall not have an effective date prior to 56 days from start of contract regardless of certification date. To be considered for a fuel adjustment, the contractor is required to identify both fuel consumption and cost per gallon concurrent with or prior to start of the contract. The allowable increase or decrease is limited by the actual amount of change in the cost per gallon of fuel, provided that the amount of change must be at least 5 cents per gallon.

148 **Adjustment Limits**

Adjustment limits are as follows:

- a. Adjustments in the rate of compensation for lines 1B, 5, and 17 on Form 7463 are limited to an amount that does not exceed the CPIW percentage change.
- b. Adjustments in the rate of compensation for non-CPIW line items are limited to the actual cost changes documented by the contractor.

15 **Initiating the Request**

151 **Contractor Responsibility**

The contractor who initiates an adjustment request must do so by completing and submitting Form 7463 and all the required documentation to the CO.

Note: The contractor must submit a request for Form 7463 to the CO.

152 **Postal Service Responsibility**

152.1 **Completion and Verification of Column 1 of Form 7463**

Upon receipt of contractor's request for adjustment forms, the CO will forward to the contractor, within five working days, a copy of Form 7463, with column 1 completed to show (whichever is later):

- a. The last approved cost and the CPIW index number used in developing the current column 1, or
- b. The CPIW index number in effect the month prior to the date of proposal closing or renewal.

Other pertinent forms are to be sent to the contractor at this time. The CO will also advise the contractor of the CPIW index number available when the forms are mailed and alert the contractor to verify column 1.

152.2 Review of Cost Statement Submitted by Contractor

When completed forms are received from the contractor, they must be verified by an itemized comparison with the last approved cost statement.

152.3 Analysis and Approval of Adjustments

After the initial review of the adjustment, the specialist must have the entire file reviewed by the contracting officer's designee. The contracting officer or COR, as appropriate, must approve or disapprove the adjustments. The adjustment file will contain all forms, correspondence, and documentation concerning the request.

152.4 Documentation of Adjustments

Each file must contain an itemized summary showing the reason for each non-CPI-changed line item.

16 Processing the Request

161 Completing Within 28 Days

The adjustment requests must be completed within 28 days after receipt of a completed Form 7463 and other pertinent documentation.

162 Analyzing Form 7463

Form 7463 analysis consists of the following:

a. Item 1**(1) Item 1A, Vehicle Cost**

- (a) The annual vehicle cost should reflect the sum of the depreciation and the interest paid on the vehicle(s) purchased or leased as shown on the last approved cost statement.
- (b) The annual cost of each vehicle is subject to individual adjustment only when replacement equipment is placed in service on the route. The value of the replacement equipment must exceed the present value in order for the contractor to be considered for additional compensation. When a contractor changes equipment on the route, the allowable increase must be determined by identifying (whichever is the latest):
 - (i) the CPIW index number used in computing the most recent adjustment due to replaced equipment, or
 - (ii) the CPIW index number of the month prior to the solicitation proposal closing

to the CPIW index number of the month prior to the date that the equipment is placed in service on the route.

- (c) If the contractor agrees, use CPIW computation dates that will yield less than the maximum dollar adjustment for which the contractor may otherwise be eligible. As an example, the contractor, based on previous adjustments for equipment changes, may be eligible to use a comparison period from August 1986 to August 1995. To keep the contract rate competitive, the contractor may use a comparison period that will produce a total dollar increase that is less than the period cited above (e.g., August 1986 to August 1990). The maximum adjustment to which the contractor will be entitled, however, may not exceed the amount determined by the CPIW computation.

Exception: The manager of National Mail Transportation Purchasing may authorize the contracting officer to approve an increase in excess of CPIW for equipment replacement cost (purchased or leased) in unusual or unique situations. The contractor must provide complete documentation justifying an exception.

- (d) All replacement equipment involved in requests for economic cost adjustment must be properly documented and inspected as directed by the contracting officer.
- (e) A contractor may be granted an increase in the cost of leased equipment, provided that such an increase has actually been incurred. However, the allowable amount of the adjustment is limited to the same guidelines as outlined in 162.
- (f) The approved annual cost divided by the annual miles equals the new rate per mile. The rate per mile (unit cost) will be carried out five decimal places.
- (2) *Item 1B, Operational Cost.* This includes cost of repairs, repair labor, tires, and other miscellaneous operational costs not carried in other line items on this form. The allowable increase in this line is the amount determined by using procedures outlined in 163. (No documentation is required.)
- b. *Item 2, Taxes.* This is for personal property taxes for vehicles to be used on the route or other business taxes specifically required to operate the mail transportation business. Documentation, such as a tax receipt or tax bill, is required.
- c. *Item 3, Vehicle Registration.* This should show registration fees for all vehicles used on the route. Any increase in cost incurred by the contractor as a result of increased registration fees is allowed only when properly documented.
- d. *Item 4, Miscellaneous.*

- e. **Item 5, General Overhead Cost.** General overhead includes all management expenses not included in other line items. Included are general supervision and all related supervisory costs (not included in line item 17) such as telephone, office expenses, garage rents, parking fees, bulk fuel handling cost, terminal cost, interest and insurance (except interest and insurance on vehicles), etc. The allowable adjustment in this line item is the amount determined by using procedures outlined in 163. (No documentation is required.)
- f. **Item 6, Fuel**
- (1) **Certification.** All cost adjustments for fuel are based on the change in the actual or prevailing self-service fuel price per gallon. The contractor must furnish a fuel certification sheet for the price of all fuel purchased during the certification period. This certification is a statement showing:
- (a) The type of fuel purchased.
 - (b) The type of purchase made (wholesale, retail-commercial, or retail-contractor owned). (See 162.f.(4).)
 - (c) Names, locations, and telephone numbers of the suppliers of fuel.
 - (d) The amount and price of fuel purchased from each supplier during a consecutive 28-day period prior to the date of request. The quantity should compare favorably with the consumption reflected on the cost statement (1/13 of annual gallons). As an example, a contractor who uses 130,000 gallons of fuel per annum might certify approximately 10,000 gallons for a certification period. Good judgment must be used in evaluating the number of gallons listed on the certification form(s).
 - (e) The relationship of the contractor to the fuel company, if any.
- If fuel was purchased from more than one supplier, the contractor must specify the above information for each supplier. The contracting officer may require a contractor to provide documentation of the actual price (in the form of receipts/invoices, etc.) when deemed necessary or appropriate. However, the contracting officer must require the contractor to provide fuel receipts not less frequently than once per annum.
- (2) **Calculation of Cost**
- (a) Increases or decreases for fuel cost are based on the allowed gallons shown on the last approved cost statement multiplied by the average price per gallon for the 28-day period shown on the certification. The average

cost per gallon is a weighted average based on the quantity of fuel purchased at each price.

- (b) The contracting officer aggregates fuel prices from a reasonable number of sources in general metropolitan areas where contractors purchase fuel to establish prevailing fuel rates for wholesale and retail. The contracting officer may also contact the suppliers to verify the price of fuel shown in the contractor's certification.
- (3) **Filing Eligibility.** Contractors may file for a fuel adjustment in the form of a one-line adjustment request when the average price of fuel for the certification period changes by at least 5 cents per gallon from the unit cost allowed in the last approved cost statement. These one-line adjustment requests must be accompanied by a fuel certification statement as described in 162.f.(1). In addition, each contractor must have filed a fuel purchase plan as described in 162.f.(6). Fuel price changes submitted with economic adjustments do not require a 5-cent per-gallon change in order for the price to be adjusted.
- (4) **Fuel Purchases.** Purchases of fuel may be made from any source at the option of the contractor. Depending on where and how (retail or wholesale) purchases are made, one of the following will apply:
- (a) **Wholesale Purchase.** The contractor will be allowed compensation for the actual wholesale price paid for fuel. If the wholesale price per gallon exceeds the prevailing self-service retail commercial rate, the adjustment will be allowed based on the prevailing self-service retail (if available) commercial rate. The calculation of this amount is described in 162.f.(2).
 - (b) **Retail Purchase – Commercial Fuel Company.** The contractor will be allowed compensation for the actual retail price paid for self-service retail fuel purchases (where a choice is available). The calculation of this amount is described in 162.f.(2).
 - (c) **Retail Purchase – Contractor-Owned Fuel Company.** A contractor-owned fuel company is a fuel company that is substantially owned or controlled by a contractor, a member of the immediate family, the officers of the corporation (if the contractor is a corporation), their immediate families, and partners or their immediate families. Such fuel companies will be considered as retail fuel companies, and a purchase from such a source by a contractor will be considered as retail purchase from a contractor-owned fuel company. The contractor may be allowed, as compensation, the area prevailing wholesale rate for the type of fuel purchased. If the prevailing wholesale rate per gallon exceeds the prevailing

self-service retail commercial rate, the adjustment will be allowed based on the prevailing self-service retail (if available) commercial rate. The calculation of this amount is described in 162.f.(2).

(5) *Reexamination of Prior Fuel Allowances*

- (a) ***New Certification.*** To avoid continuous reimbursement to a contractor at a higher rate, all contracts may be reviewed monthly by the CO to identify instances where it is suspected that a contractor is being allowed reimbursement for fuel costs greater than those actually being incurred. For any contracts in which the amount currently allowed exceeds the current prevailing self-service price (either wholesale or retail, as appropriate) by at least 5 cents per gallon in the area where the fuel is purchased and at least 60 days have elapsed from the effective date of the last fuel adjustment and no new fuel certification has been filed, the CO may require the contractor to file a new certification. The new certification is to cover the 28-day period starting with the immediately preceding 28 days from the date of receipt by the contractor of the recertification request from the CO. (Recertification notices must be sent Certified, Return Receipt.) Contractors will be allowed 60 days from the date they receive the notice from the CO to provide the recertification.
- (b) ***New Fuel Allowance.*** The fuel allowance will be recomputed on the basis of the new certification if the change has been at least 5 cents per gallon. The effective date of the new rate will be from the first day of the accounting period that began during the certification period. If the requested recertification has not been received by the due date, the fuel allowance will be recomputed based on the area prevailing self-service rate (wholesale or retail, as appropriate) with an effective date of the first day of the accounting period that began during the requested certification period. This change will be processed regardless of the amount of change in fuel price.

- (6) ***Fuel Purchase Plan.*** During the term of the contract, the contractor may elect to change fuel purchase plans. No change will be permitted, however, that will result in an increase in the total compensation allowed the contractor. Therefore, contractors may be required to appropriately realign the specific line items of their cost statement. Likewise, the contractor will be given the opportunity to realign the cost statement so that the fuel purchase plan change does not result in a reduction in the total compensation. To change plans, the contractor must, in

writing, provide the contracting officer with the following information:

- (a) The type of change desired:
 - (i) Wholesale to retail commercial.
 - (ii) Wholesale to retail contractor-owned.
 - (iii) Retail commercial to wholesale.
 - (iv) Retail commercial to retail contractor-owned.
 - (v) Retail contractor-owned to wholesale.
 - (vi) Retail contractor-owned to retail commercial.
 - (vii) Changes in purchase ratio (specify).
 - (b) The last 28 days of fuel certification under the current plan and the first 28 days of fuel certification under the proposed plan.
 - (c) A realigned cost statement that shows the increased or decreased fuel line item cost and offsetting decreased or increased cost on another line item(s).
 - (d) A new fuel purchase plan showing the effective date of the new plan. (The effective date must be the same as the first day of the fuel recertification period.) Contractors must notify the CO within 60 days of the date they permanently change the manner in which they purchase fuel and must change their fuel purchase plan accordingly within that 60-day period. Failure to do so may result in termination of the contract for default.
- g. *Item 7, Oil.* Base the adjustment for the cost of oil on documented unit cost.
- h. *Item 8, Insurance*
- (1) *General.* This item is the cost of insurance on vehicles used in the performance of service on the route. (Insurance coverage carried by contractors for terminal facilities, keyman insurance coverage, etc., should be included in *Item 5, General Overhead Cost*.) The adjustment will be allowed only when there is an increase or decrease in cost of "same coverage" as reflected in the last approved cost statement (see *Realignment* below). Cost of additional coverage purchased at the option of the contractor is not allowable. Also, no adjustment will be allowed for the higher cost of insurance caused by the contractor's high accident rate or other actions within the reasonable control of the contractor that result in increased premiums.
 - (2) *Realignment.* In instances where the current costs shown in *Item 8, Insurance*, can be reduced due to the development of contractor or industry initiated programs, the contractor may be permitted to realign the cost sheet to reflect the new documented insurance costs and retain the money to the

extent that it is used in the development and maintenance of programs or other initiatives designed to reduce insurance cost. As an example, a contractor may, with approval, elect to assume responsibility for a portion of liability claims or develop a safety program that reduces insurance cost. The cost statement may be realigned and the contractor permitted to retain the savings for the maintenance of the programs or liability exposure. However, the annual contract rate may not be increased as a result of any such realignment. Decreases in insurance costs that are not due to the development of documented contractor or industry-initiated programs may not be realigned and may decrease the annual contract rate to the extent increases have been granted during the term of the contract. (Such decreases would include general rate reductions, change of insurance carriers, etc.)

- (3) **Documentation.** The contractor is required to document both previous and current insurance cost. Policies must be provided that reflect amounts and types of coverage and premium cost identifying vehicles used on the route.
- (4) **Gross Receipts.** The CO shall allow an adjustment of a contractor's insurance cost when the policy cost is based on a percentage of the contractor's annual gross receipts and the request for an insurance adjustment is accompanied with a request for any adjustment that changes the annual rate. In computing the amount of increased insurance cost, use the following procedure:
 1. Determine the total of column III of Form 7463 exclusive of insurance. Insurance cost may be included provided that the contractor provides proof that the insurance carrier uses insurance cost in developing total insurance cost.
 2. Identify the documented gross receipts rate per \$100 and change to a decimal equivalent.
 3. Subtract decimal equivalent of insurance premium rate (e.g., 7.05 percent converted to .0705) from decimal equivalent of gross adjustment base (e.g., 100 percent expressed as 1.0000).
 4. Determine the new contract rate by dividing step 1 by 3.
 5. The difference between amounts in steps 4 and 1 is the allowable insurance cost.
 6. The new contract rate multiplied by the insurance gross receipts rate must equal the insurance cost found in 162.h.(4)3.

Example:

1. Total column III of Form 7463, exclusive of insurance cost = \$47,904.00.
2. Gross receipts insurance rate \$7.05 per \$100.00 OR 7.05 percent.
3. 1.000 less .0705 = .92950
4. \$47,904.00 divided by .92950 = \$51,537.00
5. \$51,537.00 less \$47,904 = \$3,633.00
6. \$51,537 x .0705 = \$3,633.00

Note: The above procedures are applicable to the cost sheet any time there is an increase or decrease in the contract annual rate. In processing adjustments that reduce the contract annual rate, the CO may process the insurance reduction as outlined above. The adjustments may reduce the contract rate below the original proposal price.

- i. **Item 9, Miscellaneous Road Taxes.** This item is for federal highway use tax, state highway use tax, state mileage tax, and state road tax. Increases due to additional state or federal taxes incurred by the contractor are allowable when properly documented.
- j. **Item 10, Tolls.** New or increased toll fees are allowable when incurred.
- k. **Item 11, Total Fixed and Operational Cost.** Sum of items 1 through 10.
- l. **Item 12, Straight Time**
 - (1) The contract rate of compensation may be adjusted to offset increased driver costs resulting from new wage determinations, collective bargaining agreements, or salary adjustments necessary to ensure employment of qualified and reliable drivers.
 - (2) It is not possible to establish minimum or maximum allowable percentage increases, but increases should be restricted to amounts that maintain reasonable and competitive rates for the service provided but allow the contractor's employees a reasonable salary. The percentage increases reflected in successive annual issuances of wage determinations may be used as a guideline for contractors who do not have collective bargaining agreements with their employees.
 - (3) The allowable adjustment is determined by multiplying the allowable hours by the hourly straight time rate.
 - (4) The allowable hours are the hours shown on the cost statement of original proposal, renewal contract, subcontract, last approved adjustment, or negotiated service change, whichever is latest, plus increased hours necessitated by

service change orders, new or revised statutes, and other changed conditions affecting the hours required to perform the service. Conversely, service change orders, new or revised statutes, or other changed conditions that enable the contractor to reduce paid hours will reduce the allowable hours and offset allowable increases in other line items (or result in a reduction in the annual rate).

- (5) Payroll journals or check stubs that reflect the number of hours paid, in addition to fringe benefits and the gross amount paid, will normally constitute sufficient documentation to support increased costs for these items. If the contractor has a collective bargaining agreement with employees, that document should normally be sufficient to document the employees' salary scale. The incorporation of a new wage determination into a contract requires the contractor to pay, as a minimum, the new wage rate. Therefore, a request for adjustment when a new wage determination is incorporated into a contract should be allowed without immediate documentation. The CO may require the contractor to furnish copies of payroll journals and/or check stubs within 90 days after the effective date of the increased wage rate. If the contractor fails to provide the requested information within 60 days of receipt of the request for the information, the contracting officer may retroactively rescind the adjustment. If the contractor provides the requested documentation at some later date, the adjustment will become effective the first day of the accounting period in which the documentation is received.
- (6) The wages of terminal employees and/or supervisors are to be included in either item 1B or item 5 and, therefore, are not to be considered in this item.
- m. *Item 13, Overtime.* The allowable adjustment is determined by multiplying the allowable hours by the hourly overtime rate.
- n. *Item 14, Payroll Taxes.* This is for federal or state payroll taxes paid on salaries of drivers. The contract rate of compensation may be adjusted to offset any increased cost incurred for these payroll taxes. Social Security tax paid by employers is based on a percentage rate of each employee's earnings up to the maximum as specified by law. The rates for state and federal unemployment compensation are controlled by state and federal governments. The contractor must adequately document the cost of federal and state unemployment compensation taxes when a request for an economic cost adjustment is filed. Worker's compensation is based on the experience factor of the employer and, therefore, may vary from year to year and contractor to contractor. The contractor may be allowed up to the manual rate for worker's compensation without consideration of experience modification. As an example, the contractor may, due to a low claims record,

reduce rates below the manual rate. The resulting savings may be realigned to another line item. Self-employment tax paid by the contractor is not an adjustable item.

- o. **Item 15, Fringe Benefits.** This item is for the cost of employee health and welfare, pension benefits, vacations, and holidays based on the number of employees reflected by the number of hours in items 12 and 13. Allow the increased cost resulting from new wage determinations or negotiated employee agreements. Fringe benefits are computed on the basis of the number of hours employees work. In cases where an employee does not work 40 hours per week, the fringe benefits are prorated according to the number of hours worked.
- p. **Item 16, Total Operations Labor Cost.** Sum of items 12 through 15.
- q. **Item 17, Contractor's Wages, Personal Driving or Supervision**
 - (1) The allowable adjustment in the contractor's wages granted solely for changed economic conditions is limited to the amount shown on the last approved cost statement multiplied by the percentage increase/decrease in CPIW since proposal closing, renewal, or last approved economic cost adjustment, whichever is the latest. (No documentation is required.)
 - (2) Determine the adjustment allowed by multiplying the annual cost by the appropriate CPIW multiplier and then dividing the product by the allowable hours shown on the last approved cost statement to obtain the per hour unit cost. If new hours are being added to the contract, multiply the new annual hours by the new hourly rate to determine the new annual cost.
 - (3) The contractor's wages may be increased in all cases to allow the contractor at least the minimum wages established by the Fair Labor Standards Act (as amended). If local minimum wages exceed FLSA wages, the CO may adjust the contractor's hourly wage rate up to the local minimum wage.
 - (4) Contracting officers are authorized to approve one-time payments when the illness of the contractor forces the contractor to temporarily employ a driver. Any reasonable increase over the hourly rate that contractors were receiving for their own driving time may be approved. The one-time payment is normally limited to the amount of increased cost for a period of 30 days or less. Requests for compensation that exceed 30 days must be approved by the manager of National Mail Transportation or designee.
- r. **Item 18, Total Cost.** Sum of items 11, 16, and 17.
- s. **Item 19, Return on Investment.** Return on investment may be adjusted only when vehicles used on a route are replaced and an increase is allowed in item 1A. The adjustment in return on

investment is limited to a maximum of 10 percent of the change allowed in item 1A.

- t. *Item 20, Total Contract Rate.* Sum of items 18 and 19.

163 Establishing Period of Comparison

163.1 General

Perform the following steps to establish the period of comparison for an economic adjustment:

From: Determine the CPIW Index number used in computing the most recent economic adjustment or the CPIW Index number for the month prior to the solicitation proposal closing or contract renewal, whichever is the latest.

To: Determine the CPIW Index number for the month prior to the effective date of the requested economic adjustment or use the CPIW Index number used by the contractor provided that the number used by the contractor does not result in increased cost in excess of that which would result by using the latest CPIW number.

Note: CPIW comparison date is adjustment-specific and not line-item-specific. As an example, a contractor, when submitting an economic adjustment, may elect to request a CPIW adjustment on line items 1B and 5. At the next adjustment, the CPIW comparison dates would be the same for all line items adjustable by CPIW, except items 1A.(1) or 1A.(2) equipment.

163.2 Percentage Change Formula

The contractor will be allowed an amount equal to the percentage change in the CPIW for those items adjustable by CPIW changes. Determine the percentage change as follows: Identify the CPIW index numbers in accordance with 163.1. After identifying the two CPIW index numbers to be used, divide the latest CPIW index number by the previously identified CPIW index number to determine the percentage factor. The result of this division factor multiplied by the amount in column III of the last approved amount for that line item determines the maximum compensation the contractor may be allowed.

Example:

1. Effective date of adjustment Oct. 15, 1994
2. Comparison period started July 1, 1993, June 1993 CPIW (142.0) to
3. Sept. 1994 CPIW (146.9) = 1.03451
4. 1.03451 times last approved line item cost of \$2,500.00 = \$2,586.28, the new allowable amount.

Example format for analysis:

HCR_____ Analysis_____ Date:_____

Period of Comparison for Economic Adjustment will be the month prior to one of the following dates:

■ Proposal Closing Date			
	(Prior Month Index #)		(Current Index #)
■ Renewal Date			
	(Prior Month Index #)		(Current Index #)
■ Last Econ. Adj	N/A		
	(Prior Month Index #)		(Current Index #)

164 Approving the Request

The CO or COR issues orders on Form 7440, *Contract Route Service Order*, if the full amount of the request has been approved.

165 Denying the Request

When an adjustment request is denied, advise the contractor of the reason for this action. A detailed explanation is required.

166 Contractor Appeals

When a contractor makes a request for adjustment in compensation for economic reasons, and the CO's allowance is less than that requested, the CO will advise the contractor in writing of each item disallowed in whole or in part and the specific reasons why. If the adjustment is disputed by the contractor, the case may be appealed by the contractor, after the CO has provided a final decision, in accordance with the claims and disputes provision of the contract.

17 Effective Date

171 General

Adjustment of different line items may be effective on different dates as prescribed in the following sections. Economic adjustments, that is, an adjustment solely for economic reasons, including contractor's wages, for awarded contracts will not be granted more frequently than every 13 accounting periods (364 days). The first economic adjustment after a renewal may be granted seven accounting periods (196 days) after the effective date of the renewal and every 13 accounting periods (364 days) thereafter.

172 Other Than One-Line Adjustments

The effective date of an economic adjustment (other than one-line adjustments and documented line items) is the first day of the accounting period in which the completed Form 7463 is received. If the contractor's initial request is not supported by the necessary documentation and the contractor fails to respond to the contracting officer's request for documentation within 28 days of the request (either providing the requested documentation or advising the contracting officer when the documentation will be provided), the adjustment for all line items will become effective the first day of the accounting period in which the necessary documentation is received.

173 One-Line Fuel Adjustments

The effective date for contractor-initiated one-line fuel adjustments will be the first day of the accounting period that begins during the certification period, provided the request for adjustment and supporting documentation is received within 60 days after the last day covered in the certification period. If the request is not received in this time period, the effective date will be the first day of the accounting period in which the request is received. The contracting officer must process the adjustment as explained in 162.

174 New Wage Adjustments

Adjustments in the rate of compensation due to new wage determinations, new labor contracts, and new or revised statutes are considered as one-line adjustments and are effective on the date the contractor actually incurs these increased costs, provided that the adjustment request is received within 60 days after the increased costs are incurred. If the adjustment request is not received within 60 days, the effective date is the first day of the accounting period in which the request is received.

175 Documented One-Line Adjustments

Adjustments in documented line items will be retroactive to the date costs were incurred provided that the contractor has notified the CO of increases within 60 days of the contractor's knowledge of increases. Failure to notify the contracting officer of increases, within 60 days of knowledge, will result in the increased costs being effective the first day of the A/P in which received in accordance with 144.

176 Replaced Equipment Adjustments

Adjustments in the rate of compensation due to the contractor's election to replace equipment on a route will be effective the date that such equipment was placed in service on the route, provided that the contrac-

tor notifies the CO within 60 days of the date replacement equipment was actually placed in service on the route. Adjustments for equipment are treated as documented "one-line adjustments" (see 175).

18 Changes While Adjustment Is Pending

181 Subcontracts

If a route is subcontracted while a contract adjustment is pending, any adjustment that is determined to be due the contractor will be allowed to the subcontractor.

182 Service Change

Any pending cost adjustment, if known at time of processing a negotiated service change that would have an effective date preceding the service change effective date, may be processed along with the service change but must be calculated separately, i.e., develop a cost statement for each. This will prevent an amendment to the service change at a later date.

183 Death

If a contractor dies before completing a pending adjustment, the contractor's estate or next of kin should be given an opportunity to complete the adjustment case. Any adjustment thus allowed will be allowed to the subcontractor if the route is subcontracted.

184 Interim Adjustments

184.1 Contracting Officer

The contracting officer/contracting officer's representative may approve a contractor's request for an interim adjustment when it is determined that there may be a delay in processing the contractor's request. Interim adjustments may be for the full amount that is not in dispute.

184.2 Qualifying Adjustments

The CO/COR shall qualify all interim adjustments with a statement on Form 7440 that the amount is not final and is subject to modification after final approval of the adjustment request.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T.
PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF
AMERICA**

MPA/USPS-T17-4. Please confirm that Amtrak transports Postal Service trailers on flat cars (TOFCs). If confirmed, what percentage of Postal Service costs for Amtrak is for TOFCs?

RESPONSE

Not confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA

MPA/USPS-T17-5. Please refer to your response to MPA/USPS-T17-1 (c)(iv) where you state, "It is my understanding that the increased reliance on Amtrak reflected in these data is not the result of an explicit policy decision to move more Periodicals to Amtrak. The decision to use Amtrak is typically made on a case by case basis. In some instances, use of Amtrak is considered more economical. In others, Amtrak is thought to provide better service."

(a) State all statistics in support of your contention that Amtrak is more economical than freight rail and inter-BMC highway transportation.

(b) State all facts in support of your contention that Amtrak provides better service than freight rail and inter-BMC highway transportation.

(c) What was Amtrak's on-time performance (stated as a percentage) in FY 1997?

(d) What was Amtrak's on-time performance (stated as a percentage) in FY 1998?

(e) What was Amtrak's on-time performance (stated as a percentage) in FY 1999?

(f) What was Amtrak's on-time performance (stated as a percentage) in FY 2000?

RESPONSE

(a) I did not say "that Amtrak is more economical than freight rail and inter-BMC highway transportation." What I indicated in my response was that Amtrak sometimes is less expensive than other surface transportation alternatives and sometimes it provides better service. It is my understanding that Amtrak can be less expensive than inter-BMC highway. Generally, it is not regarded as less expensive than freight rail. This observation is not based on an analysis; rather, it is based on discussions with personnel who plan and purchase these kinds of transportation for the Postal Service.

(b) I did not say "that Amtrak provides better service than freight rail and inter-BMC highway transportation." What I indicated in my response was that Amtrak sometimes is less expensive than other surface transportation alternatives and sometimes it provides better service. It is my understanding that Amtrak generally provides superior service than freight rail and may provide

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T.
PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF
AMERICA**

superior service to inter-BMC highway in some circumstances. This observation is not based on an analysis; rather, it is based on discussions with personnel who plan and purchase these kinds of transportation for the Postal Service.

(c) - (f) Amtrak's on-time performance data are unavailable.

1 CHAIRMAN OMAS: Does anyone wish to enter
2 additional written cross-examination for Witness Pickett?

3 (No response.)

4 CHAIRMAN OMAS: This brings us to oral cross. No
5 participants have requested oral cross-examination. Is
6 there any party that wants cross-examination of Witness
7 Pickett?

8 MR. MCBRIDE: Yes, Mr. Chairman.

9 CHAIRMAN OMAS: Mr. McBride?

10 MR. MCBRIDE: Thank you. In light of the
11 responses we just received, we'd like to ask just a few
12 further questions.

13 CROSS-EXAMINATION

14 BY MR. MCBRIDE:

15 Q Good morning, Mr. Pickett.

16 A Good morning.

17 Q I'd like to focus your attention particularly on
18 the responses to your Interrogatories 6 through 8, MPA
19 Interrogatories 6 through 8 that we've just designated. You
20 do have a copy of those responses in front of you, do you?

21 A I do.

22 Q First of all, Mr. Pickett, could you please clear
23 up for the record the unit applicable to the rates that are
24 paid by the Postal Service for transportation via Amtrak?
25 Is it per linear foot or per some other unit?

1 A My understanding is per linear foot.

2 Q All right. And is that the same unit for truck?

3 A No. Well, we pay for the truck by the trip and
4 the size of the box and the schedule.

5 Q All right.

6 A The linear footage is sort of part of the trailer
7 length.

8 Q Okay. Do you, for purposes of comparing the
9 relative transportation cost of Amtrak versus truck, convert
10 the cost of transportation by truck to some common unit?

11 A Do I convert it?

12 Q Or does the Postal Service do that?

13 A The Postal Service uses cubic foot miles as its
14 common measure of transportation capacity for highway.

15 Q So is it your testimony that someone at the Postal
16 Service converts both the Amtrak cost and the truck cost to
17 those units you just described for purposes of comparison?

18 A I'm not sure that they use cubic foot miles when
19 they do comparisons. It's not me who does the comparisons,
20 so I really don't know.

21 Q How then, if you know, does the Postal Service
22 compare the cost of transportation via Amtrak to the cost of
23 transportation via truck?

24 A I'm not certain.

25 Q Do you know if that comparison has been made?

1 A I know that it's the policy to consider cost when
2 choosing whatever kinds of transportation we're choosing.
3 Cost, as well as service. I'm told that that is looked at
4 when the decision is made.

5 My understanding is that that decision is a local
6 decision and not one that would necessarily be made, for
7 example, at headquarters.

8 Q Can you testify whether cost of transportation to
9 the Postal Service versus Amtrak are on an overall average,
10 system wide basis higher or lower than via truck?

11 A Total cost or --

12 Q Average cost per some common unit. Whether they
13 are higher or lower on Amtrak versus truck.

14 A No, I can't.

15 Q Does anyone at the Postal Service have that
16 information?

17 A I don't think so, no.

18 Q Is it your testimony that the Postal Service has
19 never in recent years, let's say since 1998, made a
20 comparison on a per unit basis of the cost of transportation
21 via Amtrak versus truck?

22 A I'm not aware of any comparison.

23 Q Now, with respect to your answer to MPA
24 Interrogatory No. 6, Part A, I'm having some difficulty
25 understanding what that answer means.

1 We asked you to confirm that it is your testimony
2 that the rate per linear foot for every service "purchased"
3 from Amtrak was exactly the same in FY 2000 as it was in FY
4 1998, and you said, "Confirmed. However, I have not
5 conducted a comparison of Amtrak rates per linear foot.
6 Rather, I was provided this information by contract and
7 logistics specialists who deal with Amtrak on a routine
8 basis."

9 Does that answer mean that indeed the rates paid
10 via Amtrak were the same in FY 2000 as they were in FY 1998,
11 but you're simply relying on what someone told you, as
12 opposed to having made that comparison yourself?

13 A I'm relying on what somebody told me.

14 Q But the answer is that they were the same?

15 A That's what they told me.

16 Q Then with respect to your answer to MPA
17 Interrogatory No. 7, again Part A, you say in the first
18 sentence, "My understanding is that some Amtrak rates per
19 mile are lower than the average rate per mile on inter-BMC
20 highway," but you seem to go on to indicate that some Amtrak
21 service costs are less. Truck costs may have been a little
22 higher than you thought.

23 Is this answer, in your view, consistent with your
24 previous answers here orally today that overall you do not
25 have the ability to determine whether Amtrak average rates

1 are lower or higher than truck rates?

2 A I think so. All I'm saying here is that the rate
3 per mile that Amtrak quotes us, which is calculated from
4 what they -- basically let me describe what Amtrak provides.

5 Q Please.

6 A They provide the origin of the destination, the
7 frequency, the number of linear feet, a rate I think per
8 trip and the mileage, from which you can calculate a rate
9 per mile.

10 When I glanced at that rate per mile, I could see
11 that some were well below \$1 and some weren't, and I knew in
12 the back of my head from talking to Dwight Young and the
13 transportation people over the years that \$1 a mile is
14 approximately a rough ball park figure for what highway
15 transportation costs.

16 Then when I looked at the HCSS extract that I have
17 in an Excel file, I simply calculated the cost per mile off
18 of that. It was \$1.11.

19 Q Is that \$1 per mile per linear foot?

20 A No. \$1 per mile.

21 Q Just \$1 per mile?

22 A Basically for tractor/trailer transportation.

23 Q You just referred in your answer a moment ago to a
24 gentleman by the name of Dwight Young. Is that the same
25 person as James D. Young in your response to MPA

1 Interrogatory 8?

2 A Yes, it is.

3 Q Again, sir, on the \$1 per mile unit we're having
4 some difficulty translating that. You don't mean it's \$1
5 per mile, do you, to move the truck, or do you?

6 A 1,000 mile haul via truck loaded with mail. Is
7 it your testimony that that would cost the Postal Service
8 \$1,000 or some other amount of money?

9 A Let me tell you what it is. It's the annual cost
10 in the contract for that contract route. I think it's
11 called route. Let me think a second. Contract cost
12 segment. That's the unit in the HCSS file. It has in it an
13 annual cost and annual miles. It's just the annual cost
14 divided by the annual miles for that segment.

15 Q But again if a truck moves 1,000 miles, is it your
16 testimony that even if fully loaded with mail the cost of
17 moving that truck that 1,000 miles is only \$1,000?

18 A Well, if that's what we've agreed to pay the
19 contractor, that's what the cost of that movement is.

20 Q Okay. Again then with respect to Amtrak, is it
21 your testimony that you're paying Amtrak \$1 per mile?

22 A No.

23 Q You're paying Amtrak what, \$1 per linear foot?

24 A No. We're paying Amtrak whatever -- I mean, there
25 are several. I don't know what they're called. For the

1 purposes of the discussion let's call them routes.

2 There are several routes that Amtrak quotes us
3 rates for, and some of those routes have rates less than \$1,
4 and some of those routes have rates for more. I haven't
5 calculated an average.

6 Q Whether it's more or less than \$1, is it per mile
7 or per linear foot for Amtrak?

8 A Per mile.

9 Q Per mile. So it would be your testimony then if
10 mail is moving on Amtrak for 1,000 miles that the charge per
11 that rail car is \$1,000?

12 A It may not be a rail car. It may be more or less
13 than a rail car.

14 Q Okay. But that unit of mail, whatever that unit
15 is, per 1,000 miles, that average cost in the example I gave
16 would be \$1,000?

17 A If they charge us \$1,000 for 1,000 miles, it's \$1
18 a mile.

19 Q That wasn't my question.

20 A Okay. I'm sorry.

21 Q My question was you said that you were paying some
22 rates to Amtrak of more than \$1 per mile and some less, and
23 I'm saying that if those are the units then it would be your
24 testimony that if it happened that that number was \$1 your
25 testimony is that the units work out such that a 1,000 mile

1 haul would be \$1,000?

2 A Say that again. I'm sorry.

3 Q Let's go back a couple of questions. You told me
4 that some of the rates that you're paying Amtrak are more
5 than \$1 per mile and some are less, correct?

6 A Correct.

7 Q All right. Is it the case ever that the rate may
8 be exactly \$1 on the rates that you've seen?

9 A I don't know.

10 Q Do you recall any of the numbers that you saw?
11 Are there any that are \$1.01? \$1.10? \$.90?

12 A I don't recall the specifics. No.

13 Q Have you actually studied any of the precise rates
14 paid on Amtrak?

15 A I've seen them. I wouldn't call that studying
16 them. I've glanced at them.

17 Q Okay. You have some familiarity then that some of
18 those rates are in the neighborhood of \$1?

19 A That's fair to say, yes.

20 Q Okay. So if such a rate were \$1 -- fair enough?

21 A Fair enough.

22 Q And the transportation were 1,000 miles.

23 A Right.

24 Q And you're paying per some unit of mail.

25 A Right.

1 Q We'll get to what that unit is in a minute, but
2 the cost to the Postal Service would be \$1,000 under that
3 hypothetical. Is that correct?

4 A Yes, but you sort of got it backwards. The cost
5 would be \$1,000 up front. The mileage would be 1,000, and
6 the rate per mile would be 1,000.

7 Q The rate per mile would be 1,000?

8 A Right. That's a calculation from the rate they
9 charge us.

10 Q I thought we just agreed the haul was 1,000 miles,
11 and the cost was \$1,000.

12 A Right.

13 Q Okay. So wouldn't the rate per mile be \$1?

14 A Yes.

15 Q Okay. Now, what is the unit of mail that we're
16 talking about in that hypothetical in your understanding?
17 For what unit is Amtrak charging the Postal Service that \$1?

18 A It would be a specified number of linear feet. It
19 could be 48. It could be 15. It could be more than that,
20 less than that. I don't know.

21 Q And who makes the judgement at the Postal Service
22 whether it is preferable to ship by Amtrak or to ship by
23 truck?

24 A My understanding is that would probably be made at
25 the distribution networks office, which is a field or

1 logistics transportation office.

2 Q And what are their instructions from headquarters,
3 to get the lowest price by choosing the less expensive mode,
4 or is there something other than that?

5 A My understanding is, and I believe there's a
6 handbook that we supplied as a library reference, that
7 basically the instructions are to consider cost and service.
8 The combination of cost and service.

9 It doesn't say minimize cost, and it doesn't say
10 reach a certain service level. It's somewhat vague.

11 Q Amtrak publishes yearly on-time performance
12 statistics. Were you aware of that?

13 A I'm not aware of it, but I'm not surprised.

14 Q All right. Do you know if anyone at the Postal
15 Service studies that data to determine if Amtrak's on-time
16 performance is better or worse than in a preceding year?

17 A I don't know.

18 Q Does the Postal Service take into account whether
19 Amtrak's on-time service is greater or less than in a
20 preceding year before it determines to put mail on Amtrak?

21 A I don't know. I could find out, but I don't know.

22 MR. MCBRIDE: If you would find out, we would
23 appreciate that. That was one of the things we were driving
24 at, Mr. Chairman, in our interrogatories.

25 CHAIRMAN OMAS: Ms. Duchek?

1 MS. DUCHEK: That's fine. We'll attempt to find
2 out that information.

3 CHAIRMAN OMAS: Seven days?

4 MS. DUCHEK: That's fine.

5 CHAIRMAN OMAS: Good. Thank you.

6 BY MR. MCBRIDE:

7 Q Now I'd just like to explore, Mr. Pickett, your
8 answer to MPA Interrogatory 8E. We asked you, "In your
9 opinion, does Amtrak generally provide service superior to
10 inter-BMC highway transportation," and then asked you if so
11 to go on and explain.

12 You said, "I do not say that it does 'generally,'
13 only that it can. I have not conducted a study to compare
14 service levels." Did I read your answer correctly?

15 A Yes, you did.

16 Q So does the Postal Service, if not you, have a
17 response to this question?

18 A I don't believe they do, no.

19 Q Then when a person is making a judgement to put
20 mail on Amtrak versus on a truck and they are directed by
21 headquarters to take into account cost and service, as you
22 just indicated, if they have no idea whether Amtrak provides
23 better service than truck on what basis would they make a
24 judgement to take service into account?

25 MS. DUCHEK: Before Mr. Pickett answers, I'd like

1 to object. You said have no idea, and I think that totally
2 mischaracterizes his prior response.

3 BY MR. MCBRIDE:

4 Q Do you have some idea whether Amtrak provides
5 better service than truck or not?

6 A My understanding is that in some cases it does,
7 but that's based simply on talking to logistics and
8 purchasing people.

9 Q And is it also your testimony that in some cases
10 it doesn't?

11 A I would imagine it doesn't.

12 Q Okay.

13 A That's probably true.

14 Q So overall do you have a way to characterize
15 whether Amtrak service is better than truck?

16 A No.

17 Q All right. Given that answer, then on what basis
18 would a person make a judgement about whether Amtrak service
19 would be better than truck service when determining to ship
20 mail by Amtrak versus truck?

21 A I would presume they are looking at what the --
22 there's a window of time that they're actually trying to
23 meet for a particular kind of mail. If they're looking at
24 that and they can see that Amtrak can meet that window
25 faster than highway, or maybe Amtrak claims they can meet

1 that window faster than highway, then they might consider
2 Amtrak as an alternative.

3 Now, they may find out over time through
4 experience that Amtrak isn't meeting that window. That's
5 another decision they have to deal with. I'm personally not
6 someone who does that for a living, so --

7 Q Have you ever ridden Amtrak?

8 A Yes, I have.

9 Q Do you assume that it always meets its schedule?

10 A No, I don't.

11 MR. MCBRIDE: So in getting back to us with the
12 response that we asked you for, Mr. Pickett, if you can
13 provide us any information on whether the people who make
14 these decisions actually take into account Amtrak's actual
15 performance that would be appreciated because, frankly, Mr.
16 Chairman, we're having some difficulty understanding how
17 these decisions are made if there is no data about actual
18 service from which they can be made.

19 CHAIRMAN OMAS: Ms. Duchek?

20 MS. DUCHEK: We had already said that we would try
21 to find that information for you. We will endeavor to
22 provide it in seven days, although with the holiday, Mr.
23 Chairman, you may have us coming back to you for a slight
24 extension of time on that.

25 CHAIRMAN OMAS: Whatever you can. Thanks.

1 MR. MCBRIDE: We wouldn't object if it comes in
2 the day after Christmas.

3 CHAIRMAN OMAS: Thank you, Mr. McBride. That's
4 very nice of you.

5 BY MR. MCBRIDE:

6 Q Now on a slight variation of the hypothetical I
7 asked you earlier, Mr. Pickett, if a certain quantity of
8 mail is less than a full rail car and it's being tendered to
9 Amtrak versus truck, on what basis? Would you still be
10 paying Amtrak \$1 per mile to move less than a full rail car,
11 as opposed to a full rail car??

12 A Well, it depends on how the Amtrak schedule reads.
13 It might read less than a full rail car. In fact, in some
14 cases it does, so whatever we are contracted for we would
15 pay for.

16 Q Were you a participant in negotiating the contract
17 with Amtrak?

18 A No, I wasn't.

19 Q Is it your testimony that the Postal Service had
20 no ability to secure from Amtrak a lower rate for a
21 partially filled rail car than a full rail car?

22 A Could you repeat that?

23 Q I was wondering if it is your testimony that the
24 Postal Service could not achieve a lower cost for
25 transporting a partially filled rail car than a full rail

1 car.

2 A I wasn't involved in the negotiations. I have no
3 idea whether that was considered or what they considered.

4 Q But it was your testimony that the contract
5 provides for the same cost to the Postal Service whether the
6 rail car is partially full or full?

7 A No.

8 Q It is not?

9 A No.

10 Q You're simply saying that whatever the contract
11 says it says? Is that your testimony?

12 A That's exactly what I'm saying. Yes.

13 Q And you don't know what it says?

14 A As I sit here, no. I don't have it in front of
15 me.

16 MR. MCBRIDE: We have nothing further at this
17 time, Mr. Chairman. Thank you.

18 CHAIRMAN OMAS: Thank you, Mr. McBride.

19 Is there anyone else wishing to cross-examine this
20 witness?

21 (No response.)

22 CHAIRMAN OMAS: I've been informed by the bench
23 that they have no questions, so, Mr. Pickett, that completes
24 your testimony here today.

25 MS. DUCHEK: Mr. Chairman, could I approach the

1 witness for a moment?

2 CHAIRMAN OMAS: Yes.

3 MS. DUCHEK: Thank you.

4 (Pause.)

5 MS. DUCHEK: Thank you, Mr. Chairman. The Postal
6 Service has no redirect.

7 CHAIRMAN OMAS: I apologize. I jumped the gun.

8 Now, Mr. Pickett, that completes your testimony
9 here today. We appreciate your appearance and your
10 contribution to our record, and we thank you again. You're
11 excused.

12 THE WITNESS: Thank you very much.

13 (Witness excused.)

14 CHAIRMAN OMAS: Mr. Cooper, would you please
15 introduce your witness, the next Postal Service witness?

16 MR. COOPER: Yes, Mr. Chairman. For the record, I
17 am Richard Cooper for the Postal Service, and I call Michael
18 D. Bradley to the stand.

19 CHAIRMAN OMAS: Would you raise your right hand?
20 Good morning.

21 Whereupon,

22 MICHAEL D. BRADLEY

23 having been duly sworn, was called as a witness
24 and was examined and testified as follows:

25 CHAIRMAN OMAS: Please be seated.

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-T-16.)

4 DIRECT EXAMINATION

5 BY MR. COOPER:

6 Q Professor Bradley, you have before you two copies
7 of a document marked as USPS-T-16, Testimony of Michael D.
8 Bradley on behalf of United States Postal Service. Is that
9 correct?

10 A That's correct.

11 Q Are you familiar with this document?

12 A I am.

13 Q And it was prepared by you?

14 A I prepared it.

15 Q If you were to be giving testimony orally today,
16 is this the testimony that you would give?

17 A It is.

18 MR. COOPER: Mr. Chairman, I offer this written
19 testimony into evidence at this time.

20 CHAIRMAN OMAS: Without objection. I will direct
21 counsel to provide the reporter with two copies of the
22 corrected direct testimony of Dr. Michael D. Bradley. That
23 testimony is received into evidence. As is our practice, it
24 will not be transcribed.

25 //

1 (The document referred to,
2 previously identified as
3 Exhibit No. USPS-T-16, was
4 received in evidence.)

5 CHAIRMAN OMAS: Dr. Bradley, have you had an
6 opportunity to examine the packet of designated written
7 cross-examination that was made available to you in the
8 hearing room today?

9 THE WITNESS: Yes, sir.

10 CHAIRMAN OMAS: If questions contained in that
11 packet were asked of you or posed to you orally today, would
12 your answers be the same as those you previously provided in
13 writing?

14 THE WITNESS: Yes, sir.

15 CHAIRMAN OMAS: Are there any corrections or
16 additions you would like to make to those answers?

17 THE WITNESS: No, sir.

18 CHAIRMAN OMAS: Counsel, would you please provide
19 two copies of the corrected designated written cross-
20 examination of Witness Bradley to the reporter? That
21 material is received into evidence, and it is to be
22 transcribed into the record.

23 //

24 //

25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-T-16 and was
4 received in evidence.)

5 //
6 //
7 //
8 //
9 //
10 //
11 //
12 //
13 //
14 //
15 //
16 //
17 //
18 //
19 //
20 //
21 //
22 //
23 //
24 //
25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MICHAEL D. BRADLEY
(USPS-T-16)

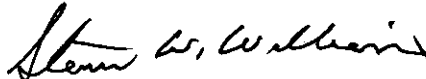
Party

Newspaper Association of America

Interrogatories

UPS/USPS-T16-1

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MICHAEL D. BRADLEY (T-16)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory
UPS/USPS-T16-1

Designating Parties
NAA

**Response of United States Postal Service Witness Bradley
to
Interrogatories of UPS**

UPS/USPS-T16-1. Refer to page 5 of your testimony, USPS-T-16, where you state that the Commission's rejection of the Engineered Standards study in Docket No. R2000-1 "likely reflects the unique circumstances in that case . . ." Explain in detail what the "unique circumstances in that case" were.

UPS/USPS-T16-1 Response:

The entire sentence from which the quote was taken reads:

It is true that the Commission rejected the timely Engineering Study (ES) data in Docket No. R2000-1 in favor of vintage data, but that most likely reflects the unique circumstances in that case and not a change in approach.

The "unique circumstances" I was referring to was simply the record evidence before the Commission in that specific case.

1 CHAIRMAN OMAS: Does anyone wish to enter
2 additional written cross-examination of Witness Bradley?

3 (No response.)

4 CHAIRMAN OMAS: That brings us to oral cross-
5 examination. No participant has requested oral cross-
6 examination. Is there any party who would like to cross-
7 examine Witness Bradley?

8 (No response.)

9 CHAIRMAN OMAS: Are there any questions from the
10 bench?

11 (No response.)

12 CHAIRMAN OMAS: Dr. Bradley, there being no
13 questions, that completes your testimony here today. We
14 appreciate your appearance and your contribution to our
15 record. Thank you. You're excused.

16 THE WITNESS: Thank you.

17 (Witness excused.)

18 CHAIRMAN OMAS: Ms. McKenzie, would you please
19 introduce the next Postal witness?

20 MS. MCKENZIE: Yes, Mr. Chairman. The Postal
21 Service calls Dr. Leslie M. Schenk.

22 CHAIRMAN OMAS: Dr. Schenk, would you raise your
23 right hand?

24 //

25 //

1 Whereupon,

2 LESLIE M. SCHENK

3 having been duly sworn, was called as a witness
4 and was examined and testified as follows:

5 CHAIRMAN OMAS: Please be seated.

6 (The document referred to was
7 marked for identification as
8 Exhibit No. USPS-T-43.)

9 DIRECT EXAMINATION

10 BY MS. MCKENZIE:

11 Q Please introduce yourself.

12 A My name is Leslie M. Schenk. I'm a senior
13 economist at Christiansen Associates.

14 Q My colleague has handed you two copies of a
15 document identified as USPS-T-43 entitled Direct Testimony
16 of Leslie M. Schenk on behalf of the United States Postal
17 Service. Did you have a chance to examine these documents?

18 A I have.

19 Q Dr. Schenk, was this testimony prepared by you or
20 under your direction?

21 A Yes, it was.

22 Q Does the document in front of you reflect the
23 revision to your testimony dated November 14, 2001?

24 A Yes, it does.

25 Q Do you have any other changes or corrections to

1 make?

2 A No.

3 Q Dr. Schenk, if you were to testify orally today,
4 would your testimony be the same as the document before you?

5 A Yes, it would.

6 Q Dr. Schenk, is it your intention to sponsor the
7 Category II library references associated with this
8 testimony?

9 A Yes.

10 Q The library references listed are USPS-LR-J-58,
11 59, 100, 113, 117, 118, 119. Is that correct?

12 A Yes, it is.

13 Q Was the library reference USPS-LR-J-58 revised on
14 November 20, 2001, and December 17, 2001?

15 A Yes, it was.

16 Q Was the library reference USPS-LR-J-117 revised on
17 November 20, 2001?

18 A Yes, it was.

19 Q Was the library reference USPS-LR-J-118 revised on
20 November 15, 2001?

21 A Yes, it was.

22 MS. MCKENZIE: Mr. Chairman, I ask that the direct
23 testimony of Leslie M. Schenk on behalf of the United States
24 Postal Service marked as USPS-T-43 and the library
25 references associated with that testimony as revised be

1 received as evidence at this time.

2 CHAIRMAN OMAS: Is there any objection?

3 (No response.)

4 CHAIRMAN OMAS: Hearing none, I will direct
5 counsel to provide the reporter with two copies of the
6 corrected direct testimony of Leslie M. Schenk. That
7 testimony is received into evidence. However, as is our
8 practice, it will not be transcribed.

9 (The document referred to,
10 previously identified as
11 Exhibit No. USPS-T-43, was
12 received in evidence.)

13 CHAIRMAN OMAS: Ms. Schenk, have you had an
14 opportunity to examine the packet of designated written
15 cross-examination that was made available to you this
16 morning in the hearing room?

17 THE WITNESS: Yes, I have.

18 CHAIRMAN OMAS: If any of those questions
19 contained in that packet were posed to you orally today,
20 would your answers be the same as those previously provided
21 to us in writing?

22 THE WITNESS: No. There is one interrogatory
23 response in the packet that there was a mistake in. That
24 interrogatory response was Val-Pak-T-31-38A.

25 The originally filed response, there's a table of

1 data, and it reflects ECR Test Year Costs for Flats Only.
2 The revised table that was supposed to be filed was supposed
3 to include the data for all shapes, -- letters, flats, and
4 parcels -- and that table, the original table, was
5 inadvertently filed with the revision.

6 In the packet, we have handwritten the correct
7 data in in the response that's in the packet.

8 CHAIRMAN OMAS: Thank you.

9 THE WITNESS: The correct numbers.

10 CHAIRMAN OMAS: Are there any additional
11 corrections you'd like to make at this time.

12 THE WITNESS: No. This change in that
13 interrogatory that I just mentioned does not affect any
14 other interrogatory responses.

15 CHAIRMAN OMAS: Counsel, would you please provide
16 two copies of the corrected designated written cross-
17 examination of Witness Schenk to the reporter? That
18 material is received into evidence, and it is to be
19 transcribed into the record.

20 (The document referred to was
21 marked for identification as
22 Exhibit No. USPS-T-43 and was
23 received in evidence.)

24 //

25 //

BEFORE THE
 POSTAL RATE COMMISSION
 WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
 OF UNITED STATES POSTAL SERVICE
 WITNESS LESLIE M. SCHENK
 (USPS-T-43)

<u>Party</u>	<u>Interrogatories</u>
Advo, Inc.	VP/USPS-T43-6-8, 10, 12, 14-15, 17, 24 VP/USPS-T24-1 redirected to T43 VP/USPS-T31-9e-f, 32e, 34 redirected to T43
American Bankers Association and National Association of Presort Mailers	ABA&NAPM/USPS-T43-3a-e, 4, 8-10, 12-41
Association for Postal Commerce	PostCom/USPS-T43-1-3
Magazine Publishers of America	MPA/USPS-T43-2-3, 4a, 5a, 6-7 MPA/USPS-T34-28 redirected to T43
Mail Order Association of America	ABA&NAPM/USPS-T43-1, 6 VP/USPS-T43-4-7, 9-10 VP/USPS-T5-13d-e redirected to T43 VP/USPS-T31-38 redirected to T43
Major Mailers Association	MMA/USPS-T43-1, 3-13, 15-18

Newspaper Association of America

ABA&NAPM/USPS-T43-1, 6-9
MMA/USPS-T43-1, 1v, 2-3, 6, 8, 11-12, 18
MMA/USPS-T22-21d-f redirected to T43
NAA/USPS-T43-1-16
PostCom/USPS-T43-2-3
RIAA/USPS-T43-2-4
VP/USPS-T43-1-10, 11c, 12-16
VP/USPS-T5-13d-e redirected to T43
VP/USPS-T24-1 redirected to T43
VP/USPS-T31-9e-f, 32e, 34 redirected to T43
VP/USPS-T39-48-49 redirected to T43

Recording Industry Association of
America

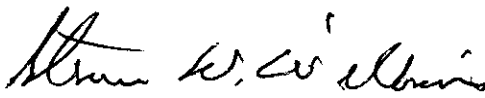
RIAA/USPS-T43-1-4, 6-7

Val-Pak Direct Marketing Systems,
Inc. and Val-Pak Dealers'
Association Inc.

NAA/USPS-T43-1-2, 5-6, 14-15

VP/USPS-T43-1-10, 11c, e, 12-13, 14d-f, 15-17,
19-21, 23-24
VP/USPS-T5-13d-e redirected to T43
VP/USPS-T24-1 redirected to T43
VP/USPS-T31-9e-f, 32e, 34, 38, 39e-h redirected
to T43
VP/USPS-T39-48-49 redirected to T43

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
 UNITED STATES POSTAL SERVICE
 WITNESS LESLIE M. SCHENK (T-43)
 DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

ABA&NAPM/USPS-T43-1	MOAA, NAA
ABA&NAPM/USPS-T43-3a	ABA&NAPM
ABA&NAPM/USPS-T43-3b	ABA&NAPM
ABA&NAPM/USPS-T43-3c	ABA&NAPM
ABA&NAPM/USPS-T43-3d	ABA&NAPM
ABA&NAPM/USPS-T43-3e	ABA&NAPM
ABA&NAPM/USPS-T43-4	ABA&NAPM
ABA&NAPM/USPS-T43-6	MOAA, NAA
ABA&NAPM/USPS-T43-7	NAA
ABA&NAPM/USPS-T43-8	ABA&NAPM, NAA
ABA&NAPM/USPS-T43-9	ABA&NAPM, NAA
ABA&NAPM/USPS-T43-10	ABA&NAPM
ABA&NAPM/USPS-T43-12	ABA&NAPM
ABA&NAPM/USPS-T43-13	ABA&NAPM
ABA&NAPM/USPS-T43-14	ABA&NAPM
ABA&NAPM/USPS-T43-15	ABA&NAPM
ABA&NAPM/USPS-T43-16	ABA&NAPM
ABA&NAPM/USPS-T43-17	ABA&NAPM
ABA&NAPM/USPS-T43-18	ABA&NAPM
ABA&NAPM/USPS-T43-19	ABA&NAPM
ABA&NAPM/USPS-T43-20	ABA&NAPM
ABA&NAPM/USPS-T43-21	ABA&NAPM
ABA&NAPM/USPS-T43-22	ABA&NAPM
ABA&NAPM/USPS-T43-23	ABA&NAPM
ABA&NAPM/USPS-T43-24	ABA&NAPM
ABA&NAPM/USPS-T43-25	ABA&NAPM
ABA&NAPM/USPS-T43-26	ABA&NAPM
ABA&NAPM/USPS-T43-27	ABA&NAPM
ABA&NAPM/USPS-T43-28	ABA&NAPM
ABA&NAPM/USPS-T43-29	ABA&NAPM
ABA&NAPM/USPS-T43-30	ABA&NAPM
ABA&NAPM/USPS-T43-31	ABA&NAPM
ABA&NAPM/USPS-T43-32	ABA&NAPM

ABA&NAPM/USPS-T43-33	ABA&NAPM
ABA&NAPM/USPS-T43-34	ABA&NAPM
ABA&NAPM/USPS-T43-35	ABA&NAPM
ABA&NAPM/USPS-T43-36	ABA&NAPM
ABA&NAPM/USPS-T43-37	ABA&NAPM
ABA&NAPM/USPS-T43-38	ABA&NAPM
ABA&NAPM/USPS-T43-39	ABA&NAPM
ABA&NAPM/USPS-T43-40	ABA&NAPM
ABA&NAPM/USPS-T43-41	ABA&NAPM
MMA/USPS-T43-1	MMA, NAA
MMA/USPS-T43-1v	NAA
MMA/USPS-T43-2	NAA
MMA/USPS-T43-3	MMA, NAA
MMA/USPS-T43-4	MMA
MMA/USPS-T43-5	MMA
MMA/USPS-T43-6	MMA, NAA
MMA/USPS-T43-7	MMA
MMA/USPS-T43-8	MMA, NAA
MMA/USPS-T43-9	MMA
MMA/USPS-T43-10	MMA
MMA/USPS-T43-11	MMA, NAA
MMA/USPS-T43-12	MMA, NAA
MMA/USPS-T43-13	MMA
MMA/USPS-T43-15	MMA
MMA/USPS-T43-16	MMA
MMA/USPS-T43-17	MMA
MMA/USPS-T43-18	MMA, NAA
MMA/USPS-T22-21d redirected to T43	NAA
MMA/USPS-T22-21e redirected to T43	NAA
MMA/USPS-T22-21f redirected to T43	NAA
MPA/USPS-T43-2	MPA
MPA/USPS-T43-3	MPA
MPA/USPS-T43-4a	MPA
MPA/USPS-T43-5a	MPA
MPA/USPS-T43-6	MPA
MPA/USPS-T43-7	MPA
MPA/USPS-T34-28 redirected to T43	MPA
NAA/USPS-T43-1	NAA, Val-Pak
NAA/USPS-T43-2	NAA, Val-Pak

NAA/USPS-T43-3	NAA
NAA/USPS-T43-4	NAA
NAA/USPS-T43-5	NAA, Val-Pak
NAA/USPS-T43-6	NAA, Val-Pak
NAA/USPS-T43-7	NAA
NAA/USPS-T43-8	NAA
NAA/USPS-T43-9	NAA
NAA/USPS-T43-10	NAA
NAA/USPS-T43-11	NAA
NAA/USPS-T43-12	NAA
NAA/USPS-T43-13	NAA
NAA/USPS-T43-14	NAA, Val-Pak
NAA/USPS-T43-15	NAA, Val-Pak
NAA/USPS-T43-16	NAA
PostCom/USPS-T43-1	PostCom
PostCom/USPS-T43-2	NAA, PostCom
PostCom/USPS-T43-3	NAA, PostCom
RIAA/USPS-T43-1	RIAA
RIAA/USPS-T43-2	NAA, RIAA
RIAA/USPS-T43-3	NAA, RIAA
RIAA/USPS-T43-4	NAA, RIAA
RIAA/USPS-T43-6	RIAA
RIAA/USPS-T43-7	RIAA
VP/USPS-T43-1	NAA, Val-Pak
VP/USPS-T43-2	NAA, Val-Pak
VP/USPS-T43-3	NAA, Val-Pak
VP/USPS-T43-4	MOAA, NAA, Val-Pak
VP/USPS-T43-5	MOAA, NAA, Val-Pak
VP/USPS-T43-6	Advo, MOAA, NAA, Val-Pak
VP/USPS-T43-7	Advo, MOAA, NAA, Val-Pak
VP/USPS-T43-8	Advo, NAA, Val-Pak
VP/USPS-T43-9	MOAA, NAA, Val-Pak
VP/USPS-T43-10	Advo, MOAA, NAA, Val-Pak
VP/USPS-T43-11c	NAA, Val-Pak
VP/USPS-T43-11e	Val-Pak
VP/USPS-T43-12	Advo, NAA, Val-Pak
VP/USPS-T43-13	NAA, Val-Pak
VP/USPS-T43-14	Advo, NAA
VP/USPS-T43-14d	Val-Pak

VP/USPS-T43-14e	Val-Pak
VP/USPS-T43-14f	Val-Pak
VP/USPS-T43-15	Advo, NAA, Val-Pak
VP/USPS-T43-16	NAA, Val-Pak
VP/USPS-T43-17	Advo, Val-Pak
VP/USPS-T43-19	Val-Pak
VP/USPS-T43-20	Val-Pak
VP/USPS-T43-21	Val-Pak
VP/USPS-T43-23	Val-Pak
VP/USPS-T43-24	Advo, Val-Pak
VP/USPS-T5-13d redirected to T43	MOAA, NAA, Val-Pak
VP/USPS-T5-13e redirected to T43	MOAA, NAA, Val-Pak
VP/USPS-T24-1 redirected to T43	Advo, NAA, Val-Pak
VP/USPS-T31-9e redirected to T43	Advo, NAA, Val-Pak
VP/USPS-T31-9f redirected to T43	Advo, NAA, Val-Pak
VP/USPS-T31-32e redirected to T43	Advo, NAA, Val-Pak
VP/USPS-T31-34 redirected to T43	Advo, NAA, Val-Pak
VP/USPS-T31-38 redirected to T43	MOAA, Val-Pak
VP/USPS-T31-39e redirected to T43	Val-Pak
VP/USPS-T31-39f redirected to T43	Val-Pak
VP/USPS-T31-39g redirected to T43	Val-Pak
VP/USPS-T31-39h redirected to T43	Val-Pak
VP/USPS-T39-48 redirected to T43	NAA, Val-Pak
VP/USPS-T39-49 redirected to T43	NAA, Val-Pak

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T43-1 In your testimony, you devote less than one page to the discussion and analysis of the largest cost segment of the entire Postal Service, delivery costs. At that, the one page starting at page 10, line 8, simply states that you are sponsoring LR-117, which also contains no analytical discussion of Postal Service delivery costs. By contrast, for mail processing costs in First Class Mail alone, the direct testimony is 41 pages.

- a. What is your understanding, if any, of the "single subclass stop" debate between various parties in postal rate cases and how does it affect the topics of your testimony? If you have incorporated any part of the Commission's methodology on this issue, please state where it LR117 it appears.
- b. What is your position on the "Chown metric" from R97-1 in connection with the allocation of delivery costs?
- c. Why did you avoid the discussion of delivery costs in your testimony?
- d. Who prepared LR-117? If it was not you, who prepared it? Was it prepared under your supervision? If not, under whose supervision was LR117 prepared?

RESPONSE:

- a. My understanding is that 'single subclass stop' costs are city carrier access costs treated as incremental in the Postal Service's cost methodology but included in the Commission's "attributable" cost estimates. Since my testimony encompasses volume-variable cost analyses using the Postal Service's volume-variable cost methodology, I do not use single-subclass stop costs.
- b. I assume that by the "Chown metric" you mean witness Chown's proposed "weighted attributable cost" method (which was not accepted by the Commission in Docket No. R97-1). My opinion is that witness Chown's

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

"weighted attributable cost" involves an economically arbitrary (non-causal) mechanistic method for distributing the Postal Service's "institutional" costs to products, and that it is therefore irrelevant to the volume-variable cost analyses I present in LR-117.

- c. The cited portion of my testimony does not describe any new methodology for carrier (i.e., "delivery") costs, but simply sponsors the update of a previous analysis that de-averaged the Postal Service's volume-variable cost estimates by subclass to finer categories than are reported in the Cost and Revenue Analysis (CRA), which is well documented in the this case. Thus, I do not "avoid" the discussion of delivery costs in any material way, but rather have avoided clogging up the record with repetitious documentation.
- d. USPS-LR-J-117 was prepared under my supervision.
-

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-3 You assert in your testimony at line 9, page ii, that you have had experience with "cost models of mail processing".

- a. Can most mail processing costs be attributed by class and subclass?
- b. Have most mail processing costs in the Postal Service request been attributed by class or subclass?
- c. In an automated mail processing system, where several different classes/subclasses of mail are intermingled as they are run on mail processing equipment, do you believe that it is easy to attribute costs as in a manual or mechanized environment for which the IOCS tally method was designed?
- d. At what point in the analysis of costs does work activity including machine time and space time cease to be defined as mail processing costs and begin to be defined as delivery costs. Please give complete and full details in your answer.
- e. Has this demarcation line changed with the advent of automation? For example, were DPS activities now attributed to mail processing once part of the manual activity of carriers and attributed to CRA cost segments 7 and 10?
- f. Is there any part of cost segment 3.1 in the final preparation of mail for delivery that was formerly activity conducted by carriers?
- g. Do carriers spend more time on mail processing docks under automation than they used to before automation?
- h. If your answer to g. is in the affirmative, please explain fully why carriers have to spend more time on the docks and less time on the streets actually delivering mail.

RESPONSE:

- a. Mail processing costs can be distributed to class and subclass as volume-variable costs to the degree that they are volume-variable. If the degree of volume-variability is greater than 50 percent, then a majority of (i.e., "most") mail processing costs can be distributed as volume-variable costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

- b. It is my understanding that a majority of total Cost Segment 3.1 costs are classified as volume-variable in the Postal Service's cost methodology.
- c. It is my understanding that IOCS data collection methods have evolved to provide sufficient, reliable data for the distribution of mail processing volume-variable costs in automated operations.
- d. The Postal Service's costs analysis defines the mail processing cost component (cost segment 3.1) as clerk and mailhandler labor in processing and distribution, allied labor, and support activities. Please see witness Van-Ty-Smith's testimony, USPS-T-13, and USPS-LR-J-55, Section I for details.
- e. It is my understanding that the "demarcation line" has not changed with the advent of automation per se, but rather with the subsequent introduction of automated delivery point sequencing (DPS) of letter mail. Note that the manual sorting of mail to delivery point sequence by city carriers would be classified as part of costs segment 6 (city carriers, in-office), not cost segment 7 (city carriers, street activity).
- f. Redirected to the Postal Service.
- g. Redirected to the Postal Service.
- h. Redirected to the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-4

- a. Explain the distribution keys used for all portions of FCM and Standard A mail delivery costs that are attributed, e.g. per piece for cost segment "x.z" or per weight increment for cost segment "a.c".
- b. What is your expert opinion as to why so few delivery costs are attributed while so many mail processing costs are?
- c. Before the advent of large volumes of advertising and catalogue mail into the Postal Service, did First Class Mail pay for almost all the total costs of the universal delivery system of the Postal Service?
- d. Do you have knowledge of how Standard A mail (old Third Class classification) was first priced when it became a major mailstream within the Postal Service? Specifically, whether it paid any portion of delivery costs at all and if so how much? Can you cite where this data can be found?

RESPONSE:

- a. Please see USPS-LR-J-1, and witness Meehan's B workpapers, provided in LR-J-57.
- b. I have not studied the issue and therefore, I have no expert opinion on the matter.
- c. This question is beyond the scope of my testimony.
- d. No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-6 Please confirm that in a purely technical sense, it is possible to allocate all of the Postal Service's delivery costs by piece and by weight, i.e., these numbers are known or could be known by class, subclass and rate category.

RESPONSE:

Not confirmed. It is, of course, possible to allocate all delivery costs to products by whatever method as a purely mechanical exercise without any particular economic significance. However, in the "purely technical sense" of economic (causal) costs, not all delivery costs can be causally associated with classes, subclasses, and/or rate categories of mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-7. In your testimony at page 10, lines 16 and 17, you state that you have adopted the "same" "methodology" for the estimation of delivery costs as used by USPS witness Sharon Daniel in R2000-1.

- a. Please explain fully for each column in USPS LR-J-117, e.g. "6.1", "6.2" etc., BY and TY cost sheets for FCM letters, exactly what that methodology is?
- b. Did you accept the methodology after independently evaluating it, or did you evaluate it at all?
- c. Were you asked to evaluate the Postal Service's methodology for examining delivery costs?
- d. Did you ask the Postal Service whether you could independently evaluate the pre-packaged delivery cost methodology that was handed to you?

RESPONSE:

Actually, I state in my testimony, page 10, lines 17 and 18 (USPS-T-43 revised) that "The methodology used in this library reference is the same as that described in witness Daniel's testimony." Nowhere in my testimony do I state that I "adopt" the methodology.

- a. The methodology used to deaverage volume variable carrier costs as shown in USPS-LR-J-117.xls is fully described in the formulae in the workbook. For BY cost segment 6.1, costs for First-Class single piece, First-Class Presort and Standard flats and letters, and Standard ECR are deaveraged using the LIOCATT method, while for First-Class Presort letters deaveraged costs are developed by taking the weighted average of DPS and non-DPS costs, with weights equal to the estimated percentage of DPS and non-DPS letters in each modeled category. Cost segment 6.2 costs are distributed to modeled category

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

by using the relevant ratio for cost segment 6.1 costs. Cost segment 7.1 and 7.2 costs are each distributed to modeled category by using the relevant volume ratio. Cost segment 7.3 costs are distributed to modeled category by using the relevant load key. Cost segment 7.4 costs are distributed to modeled category by using the relevant ratio of total 6.1 – 7.4 costs. Cost segment 10 costs are distributed to modeled category by using the relevant rural key. TY costs are estimated using the same methodology for all categories except cost segment 6.1 First-Class single piece costs, which are distributed to modeled category by using the relevant ratio of BY segment 6.1 costs.

b. – d. My assignment was to update a methodology that had been presented in Docket R2000-1. In doing so I reviewed witness Daniel's methodology. It appears to be a reasonable methodology for de-averaging carrier costs below the CRA subclass level.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-8. With reference to your base year or test year spread sheets by CRA delivery cost segment, please explain:

- a. The methodology for each piggyback in the "total piggybacked" column, including exactly what costs are piggybacked by rate category.
- b. What "adjusted" means in the column labeled "Adj TY Volume", by rate category unless the adjustment is identical in content across all rate categories.

RESPONSE:

- a. The calculations in the "total piggybacked" column multiply the estimated Test Year city carrier labor costs (cost segments 6 and 7) and the estimated Test Year rural carrier costs (cost segment 10) by the corresponding (subclass-specific) piggyback factor, developed by witness Smith. Generically, "piggybacked" costs include "overhead" costs causally related to carrier labor, including supervision, administrative expenses, carrier facilities, carrier vehicles, supplies, etc. See also witness Smith's testimony, USPS-T-15, at 16-19, and USPS-LR-J-1.
 - b. The referenced column does not involve an adjustment as such, but rather a distribution of Test Year volumes by subclass to the detailed mail categories.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T43-9. In your BY spreadsheets, you show that cost segment 7.1 (city carrier route costs) is distributed by volume.

- a. Please confirm using the audited 2000 CRA that only \$110 million of C. S. 7.1 are distributed across classes by volume, while \$2.7 billion of those costs are not distributed across classes and subclasses at all.
- b. Please provide the calculations distributing all 7.1 costs by volume across classes and subclasses.
- c. Please do the same for cost segment 7.2.

RESPONSE:

- a. Partially confirmed. According to witness Meehan's exhibit USPS-11A, cost segment 7.1 volume-variable costs are \$110.366 million, and other (non-volume-variable) cost segment 7.1 costs are \$2,695.645 million. Since these "other" costs are non-volume variable costs, they are not distributed to classes and subclasses as volume-variable costs.
- b. The calculation you describe would, presumably, assign the \$2,806.011 million in total cost segment 7.1 costs to classes and subclasses in proportion to the volume shares by class and subclass—i.e., the calculations would have the form $(C/S\ 7.1\ Total\ Cost) \times (Volume\ of\ Subclass\ j) \div (Total\ Volume)$. Since the "other" costs in the C/S 7.1 total are non-volume-variable, this mechanical cost distribution exercise is meaningless from the standpoint of economic (causal) costing principles. See also the response to ABA&NAPM/USPS-T43-1(b) and ABA&NAPM/USPS-T43-6.
- c. See the response to part b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA/NAPM-USPS-T43-10

- a. Please list and explain the entire "rural key" that is referenced in your spreadsheets.
- b. Why shouldn't the rural allocation of delivery costs be based, e.g., on the same method used for 7.1 and 7.2, namely volume?
- c. Why are a higher percentage of rural carrier costs declared as volume variable than city carrier costs?

RESPONSE:

- a. See workbook LR-J-117.xls, sheet 'Rural Crosswalk,' range A42:F52. The "rural key" is a distribution key used to distribute rural carrier costs from CRA subclass categories to shape. In the CRA, rural carrier costs are developed by rural carrier compensation categories (that do not necessarily correspond to a single shape as defined in DMM C050) and subclass. The "rural key" is developed by cross-walking the rural carrier costs by subclass and compensation category to subclass and shape.
- b. Rural carriers and city carriers are compensated according to different systems that are differentially affected by mail volumes and other cost-causing factors. See USPS-LR-J-1, pages 10-1 to 10-4.
- c. According to witness Meehan's Exhibit USPS-11A, city carrier (cost segments 6 and 7) volume-variable costs are 47.4 percent of total city carrier costs (6,229,387/13,139,989), whereas rural carrier (cost segment 10) volume-variable costs are 43.9 percent of total rural carrier costs. Thus, it is actually the case that

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

the percentage of volume-variable costs is higher for city carriers than for rural carriers, contrary to the statement of the interrogatory.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-12

- a. Please state where in your TY spreadsheets you used the "Mix TY Piggys" referenced on page 2.
- b. Please explain what you mean by "discount" in the set of TY rural and city Piggys labeled "Discount TY Piggys".

RESPONSE:

- a. The "Mix TY Piggys" are not used in the LR-J-117 calculations.
- b. The term "discount" has no significance other than to distinguish the piggyback factors used in the LR-J-117 calculations from the "Mix TY Piggys." The referenced set of piggyback factors is described in witness Smith's testimony, USPS-T-15, at 18-19.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-13:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function."

- a. Please confirm that the marginal cost weight ounce difference for the range "1 to 2" is \$0.273.
- b. Please provide marginal cost difference for the entire extra ounce increment for all ranges in your table.

RESPONSE:

- a. Confirmed.
- b. The unit cost for First-Class Single-Piece for all shapes for the entire extra ounce increment (i.e., pieces over 1 ounce in weight) is \$0.572, which results in a marginal cost difference for the entire extra ounce increment of \$0.366.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-14:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function."

- a. Please confirm that the unit mail processing cost is rising from 12.155 cents to 44.118 cents between the ranges "0 to 1" and "3 to 5".
- b. Please confirm that unit cost mail processing cost drops to 30.585 cents in the range "5 to 7".
- c. Please explain what factors contribute to such a erratic results in mail processing costs in the range "5 to 7" as compared to preceding ranges.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Please note that the costs by detailed weight increment for First-Class Mail are not used by any other postal witness in this docket. The cost by weight distributions provided in USPS-LR-J-58 are designed to provide a general indication of the relationship between weight and cost. Variation in the cited costs by weight increment may be caused by a variety of factors, including (but not limited to) shape mix, automation compatibility (or machinability), and sampling variation in the Postal Service's statistical cost data systems. Note, in particular, that the costs in lightly populated ounce increments such as those cited here are subject to more sampling variation than the cost estimates in the more heavily populated ounce increments.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

For lightly populated ounce increments, sampling variation is likely the primary driver.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-15:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function."

- a. Please confirm that unit mail processing costs are 12.155 cents and 32.779 cents for the ranges "0 to 1" and "1 to 2" respectively.
- b. Please explain in detail and provide all supporting documents regarding the factors contributing to unit mail processing cost for the "1 to 2" range to be 2.7 times (32.779/12.155) larger as compared to the "0 to 1" range.

RESPONSE:

- a. Confirmed.
- b. See the response to ABA&NAPM/USPS-T43-14c. In addition to the factors cited in the referenced response, changes in presort level and entry profile may cause the increase in measured costs between the cited ounce increments.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-16:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function" and Excel file, LR58AREG.xls, Worksheet titled "3CREG all (by function)" for "Standard Mail reg. All Shapes Test Year Unit Costs by Function."

- a. Please confirm that unit mail processing costs are 12.155 cents and 32.779 cents for ranges "0 to 1" and "1 to 2" for First-Class and are 5.9 and 8.7 for the Standard Mail.
- b. Please explain what factors contribute the unit mail processing cost of First-Class mail in the "1 to 2" range to being 2.7 times larger ($32.779/12.155$) than its "0 to 1" range whereas the unit mail processing cost of the Standard mail in the "1 to 2" range to being only 1.5 times ($8.7/5.9$) larger than its "0 to 1" range.
- c. Please explain in detail what factors contribute to the unit mail processing cost in the "1 to 2" range for the first-class mail to being 3.8 times ($32.779/8.7$) larger than that of unit mail processing cost in the "1 to 2" range for the standard mail.

RESPONSE:

- a. Confirmed.
- b. See the response to ABA&NAPM/USPS-T43-15b. Also please note that the detailed costs by weight increment for Standard Regular Mail are not used by any other postal witness in this docket.
- c. I believe the primary factor driving the cited cost difference is that the First-Class Mail costs are for single-piece (non-presorted) mail, whereas much of the Standard Mail in the cited ounce increment will be presorted (up to 5-digit automation presort) and/or drop-shipped. Additionally, First-Class Mail letters and Standard Mail letters will differ in the workload associated with undeliverable-as-addressed mail pieces.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-17:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled "SP all (by function)" for "First-Class Single-Piece All Shapes Test Year Unit Costs by Function" and Excel file, LR58AREG.xls, Worksheet titled "3CREG all (by function)" for "Standard Mail Reg. All Shapes Test Year Unit Costs by Function."

- a. Please refer to charts you have provided in these worksheets. Explain what factors are responsible for the graph for the unit mail processing cost for First-Class mail being erratic whereas for the standard mail to be smoother and upward sloping.
- b. Please provide all the Tallies (sample sizes) and the corresponding CVs (Coefficient of Variations) for all the ranges in your tables for these worksheets.

RESPONSE:

- a. See the response to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-16b-c.
- b. See Attachment A, Tables 1 and 2.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS

ATTACHMENT A (to the response to ABA&NAPM/USPS-T43-17b)

Table 1: BY00 IOCS Direct Tally Dollar Weights (\$000)

First-Class Single Piece

Cost Segment	0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	Over 9	No Weight	Total
Mail Processing (3.1)	1,800,569	406,954	180,286	192,594	63,543	38,163	50,064	6,338	2,738,511
Window Service (3.2)	35,620	11,778	4,864	8,786	4,448	2,941	3,034	92	71,562
City Carrier In-Office (6.1)	807,441	107,042	40,588	36,973	10,740	6,693	5,928	565	1,015,969

Standard Mail Regular

Cost Segment	0 to 1	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	9 to 11	11 to 13	Over 13	No Weight	Total
Mail Processing (3.1)	596,121	284,369	163,076	235,592	66,120	40,212	22,707	23,101	31,306	8,635	1,471,239
Window Service (3.2)	1,987	573	284	599	157	205	66	190	565	0	4,627
City Carrier In-Office (6.1)	358,242	139,115	69,963	91,460	20,074	10,409	6,182	4,493	5,952	104	705,995

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS

ATTACHMENT A (Continued)

Table 2: Unit Costs Coefficients of Variation By Combined Weight Increments

First-Class Single Piece		Broad Weight Groups									
		<u>0 to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>3 to 5</u>	<u>5 to 7</u>	<u>7 to 9</u>	<u>over 9</u>	<u>Total</u>		
Mail Processing (CS 3.1)	Unit Cost	12.2	32.8	36.6	44.1	30.6	37.6	49.2	15.5		
	CV*	0.8%	1.6%	2.3%	2.2%	3.6%	4.3%	3.8%	0.7%		
Window Service (CS 3.2 direct labor)	Unit Cost	1.5	1.4	1.3	1.9	2.0	2.1	2.1	1.5		
	CV*	4.5%	7.8%	12.2%	9.1%	12.6%	15.8%	15.4%	3.2%		
City Carrier In-Office (CS 6.1 direct labor)	Unit Cost	3.5	6.0	5.9	5.9	3.7	3.9	3.6	3.8		
	CV*	1.0%	2.8%	4.5%	4.7%	8.6%	10.9%	11.5%	0.9%		
Standard Mail Regular (Commercial and Nonprofit)		Broad Weight Groups									
		<u>0 to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>3 to 5</u>	<u>5 to 7</u>	<u>7 to 9</u>	<u>9 to 11</u>	<u>11 to 13</u>	<u>over 13</u>	<u>Total</u>
Mail Processing (CS 3.1)	Unit Cost	5.9	8.7	10.2	11.3	10.4	17.5	17.9	21.4	59.6	8.1
	CV*	1.3%	1.8%	2.3%	2.0%	3.4%	4.1%	5.2%	5.1%	4.3%	0.9%
Window Service (CS 3.2 direct labor)	Unit Cost	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.7	0.1
	CV*	16.9%	31.9%	43.9%	31.3%	63.8%	50.6%	95.6%	58.2%	32.8%	11.3%
City Carrier In-Office (CS 6.1 direct labor)	Unit Cost	2.3	3.0	3.2	3.1	2.1	2.7	2.7	2.1	5.3	2.6
	CV*	1.5%	2.4%	3.4%	3.0%	6.3%	8.7%	11.3%	13.3%	11.6%	1.1%

*Coefficients of Variation (CV) calculated using the generalized variance function approach used by Witness Ramage ANM/USPS-T2-13 (Docket R2000-1, Tr. 4/1116)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-18:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled, "SP Letters (by function)" for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function): for "First-Class Presort Letters Test Year Unit Costs by Function."

- a. Please confirm that unit mail processing cost for the "5 to 7" range for the First-Class Single-Piece is 26.465 cents and for the First-Class Presort Letters is 570.431 cents.
- b. Please explain why presort mail should cost 21.6 times ($570.431/26.465$) more to process in the "5 to 7" range as compared to First-class mail letters in the same range.

RESPONSE:

- a. Confirmed.
- b. See the response to ABA&NAPM/USPS-T43-15b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-19:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled, "SP Letters (by function)" for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function)" for "First-Class Presort Letters Test Year Unit Costs by Function."

- a. Please confirm that unit mail processing cost for the "7 to 9" range for the First-Class Single-Piece Letters is 58.689 cents and for the First-Class Presort Letters is 1725.835 cents.
- b. Please explain why presort mail should cost 29.4 times ($1725.835/58.689$) more to process in this range compared to First-class single-piece mail letters. If these values are wrong, please provide the correct values.

RESPONSE:

- a. Confirmed.
- b. See the response to ABA&NAPM/USPS-T43-15b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-20:

Please refer to your USPS LR-J-58, Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function)" for "First-Class Presort Letters Test Year Unit Costs by Function."

- a. Please confirm that unit mail processing cost for the "7 to 9" and "over 9" ranges for the First-Class Presort Letters is 1725.835 cents and 8.258 cents respectively.
- b. Please explain why presort mail should cost 209 times ($1725.835/8.258$) more to process in "7 to 9" range as compared to "over 9" range. If these values are wrong, please provide the correct values.

RESPONSE:

- a. Confirmed.
- b. See the response to ABA&NAPM/USPS-T43-15b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-21:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, Worksheet titled, "SP Letters (by function)" for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file, LR58PRE.xls, Worksheet titled, "Pre Letters (by function)" for "First-Class Presort Letters Test Year Unit Costs by Function."

- a. Please confirm the following values are correct for "Marginal Cost Difference" reported in your worksheets:

	1 to 2	2 to 3	3 to 5	5 to 7	7 to 9	over 9
First-Class Single-Piece All Shapes \$0.236	\$0.273	\$0.072	\$0.133	\$(0.080)		\$0.160
First-Class Single-Piece Letters \$0.378	\$0.201	\$0.212	\$0.220	\$(0.183)		\$0.542
Ratio (Letters/All Shapes)	1.4x	2.9x	1.7x	2.3x	3.4x	1.6x
First-Class Presort All Shapes (\$0.085)	\$0.179	\$0.066	\$0.230	\$(0.009)		(\$0.003)
First-Class Presort Letters (\$14.104)	\$0.160	\$0.139	\$0.413	\$6.635	\$11.130	
Ratio (Letters/All Shapes)	1.1x	2.1x	1.8x	737.2x	3710x	165.9x

- b. Please explain why for the "2 to 3" to "over 9" ranges the marginal cost difference as you have calculated is many times larger for First-Class single-piece letters as compared to First-Class single-piece all shapes. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling has contributed to this problem and why this problem (which was also prevalent in the R2000-1 rate case) was not resolved.
- c. Please explain why for the "2 to 3" to "over 9" ranges the marginal cost difference as you have calculated is many times larger for FC presort letters as compared to FC single-piece all shapes. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling has contributed to this problem and why this problem, which was also prevalent in the R2000-1 rate case, was not resolved.
- d. Please explain why the marginal cost difference for the FC single-piece all shapes in the "2 to 3" ounce range compared to "1 to 2" ounce range is 3.8 times (.273/0.073) lower whereas for the FC single piece letters it in fact rises from

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

- \$0.201. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling has contributed to this problem and why this problem, which was also prevalent in the R2000-1 rate case, was not resolved.
- e. Please explain why the marginal cost difference for the FC presort letters in the "7 to 9" ounce range is \$11.30 compared to only \$0.542 for the FC Single Piece letters. If these differences are due to wrong values in these worksheets please provide the revised worksheets. If the differences are due to the sampling procedure, please explain in detail and provide all the supporting documents as to how sampling has contributed to this problem and why this problem, which was also prevalent in the R2000-1 rate case, was not resolved.

RESPONSE:

- a. Confirmed.
- b. – e. See the response to ABA&NAPM/USPS-T43-15b. In general, the estimated costs in higher ounce increments are smaller for presorted First-Class Mail and would thus be expected to exhibit greater sampling variation than corresponding costs for single-piece First-Class Mail. Please note also that the marginal cost differences need not vary linearly or even monotonically. For instance, whereas heavier letter-shape pieces are likelier to be incompatible with the Postal Service's automation equipment and hence exhibit higher costs than lighter letters, the same is not true for non-letter pieces (flats, irregular parcel post (IPPs), and parcels).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA/NAPM-USPS-T43-22:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

- a. Please confirm that the marginal cost difference reported in these worksheets for "1 to 2" range for FCM is \$0.201 and for the Standard mail is \$0.003.
- b. Please explain what factors contribute to the marginal cost difference for the FCM in the "1 to 2" range to be 67 times (.201/003) larger than the one for the standard mail.

RESPONSE:

- a. Confirmed.
- b. See the responses to ABA&NAPM/USPS-T43-15b, ABA&NAPM/USPS-T43-16c, and ABA&NAPM/USPS-T43-21b-e.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

NAPM/USPS-T43-23:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

- a. Please confirm the following values for the "Other" unit costs are correct (cents):

	0 to 1	1 to 2	2 to 3
Other:			
First-Class Single-Piece	0.482	1.616	2.833
Standard Mail	0.068	0.163	0.307
Ratio (FC/Std)	7.0X	9.9X	9.2X

- b. Please explain in detail what are the "Other" unit costs.
- c. Please explain what factors contribute to the "Other" unit costs for the First Class letters to be 7 to 10 times larger than standard mail letters.

RESPONSE:

- a. Confirmed.
- b. The "Other" unit costs are the CRA TY03 costs that are independent of the reported cost segments in the tables. The costs reported for each of the specific segments are the actual CRA costs for the segment as well as any piggybacked costs from other cost segments not explicitly listed in the table. The "Other" costs are calculated by simply subtracting the sum of the costs of all the segments in the table from the total CRA costs for the subclass of mail.
- c. See USPS-LR-J-1 and the responses to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-16c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-24:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

- a. Please confirm the following values for the mail processing costs are correct (cents):

	0 to 1	1 to 2	2 to 3
Mail Processing:			
First-Class Single-Piece	11.508	24.674	40.169
Standard Mail	4.975	4.632	6.378
Ratio (FC/Std)	2.3X	5.3X	6.3X

- b. Please explain in detail why the mail processing unit costs for the FC mail letters are almost doubling across weight increments whereas for the standard mail letters they are almost constant.
- c. Please explain in detail why the mail processing unit costs for the FC mail to be 2 to 6 times larger than that of standard mail letters for the above ranges.

RESPONSE:

- a. Confirmed.
- b. See the response to ABA&NAPM/USPS-T43-15b.
- c. See the response to ABA&NAPM/USPS-T43-16c.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T43-25:

Please refer to your USPS LR-J-58, Excel file, LR58ASP.xls, worksheet titled, "SP Letters (by function) for "First-Class Single-Piece Letters Test Year Unit Costs by Function" and Excel file LR58AREG.xls, worksheet titled, "3CREG Letters" for "Standard Mail Reg. Letters Test Year Unit Costs by Function."

- a. Please confirm the following values for the sum of the "City Delivery in-Office," "City Delivery Street," "Vehicle Service," "Rural Delivery," and "Transportation" are correct (cents):

	0 to 1	1 to 2	2 to 3
Delivery Unit Costs:			
First-Class Single-Piece Letters	6.386	12.193	16.953
% Change		91%	39%
Standard Mail Letters	4.000	4.597	6.381
% Change		15%	39%
Ratio (FC/Std)	1.6X	2.7X	2.7X

- b. Please explain in detail why delivery unit costs across the above weight increments are several times larger for FC mail as compared to Standard mail.
- c. Please explain in detail why delivery unit cost as given above rises by 91% between "0 to 1" and "1 to 2" ounce ranges for FC mail as compared to only 15% for the standard mail.

RESPONSE:

- a. Confirmed.
- b. I would not characterize the transportation costs in cost segments 8 (Vehicle Service) and 14 (Purchased Transportation) as "delivery" costs. Cost segment 8 includes costs associated with vehicle service drivers. Vehicle service driver workload includes transporting mail between processing and distribution facilities and between Bulk Mail Centers (BMCs). Cost segment 14 includes costs associated with contract air and highway transportation. See USPS-LR-J-1 for

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

the description of these cost segments. See also the response to

ABA&NAPM/USPS-T43-15b.

- c. See the response to part ABA&NAPM/USPS-T43-16c.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T43-26:

Please refer to your R2001-1, LR-J-58, Table, "First-Class Single-Piece Letters Test Year Unit Costs by Function" and the corresponding table in R2000-1, LR-I-91.

- a. Please confirm that the figures in the following table are correct:

	R2001-1	R2000-1	% Change
City Delivery In-Office Total Unit Cost (cents)	3.6	2.9	24.1%
Overall Unit Cost (\$)	0.211	0.204	3.4%

- b. Please explain in detail what changes might have occurred between these two rate cases that justify 24% increase in the "City Delivery In-Office Total Unit Cost" given the overall unit cost increase of only 3.4%.

RESPONSE:

- a. Confirmed.
- b. In addition to changes in the factors listed in my response to ABA&NAPM/USPS-T43-14c, cost differences between the test years of different rate cases may be caused by changes in the economic forecasts, cost changes in Postal Resources, differences in cost reductions, and other programs. In Docket No. R2000-1, these issues are discussed in the testimonies of witnesses Kashani (USPS-T-14), Tayman (USPS-T-9), and Meehan (USPS-T-11), and in the supplemental testimony of witness Patelunas (USPS-ST-44). In the current docket, the Postal Service has provided a base year, a rollforward, and test year costs that were developed from assumptions made nearly two years after the development of the Docket No. R2000-1 test year costs. For discussion of these issues in the current docket, please see the testimonies of witnesses Patelunas (USPS-T-12), Tayman (USPS-T-6), and Meehan (USPS-T-11).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T43-27:

Please refer to your R2001-1, LR-J-58, Table, "First-Class Single-Piece Letters Test Year Unit Costs by Function" and the corresponding table in R2000-1, LR-I-91.

- a. Please confirm that the total unit costs (\$) across weight increments given in the following table are correct:

	<u>0 to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>3 to 5</u>	<u>5 to 7</u>	<u>7 to 9</u>	<u>over 9</u>	<u>Overall</u>
R2001-1	0.199	0.400	0.612	0.832	0.649	1.191	1.570	0.211
R2000-1	0.195	0.330	0.476	0.707	0.812	0.900	1.041	0.204
% Change	2.1%	21.2%	28.6%	17.7%	-20.1	32.3%	50.8%	3.4%

- b. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 1 to 2 oz. range in R2001-1 to be 21.2% higher than that in R2000-1 rate case compared to overall rise of only 3.4%.
- c. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 2 to 3 oz. range in R2001-1 to be 28.6% higher than that for R2000-1 as compared to overall rise of only 3.4%.
- d. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 4 to 5 oz. range in R2001-1 to be 17.7% higher than that for R2000-1 as compared to overall rise of only 3.4%.
- e. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 7 to 9 oz. range in R2001-1 to be 32.3% higher than that for R2000-1 as compared to overall rise of only 3.4%.
- f. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the over 9 oz. range in R2001-1 to be 50.8% higher than that for R2000-1 as compared to overall rise of only 3.4%.
- g. Please explain in detail what changes might have occurred between these two rate cases resulting in the unit cost for the 5 to 7 oz. range in R2001-1 to drop by 20.1% as compared to R2000-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

RESPONSE:

a. Confirmed.

b. – g. See the responses to ABA&NAPM/USPS-T43-14c and ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-28:

Please refer to your R2001-1, LR-J-58, Table, "First-Class Presort Letters Test Year Unit Costs by Function" and the corresponding table in R2000-1, LR-I-91.

- a. Please confirm that the total unit costs (\$) across weight increments given in the following table are correct:

	<u>0 to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>3 to 5</u>	<u>5 to 7</u>	<u>7 to 9</u>	<u>over 9</u>	<u>Overall</u>
R2001-1	0.094	0.253	0.392	0.805	7.44	18.571	4.467	0.099
R2000-1	0.098	0.249	0.383	0.908	1.47	3.797	5.212	0.103
% Change	-4.1%	1.6%	2.3%	-11.3%	406%	389%	-14.3%	-3.9%

- b. Please explain in detail why the total unit cost in the weight increments of "5 to 7" and "7 to 9" are essentially 4 times larger in R2001-1 compared to the R2000-1 rate case.
- c. Please explain in detail for the R2001-1 rate case what additional tasks are performed on the First-Class Presort Letter mail in "5 to 7" oz. range costing \$7.44 as compared to only \$0.805 for the "3 to 5" oz. range, a difference of more than 9 times (\$7.44/\$0.805). Whereas, in the R2000-1 rate case the corresponding rise was only 1.6 times (\$1.47/\$0.908) between these two oz. ranges.

RESPONSE:

- a. Confirmed.
- b. See the response to ABA&NAPM/USPS-T43-14c and ABA&NAPM/USPS-T43-26b.
- c. See the response to ABA&NAPM/USPS-T43-14c. Note also that some letters in the 3-5 oz. range weigh less than 3.3 oz. and thus may be automation compatible. Accordingly, 3-5 oz. letters will tend to require less manual processing (and hence incur lower costs) than 5-7 oz. letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-29:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Function" and the "Standard Mail Reg. Letters Test Year Unit Costs by Function" and the corresponding tables in R2000-1, LR-I-91.

- a. Please confirm that the total unit costs (\$) across weight increments given in the following table are correct:

	First-Class Presort Letters				Std. Mail Reg. Letters			
	<u>0 to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>Overall</u>	<u>0 to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>Overall</u>
R2001-1	0.094	0.253	0.392	0.099	0.092	0.095	0.132	0.096
R2000-1	0.098	0.249	0.383	0.103	0.107	0.111	0.146	0.113
% Change	-4.1%	1.6%	2.3%	-3.9%	-14%	-14.4%	-9.6%	-15%

- b. Please explain in detail what changes might have occurred between these two rate cases regarding the operations performed by the USPS on the Standard Mail Regular Letters and the First-Class Presort Letters resulting in the total unit costs across the weight increments and the overall to drop significantly for the former while dropping by a smaller percentage or even rising for the latter.

RESPONSE:

- a. Not confirmed. The R2001-1 costs labeled "Std. Mail Reg. Letters" include both commercial and nonprofit mail, whereas the R2000-1 costs include only commercial rate mail. The following table provides the comparison between R2000-1 and R2001-1 Standard Regular total unit costs that include both commercial rate and nonprofit mail:

	Std Mail Reg. Letters			
	<u>0 to 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>Overall</u>
R2001-1	0.092	0.095	0.132	0.096
R2000-1	0.102	0.104	0.148	0.107
% Change	-9.8%	-8.7%	-10.8%	-10.3%

- b. See the response to ABA&NAPM/USPS-T43-26b.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T43-30:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Functions" and "First-Class Presort Flats Test Year Unit Costs by Functions."

- a. Please confirm that the unit costs (in cents) in the following table for the weight increment "2 to 3" oz. range are correct:

	FC Presort Letters	FC Presort Flat	% Difference (Letters over Flats)
Mail Processing	22.072	16.864	31%
City Delivery In-Office	6.758	5.088	33%
City Delivery Street	5.075	1.988	155%
Total Unit Cost in cents	39.231	29.774	32%

- b. Please confirm that the total unit cost across all weight increments for the First-Class Presort Flats is 43.038 cents.
- c. Please explain in detail why then the FC Presort Letters unit costs for the above categories are significantly larger than those of FC Presort Flats in this weight increment ounce range despite that its overall unit cost being less than 1/4th (9.859cents/43.038cents) of FC Presort Flats. If these values are wrong, please provide the revised table for the "first Class Presort Letters Test Year Unit Costs."

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. See the response to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-21b-e.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T43-31:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Function" and "Standard Mail Reg. Letters Test Year Unit Costs by Function."

- a. Please confirm the following values for the sum of the "City Delivery in-Office," "City Delivery Street," "Vehicle Service," "Rural Delivery," and "Transportation" are correct (cents):

	0 to 1	1 to 2	2 to 3
Delivery Unit Costs:			
First-Class Presort Letters	4.783	10.311	16.148
% Change		116%	57%
Standard Mail Letters	4.000	4.597	6.381
% Change		15%	39%
Ratio (FC/Std)	1.2X	2.2X	2.5X

- b. Please explain in detail why delivery unit costs across the above weight increments are several times larger for First-Class Presort Letters as compared to Standard regular mail letters.
- c. Please explain in detail why delivery unit cost as given above rises by 116% between "0 to 1" and "1 to 2" ounce ranges for FC presort letters mail as compared to only 15% for the Standard regular mail letters.
- d. Please explain in detail why delivery unit cost as given above rises by 57% between "1 to 2" and "2 to 3" ounce ranges for FC presort letters mail as compared to only 39% for the Standard regular mail letters.

RESPONSE:

- a. Not confirmed. The unit cost for First-Class Presort Letters, 2 to 3 ounces is 15.948 (cents) and the % Change is 55%.
- b. – d. See the response to ABA&NAPM/USPS-T43-15b, ABA&NAPM/USPS-T43-16c, and ABA&NAPM/USPS-T43-25b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-32:

Please refer to your R2001-1, LR-J-58, tables, "First-Class Presort Letters Test Year Unit Costs by Function" and "Standard Mail Reg. Letters Test Year Unit Costs by Function."

- a. Please confirm the values for the total unit cost for the following weight increments are correct (cents):

	0 to 1	1 to 2	2 to 3
First-Class Presort Letters	9.361	25.329	39.231
% Change		171%	55%
Standard Mail Letters	9.186	9.533	13.201
% Change		4%	38%
Ratio (FC/Std)	1.02X	2.66X	2.97X

- b. Please explain in detail why total unit costs in the "1 to 2" and "2 to 3" ranges are several times larger for First-Class Presort Letters as compared to Standard regular mail letters.
- c. Please explain in detail why total unit costs rises by 171% between "0 to 1" and "1 to 2" ounce ranges for FC presort letters mail as compared to only 4% for the Standard regular mail letters.
- d. Please explain in detail why total unit costs rises by 55% between "0 to 1" and "1 to 2" ounce ranges for FC presort letters as compared to only 38% for the Standard regular mail letters.

RESPONSE:

- a. Confirmed.
- b. – d. See the response to ABA&NAPM/USPS-T43-15b and ABA&NAPM/USPS-T43-16c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-33:

In the library Reference you sponsor, USPS-LR-J-117, under Section II. Organization, page 4, you state the underlying city carrier in-office cost data is estimated in "a similar manner" to the last rate case.

- a. Is it estimated in an identical manner, or not?
- b. If your answer to a. is other than an unequivocal "Yes.", please explain all differences.

RESPONSE:

- a. - b. The city carrier in-office cost data are estimated in USPS-LR-J-117 in an essentially identical manner to that used in USPS-LR-I-95/R2000-1. The same FORTRAN programs are used to replicate the LIOCATT cost estimation process in USPS-LR-J-117 as were used in USPS-LR-I-100/R2000-1. The only difference is that updated input files, such as the FY2000 IOCS data set and updated activity code maps, are used in USPS-LR-J-117.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-34:

Between the base year from the last rate case (BY98) and the base year for this rate case (BY2000), the history indicates that total unit delivery costs have fallen by a greater percentage for Standard A Regular workshared letter mail than for First Class workshared letter mail. Specifically, for automation 3D letters, for FCM workshared, it has dropped by 14% from 4.05 cents to 3.48 cents, while for Standard A Regular workshared, it has dropped from 4.22 cents to 3.33 cents, a 21% drop. For automation 5D letters, total unit delivery costs have dropped by 15% for FCM workshared letters but also by 21% for Standard A Regular letters.

- a. By detailed city and rural carrier cost segment, please explain how and why such costs have dropped more for Standard A Regular than for FCM workshared.
- b. Please list all cost cutting efforts that would explain both reductions in unit costs, and explain why any such efforts would produce greater cost savings for Standard A Regular than FCM workshared.
- c. In dollar amounts, how much effort between this rate case and the last one was devoted to cutting delivery costs for Standard A Regular versus FCM workshared letter mail?

RESPONSE:

- a. In addition to changes in the factors listed in my response to ABA&NAPM/USPS-T43-14c, cost differences between the base years of different rate cases may be explained by cost reduction efforts over the intervening years. Please see the testimony and supporting workpapers of witness Kashani (USPS-T-14 and USPS-LR-I-126) from Docket No. R2000-1 for details on cost reduction programs in the Postal Service's R2000-1 proposal. For a list of cost reduction programs in the Postal Service's response to Order No. 1294 in Docket No. R2000-1, please see the testimony and supporting workpapers of witness Patelunas, USPS-ST-44. It is also my understanding that the Postal Service has employed a different methodology for developing volume-variable costs in cost segment 7 in Docket

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

No. R2001-1, as compared to Docket No. R2000-1. See witness Meehan's
testimony, USPS-T-11, at 4.

- b. – c. It is my understanding that cost reduction efforts are discussed in USPS-T-
14/R2000-1 and USPS-T-12 in this docket.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-35:

For your base year and test year summary tables in USPS-LR-J-117, please present the following rows of data for all column costs:

- a. non-automation presort letters for FCM letters, as defined in USPS witness Daniel's corresponding table from the last rate case;
- b. basic automation FCM letters, as defined in USPS witness Daniel's corresponding table from the last rate case.

RESPONSE:

- a. – b. See Attachment B.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF
PRESORT MAILERS

ATTACHMENT B (provided in response to ABA&NAPM/USPS-T43-35)

BY and TY Carrier Costs

	Costs (000s)											
	<u>6.1</u>	<u>6.2</u>	<u>7.1</u>	<u>7.2</u>	<u>7.3</u>	<u>7.4</u>	<u>10</u>	<u>Total Piggybacked</u>	<u>PERMIT Volume (000s)</u>	<u>City Carrier Unit Cost</u>	<u>Rural Carrier Unit Cost</u>	<u>Total Unit Cost</u>
BY												
Nonautomation Presort Letters	70,991	12,923	647	3,998	20,631	17,035	31,516	209,232	4,118,006	\$0.0413	\$0.0095	\$0.0508
Basic Automation Letters	53,605	9,758	815	5,035	25,979	14,851	29,587	185,016	5,185,503	\$0.0286	\$0.0071	\$0.0357
TY												
Nonautomation Presort Letters	92,310	17,334	855	5,172	26,751	22,617	40,103	274,839	4,625,031	\$0.0486	\$0.0108	\$0.0594
Basic Automation Letters	67,191	12,617	1,077	6,513	33,686	19,228	37,597	238,016	5,823,962	\$0.0328	\$0.0080	\$0.0409

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-36:

Your summary unit delivery cost tables for FCM and Standard differ from USPS witness Daniel's in having city carrier unit cost and rural carrier unit cost columns. Yet, the new methodology was completed for the last rate case and discussed at length in USPS LR-I-173 in that case. Please provide if possible the same two columns of data referenced above for BY98 and TY2000 [sic] for cost dynamics comparison purposes.

RESPONSE:

I assume you intend to refer to TY 2001 from Docket No. R2000-1. The city carrier unit costs can be obtained for BY98 and TY2001 by multiplying the sum of the costs in the columns labeled "6.1" through "7.4" by the appropriate city piggyback factor (from K127:K134) and dividing by the appropriate total volume (in the column labeled "Permit Volume") in worksheets 'Summary BY' and 'Summary TY' in workbook lr95revised.xls from USPS-LR-I-95. Rural carrier unit costs for BY98 and TY2001 can be obtained by subtracting the city carrier unit costs from the total unit costs (column labeled "Total Unit Cost").

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-37:

The following questions pertain to a comparison of test year unit costs for c.s. 6.1, city carrier in office direct labor, and 6.2, city carrier in office support, for TY2003 in this case compared to TY2001 from R2000-1 (see for your convenience the attached summary spread sheet comparing the LR-I-95 figures from R2000-1 and the LR-J-117 figures from R2001-1).

- a. Why are these 6.1 unit costs going up for FCM single piece (31.1% increase) and workshared (15.5% for 3D; 14.2% for 5D) while they are going down for Standard A Regular (-5.4% for 3D; -5.9% for 5D)? Please list all factors explaining the differences, or if in error, please provide the correct figures.
- b. Why would in office support costs drop by a greater percentage for Standard A Regular letters (-18.7% for 3D; -19.1% for 5D) between the two test years than for FCM workshared letters (-12.4% for 3D; -13.4% for 5D)? Please list all factors explaining the differences, or if in error, please provide the correct figures.

RESPONSE:

- a. Please see the response to ABA&NAPM/USPS-T43-26b.
- b. Please see the response to ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-38:

The following question pertain to a comparison of test year unit costs for c.s. 7.1, city route costs for TY2003 in his case compared to TY2001 from R2000-1. Why would route costs drop by 56.1% for a Standard A Regular automated letter, 3D and 5D, but by only 44.5% for its FCM counterparts?

RESPONSE:

It is my understanding that the Postal Service has employed a different methodology for developing volume-variable costs in cost segment 7 in Docket No. R2001-1, as compared to Docket No. R2000-1. See witness Meehan's testimony, USPS-T-11, at 4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-39:

The following questions pertain to a comparison of test year unit costs for c.s. 7.2, city access costs, for TY2003 in this case compared to TY2001 from R2000-1.

- a. Please define fully in your own words what cost activities encompass this cost segment.
- b. Why are these costs rising by substantial double digits for both FCM letters and their Standard A Regular counterparts between the two test years?
- c. Why are they rising by over twice the rate for FCM letters workshared than their Standard A Regular counterparts, namely by 59.6% for FCM letters 3D and 5D, but by 22.1% for Standard A Regular letters, 3D and 5D?

RESPONSE:

- a. The activities associated with the access cost component are the deviations of the carrier from the route to go to and from customer delivery points or street collection boxes. My understanding is that cost segment 7.2 also includes driving time associated with deviating from the route. For a more detailed description of this cost segment, please refer to USPS-LR-J-1, pages 7-5 to 7-7.
- b. It is my understanding that the rise in access costs is due to the change between BY1998 and BY2000 in the methodology used to proportion out street time costs. See Workpaper B, WS 7.0.4.1 in both USPS-T-11/R2000-1 and USPS-T-11 in this docket, and page 4 in USPS-T-11 in this docket.
- c. Please see the response to ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-40:

The following questions pertain to a comparison of test year unit costs for c.s. 7.4, city carrier street support costs, for TY2003 in this case compared to TY2001 from R2000-1.

- a. Please define fully in your own words what cost activities encompass this cost segment.
- b. Please confirm that these unit costs are nearly identical as between 3D and 5D letters, and as between FCM workshared and Standard A Regular workshared letters.
- c. Why are these costs falling by more for Standard A Regular 3D and 5D than for their FCM counterparts, roughly by 23% as opposed to 19/20% for FCM workshared?

RESPONSE:

- a. Street support costs include the additional carrier costs not accounted for in Cost Segments 7.1 through 7.3 – i.e., the portion of street time not spent running or delivering mail on the route. These activities include clocking in and out, traveling to and from the route and the Postal facility, loading the vehicle, and preparing mail at the vehicle. For a more detailed description please refer to USPS-LR-J-1, pages 7-9 to 7-10.
- b. Confirmed.
- c. Please see the response to ABA&NAPM/USPS-T43-26b.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO JOINT INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS

ABA&NAPM/USPS-T43-41:

The following questions pertain to a comparison of test year unit costs for c.s. 10, rural carrier costs, for TY2003 in this case compared to TY2001 from R2000-1.

- a. Please confirm that these costs are rising for FCM letters overall while they are falling for Standard A Regular according to your data.
- b. Why would rural carrier costs be rising for FCM workshared letters (6.4% for 3D; 6.7% for 5D) while they are falling for Standard A Regular counterparts (-20.8% for 3D; -20.4% for 5D)?
- c. In your expert opinion, is it harder for a rural carrier to put a First Class letter in a mail box than to put a Standard A Regular advertising letter in a mail box?

RESPONSE:

- a. Confirmed.
- b. Please see the response to ABA&NAPM/USPS-T43-26b.
- c. Possibly, in the sense that if the letters are non-identical (i.e., in different rural carrier evaluation categories), a hypothetical First-Class letter could be in a higher-cost rural carrier evaluation category than a hypothetical Standard Mail letter. Note it is my understanding that any two mail pieces in the same rural carrier evaluation category would have the same rural carrier cost regardless of subclass. Since the costs referenced in the interrogatory are not for identical or homogeneous categories of mail, it is possible for relative rural carrier unit costs by class and subclass to change over time.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-1 Please refer to page 10 of your Direct Testimony where you describe generally the basis for deriving First-Class and Standard Mail delivery costs, you indicate that you follow the same methodology used by USPS witness Daniel in Docket No. R2000-1, and you state that you are sponsoring Library Reference USPS-LR-J-117.

- A. Please confirm that unit delivery costs shown in the table below are derived in your Library Reference USPS-LR-J-117 study in this case. If you cannot confirm, please make any corrections and explain why each such correction is necessary.

Comparison of USPS First-Class and Standard Mail Letter Delivery Costs

Rate Category	Delivery Costs		Difference FC - Std
	First Class	Standard	
Single Piece Letters:	6.037		
Nonautomation Letters:			
Nonautomation Presort Letters	5.933	4.368	1.564
Nonautomation Nonmachinable Mixed ADC	8.408	5.592	2.816
Nonautomation Nonmachinable ADC	8.408	5.592	2.816
Nonautomation Machinable Mixed AADC	4.066	3.847	0.219
Nonautomation Machinable AADC	4.066	3.847	0.219
Nonautomation Nonmachinable 3-Digit	8.408	5.592	2.816
Nonautomation Nonmachinable 5-Digit	8.408	5.592	2.816
Nonautomation Machinable 3-Digit	3.937	3.795	0.142
Nonautomation Machinable 5-Digit	3.937	3.795	0.142
Automation Letters:			
Automation Mixed AADC Letters	4.165	3.887	0.278
Automation AADC Letters	4.165	3.827	0.338
Automation 3-Digit Presort Letters	3.980	3.812	0.168
Automation 5-Digit Presort Letters	3.795	3.738	0.057

- B. Please explain why delivery costs vary between First-Class letters and Standard letters. Be sure to include in your answer the impact that average weight and the number of pieces delivered to a post office box might have on First-Class and Standard Mail letter delivery costs.
- C. Please explain why the delivery costs vary between the rate categories within First-Class, including First-Class single piece. Please discuss the various cost drivers that affect delivery costs for the rate categories.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

- D. Please confirm that unit delivery costs shown in the table below correctly compare your results to those of USPS witness Daniel in Docket No. R2000-1 (please note that the BMM delivery costs are estimated by USPS witness Miller (see Library Reference USPS-LR-J-60 at 1, USPS-T-22 at 20)). If you cannot confirm, please make any corrections and explain why each such correction is necessary.

**Comparison of USPS Letter Delivery Unit Costs
In Docket Nos. R2000-1 and R2001-1**

First-Class Category	Delivery Unit Costs in Cents		Difference R01-1 - R00-1
	R00-1	R01-1	
Single Piece Letters	5.362	6.037	0.675
BMM Letters	5.479	4.066	(1.413)
Nonautomation Presort Letters	5.479	5.933	0.454
Nonautomation Nonmachinable Mixed ADC		8.408	
Nonautomation Nonmachinable ADC		8.408	
Nonautomation Machinable Mixed AADC		4.066	
Nonautomation Machinable AADC		4.066	
Nonautomation Nonmachinable 3-Digit		8.408	
Nonautomation Nonmachinable 5-Digit		8.408	
Nonautomation Machinable 3-Digit		3.937	
Nonautomation Machinable 5-Digit		3.937	
Automation Mixed AADC Letters		4.165	
Automation AADC Letters		4.016	
Automation Basic Letters	4.319		
Automation 3-Digit Presort Letters	4.196	3.980	(0.216)
Automation 5-Digit Presort Letters	2.966	3.795	0.829
Automation 5-Digit Presort Letters (CSBCS/Manual Sites)	6.160	6.161	0.001
Automation Carrier Route Presort Letters	6.059	6.060	0.001
Source:	USPS-LR-I-95 (rev)	USPS-LR-J-117	

- E. Please confirm that the unit delivery costs for First-Class single piece are expected to rise by .675 cents between TY 2001 and TY 2003. If you confirm, please explain why such costs are expected to rise by 12.6% between TY 2001 and TY 2003. If you do not confirm, please provide the correct figures and explain the reason for such corrections.
- F. Please confirm that the unit delivery costs for First-Class Nonautomation presort letters are expected to rise by .454 cents between TY 2001 and TY 2003. If yes,

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

- please explain why such costs are expected to rise by 8.3% between TY 2001 and TY 2003. If you do not confirm, please provide the correct figures and explain the reason for such corrections.
- G. Please confirm that the unit delivery costs for First-Class Automation 3-digit presort letters are expected to decrease by .216 cents between TY 2001 and TY 2003. If yes, please explain why such cost [sic] go down by 5.1% between TY 2001 and TY 2003. If you do not confirm, please provide the correct figures and explain the reason for such corrections.
- H. Please confirm that the unit delivery costs for First-Class Automation 5-digit presort letters are expected to rise by .829 cents between TY 2001 and TY 2003. If yes, please explain why such cost [sic] are expected to rise by 28.0% between TY 2001 and TY 2003. If you do not confirm, please provide the correct figures and explain the reason for such corrections.
- I. Please confirm that the unit delivery costs for First-Class BMM letters are expected to decrease by 1.413 cents between TY 2001 and TY 2003. If yes, please explain why such costs are expected to go down by 25.8% between TY 2001 and TY 2003. If you do not confirm, please provide the correct figures and explain the reason for such corrections.
- J. For workshare letters, have you attempted to isolate the impact of presortation level on delivery costs? If yes, please explain how you accomplished this specifically addressing the effect that weight and p.o. box delivery has on delivery costs.
- K. Please explain how, if any, delivery operations differ between single piece First-Class letters and BMM letters, which causes the former to cost on average 50% more.
- L. Please refer to Library Reference USPS-LR-J-53. Please confirm that the test year volume estimate for metered mail letters is 17,006,096,000. If you cannot confirm, what is the estimated volume of metered mail letters in the test year?
- M. Please refer to Library Reference USPS-LR-J-53. Please confirm that the test year volume estimate for single piece letters is 43,018,465,000. If you cannot confirm, what is the estimated volume of single pieces letters in the test year?
- N. Please confirm that the test year volume estimate for stamped single piece letters is 43,018,465,000 letters – 17,006,099,000 letters = 26,012,366,000 letters. If you cannot confirm, please explain why not and state what the estimated volume of stamped single pieces letters in the test year is.
- O. Please confirm that the test year stamped single piece delivery cost can be estimated by using the volume information provided in parts L through N of this interrogatory, the unit delivery costs that you derive for First-Class single piece

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION**

letters, and the First-Class metered mail unit delivery cost assumed by USPS witness Miller? For example, if the volume figures suggested in parts L through N of this interrogatory are correct, then the stamped single piece unit delivery cost can be computed as shown in the following table. If you cannot confirm, please provide an estimate of the stamped single piece unit delivery cost and support your answer.

Estimation of TY First-Class Stamped Letter Unit Delivery Cost

First-Class Category		(1) TY Volume (000)	(2) TY Unit Del Cost (\$)	(3) TY Del Cost (\$000) (1) x (3)
[1]	Total Single Piece Letters	43,018,465	0.06037	2,596,938
[2]	Metered Letters	17,006,096	0.04066	691,468
[1] - [2]	Stamped Letters	26,012,369	0.07325	1/ 1,905,470
1/ Computed 1,905,470 / 26,012,369				

- P. Please explain why stamped letters cost 80% more than metered letters for delivery service.
- Q. Please confirm that letters delivered to a post office box completely bypass carrier route sequencing operations and out-of-office delivery costs. If you cannot confirm, please explain why not.
- R. Please confirm that your delivery cost estimate for single piece letters assumes that 33% of all single piece letters will be delivered to a post office box. (See Library Reference USPS-LR-J-117, worksheet "Delivery Volumes".) If you cannot confirm, please explain why not.
- S. Please confirm that your delivery cost estimate for presorted letters assumes that 13% of all presorted letters will be delivered to a post office box. (See Library Reference USPS-LR-J-117, worksheet "Delivery Volumes".) If you cannot confirm, please explain why not.
- T. If only 13% of single piece letters were delivered to a post office box, would the delivery cost for these pieces be higher or lower than the 6.037 cent estimate you derived? Please explain your answer.
- U. Please estimate the average delivery cost for only those single piece letters that are actually delivered. For purposes of this interrogatory request, letters that are delivered to a post office box should be removed from the analysis.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

- V. Please estimate the average delivery cost for only those presorted letters that are actually delivered. For purposes of this interrogatory request, letters that are delivered to a post office box should be removed from the analysis.

RESPONSE:

- A. Confirmed with the following exceptions. First, the carrier costs for First-Class Automation AADC letters are 4.016 cents per piece, not 4.165 cents as stated in the given table (see cell C19, spreadsheet 'Table 1' in LR-J-117.xls). The difference between First-Class and Standard for Automation AADC letters carrier costs is then 0.189 cents (not 0.338 cents, as given). Second, the carrier cost for all Standard Nonautomation Presort Letters is 4.743 cents per piece (not 4.368 cents, as given). This cost is calculated by taking the total TY delivery costs for all nonautomation Standard letters (sum of cells K58-K65 in spreadsheet 'summary TY' in LR-J-117.xls) and dividing by the TY volume of nonautomation Standard letters (sum of cells L58-L65 in spreadsheet 'summary TY' in LR-J-117.xls). Based on this correction, the difference between First-Class and Standard Nonautomation Presort letters carrier costs is 1.190 cents (not 1.564 cents, as given). All other costs stated in the above table are confirmed.
- B. The estimated fraction of Standard letters delivered to post office boxes is 17 percent, which is higher than that for First-Class presort letters (13 percent). A higher rate of deliveries to post office boxes would tend to result in lower carrier costs per piece for Standard letters. Additionally, carrier costs for undeliverable-as-addressed (UAA) mail would tend to be lower for Standard letters than for First-

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

Class letters. Any impact weight has on in-office carrier costs is reflected in the cost data for the relevant cost segments.

- C. The measured differences within First-Class presort result from differences in the estimated percentage of DPS pieces in each rate category. The differences between single-piece and presorted First-Class letters are likely driven by the differences in the fractions of machinable and, by extension, DPS pieces, the relative address quality and UAA costs, and the presence of collection-related costs for single-piece First-Class. These factors would tend to result in higher single-piece unit carrier costs relative to presorted First-Class. The aforementioned factors will tend to be offset, to some extent, because there is a higher percentage of single-piece First-Class letters delivered to post office boxes than First-Class presort letters.
- D. Confirmed with the following exceptions. The R2000-1 unit carrier cost for Automation 5-Digit Presort Letters is 3.997 cents (not 2.966 cents, as given). The 2.966 cents cost given in the table is only applicable to DBCS sites (note that the corresponding R2001-1 cost for DBCS sites is 2.894 cents). The correct cost difference for Automation 5-Digit First-Class Presort letters is -0.202 cents.
- E. Confirmed. The increase appears largely to result from increased carrier wages (the forecast TY 2003 city carrier wage is 10.35 percent higher than the TY 2001 wage from Docket No. R2000-1), which is somewhat offset by higher degrees of DPS sortation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

- F. Confirmed. See response to part E.
- G. Confirmed. See response to part E.
- H. Not confirmed. See the response to part D, above.
- I. TY2001 and TY2003 unit delivery cost estimates for First-Class Bulk Metered Mail (BMM) letters are not directly comparable because different assumptions were used to develop these costs. In R2000-1, witness Daniel used the unit delivery costs for nonautomation presort letters as a proxy for the unit delivery costs of BMM letters. In R2001-1, witness Miller used the unit delivery costs for nonautomation machinable Mixed AADC letters as a proxy for the unit delivery costs of BMM letters. No directly comparable unit delivery cost was developed by witness Daniel in R2000-1.
- J. Yes. For "workshare" letters (presorted First-Class and Standard non-ECR letters), the effect of the presort level is isolated in the analysis in USPS-LR-J-117 to the extent that the presort level determines the percentage of DPS pieces for a given presort category.
- K. The differences between single-piece and BMM First-Class letters are likely driven by the differences in the fractions of machinable and, by extension, DPS pieces, the relative address quality and Undelivered-As-Addressed (UAA) costs, and the avoidance of collection-related costs for BMM First-Class letters. These factors would tend to result in higher unit carrier costs for all First-Class Mail single-piece letters relative to BMM letters.
- L. Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

M. Confirmed.

N. Not confirmed. The calculation presented in part (N) of this interrogatory yields an test year volume estimate for single piece First-Class letters with all indicia other than meter imprints, which includes but is not limited to stamped mail. Based on data in USPS-LR-J-112, Table 10, the TY volume of single piece stamped First-Class letters is 23,334,537,000 pieces and of First-Class letters with other indicia is 2,677,832,000 pieces.

O. Not confirmed. The method described in part (O) of this interrogatory and the accompanying table contains two errors. First, as indicated in the response to part (N), above, the calculation from part (N) of the interrogatory does not yield the stamped volume. Second, it is inappropriate to use witness Miller's BMM delivery cost estimate—which employs the unit cost for machinable nonautomation mixed-AADC First-Class presort letters (see USPS-T-22, page 20, lines 21-23)—as an estimate of carrier costs for metered single piece First-Class letters as a whole. The table presented below provides the appropriate comparison of estimated unit delivery costs by indicia for single piece First-Class letters.

Estimation of TY First-Class Stamped Letter Unit Delivery Cost			
First-Class Category	(1) TY Volume (000)*	(2) TY Unit Delivery Cost** (\$)	(3) TY Delivery Cost (\$000) (1) x (3)
Total Single Piece Letters	43,018,465	0.0604	2,596,938

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

Metered Letters	17,006,096	0.0592	1,007,436
Stamped	23,334,537	0.0600	1,401,025
Other	2,677,832	0.0704	188,477

*Source: USPS-LR-J-112

**Source: TY CRA costs distributed based on BY costs (developed using LIOCATT methodology).

P. As shown in the table provided in response to part O, stamped letters do not cost 80 percent more than metered letters for delivery service.

Q. Not confirmed. It is generally true (i.e., barring mis-sorts) that pieces addressed to post office boxes will avoid carrier route sequencing operations. However, it is not generally true that letters addressed to post office boxes will avoid all carrier costs, since some letters addressed to post office boxes will be collected by carriers.

R. Partly confirmed. The 33 percent figure for single piece First-Class Mail delivered to P.O. Boxes is not assumed, but rather is calculated by subtracting city delivery and rural delivery volumes from the RPW volumes for single piece First-Class Mail. The referenced calculations in USPS-LR-J-117 assume that the percentage of single piece First-Class letters delivered to P.O. Boxes is the same as that for all single piece First-Class Mail.

S. Partly confirmed. The 13 percent figure for presorted First-Class Mail delivered to P.O. Boxes is not assumed, but rather is calculated by subtracting city delivery and rural delivery volumes from the RPW volumes for presorted First-Class Mail. The referenced calculations in USPS-LR-J-117 assume that the percentage of presorted

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

First-Class letters delivered to P.O. Boxes is the same as that for all presorted First-Class Mail.

T. I am assuming that "delivery cost for these pieces" refers to the unit carrier costs for First-Class single piece letters (per RPW piece) as reported in USPS-LR-J-117.

Other things being equal, if fewer First-Class single piece letters were delivered to P.O. Boxes, I would expect measured unit carrier costs for First-Class single piece letters to increase.

U. Test year unit carrier cost for First-Class single piece letters delivered by carriers can be estimated by dividing the LR-J-117 Total Unit Cost for single-piece letters by (1 - percentage of single piece letters delivered to P.O. Boxes). This calculation results in the test year unit carrier cost for First-Class single piece letters delivered by carriers of \$0.0901, which is an overestimate of the unit carrier costs for these pieces delivered by carriers, since collection costs associated with pieces delivered to P.O. Boxes are included in total unit costs.

~~V. Test year unit carrier cost for First-Class presort letters delivered by carriers can be estimated by dividing the LR-J-117 Total Unit Cost for presort letters by (1 - percentage of presort letters delivered to P.O. Boxes). This calculation results in the test year unit carrier cost for First-Class presort letters delivered by carriers of \$0.0481, which is an overestimate of the unit carrier costs for these pieces delivered by carriers, since collection costs associated with pieces delivered to P.O. Boxes are included in total unit costs.~~

Revised 12/6/01

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-1 Please refer to page 10 of your Direct Testimony where you describe generally the basis for deriving First-Class and Standard Mail delivery costs, you indicate that you follow the same methodology used by USPS witness Daniel in Docket No. R2000-1, and you state that you are sponsoring Library Reference USPS-LR-J-117.

- V. Please estimate the average delivery cost for only those presorted letters that are actually delivered. For purposes of this interrogatory request, letters that are delivered to a post office box should be removed from the analysis.

RESPONSE:

- V. Test year unit carrier cost for First-Class presort letters delivered by carriers can be estimated by dividing the LR-J-117 Total Unit Cost for presort letters by (1 - percentage of presort letters delivered to P.O. Boxes). This calculation results in the test year unit carrier cost for First-Class presort letters delivered by carriers of \$0.0481.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-2 Please refer to Library Reference USPS-LR-J-117, worksheet "summary BY."

- A. Please fully explain your methodology for deriving costs for sub-segment 6.1 (City Carrier In-Office Labor) for single piece letters.
- B. Please fully explain your methodology for deriving costs for sub-segment 6.1 (City Carrier In-Office Labor) for presorted letters.

RESPONSE:

- A.-B. For cost segment 6.1, I use the Carrier Mixed Mail (CARMM) methodology, described by witness Shaw (see USPS-T-1 at 7, lines 12-19), to estimate costs by Cost and Revenue Analysis (CRA) rate categories and shape, including single piece and presorted First-Class Mail letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-3 Please refer to Library Reference USPS-LR-J-117 worksheets "summary TY" and "letters 93."

- A. Please explain why, on worksheet "summary TY", Line 29, Column A, shows the "nonDPS unit cost (FY93 LIOCATT Costs wage rate adjusted to FY01 dollars)", rather than TY03 dollars.
- B. Please explain why, on worksheet "letters 93", footnote 9 refers to the "FY98 wage rate", rather than the Base Year 2000 wage rate. Please provide the specific source, including the exact page and line number, for the FY98 wage rate of \$27.74. What is the relevance of this wage rate in this case?
- C. Please explain why, on worksheet "letters 93", footnote 10 refers to the "FY01 wage rate", rather than the TY03 wage rate. Please provide the specific source, including the exact page and line number of USPS-T-12, for the FY01 wage rate of \$32.62.
- D. Please explain why, on worksheet "letters 93", columns [6] and [7] are ratioed unit cost for \$FY98 and \$FY01, respectively. What is the relevance to FY98 and FY01 in this case?
- E. Please explain how the following factors impact your use of FY 93 data as the basis for the ratioed unit costs in columns [6] and [7] of "letters 93."
 1. Change in mail mix between FY 93 and the test year in this case;
 2. Inclusion of zip+4 letters which no longer exist; and
 3. Change in the relative volumes delivered by carrier and the volumes delivered to post office boxes.
- F. Is column [4] of worksheet "letters 93" the total volume of letters or the total volume of letters processed by those routes covered in columns [1] and [2]?
- G. Please provide for FY 93 the volumes by rate category as shown in column [4] of worksheet "letters 93."

RESPONSE:

- A. The referenced label was inadvertently not updated. The referenced nonDPS unit cost of \$0.0311 is adjusted to TY 2003 wage levels.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

- B. The referenced label was inadvertently not updated. The referenced wage rate is the BY 2000 wage. See National Payroll Hours Summary Report (NPHSR), AP 13 2000 Report A, Average Hourly Rate, Line 43, City Delivery Carrier, Consolidated.
- C. The referenced label was inadvertently not updated. The referenced wage rate is the TY 2003 wage. See USPS-LR-J-50, Chapter 9, Section B.
- D. The referenced label was inadvertently not updated. The referenced costs are adjusted to BY 2000 wage levels.
- E. The purpose of the FY93 data is to obtain unit carrier in-office costs from a non-DPS environment to estimate the costs of handling non-DPS letters in the test year. Consequently, to the extent that the factors listed would affect the DPS percentage, they are irrelevant to the analysis. I have not performed any analysis to determine the impact of the other listed factors on the costs of handling non-DPS letters.
- F. It is my understanding that the referenced volumes are the total volumes of letters for the given rate categories.
- G. I assume that this part is asking for a breakdown of the total First-Class single-piece and workshared volumes provided in cells F8 and F15, respectively, by rate category for FY93. To my knowledge, the detailed data are not available.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-4 Are the costs associated with placing letters into a post office box considered mail processing, in-office delivery, or out-of-office delivery costs? Please explain. If such costs are mail processing, then is it true that the delivery cost for a letter that is delivered to a post office box is zero by definition? If no, please explain.

RESPONSE:

The activities involved in the distribution of mail to post office boxes, including placing mail in the box, are generally performed by clerks; the associated labor costs are part of mail processing (cost segment 3.1). It is generally true (i.e., barring mis-sorts) that pieces addressed to post office boxes will not be delivered by carriers. However, it is not generally true that letters addressed to post office boxes will avoid all carrier costs, since some letters addressed to post office boxes will be collected by carriers.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-5. Please refer to Library Reference USPS-LR-J-117. worksheets "summary BY" and "Delivery Volumes."

- A. Please confirm that you project 13% of total First-Class presorted letters will be delivered to post office boxes. If you cannot confirm, please explain.
- B. Please confirm that you project 33% of total First-Class single piece letters will be delivered to post office boxes. If you cannot confirm, please explain.
- C. Please confirm that for each category within First-Class presorted letters, you project that 13% of the letters will be delivered to post office boxes. If you cannot confirm, please explain.
- D. What is the basis for your assumption that the delivery characteristics that constitute total presorted letters can be broken down proportionally to each of the 14 separate rate categories within First-Class presorted letters, particularly when the volumes for most of those categories are quite small compared to Automation 3-digit and 5-digit? Please support your assumption that the delivery characteristics exhibited by total presorted volumes will be shared proportionally for each of the 8 subcategories you list for non-automation letters.
- E. Please explain how, for First-Class presorted mail, the total of rural route parcels (1,872) plus the total city carrier parcels (15,215) is greater than the RPW total parcels (9,980).

RESPONSE:

- A. Please see the response to MMA/USPS-T43-1(s).
- B. Please see the response to MMA/USPS-T43-1(r).
- C. Confirmed.
- D. It is not clear to which calculations this interrogatory refers. However, it is not true, in general, that the LR-J-117 analysis assumes identical or proportional "delivery characteristics" within presorted First-Class letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

E. The referenced volumes are statistical estimates from independent data systems.

The estimated rural delivery and city delivery parcel volumes are subject to statistical variation and not controlled to sum to the RPW volume.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-6 Please refer to USPS-LR-J-117, worksheet "summary BY."

- A. Do you agree that the unit cost incurred by city carriers to deliver a First-Class single piece letter is 10.22 cents? [Divide the piggybacked total city delivery costs by the single piece city delivery letter volume from worksheet "Delivery Volumes."] If you cannot confirm, please explain why not and provide the correct unit cost.
- B. Do you agree that the unit cost incurred by city carriers to deliver a First-Class presorted letter is 4.56 cents? [Divide the piggybacked total city delivery costs by the presorted city delivery letter volume from worksheet "Delivery Volumes." If you cannot confirm, please explain why not and provide the correct unit cost.
- C. Do you agree that the unit cost incurred by rural carriers to deliver a First-Class single piece letter is 3.07 cents? [Divide the piggybacked segment 10 costs by the single piece rural delivery letter volume from worksheet "Delivery Volumes."] If you cannot confirm, please explain why not and provide the correct unit cost.
- D. Do you agree that the unit cost incurred by rural carriers to deliver a First-Class presorted letter is 3.12 cents? [Divide the piggybacked segment 10 costs by the presorted rural delivery letter volume from worksheet "Delivery Volumes."] If you cannot confirm, please explain why not and provide the correct unit cost.
- E. If you can confirm parts A through D, please explain why it costs more than twice as much for a city carrier to deliver an average First-Class single piece than an average presorted letter, but it costs about the same for a rural carrier to deliver such pieces.

RESPONSE:

- A. No. The city carrier costs used in the unit cost calculation described in MMA/USPS-T43-6A include both delivery and collection costs for First-Class single piece letters. Excluding collection costs, the BY 2000 unit cost is 9.57 cents.
- B. Yes.
- C. No. The costs and volumes used in the unit cost calculation described in MMA/USPS-T43-6C include both delivery and collection costs and volumes for First-Class single piece letters. Excluding collection costs and volumes from,

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

respectively, the numerator and denominator of the unit cost calculation yields a BY 2000 unit cost of 3.71 cents.

- D. Yes.
- E. The city carrier costs depend on the actual labor required to deliver the piece. The rural carrier costs depend on contractually specified route evaluation factors that may differ from the actual costs.

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-7. Please refer to USPS-LR-J-117, worksheet "letters 93."

- A. Please confirm that columns [1] through [3] provide the costs to process nonDPSed letters. If you cannot confirm, please explain.
- B. Please confirm that column [4] provides total volumes for the respective rate categories, including volumes delivered to a post office box that did not incur the costs shown in columns [1] through [3]. If you cannot confirm, please explain.
- C. Please provide the corresponding FY 93 First-Class volumes for each rate category that were delivered by:
 - 1. City carriers;
 - 2. Rural carriers; and, implicitly,
 - 3. To post office boxes.

RESPONSE:

- A. Partly confirmed. The referenced costs are the FY 1993 city carrier in-office (cost segment 6.1) costs for the IOCS activity codes in column A of the worksheet.

Insofar as automated delivery point sequencing was not generally deployed until after FY 1993, the FY 1993 costs in columns [1] through [3] in worksheet 'letters 93' represent city carrier in-office costs for letter mail categories in a non-DPS environment.
- B. Confirmed.
- C. See responses to MMA/USPS-T43-11(C)(2) and MMA/USPS-3.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-8. Please refer to USPS-LR-J-117. worksheet "summary BY."

- A. Please confirm that when you deaverage the unit delivery costs for the various rate categories within presorted First-Class, the cost driver specifically for City Carrier In-Office labor costs, segment 6.1, is the percent of letters sorted to delivery point sequence (DPS) by automation. If you cannot confirm, please explain.
- B. Please confirm that as shown in your column B (%DPS) machinable letters are much more likely to have a higher %DPS, resulting in a much lower segment 6.1 unit cost, as shown in column C. If you cannot confirm, please explain.
- C. Please confirm that all workshare automation letters are required to be machinable. If you cannot confirm, please explain.
- D. Please confirm that because workshare automation letters are required to be machinable, they have a very high probability of being DPS sorted, all things being equal. If you cannot confirm, please explain.
- E. Please confirm that according to your data shown in column B, the DPS percentage increases as the level of presort increases, when automation is available in the delivery office. If you cannot confirm, please explain.
- F. Please confirm that the Postal Service has no actual data that provides the DPS percentage by First-Class rate category, and that the only DPS percentages that the Postal Service has are theoretical estimates provided by USPS witness Miller's mail flow models? If you cannot confirm, please explain. If the Postal Service has actual data, please provide that data for the base year in this case and the previous 5 annual periods.
- G. What is the DPS percentage for all First-Class single piece letters? Please support your answer.
- H. Please confirm that metered mail letters have no prerequisite requirements or regulations that require it to be machinable, yet the Postal Service estimates that it's DPS percentage is virtually the same as non-automation machinable letters, automation mixed AADC, automation AADC, and automation 3-Digit. If you cannot confirm, please explain.
- I. Are metered letters, which make up approximately 40% of single piece letters, more likely to take on the delivery characteristics, of single piece letters or more likely to take on the delivery characteristics of presorted, machinable, non-prebarcoded mixed AADC letters. Please explain your answer and be sure to discuss the fact that the volume of metered letters outnumbers presorted, machinable, non-barcoded, mixed AADC letters by about 30 to 1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

RESPONSE (MMA/USPS-T43-8):

- A. Confirmed, in that the percent of letters sorted to delivery point sequence by automation is used to distribute city carrier in-office costs (segment 6.1) to rate categories within presorted First-Class letters.
- B. Confirmed.
- C. Confirmed.
- D. Confirmed.
- E. Not confirmed. The estimated percentage of DPS pieces is lower for automation carrier route letters than for 5-digit automation letters.
- F. Confirmed.
- G. It is my understanding that the requested data are not available.
- H. Not confirmed. The Postal Service does not equate the DPS percentage for machinable non-automation presort letters with that for metered mail letters taken as a whole, but for BMM letters.
- I. First-Class single piece metered letters are not homogeneous in terms of mail characteristics. MMA/USPS-T43-1(K) discusses the factors that cause differences in carrier costs associated with single piece First-Class letters (including non-BMM metered letters) and BMM First-Class letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-9. Please refer to USPS-LR-J-117, worksheets "summary BY" and "summary TY". In worksheet "summary BY" you show that the unit cost to deliver nonDPSed letters is 2.65 cents and the cost to deliver DPSed letters is .5 cents each. In worksheet "summary TY" these two cost figures are 3.11 cents and .5 cents, respectively.

- A. Please state precisely what is meant by each of these four average cost figures, including the time period and precise operations that are covered by each cost.
- B. Do these figures take into account that, for presorted letters, 13% of the pieces were delivered to post office boxes in the base year? Would these figures change if, in the test year, the percentage of pieces delivered to post office boxes were to, say, double?
- C. Please explain why the average unit cost to deliver nonDPSed letters is expected to increase by 17% between the base year and test year, but that the average unit cost to deliver DPSed letters is expected to remain the same.

RESPONSE:

- A. The referenced costs are the cost segment 6.1 (city carrier in-office) cost per RPW piece for presorted First-Class letters. The referenced costs on the "summary BY" page are for BY 2000; those on the "summary TY" page are for TY 2003. See USPS-LR-J-1, Section 6.1.1, for a description of the activities encompassed by cost segment 6.1.
- B. The percentage of presorted letters delivered to post office boxes is implicit in the level of the referenced unit costs. If the percentage of presorted letters delivered to post office boxes were to double, the actual carrier in-office costs would be expected to decline, other things being equal.
- C. Assuming that the average "unit cost" figures referenced in this part are the unit carrier costs from the preamble to MMA/USPS-T43-9, please note that the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION

referenced unit costs represent the unit city carrier costs for in-office activities; see the response to part A. The non-DPS unit cost increases by "17%" (actually, 17.56 percent) because the actual labor time required for a city carrier to case a non-DPS letter is assumed constant, while the wage rate is projected to increase by 17.56 percent (which rounds to 18 percent). The DPS unit carrier cost increases by a smaller amount (1.2 percent) because, in the de-averaging procedure, city carrier in-office cost reductions largely offset the effect of the wage increase.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-10 Please refer to Library Reference USPS-LR-J-117, specifically worksheets "summary BY" and "summary TY"

- A. Please provide the implied DPS percentage for First-Class single piece letters for:
 - 1. The base year, and
 - 2. The test year.
- B. Please confirm that the Postal Service intends to increase the number of barcoded First-Class single piece letters between the base year and test year. If you cannot confirm, please refer to page 5, lines 16-25 of USPS-T-22, the Direct Testimony of USPS witness Miller, and explain your answer.
- C. If you show that the implied First-Class single piece letter DPS percentage goes down between the base and test years, please explain why this percentage goes down while, at the same time, the volume of First-Class single piece letters that are barcoded goes up.

RESPONSE:

- A. The implied DPS percentage for First-Class single piece letters cannot be estimated from the analysis in USPS-LR-J-117.
- B. Redirected to witness Miller.
- C. Not applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-11 Please refer Library Reference USPS-LR-J-117, specifically worksheet "letters 93".

- A. Please confirm that the number of letters delivered to a post office box is not a significant cost driver for delivery costs. If no, please explain the impact that a letter delivered to a post office box has on delivery costs?
- B. Please confirm that the titles in columns 6 and 7 should refer to \$FY00 and \$FY03, respectively? If no, please explain.
- C. Please consider your computed \$FY93, \$FY00 and \$FY 03 First-Class unit delivery costs as shown on line 8 in columns 5, 6 and 7.
1. Please confirm that your computation of the \$FY 93 unit delivery cost of 2.13 cents is the total cost shown in column 3 divided by the total volume shown in column 4. If no, please explain how to compute that figure.
 2. For the 50,443,703 letters used to compute the \$FY93 unit cost, please confirm that you do not know what portion of the total was delivered by either rural or city delivery carriers, or what portion was delivered to post office boxes. If no, please provide those percentages.
 3. For the \$FY00 and FY03 unit costs, please confirm that you inherently assume that the portion of letters delivered to post office boxes is the same as for \$FY93. If no, please provide the percentage of letters delivered to post office boxes for each of the three unit costs.
 4. If you assume that the portion of letters delivered to post office boxes was the same for each of the three unit costs, please justify this assumption.
- D. In \$FY93, you show that the unit delivery nonDPS costs for single piece and presorted letters are 2.13 and 2.21 cents, respectively.
1. According to those computed unit costs, are the nonDPS delivery costs for presorted letters really approximately .08 cents less than single piece presorted letters? Please explain your answer.
 2. Assume for purposes of this question that 33% of presorted letters were delivered to a post office box and that 13% of the single piece letters were delivered to a post office box. Assume also that the delivery cost for letters delivered to a post office box and collection costs were very close to zero. Under these circumstances, is it appropriate to compare nonDPS delivery costs as shown in the table below? If not, please explain why not?

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

Computation of \$FY93 nonDPS Delivery Costs Per Delivered Letter

	(1)	(2)	(3)	(4)	(5)
First-Class Category	Total Delivery Cost (\$000)	Total Volume (000)	% Delivered by Carriers	Total Volume Delivered (000)	Unit Cost per Delivered Letter (\$)
Single Piece	1,076,586	50,443,703	87%	43,886,022	0.0245
Presorted	652,975	29,486,424	67%	19,755,904	0.0331

Source: USPS-LR-J-117 "letters 3"
 Col 3 Col 4 Assumption (2) x (3) (1) / (4)

3. Assume that 13% of presorted letters were delivered to a post office box and that 33% of the single piece letters were delivered to a post office box. Assume also, for purposes of this question that the delivery cost for letters delivered to a post office box and collection costs were very close to zero. Under this circumstance, do you think it is appropriate to compare nonDPS delivery costs as shown in the table below? If not, why not?

Computation of \$FY93 nonDPS Delivery Costs Per Delivered Letter

	(1)	(2)	(3)	(4)	(5)
First-Class Category	Total Delivery Cost (\$000)	Total Volume (000)	% Delivered by Carriers	Total Volume Delivered (000)	Unit Cost per Delivered Letter
Single Piece	1,076,586	50,443,703	67%	33,797,281	0.0319
Presorted	652,975	29,486,424	87%	25,653,189	0.0255

Source: USPS-LR-J-117 "letters 3"
 Col 3 Col 4 Assumption (2) x (3) (1) / (4)

4. Please explain whether one can tell which incurs more nonDPS delivery cost for FY93, single piece or presorted, unless you know how many pieces are actually delivered by rural and city carriers?
5. Assume that during FY 93, 33% of presorted letters were delivered to a post office box and that 13% of the single piece letters were delivered to a post

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

office box, similar to the situation asked in Part 2. Assume further that for FY00, 13 % of presorted letters were delivered to a post office box and that 33% of single piece letters were delivered to a post office box. Assume also, for purposes of this question that the delivery cost for letters delivered to a post office box and collections costs were very close to zero. Under this circumstance, would not the \$FY00 unit nonDPS delivery cost for all destinating letters be more appropriately computed as shown in the table below than the way you computed it in column 5 of worksheet "letters 93"? Please explain your answer.

Computation of \$FY00 nonDPS Delivery Costs Per Originating Letter

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
First-Class Category	FY93 Total Volume (000)	FY93 Unit Cost per Delivered Letter	FY93 Labor Rate	FY00 Labor Rate	ratioed unit cost \$FY00	FY00 % Delivered by Carriers	FY00 Total Volume Delivered (000)	FY00 Total Delivery Cost (\$000)	FY00 Unit Cost for all letters
Single Piece	50,443,703	0.0245	23.1880	27.7445	0.0294	67%	33,797,281	992,014	0.0197
Presorted	29,486,424	0.0331	23.1880	27.7445	0.0395	87%	25,653,189	1,014,505	0.0344

Source: Part D(2) (2) x (4) / (3) Assumption (1) x (6) (5) x (7) (8) / (1)
USPS-LR-J-117 Col 4 Fn 8 Fn 9
"letters 3"

6. Please explain the differences between the \$FY00 unit nonDPS delivery costs computed in Part 5 and your derived unit delivery costs of 2.55 cents and 2.65 cents for single piece and presorted letters, respectively.

RESPONSE:

- A. Confirmed that a letter delivered to a post office box would normally avoid carrier delivery activities, as discussed in my response to MMA/USPS-T43-4.
- B. Confirmed.
- C. 1. Partly confirmed. \$FY93 unit cost equals the total costs shown in column 3 divided by the total volume shown in column 4 multiplied by 1000.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

2. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

3. Not confirmed. Since the referenced costs are, specifically, city carrier costs, the LR-J-117 non-DPS cost calculations assume that the percentage of letters delivered on city delivery routes remains constant. It does not require a specific assumption about the percentage delivered to post office boxes.

4. Not applicable.

D.

1. I assume that by "really" you mean whether 0.08 cents is the actual difference in FY 1993 unit costs in cost segment 6.1 (city carrier in-office) for single-piece and presorted First-Class letters. The 0.08 cent measured cost difference is a statistical estimate and subject to sampling variation. However, it is the estimated FY 1993 unit difference.

2. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

3. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

4. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

5. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

6. The costs computed in part D5 of the interrogatory depend on the hypothetical given there. The costs computed in the \$FY00 column of the 'letters 93' tab of LR-J-117.xls do not depend on the hypothetical in part D5. Specifically, the hypothetical in part D5 of the interrogatory presupposes a large shift in delivery mix that is not assumed in my calculations. Please see also the response to part D5, above.

SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION

MMA/USPS-T43-11 Please refer Library Reference USPS-LR-J-117, specifically worksheet "letters 93".

C. Please consider your computed \$FY93, \$FY00 and \$FY 03 First-Class unit delivery costs as shown on line 8 in columns 5, 6 and 7.

2. For the 50,443,703 letters used to compute the \$FY93 unit cost, please confirm that you do not know what portion of the total was delivered by either rural or city delivery carriers, or what portion was delivered to post office boxes. If no, please provide those percentages.

D. In \$FY93, you show that the unit delivery nonDPS costs for single piece and presorted letters are 2.13 and 2.21 cents, respectively.

2. Assume for purposes of this question that 33% of presorted letters were delivered to a post office box and that 13% of the single piece letters were delivered to a post office box. Assume also that the delivery cost for letters delivered to a post office box and collection costs were very close to zero. Under these circumstances, is it appropriate to compare nonDPS delivery costs as shown in the table below? If not, please explain why not?

Computation of \$FY93 nonDPS Delivery Costs Per Delivered Letter

	(1)	(2)	(3)	(4)	(5)
First-Class Category	Total Delivery Cost (\$000)	Total Volume (000)	% Delivered by Carriers	Total Volume Delivered (000)	Unit Cost per Delivered Letter (\$)
Single Piece	1,076,586	50,443,703	87%	43,886,022	0.0245
Presorted	652,975	29,486,424	67%	19,755,904	0.0331

Source:
USPS-LR-J-117
"letters 3"

Col 3

Col 4

Assumption

(2) x (3)

(1) / (4)

3. Assume that 13% of presorted letters were delivered to a post office box and that 33% of the single piece letters were delivered to a post office box. Assume also, for purposes of this question that the delivery cost for letters delivered to a post office box and collection costs were very close to zero. Under this circumstance, do you think it is appropriate to compare nonDPS delivery costs as shown in the table below? If not, why not?

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

Computation of \$FY93 nonDPS Delivery Costs Per Delivered Letter

	(1)	(2)	(3)	(4)	(5)
First-Class Category	Total Delivery Cost (\$000)	Total Volume (000)	% Delivered by Carriers	Total Volume Delivered (000)	Unit Cost per Delivered Letter
Single Piece	1,076,586	50,443,703	67%	33,797,281	0.0319
Presorted	652,975	29,486,424	87%	25,653,189	0.0255

Source:
USPS-LR-J-117
"letters 3"

Col 3

Col 4

Assumption

(2) x (3)

(1) / (4)

- Please explain whether one can tell which incurs more nonDPS delivery cost for FY93, single piece or presorted, unless you know how many pieces are actually delivered by rural and city carriers?
- Assume that during FY 93, 33% of presorted letters were delivered to a post office box and that 13% of the single piece letters were delivered to a post office box, similar to the situation asked in Part 2. Assume further that for FY00, 13 % of presorted letters were delivered to a post office box and that 33% of single piece letters were delivered to a post office box. Assume also, for purposes of this question that the delivery cost for letters delivered to a post office box and collections costs were very close to zero. Under this circumstance, would not the \$FY00 unit nonDPS delivery cost for all destinating letters be more appropriately computed as shown in the table below than the way you computed it in column 5 of worksheet "letters 93"? Please explain your answer.

Computation of \$FY00 nonDPS Delivery Costs Per Originating Letter

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
First-Class Category	FY93 Total Volume (000)	FY93 Unit Cost per Delivered Letter	FY93 Labor Rate	FY00 Labor Rate	ratioed unit cost \$FY00	FY00 % Delivered by Carriers	FY00 Total Volume Delivered (000)	FY00 Total Delivery Cost (\$000)	FY00 Unit Cost for all letters
Single Piece	50,443,703	0.0245	23.1880	27.7445	0.0294	67%	33,797,281	992,014	0.0197
Presorted	29,486,424	0.0331	23.1880	27.7445	0.0395	87%	25,653,189	1,014,505	0.0344

Source:

USPS-LR-J-117
"letters 3"

Col 4

Part D(2)

Fn 8

Fn 9

(2) x (4) / (3) Assumption

(1) x (6)

(5) x (7)

(8) / (1)

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

RESPONSE:

11 C 2. Partly confirmed. It is my understanding that the Postal Service was able to locate FY 1993 CCS and RCS data in response to MMA/USPS-3. Using those data, I was able to compute the proportion of the total RPW volume delivered on city carrier letter routes. However, that information is not incorporated in the LR-J-117 calculations. Insofar as the rural carrier shape categories do not directly correspond to the DMM C050 shape definitions used in LR-J-117, and given that I am not aware of the existence of any data with which to crosswalk the RCS data to DMM C050 shape, I am unable to compute the split between rural routes and post office boxes for the remaining volumes. Using the cost per CCS piece, I calculate that the resulting "non-DPS" costs per RPW piece would be as follows:

Results of alternative calculation using CCS data of First-Class unit costs from 'letters 93' worksheet, LR-J-117.xls.

First-Class Mail Category	FY 1993 cost per CCS letter	Ratioed unit cost (per RPW piece) \$BY 2000	Ratioed unit cost (per RPW piece) \$TY 2003
Single-Piece Letters	0.0452	0.0245	0.0288
Presorted letters	0.0292	0.0224	0.0263

D.

2. It is not appropriate to compare nonDPS delivery costs as shown. The data in the column labeled "% Delivered by Carrier" of the table presented in D2 are

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

incorrect, in that the percentage of mail delivered by carriers is not equal to 100 percent less the percentage of mail delivered to post office boxes. Other mail not delivered either by carriers (i.e., those on "letter routes") or to post office boxes, include caller service mail, mail delivered on parcel routes, and mail delivered on other "nonletter" routes. Therefore, the volumes in the column labeled "Total Volume Delivered" do not represent the volumes of mail delivered by carriers.

3. See the response to part D2, above.
4. See the response to part C2, above.
5. See the response to part D2, above. Based on the results I present in response to part C2, the relative FY 1993 costs per delivered piece presented in part D5, and thus the assumptions of the hypothetical, appear to be incorrect.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-12 Please refer to your response to Part J of Interrogatory MMA/USPS-T43-1, where you confirmed that you believe you have isolated the impact of presortation on delivery costs, and Part B of your response to Interrogatory MMA/USPS-T43-9.

- A. Please confirm that in deriving all of your unit costs for the various levels of worksharing, you implicitly assumed that 13% of the pieces are addressed and delivered to post office boxes. If you cannot confirm, please explain.
- B. Please confirm that the 2.65-cent unit cost derived for nonDPSed presorted letters, as derived on worksheet "letters 93", is used to derived the DPS unit cost of .5 cents shown on worksheet "summary BY", as shown in column A, lines 32-34. If you cannot confirm, please explain.
- C. Please confirm that for the derivation of the 2.65-cent non-DPS unit cost for presorted letters, you have no information as to what percentage of pieces were implicit as being addressed and delivered to post office boxes. If you cannot confirm, please provide the percent of letters implicitly delivered to post office boxes that is implicit in that derived 2.65 unit cost.

RESPONSE:

- A. Not confirmed. I assume that the interrogatory refers to the calculation of costs for detailed rate categories within presorted First-Class letters. My calculations assume that the rate category within presorted First-Class letters (degree of presort and/or automation compatibility) does not affect carrier costs per RPW piece, other than the effect on DPS.
- B. Confirmed, with the correction that the DPS unit cost calculation is shown in column A, lines 32-33 in the 'summary BY' worksheet. See also the response to MMA/USPS-T43-15, part C.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

- C. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-12 Please refer to your response to Part J of Interrogatory MMA/USPS-T43-1, where you confirmed that you believe you have isolated the impact of presortation on delivery costs, and Part B of your response to Interrogatory MMA/USPS-T43-9.

C. Please confirm that for the derivation of the 2.65-cent non-DPS unit cost for presorted letters, you have no information as to what percentage of pieces were implicit as being addressed and delivered to post office boxes. If you cannot confirm, please provide the percent of letters implicitly delivered to post office boxes that is implicit in that derived 2.65 unit cost.

RESPONSE:

C. Please see the response to MMA/USPS-T43-11, part C(2).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-13 Please refer to your response to Part N of Interrogatory MMA/USPS-T43-1. There you compute unit delivery costs separately for First-Class metered, stamped, and other letters.

- A. Please show exactly how you computed each of those unit costs.
- B. Please explain why metered letters cost 5.92 cents to deliver while BMM letters cost only 4.066 cents, almost 2 cents less.
- C. Please confirm that metered letters (5.92 cents) cost virtually the same to deliver as single piece letters (6.04 cents). If no, please explain.
- D. Do single piece letters and metered mail letters have a similar DPS percentage? Doesn't your answer indicate that? Please support your answer.
- E. Are the percentages of single piece letters and metered mail letters delivered to a post office box similar? Please support your answer.
- F. Do metered mail letters and BMM letters have a similar DPS percentage? Please support your answer.
- G. Are the percentages of metered mail letters and BMM letters delivered to a post office box similar? Please support your answer.
- H. Doesn't USPS witness Miller's assumption that non-automation machinable mixed AADC letters can be used as a proxy for BMM letters implicitly assume that non-automation machinable mixed AADC letters and BMM letters have a similar DPS percentage and a similar percentage of pieces delivered to a post office box. If no, please explain.

RESPONSE:

- A. The referenced calculations are found in the response to MMA/USPS-T43-1, subpart O. I computed base year First-Class city carrier in-office costs by shape and indicia using the CARMM methodology. These base year costs by shape

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

and indicia were used to distribute total TY CRA First-Class city carrier in-office costs by shape and indicia. City carrier street and rural carrier costs were then computed under the assumption that the unit cost for a given subclass and shape is not affected by the type of indicia. The calculations are provided in workbook MMAT43-1o.xls, which is provided in USPS-LR-J-191.

- B. See the response to part A above for the development of the unit carrier cost of 5.92 cents for all metered single piece First-Class letters. Witness Miller, in USPS-T-22, assumes that the unit carrier costs for machinable nonautomation Mixed AADC First-Class presort letters can be used as a proxy for the unit carrier costs of BMM letters, which are a subset of all metered First-Class letters. The costs associated with BMM are not necessarily equivalent to those for all metered letters, as discussed in the response to MMA-T43-1o.
- C. Confirmed.
- D. I am not aware of any data on the DPS percentage for single piece letters, by indicia or otherwise. Whether or not the DPS percentage is the same for stamped and metered First-Class single-piece letters depends on the unknown DPS and non-DPS costs for each group; see the response to MMA/USPS-T43-15, part C.
- E. I am not aware of any data upon which to base a response. My understanding is that the CCS and RCS data do not allow the identification of city delivery and rural delivery volumes by indicia.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

F. See the response to part D.

G. See the response to part E.

H. Redirected to witness Miller.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-15 Please refer to your response Interrogatory MMA/USPS-T43-2. There may have been some confusion with the original question because you did not explain your methodology for deriving sub-segment 6.1 costs for each category within presorted letters.

- A. For single piece letters, please confirm that you were provided the total sub-segment 6.1 costs by shape from another witness. If you cannot confirm, please explain. If you confirm, please identify the witness.
- B. For presorted letters, please confirm that you were provided the total sub-segment 6.1 costs by shape from another witness. If you cannot confirm, please explain. If you confirm, please identify the witness.
- C. For each category within presorted letters, please confirm that you used the following steps to derive the sub-segment 6.1 costs. If no, please explain.
1. You obtained the nonDPSed presorted unit cost from FY93 and ratioed that cost to up to FY00.
 2. You obtained the weighted average DPS percent for all presorted letters by obtaining DPS percentages and volumes for each rate category from USPS witness Miller.
 3. You computed the average presorted DPS unit cost by solving the following equation:

Average DPS Cost = % nonDPS x nonDPS unit cost + % DPS x DPS unit cost
 4. You computed the average 6.1 sub-segment unit cost for each category by using the following equation:

Unit Cost = % DPS x Average DPS Cost + % nonDPS x nonDPS unit cost
 5. You computed the total 6.1 sub-segment cost for each category by multiplying the unit cost computed in step 4 by the appropriate volume for each category.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

- D. Please confirm that in step 1 of Part C, the nonDPSed presorted unit cost is not the nonDPS cost per letter processed and delivered by carriers, but is the nonDPS cost per letter delivered, including letters delivered to a post office box. If no, please explain.
- E. Please confirm that in your derivation of the presorted nonDPS unit cost referred to in step 1 of Part C, you do not know the volume of actual letters that were processed and delivered by carriers using the nonDPS methods.

RESPONSE:

MMA/USPS-T43-2 asked for the methodology used to derive costs for "single piece letters" (part A) and "presorted letters" (part B). Accordingly, my response to MMA/USPS-T43-2 explained how costs by subclass and shape were developed.

- A. Not confirmed. I was not provided the total sub-segment 6.1 costs by shape by another witness. I was provided the cost segment 6.1 volume-variable costs by subclass by witness Meehan (see her B workpapers, USPS-LR-J-57). I then used FORTRAN programs (which are provided in USPS-LR-J-117) that replicate the Postal Service's CARMM methodology to disaggregate cost segment 6.1 volume-variable costs by subclass to shape.
- B. See response to Part A.
- C. Confirmed with the following exceptions: I solve the equation in step 3 for the DPS unit cost to obtain the formula in LR-J-117.xls:

$$\text{DPS unit cost} = (\text{Total unit cost} - \% \text{ nonDPS} \times \text{nonDPS unit cost}) / \% \text{ DPS}.$$

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

- D. Confirmed. This is consistent with the de-averaging procedure described in response to part C.
- E. The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.
-

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-15 Please refer to your response Interrogatory MMA/USPS-T43-2.

There may have been some confusion with the original question because you did not explain your methodology for deriving sub-segment 6.1 costs for each category within presorted letters.

E. Please confirm that in your derivation of the presorted nonDPS unit cost referred to in step 1 of Part C, you do not know the volume of actual letters that were processed and delivered by carriers using the nonDPS methods.

RESPONSE:

E. Please see the response to MMA/USPS-T43-11, part C(2).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-16 Please refer to your response to Part E of Interrogatory MMA/USPS-T43-3. Is it your testimony that the volume of letters delivered to a post office box has no impact on your derivation of nonDPS costs? If no, please explain your position. If yes, please explain how you can properly estimate the nonDPS unit cost if you do not know how many pieces were processed and delivered by carriers using nonDPS methods, as computed on worksheet "letters 93" of Library Reference USPS-LR-J-117?

RESPONSE:

The data needed to answer this question is archived and is in the process of being retrieved and evaluated. The information will be provided as soon as it becomes available.

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
SCHENK TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-16 Please refer to your response to Part E of Interrogatory MMA/USPS-T43-3. Is it your testimony that the volume of letters delivered to a post office box has no impact on your derivation of nonDPS costs? If no, please explain your position. If yes, please explain how you can properly estimate the nonDPS unit cost if you do not know how many pieces were processed and delivered by carriers using nonDPS methods, as computed on worksheet "letters 93" of Library Reference USPS-LR-J-117?

RESPONSE:

Please see the response to MMA/USPS-T43-11, part C(2).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-17 Please refer to your response to Part D of Interrogatory MMA/USPS-T43-5 where you indicate that your analysis does not, in general, assume that the *delivery characteristics are identical for each of the presorted categories.*

- A. Are the delivery characteristics not identical because you use different, independently derived, DPS percentages for each category? If no, please explain.
- B. Don't you assume that 13% of the letters from each category will be delivered to post office boxes? If no, please explain.
- C. If your answer to Part B is yes, what is your basis for assuming that the 13% of total presorted letters that are delivered to post office boxes can be broken down proportionally to each of the 14 separate rate categories, particularly when the volumes for most of those categories are quite small compared to Automation 3-digit and 5-digit? Please explain why this assumption is appropriate for each of the 8 subcategories you list for non-automation letters.

RESPONSE:

- A. Yes.
- B. Please see the response to MMA/USPS-T43-5, part C.
- C. This is a simplifying assumption used in USPS-LR-J-117, based on data availability. In other words, I am not aware of any data to support a disproportionate distribution of costs to some rate categories. The percentage of letters delivered to post office boxes would have to differ appreciably by rate category to materially affect the deaveraged unit cost estimates provided. I do not believe that the relative volumes by rate category are, by themselves, relevant.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-18 Please refer to your response to Interrogatory MMA/USPS-T43-6.

- A. Please provide the derivation of the 9.57 cents that you indicate is the First-Class single piece city carrier delivery unit cost, excluding collection costs.
- B. Please provide the derivation of the 3.71 cents that you indicate is the First-Class single piece city carrier delivery unit cost, excluding collection costs.
- C. Please provide the total collection costs incurred by the Postal Service for BY00.

RESPONSE:

A. The First-Class single piece city carrier delivery unit cost is calculated using the following inputs, which are found in LR-J-117.xls in USPS LR-J-117 unless otherwise noted:

- (a) City Carrier In-Office Costs (6.1 + 6.2) – the sum of cells D3 and E3 in the worksheet 'Summary BY'
 - (b) % Delivery Costs for City Carrier In-Office – see Table 1 in Attachment A
 - (c) Cost Segment 7 Costs – the sum of cells F3 through I3 in the worksheet 'Summary BY'
 - (d) % Delivery Costs for Cost Segment 7 – calculated by taking the percentage of collection costs and subtracting it from one. The percentage of collection costs is calculated using CS06&7.xls found in witness Meehan's B workpapers (USPS LR-J-57). It is calculated by
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

taking the sum of collection costs (cells C12, D12, M12, P12, S12, and T12 in worksheet '7.0.3') and divided them by the total Cost Segment 7 costs for First-Class single piece (cells E11, F11, and G11 in worksheet 'Output to CRA').

- (e) BY00 Piggyback Factor for C/S 6.1 First-Class Single Piece – cell K114 in worksheet 'Summary BY'
- (f) BY00 City Carrier Delivery Volumes – cell G3 in the worksheet 'Delivery Volumes'

The following formula uses these inputs to calculate the unit cost:

$$\text{Unit cost} = \{[(a) \cdot (b) + ((c) \cdot (d))] \cdot (e)\} / (f) \cdot 100$$

$$9.57 = \{[(1,121,119 \cdot 0.9975) + (490,750 \cdot 0.7970)] \cdot 1.351\} / 21,308,674 \cdot 100$$

B. The First-Class single piece rural carrier delivery unit cost is calculated using the following inputs, which are found in LR-J-117.xls in USPS LR-J-117:

- (a) BY00 Rural Carrier Costs (C/S 10) – cell J3 in worksheet 'Summary BY'
- (b) BY00 Piggyback Factor for C/S 10 First-Class Single Piece – cell L114 in worksheet 'Summary BY'
- (c) Delivery Unit Cost Key – calculated by taking the ratio of the letters collection costs to total rural carrier costs (cell O32 in worksheet 'Rural

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

Crosswalk' divided by cell R32 in the same worksheet). This ratio is then subtracted from the letters cost distribution key (cell C44 in 'Rural Crosswalk') and then divided by the same number yielding the delivery unit cost key

(d) Rural Carrier Delivery Volumes – sum of cells C18 through F18 and M18 in worksheet 'Rural Crosswalk'

The following formula uses these inputs to calculate the unit cost:

$$\text{Unit Cost} = [(a) * (b) * (c)] / (d) * 100$$

$$3.71 = [258,211 * 1.236 * 0.8530] / 7,344,088 * 100$$

C: Redirected to witness Meehan.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION REDIRECTED FROM
WITNESS MILLER

MMA/USPS-T22-21 (d)- (f).

- (d) Does the weight of a letter have any impact on the cost of processing the letter in the delivery operation? Please explain your answer.
- (e) Does the weight of a letter have any impact on the cost to of processing the letter in the mail processing operation? Please explain your answer.
- (f) Please explain how Standard letters sorted to the same degree as First-Class letters can cost so much less for the delivery operation when they weigh 64% more per piece.

RESPONSE:

- (d) *The weight of a letter may have an impact on the city carrier in-office cost of processing the letter. Any impact weight would have on city carrier in-office costs would be reflected in the tally costs.*
- (e) *The impact that the weight of a letter has on "the costs to of processing the letter in the mail processing operation" will depend in part on the mail processing operation through which the mail piece is processed. While there is almost certainly some relationship between weight of a letter and mail processing costs, there is no information available as to the nature of this relationship (e.g., if it is linear or monotone). An estimate of the distribution of mail processing cost by subclass, shape, and weight is provided in USPS-LR-J-58.*
- (f) *The cost data do not support the claim that the delivery costs for Standard letters presorted to the same degree as First-Class letters are "so much less" for the delivery operation, given that these cost differences are within or nearly within the sampling variation for the cost segments included in carrier costs. Standard letters can cost less than First-Class letters presorted to the same*

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION REDIRECTED FROM
WITNESS MILLER

degree because some city carrier in-office costs, including costs associated with "markups" (i.e., mail that must be readdressed or is otherwise undeliverable), are associated with First-Class mail but not Standard mail.

REVISED NOVEMBER 15, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SCHENK TO INTERROGATORY OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

MPA/USPS--T43-2. Please refer to your analysis of Test Year cost savings for bundle breakage reduction for flats mail, USPS-LR-J-118, and USPS-LR-61.

- (a) Please confirm that running USPS-LR-J-61 without piggyback factors produces the test year unit costs as provided in USPS-LR-J-118. If you cannot confirm, please explain.
- (b) Please describe the steps necessary to be taken to eliminate the piggyback factors from USPS-LR-J-61.
- (c) Please provide references to all cells in USPS-LR-J-61 that must be adjusted to replicate the unit cost figures you used in USPS-LR-J-118 and explain how they must be adjusted.

RESPONSE:

- (a) Not confirmed. Running the models in USPS-LR-J-61 (in workbooks FCM.xls, Period.xls, and Standard.xls) without piggyback factors produces the test year unit costs *for the current bundle breakage rates* (see column 2a of Table 1, Table 2, and Table 3 of USPS-LR-J-118) for First-Class flats, Periodicals Outside County flats, and Standard Regular flats, respectively. The test year unit costs *for the reduced bundle breakage rates*, which are reported column 3a of Tables 1-3 in USPS-LR-J-118, are produced by running the models in USPS-LR-J-61 without piggyback factors and with the reduced bundle breakage rates.
- (b) There are two main steps used to eliminate piggyback factors from USPS-LR-J-61. Unless otherwise noted, each step is applied to the indicated spreadsheets in FCM.xls, Period.xls, and Standard.xls in USPS-LR-J-61.

REVISED NOVEMBER 15, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SCHENK TO INTERROGATORY OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

The first step is to set the piggyback factors given in cells B5:B11 in the spreadsheet 'Piggybacks' equal to 1.000.

The second step is to incorporate CRA costs without piggybacks in spreadsheet 'CRA Flats'. This step is achieved by the following steps: in USPS-LR-J-53 workbook Shp03usps.xls spreadsheet 'Pool', change the non-zero values in cells B29:B139 to 1.000 and in spreadsheet 'Class' change cells L7:L39 to 1.000; copy B21:BC21 from spreadsheet 'Flats(3)' in Shp03usps.xls; paste (with options special, values, and transpose) to cells H12:H65 in 'CRA Flats' in Period.xls in USPS-LR-J-61 (for FCM.xls copy cells B11:BC11, for Standard.xls copy cells B29:BC29). Column [13] with the column heading 'Total Mail Proc Unit Cost' in sheet 'CRA ADJ UNIT COSTS' provides the unit costs reported in column [2a] of Tables 1 - 3 in USPS-LR-J-118.

- (c) In addition to the adjustments made to the piggyback factors (see response to 2(b)), two steps are needed to replicate the Test Year costs savings for a 25 percent reduction in bundle breakage rates. After the piggyback factor adjustments described in part (b) have been done, the next step is that the cell labeled [9] in sheet 'CRA ADJ UNIT COSTS' (i.e., for the CRA Proportional Adjustment, which is in cell F25 in FCM.xls, in cell F27 in Periodicals.xls, and in cell F24 in Standard.xls) must be copied and the values pasted to the same cell. Then the bundle breakage rates

REVISED NOVEMBER 15, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SCHENK TO INTERROGATORY OF
MAGAZINE PUBLISHERS OF AMERICA, INC.

are adjusted by multiplying the current rates in cells C8, C10, C12, C14, D8, D10, D12, and D14 of sheet Package Data in FCM.xls, Period.xls, and Standard.xls in USPS-LR-J-61 by 0.75. Column [13] with the column heading 'Total Mail Proc Unit Cost' in sheet 'CRA ADJ UNIT COSTS' then provides the unit costs reported in column [3a] of Tables 1 – 3 in USPS-LR-J-118.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA, INC.**

697

MPA/USPS-T43-3. Please refer to Table 1 of USPS-LR-J-119 and Docket No. R2000-1, USPS-LR-I-307, page 4 and Docket No. R2000-1, LR95del.xls, worksheet ecr splits.

- (a) Please confirm that the costs shown in the column titled "Carrier In-Office Costs" do not include any piggyback costs. If not confirmed, please explain fully.
- (b) Please confirm that volumes in the "Total Volumes" column are total RPW volumes.
- (c) Does LOT sequencing of Carrier Route flats affect rural carrier costs in addition to city carrier costs? Please explain your response fully.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Unless specifically exempted, required LOT sequencing of Carrier Route flats would be applicable to all Carrier Route flats, regardless of whether they were delivered by rural carriers or city carriers.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T43-4. In Section II of your testimony, you discuss your methodology for calculating cost savings from reduced bundle breakage.

- (a) Please confirm that reducing bundle breakage, as modeled using USPS-LR-J-61, reduces costs by replacing piece sorting (of pieces in broken bundles) with bundle sorting (of intact bundles), which is a less expensive activity on a per-piece basis. If not confirmed, please explain fully.
- (b) Please confirm that the cost savings, as modeled using USPS-LR-J-61, from presorting also results from replacing piece sorting with bundle sorting, which is a less expensive activity on a per-piece basis. If not confirmed, please explain fully.

RESPONSE:

- (a) Confirmed.
 - (b) Redirected to USPS.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T43-5. Please refer to Section III of your testimony.

- (a) Please confirm that the cost savings from the LOT requirement for Periodicals Carrier Route Basic mail reduce city carrier in-office costs by increasing the efficiency by which carriers can case Carrier Route mail. If not confirmed, please explain fully.
- (b) Please confirm that implementing the LOT requirement does not require significant changes to city-carrier operational procedures. If not confirmed, please explain fully.

RESPONSE:

- (a) Confirmed that the LOT requirement for Carrier Route Basic mail reduces city carrier in-office costs by increasing the efficiency by which carriers can case Carrier Route mail that is not presented in any particular order.
 - (b) Redirected to USPS.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T43-6. Please refer to your response to MPA/USPS-T43-2, Table 1 below, USPS-LR-J-118, and USPS-LR-J-61, Period.xls.

Table 1. Unit Costs Without Piggyback Factors Using Current Breakage Rates

Rate Category	Model Unit Costs (in cents) ¹	Total Mail Processing Unit Costs (in cents) ²	Unit Costs (current breakage rates; in cents) ³
Basic Nonautomation (Nonauto) Presort	11.116	24.904	16.3434
3-Digit Nonauto Presort	8.494	20.178	13.2125
5-Digit Nonauto Presort	4.874	13.655	8.8912
Carrier Route Nonauto Presort	1.102	6.858	4.3886
Basic Automation (Auto) Presort	8.489	20.168	13.2063
3-Digit Auto Presort	6.855	17.224	11.2559
5-Digit Auto Presort	4.298	12.617	8.2034

¹source: USPS-LR-J-61, Period.xls, CRA ADJ UNIT COSTS worksheet, cells D36:D48

²source: USPS-LR-J-61, Period.xls, CRA ADJ UNIT COSTS worksheet, cells G36:G48

³source: USPS-LR-J-118, Table 2 worksheet, cells C8:C20

- (a) Please confirm that setting the piggyback factors given in cells B5:B11 equal to 1.000 in the worksheet Piggybacks in Period.xls develops the Model Unit Costs and Total Mail Processing Unit Costs presented in Table 1. If you do not confirm, please explain fully.
- (b) Please confirm that the Unit Costs (current breakage rates; in cents) presented in Table 1 are the unit mail processing costs (without piggybacks) presented in USPS-LR-J-118, Table 2 worksheet, cells C8:C20. If you do not confirm, please explain fully.
- (c) Please confirm that neither the Model Unit Costs nor the Total Mail Processing Unit Costs equal the Unit Costs (current breakage rates; in cents) by rate category presented in Table 1. If you do not confirm, please explain fully.
- (d) Please confirm that "[r]unning the models in USPS-LR-J-61 (in workbooks FCM.xls, Period.xls, and Standard.xls) without piggyback factors" does not produce the corresponding Test Year unit costs in USPS-LR-J-118. If you do not confirm, please explain.
- (e) Please describe all the steps necessary to modify USPS-LR-J-61 to develop the Test Year unit costs in USPS-LR-J-118. If your explanation includes incorporating Cost and Revenue Analysis (CRA) flats mail processing unit costs that exclude piggyback costs, please provide a cite to the CRA flats mail

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

processing unit costs that exclude piggyback costs for First-Class Mail, Periodicals, and Standard Mail.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Not confirmed. Running the models in USPS-LR-J-61 (in workbooks FCM.xls, Period.xls, and Standard.xls) without piggyback factors, as fully described in the revised response to MPA/USPS-T43-2b, does produce the corresponding Test Year unit costs in USPS-LR-J-118.
- (e) See MPA/USPS-T43-2b (Revised November 15, 2001).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T43-7. Please refer to your response to MPA/USPS-T43-2, Table 2 below, USPS-LR-J-118, and USPS-LR-J-61, Period.xls.

Table 2. Unit Costs Without Piggyback Factors Using 25% Reduction in Breakage Rates

Rate Category	Model Unit Costs (in cents) ¹	Total Mail Processing Unit Costs (in cents) ²	Unit Costs (25% reduction in breakage rates; in cents) ³
Basic Nonautomation (Nonauto) Presort	11.026	25.082	16.2352
3-Digit Nonauto Presort	8.453	20.366	13.1639
5-Digit Nonauto Presort	4.866	13.791	8.8819
Carrier Route Nonauto Presort	0.983	6.673	4.2461
Basic Automation (Auto) Presort	8.458	20.375	13.1699
3-Digit Auto Presort	6.849	17.427	11.2494
5-Digit Auto Presort	4.277	12.713	8.1793

¹source: USPS-LR-J-61, Period.xls, CRA ADJ UNIT COSTS worksheet, cells D36:D48

²source: USPS-LR-J-61, Period.xls, CRA ADJ UNIT COSTS worksheet, cells G36:G48

³source: USPS-LR-J-118, Table 2 worksheet, cells D8:D20

- (a) Please confirm that setting "the piggyback factors given in cells B5:B11 equal to 1.000 in the sheet Piggybacks" and "multiplying the current rates by 0.75 in cells C8, C10, C12, C14, D8, D10, D12, and D14 of sheet Package Data" in Period.xls in USPS-LR-J-61 develops the Model Unit Costs and Total Mail Processing Unit Costs presented in Table 2. If you do not confirm, please explain fully.
- (b) Please confirm that the Unit Costs (25% reduction in breakage rates; in cents) presented in Table 2 are the unit mail processing costs (without piggybacks) presented in USPS-LR-J-118, Table 2 worksheet, cells D8:D20. If you do not confirm, please explain fully.
- (c) Please confirm that neither the Model Unit Costs nor the Total Mail Processing Unit Costs equal the Unit Costs (25% reduction in breakage rates; in cents) by rate category presented in Table 2. If you do not confirm, please explain fully.
- (d) Please confirm that "[r]unning the models in USPS-LR-J-61 (in workbooks FCM.xls, Period.xls, and Standard.xls) without piggyback factors" and "multiplying the current rates by 0.75 in cells C8, C10, C12, C14, D8, D10, D12, and D14 of sheet Package Data" does not produce the applicable Test Year unit costs in USPS-LR-J-118. If you do not confirm, please explain.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

- (e) Please describe all the steps necessary to modify USPS-LR-J-61 to develop the Test Year unit costs in USPS-LR-J-118. If your explanation includes incorporating Cost and Revenue Analysis (CRA) flats mail processing unit costs that exclude piggyback costs, please provide a cite to the CRA flats mail processing unit costs that exclude piggyback costs for First-Class Mail, Periodicals, and Standard Mail.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Not confirmed. Running the models in USPS-LR-J-61 (in workbooks FCM.xls, Period.xls, and Standard.xls) without piggyback factors and with test year bundle breakage rates, as fully described in the revised response to MPA/USPS-T43-2b and c, does produce the corresponding Test Year unit costs in USPS-LR-J-118.
- (e) See MPA/USPS-T43-2b and c (Revised November 15, 2001).
-

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORY OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,

MPA/USPS-T34-28. Please refer to USPS-LR-J-100, which contains the model used to estimate the pallet cost avoidance.

- (a.) Please confirm that cell Y10 in USPS-LR-J-100, worksheet "Table 1" shows that the cost to unload and move sacked mail at the 'destination' facility is \$0.871 per sack. If you do not confirm, please explain.
- (b.) Please confirm that cell Y16 in USPS-LR-J-100, worksheet "Table 1" shows that the cost to unload and move palletized mail at the 'destination' facility is \$13.232 per pallet. If you do not confirm, please explain.

RESPONSE:

- (a.) Not confirmed. The cost of \$0.871 per sack cited above includes not only the cost to unload and move sacked mail at the 'destination' facility, but also includes the cost of dumping the sack, and costs associated with empty container handlings. The cost to unload and move sacked mail at the 'destination' facility is \$0.151 per sack, which is obtained by adding cells Y5 and Y6 in USPS-LR-J-100, worksheet "Table 1."
- (b.) Not confirmed. The cost of \$13.232 per pallet cited above includes not only the cost to unload and move palletized mail at the 'destination' facility, but also includes the cost of dumping the pallet, and costs associated with empty pallet handlings. The cost to unload and move palletized mail at the 'destination' facility is \$8.026 per pallet, which is obtained by adding cells Y12 and Y13 in USPS-LR-J-100, worksheet "Table 1."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-1. Please refer to Library Reference USPS-LR-J-58, and explain how the volume distributions by destination entry and weight increment given in 'tiers_table.xls' from the data in LR-J-112 are developed. Please provide specific calculations.

RESPONSE:

As described in LR-J-58, page 24, the volume distributions by destination entry and weight increments given in tiers_table.xls come from Volumes_tiers.xls, also in USPS-LR-J-58. The calculations are given in sheet 'Summary by entry' in Volumes_tiers.xls. The source data from LR-J-112 (specifically, workbook RPW_Shape_PFY_GFY_ounce.xls) are provided in the rest of the sheets in Volumes_tiers.xls. Each cell in sheet 'Summary by entry' provides the formulas used to calculate each volume. The general methodology used is to sum volumes across shapes and rate elements corresponding to each cell in Table 7.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-2. Please refer to Library Reference USPS-LR-J-58, and explain how non-variable costs are calculated and then please explain how those costs are distributed to different subclasses.

RESPONSE:

The cost by ounce increment models in USPS-LR-J-58 provide deaveraged volume variable costs. Non-variable costs are not included in USPS-LR-J-58.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-3. Please refer to Library Reference USPS-LR-J-58, and provide all calculations and the results for transportation-related dropship cost avoidance.

RESPONSE:

Dropship cost avoidances are calculated in USPS-LR-J-68. AppenB.xls provides the calculations of the transportation-related dropship cost avoidance for Standard Mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-4. Please refer to Library Reference USPS-LR-J-58, and provide all calculations and the results for non-transportation-related and transportation-related dropship cost avoidances separately for each mail subclass.

RESPONSE:

Dropship cost avoidances are calculated in USPS-LR-J-68. AppenB.xls provides the calculations of the transportation-related dropship cost avoidance for Standard Mail.

AppenC.xls provides the calculations of the non-transportation-related dropship cost avoidances for Standard Mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-5. Please refer to Library Reference USPS-LR-J-58, and state whether non-transportation-related dropship cost avoidances are figured into the total dropship costs?

RESPONSE:

Non-transportation-related dropship cost avoidances are figured into the total dropship costs for Standard Mail in USPS-LR-J-58.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-6. Please confirm that Table 7 in Library Reference USPS-LR-J-58 presents volumes by units.

RESPONSE:

Table 7 in USPS-LR-J-58 provides volumes (pieces) by tier (Basic, High Density, and Saturation), destination entry, and weight increment for Standard ECR (Commercial) mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-7. Please refer to the FY2000 IOCS data set.

- a. Identify the total number of tallies.
- b. Identify the number of tallies that are not dollar-weighted.
- c. Identify the number of tallies with "Leave" activity codes.
- d. Identify the number of tallies that were used to distribute mail processing costs, by class and subclass.

RESPONSE:

- a. The FY2000 IOCS data set contains 855,132 records.
 - b. The FY2000 IOCS data set contains 361,235 records with a zero tally dollar weight.
 - c. The FY2000 IOCS data set contains 328,651 records with a "leave" activity code (F262). A "leave" activity code is defined as all activity codes except 9130 that are reported in Section 9 of Table B-2 (page B-22) of USPS LR-J-1 (Summary Description of USPS Development of Costs by Segments and Components Fiscal Year 2000).
 - d. See Attachment A.
-

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

ATTACHMENT A – FY2000 IOCS Tallies – Clerks/Mailhandlers Mail Processing

Class		Record Count	Weighted Tallies (\$000)
<u>First-Class</u>	Single-piece letters	38,001	2,738,511
	Presorted letters	10,052	751,101
	Single-piece cards	1,561	108,886
	Presorted cards	313	22,715
	Total First-Class	49,927	3,621,213
	Priority	5,216	349,589
	Express	1,058	60,533
	Mailgrams	2	129
<u>Periodicals</u>	In-County	284	9,179
	Regular	4,615	335,680
	Non Profit	965	58,413
	Classroom	202	3,156
	Total Periodicals	6,066	406,429
<u>Standard</u>	Regular ECR	2,104	159,023
	Regular Other	16,569	1,211,021
	Non Profit ECR	259	18,973
	Non Profit Other	3,670	260,218
	Total Standard	22,602	1,649,236
<u>Package Services</u>	Parcel post	1,534	101,898
	Bound Printed Matter	953	63,057
	Special Rate	631	40,673
	Library Rate	97	6,027
	Total Package Services	3,215	211,656
	USPS	1,257	90,403
	Free for Blind/Handicapped	95	5,857
	International	4,154	125,925
	Registry	413	23,164
	Certified	358	32,002
	Insurance	13	985
	COD	11	956
	Money Orders	0	0
	Stamped Envelopes	0	0
	Special Handling	4	106
	P.O. Box	0	0
	Other Special Services	449	35,884
	Total Special Services	1,248	93,098
	Total Direct	94,840	6,614,068
		Standard (A) Mixed Mail	203
	Other Mixed Mail	29,256	1,863,251
	Not Handling	97,139	6,135,407
Total		221,438	14,627,311

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-8. Please refer to LR-J-58 spreadsheet "LR58AECR.xls", tab "TY MP." Please provide the number of IOCS direct tallies and the number of weighted tallies associated with each distributed mail processing cost figure, by shape, presort level (activity code), handling category (Field F9213: single piece, item, and container), and by weight increment (including no weight).

RESPONSE:

See Attachment B.

ATTACHMENT B: BY00 IOCS Weighted Direct Tallies (\$000s) by shape and weight increment - Standard Mail Enhanced Carrier Route (ECR)

Shape	Activity Code	Handling Category	Weight Increment (ounces)										
			0 to .5	.5 to 1.0	1.0 to 1.5	1.5 to 2	2 to 2.5	2.5 to 3	3 to 3.5	3.5 to 4	4 to 5	5 to 6	6 to 7
Letters	1310 Single Piece		8,655	8,058	1,066	1,095	970	848	288	417	0	0	0
	1310 Single Item		7,662	6,063	2,490	1,449	989	593	307	951	143	0	0
	1310 Container		302	0	59	0	0	0	0	0	0	0	0
	1330 Single Piece		2,464	1,886	1,049	202	111	51	64	15	0	0	0
	1330 Single Item		1,884	1,468	121	0	77	0	0	0	0	0	0
	1330 Container		128	55	0	0	0	0	0	0	0	0	0
Total Letters			21,095	17,530	4,785	2,745	2,148	1,493	659	1,383	143	0	0
Flats	2310 Single Piece		1,851	8,091	5,389	5,199	3,358	3,598	4,139	5,422	1,789	1,277	1,183
	2310 Single Item		3,393	5,325	6,619	7,089	7,267	4,956	5,666	7,608	3,323	2,450	1,626
	2310 Container		311	505	261	622	365	320	525	260	173	273	142
	2330 Single Piece		315	1,316	669	753	346	320	451	169	115	88	62
	2330 Single Item		371	636	352	476	0	514	57	261	357	59	67
	2330 Container		0	0	0	0	0	0	0	0	0	0	0
Total Flats			6,240	13,873	13,290	14,139	11,336	9,708	10,838	13,721	5,757	4,146	3,080
IPPs	3310 Single Piece		513	107	49	120	193	778	559	589	182	110	187
	3310 Single Item		0	229	118	110	0	0	47	180	60	196	64
	3310 Container		57	0	58	0	0	0	115	0	91	57	0
	3330 Single Piece		0	0	52	0	0	0	57	0	0	0	80
	3330 Single Item		0	0	55	0	0	0	54	261	0	0	0
	3330 Container		0	0	0	0	0	0	0	0	0	0	0
Total IPPs			569	336	333	230	193	778	831	1,030	333	363	332
Parcels	4310 Single Piece		0	0	0	0	0	0	0	0	0	0	0
	4310 Single Item		0	0	0	0	0	0	0	0	0	0	0
	4310 Container		0	0	0	0	0	0	0	0	0	0	0
	4330 Single Piece		0	0	0	0	0	0	0	0	0	0	0
	4330 Single Item		0	0	0	0	0	0	0	0	0	0	0
	4330 Container		0	0	0	0	0	0	0	0	0	0	0
Total Parcels			0	0	0	0	0	0	0	0	0	0	0

ATTACHMENT B: BY00 IOCS Weighted Direct Tallies (\$000s) by shape and weight increment - Standard Mail Enhanced Carrier Route (ECR) (continued)

Activity Handling

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
 TO INTERROGATORIES OF THE NATIONAL PAPER ASSOCIATION OF AMERICA

Shape	Code	Category	7 to 8	8 to 9	9 to 10	10 to 11	11 to 12	12 to 13	13 to 14	14 to 15	15 to 16	> 16 oz	No Wgt.*	Total
Letters	1310	Single Piece	0	0	0	0	0	0	0	0	0	0	0	22,707
	1310	Single Item	0	0	0	0	0	0	0	0	116	0	466	22,540
	1310	Container	0	0	0	0	0	0	0	0	0	0	0	1,671
	1330	Single Piece	0	0	0	0	0	0	0	0	0	0	0	7,172
	1330	Single Item	0	0	0	0	0	0	0	0	0	0	23	4,903
	1330	Container	0	0	0	0	0	0	0	0	0	0	0	1,513
Total Letters			0	0	0	0	0	0	0	0	116	0	489	60,506
Flats	2310	Single Piece	1,987	371	53	124	669	329	52	0	455	0	0	45,645
	2310	Single Item	706	585	365	615	198	347	479	341	745	0	1,573	63,586
	2310	Container	220	0	0	49	0	0	0	0	0	0	0	6,338
	2330	Single Piece	0	0	225	0	0	0	0	0	0	0	0	7,158
	2330	Single Item	100	15	0	0	0	0	0	62	0	0	175	5,831
	2330	Container	0	0	0	0	0	0	0	0	0	0	0	2,330
Total Flats			3,012	972	642	789	867	676	531	403	1,199	0	1,748	130,888
IPPs	3310	Single Piece	0	0	0	0	0	0	0	0	0	0	0	6,698
	3310	Single Item	0	0	0	0	0	0	0	0	0	0	115	4,431
	3310	Container	0	0	0	0	0	0	0	0	0	0	0	3,687
	3330	Single Piece	0	0	0	0	0	0	0	0	0	0	0	3,519
	3330	Single Item	0	0	0	0	0	0	0	0	0	0	0	3,700
	3330	Container	0	0	0	0	0	0	0	0	0	0	0	3,330
Total IPPs			0	0	0	0	0	0	0	0	0	0	115	25,365
Parcels	4310	Single Piece	117	219	69	0	0	0	246	269	635	59	0	5,925
	4310	Single Item	254	0	0	0	46	166	0	0	0	0	254	5,030
	4310	Container	0	59	0	70	47	0	0	0	0	0	0	4,486
	4330	Single Piece	64	59	49	0	0	0	0	0	0	0	0	4,502
	4330	Single Item	83	0	0	0	0	0	0	0	0	0	231	4,644
	4330	Container	0	0	0	0	0	0	0	0	0	0	0	4,330
Total Parcels			517	337	118	70	94	166	246	269	635	59	485	28,917

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-9. Please refer to your response to OCA/USPS-107, wherein you identify 6,497 "letter-shaped unweighted IOCS tallies" for mail processing Cost Segment 3.1 for Standard Regular mail in the 0-1 oz. range. Please also refer to your answer to OCA/USPS-112 (a), which lists 10,442 IOCS direct tallies for Standard Regular letters less than 1 oz. Please explain why these two tally numbers differ.

RESPONSE:

The unweighted tallies for Standard Regular mail letters in the 0-1 ounce range reported in OCA/USPS-107 reflect clerk/mailhandler mail processing tallies only. The IOCS direct tally number reported in OCA/USPS-112 (a) contains not only the mail processing tallies, but window service and administrative clerk/mailhandler tallies and city carrier tallies.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T43-10 Please refer to the "TY Summary" page of LR-J-117.xls.

- a. For the ECR volumes, you cite LR-J-52. Please identify the location of these data in LR-J-52, or the correct citation, if not there.
- b. Please confirm that your ECR figures include NECR.
- c. Please confirm that the volumes and costs are TYBR figures.
- d. Please confirm that, after receiving the TY volumes and total TY costs for ECR from witnesses Smith and Patelunas, you performed all the calculations to determine costs by density tier for ECR mail.

RESPONSE:

- a. The base year ECR volumes in LR-J-117.xls come from USPS-LR-J-112, Tables 16 and 19. The test year to base year ratio used to develop test year volumes from base year volumes is provided in USPS-LR-J-53, SHP03U-1.xls, sheet 'Class' in cell D27.
- b. Confirmed.
- c. Confirmed.
- d. As described in part (a) above, the TY volumes are estimated from base year volumes obtained from witness Loetscher, and the test year to base year volume ratio obtained from witness Smith. Given these data and the total TY costs obtained from witness Patelunas, the calculations used to determine the carrier costs by density tier for ECR mail are contained in USPS-LR-J-117.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-11. Please refer to your response to NAA/USPS-T43-8 and Attachment B thereto. Please provide a table, similar to Attachment B, but presenting unweighted BY00 IOCS tallies by shape and weight increment for Standard Enhanced Carrier Route mail.

RESPONSE:

See Attachment A.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

ATTACHMENT A to NAA/USPS-T43-11: BY00 IOCS Unweighted Direct Tallies (\$000s) by shape and weight increment - Standard Mail Enhanced Carrier Route (ECR)

Shape	Activity Code	Handling Category	Weight Increment (ounces)										
			0 to .5	.5 to 1.0	1.0 to 1.5	1.5 to 2	2 to 2.5	2.5 to 3	3 to 3.5	3.5 to 4	4 to 5	5 to 6	6 to 7
Letters	1310 Single Piece		110	107	17	15	10	9	5	6	0	0	0
	1310 Single Item		95	93	32	22	14	10	5	14	2	0	0
	1310 Container		5	0	1	0	0	0	0	0	0	0	0
	1330 Single Piece		33	21	14	3	2	1	1	1	0	0	0
	1330 Single Item		26	23	2	0	1	0	0	0	0	0	0
	1330 Container		2	1	0	0	0	0	0	0	0	0	0
Total Letters			271	245	66	40	27	20	11	21	2	0	0
Flats	2310 Single Piece		24	61	65	62	48	43	49	66	24	14	16
	2310 Single Item		46	70	81	93	98	73	82	106	48	37	19
	2310 Container		3	4	5	6	5	5	5	3	3	2	2
	2330 Single Piece		4	15	7	9	4	5	5	3	2	1	1
	2330 Single Item		5	9	3	5	0	8	1	3	6	1	1
	2330 Container		0	0	0	0	0	0	0	0	0	0	0
Total Flats			82	159	161	175	155	134	142	181	83	55	39
IPPs	3310 Single Piece		4	2	1	2	3	6	9	8	3	2	3
	3310 Single Item		0	3	2	2	0	0	1	3	1	1	1
	3310 Container		1	0	1	0	0	0	2	0	1	1	0
	3330 Single Piece		0	0	1	0	0	0	1	0	0	0	1
	3330 Single Item		0	0	1	0	0	0	1	2	0	0	0
	3330 Container		0	0	0	0	0	0	0	0	0	0	0
Total IPPs			5	5	6	4	3	6	14	13	5	4	5
Parcels	4310 Single Piece		0	0	0	0	0	0	0	0	0	0	0
	4310 Single Item		0	0	0	0	0	0	0	0	0	0	0
	4310 Container		0	0	0	0	0	0	0	0	0	0	0
	4330 Single Piece		0	0	0	0	0	0	0	0	0	0	0
	4330 Single Item		0	0	0	0	0	0	0	0	0	0	0
	4330 Container		0	0	0	0	0	0	0	0	0	0	0
Total Parcels			0	0	0	0	0	0	0	0	0	0	0

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

ATTACHMENT A to NAA/USPS-T43-11: BY00 IOCS Unweighted Direct Tallies (\$000s) by shape and weight increment - Standard Mail Enhanced Carrier Route (ECR) (continued)

Shape	Activity Code	Handling Category	7 to 8	8 to 9	9 to 10	10 to 11	11 to 12	12 to 13	13 to 14	14 to 15	15 to 16	> 16 oz	No Wgt *	Total
Letters	1310	Single Piece	0	0	0	0	0	0	0	0	0	0	0	279
	1310	Single Item	0	0	0	0	0	0	0	0	2	0	11	300
	1310	Container	0	0	0	0	0	0	0	0	0	0	0	8
	1330	Single Piece	0	0	0	0	0	0	0	0	0	0	0	76
	1330	Single Item	0	0	0	0	0	0	0	0	0	0	2	54
	1330	Container	0	0	0	0	0	0	0	0	0	0	0	3
Total Letters			0	0	0	0	0	0	0	0	2	0	13	718
Flats	2310	Single Piece	19	6	1	2	4	4	1	0	6	0	0	515
	2310	Single Item	11	8	6	9	3	6	4	7	11	0	30	848
	2310	Container	2	0	0	1	0	0	0	0	0	0	0	46
	2330	Single Piece	0	0	1	0	0	0	0	0	0	0	0	57
	2330	Single Item	1	1	0	0	0	0	0	1	0	0	6	51
	2330	Container	0	0	0	0	0	0	0	0	0	0	0	0
Total Flats			33	15	8	12	7	10	5	8	17	0	36	1,517
IPPs	3310	Single Piece	0	0	0	0	0	0	0	0	0	0	0	43
	3310	Single Item	0	0	0	0	0	0	0	0	0	0	10	24
	3310	Container	0	0	0	0	0	0	0	0	0	0	0	6
	3330	Single Piece	0	0	0	0	0	0	0	0	0	0	0	3
	3330	Single Item	0	0	0	0	0	0	0	0	0	0	0	4
	3330	Container	0	0	0	0	0	0	0	0	0	0	0	0
Total IPPs			0	0	0	0	0	0	0	0	0	0	10	80
Parcels	4310	Single Piece	2	3	1	0	0	0	3	2	8	1	0	20
	4310	Single Item	2	0	0	0	1	3	0	0	0	0	8	14
	4310	Container	0	1	0	1	1	0	0	0	0	0	0	3
	4330	Single Piece	1	1	1	0	0	0	0	0	0	0	0	3
	4330	Single Item	1	0	0	0	0	0	0	0	0	0	7	8
	4330	Container	0	0	0	0	0	0	0	0	0	0	0	0
Total Parcels			6	5	2	1	2	3	3	2	8	1	15	48

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T43-12. Please refer to your response to NAA/USPS-T43-8 and Attachment B thereto. Please explain the difference between "Single Piece" and "Single Item."

RESPONSE:

The handling category refers to the response to Question 21A in the IOCS data set. A "Single Piece" indicates the employee is handling a single piece of mail at the time of the IOCS reading which receives a response of "A" for Question 21A. "Single Item" indicates that the employee is handling an individual item at the time of the reading and receives a response of "B" for Question 21A. The single item may contain multiple pieces or be empty. Single items include bundles, trays, pallets, and sacks. For further explanation please refer to the IOCS Field Operating Instructions, Handbook F-45, Chapter 12 (USPS-LR-I-14/R2000-1).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T43-13. Please refer to your response to NAA/USPS-T43-8 and Attachment B thereto, which reports 116 weighted IOCS tallies for Single Item letters in the 15 to 16 ounce range. Please explain what Standard ECR letters weigh 15 to 16 ounces.

RESPONSE:

Please note that less than 0.2 percent of all weighted letter tallies for Standard ECR letters fall in the 15 to 16 ounce range. IOCS is a sampling system, and the results are therefore subject to sampling variation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T43-14. In Library Reference LR-J-58, as revised Nov. 20, please refer to the table captioned "Standard Mail ECR Letters Test Year Unit Costs by Detailed (1/2 ounce) Weight Increments," which reports cost and volume figures for Standard ECR letters above 3.5 ounces. Please describe what Standard ECR letters would weigh more than 3.5 ounces.

RESPONSE:

Please note that less than two percent of total letter costs for Standard ECR letter mail is for letters above 3.5 ounces. IOCS is a sampling system, and the results are therefore subject to sampling variation. Only 0.5 percent of all Standard ECR letter volume given in USPS-LR-J-58 weighs more than 3.5 ounces. The volume data are obtained from the RPW system, which obtains shape from information reported by mailers on the postage statements.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T43-15. In Library Reference LR-J-58, as revised Nov. 20, please refer to the table captioned "Standard Mail ECR Flats Test Year Unit Costs by Detailed (1/2 ounce) Weight Increments:

- a. Please explain why the unit costs for 8-9 ounce flats are less than the unit costs of 7-8 ounce flats.
- b. Please explain why the unit costs for 11-12 ounce flats are less than the unit costs of 10-11 ounce flats.

RESPONSE:

- a. – b. The cost by weight distributions provided in USPS-LR-J-58 are designed to provide a general indication of the relationship between weight and cost. The analysis in USPS-LR-J-58 is not designed to be a definitive analysis of the relationship between weight and cost, and it is not used as such by any postal witness in this docket. In order to provide a definitive analysis of the relationship between weight and cost, one would need to control for other factors that affect cost, including presort level, entry profile, automation compatibility, and other piece characteristics. It is possible that differences in one or more of these factors are responsible for the demonstrated unit cost differences noted in your question. In addition, the cost estimates by weight increment provided in USPS-LR-J-58 are subject to sampling variation. As stated in my response to VP/USPS-T43-5, I am satisfied that the other Postal witnesses in this docket have used the results in USPS-LR-J-58 with the understanding that they are not intended to be an exact quantification of costs for every individual weight increment, but that they do provide some insight into the relationship between weight and cost.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T43-16. In Library Reference LR-J-58, as revised Nov. 20, please refer to the table entitled Standard Mail ECR Flats Test Year Unit Costs by Function.

- a. Please explain why, between the "0 to 1" and "2 to 3" ounce ranges, City Carrier In-office unit costs decline while City Carrier Street Time unit costs rise.
- b. Please explain why the City Carrier In-office costs of Standard ECR flats weighing 5 to 7 ounces (0.83 cents) is less than the unit City Carrier In-office costs of Standard ECR flats between 3 to 5 and 7 to 9 ounces.
- c. Please explain why the unit City Carrier In-office costs of Standard ECR flats weighing 11 to 13 ounces is less than the unit City Carrier In-office costs of Standard ECR flats weighing between 0 and 2 ounces.

RESPONSE:

- a. - c. See the response to NAA/USPS-T43-15a-b.
-

Revised 10/26/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

POSTCOM/USPS-T43-1. Please refer to LR58adj.xls, worksheet Table 6. Please provide a revision to this spreadsheet based only on the Standard Regular subclass.

RESPONSE:

Since the test year CRA data (USPS-T-12) do not break out Standard costs for Regular and Nonprofit mail, I am not able to provide a revision to worksheet Table 6 of LR58adj.xls that is based only on the Standard Regular subclass.

Revised 10/26/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

**POSTCOM/USPS-T43-2. Please refer to LR58areg.xls, worksheet 3CREG Parcels
(combined) and USPS-LR-I-92 from Docket No. R2000-1.**

- (a) Please confirm that the parcel volume estimates on LR58areg.xls, worksheet 3CREG Parcels (combined) only include pieces that pay the residual shape surcharge. If not confirmed, please explain fully.
- (b) Please reproduce (in an electronic spreadsheet format) rows 3-6 of LR58areg.xls, worksheet 3CREG Parcels for Standard Regular parcels that are prepared as automation flats. Please identify the source of your data.
- (c) Please confirm that the source of Standard parcel volumes that you use in your analysis is Standard mailing statements. If not confirmed, please explain fully.
- (d) Please confirm that the source of Standard parcel mail processing costs is a combination of IOCS and MODS. If not confirmed, please explain fully.
- (e) Please confirm that LR58areg.xls, 3CREG Parcels (combined) includes Standard Regular and Standard Nonprofit parcels. If confirmed, please provide a version of LR58areg.xls, 3CREG Parcels (combined) individually for Standard Regular parcels and Standard Nonprofit parcels.
- (f) Please confirm that the Test Year unit cost for 3 to 5 ounce parcels estimated in LR58areg.xls is \$2.685. If not confirmed, please explain fully.
- (g) Please confirm that the Test Year unit cost for 3 to 5 ounce parcels estimated in Docket No. R2000-1, USPS-LR-I-92 was \$1.330. If not confirmed, please explain fully.
- (h) Has the Postal Service or any of its contractors performed any analysis to determine why the cost for 3 to 5 ounce parcels estimated

Revised 10/26/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

in this case is so much higher than estimated in Docket No. R2000-1. If so, please provide a copy of each analysis.

- (i) Please describe any significant changes in the costing methodologies that the Postal Service used to estimate the unit cost for Standard Regular parcels by weight increment and estimate the impact that each significant change would have on the unit cost for 3 to 5 ounce Standard Regular parcels.
 - (j) Please confirm that the Test Year unit cost in LR59areg.xls for all Standard Regular parcels is \$1.025.
 - (k) Has the Postal Service or any of its contractors performed any analysis to determine why the cost for 3 to 5 ounce parcels is so much higher than the subclass average for parcels? If so, please provide a copy of each analysis.
 - (l) Please provide a detailed description of the characteristics (including dropship patterns, presort patterns, and content) of 3 to 5 ounce Standard Regular parcels.
 - (m) What is the coefficient of variation on the Test Year mail processing cost estimate for Standard Regular parcels weighing between 3 and 5 ounces?
 - (n) What is the coefficient of variation on Test Year total cost estimate for Standard Regular parcels weighing between 3 and 5 ounces?
 - (o) Please provide documentation on how the In-Office Cost System (IOCS) defines a flat, an automation flat, a parcel, and an IPP.
 - (p) Please provide documentation on how the Domestic Mail Manual defines a flat, an automation flat, a parcel, and an IPP.
 - (q) Please provide documentation on how the Standard Regular mailing statement defines a flat, an automation flat, a parcel, and an IPP.
-

Revised 10/26/01

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE

- (r) Please provide documentation on how the Postal Service's Revenue, Pieces, and Weight system for Standard Mail defines a flat, an automation flat, a parcel, and an IPP.

RESPONSE:

- a. Confirmed.
- b. Since the volume and cost data are not available for parcels prepared as automation flats separate from all parcels, rows 3-6 of LR58AREG.xls worksheet 3CREG Parcels cannot be prepared as requested.
- c. Confirmed (see USPS-LR-J-112).
- d. Confirmed. The Standard parcel mail processing costs are estimated using the Postal Service's proposed cost distribution methodology (USPS-T-13), which uses IOCS tallies and some cost pool variabilities estimated from MODS data (USPS-T-14).
- e. Confirmed. A version of LR58AREG.xls, 3CREG Parcels (combined) cannot be individually provided for Standard Regular parcels and Standard Nonprofit parcels because the test year CRA data (USPS-T-12) do not break out the Standard costs for Commercial and Nonprofit parcels.
- f. Confirmed.
- g. Not confirmed. The Test Year unit costs for 3 to 5 ounce Commercial Standard parcels estimated in Docket No. R2000-1, USPS-LR-I-92 was \$1.330. The Test Year unit costs for 3 to 5 ounce Standard Nonprofit parcels was \$1.697. Therefore the Test Year unit costs for all 3 to 5 ounce Standard parcels estimated in USPS-LR-I-92/R2000-1 was \$1.358.

Revised 10/26/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

RESPONSE CONTINUED:

h. No formal analysis has been performed to determine why the cost for 3 to 5 ounce parcels estimated in USPS-LR-J-58 in this case is higher than that estimated in USPS-LR-I-92/R2000-1.

i. There were no significant differences in the costing methodologies that the Postal Service used in USPS-LR-I-92/R2000-1 and USPS-LR-J-58/R2001-1 to estimate the unit cost for Standard Regular parcels by weight increment, other than the fact that in USPS-LR-I-92 the unit costs for Standard Regular Commercial and Nonprofit parcels was estimated separately, and in USPS-LR-J-58 the unit cost reported for Standard Regular parcels includes both Commercial and Nonprofit parcels.

j. Confirmed, given that the source of the Test Year unit cost of \$1.025 for all Standard parcels is LR58AREG.xls, not LR59areg.xls.

k. No formal analysis has been performed to determine why the cost for 3 to 5 ounce parcels estimated in USPS-LR-J-58 in this case is higher than that estimated for the subclass average for parcels.

l. *The Postal Service does not collect data on the contents of Standard Regular parcels. Presort and dropship volumes for Standard Regular Parcels are presented in Attachment A.*

m. Given limited resources and the fact that the cost estimates were only used to indicate the general relationship between cost and weight, no coefficients of variation were calculated for Test Year mail processing cost estimates reported in USPS-LR-J-58.

Revised 10/26/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

RESPONSE CONTINUED:

- n. Given limited resources and the fact that the cost estimates were only used to indicate the general relationship between cost and weight, no coefficients of variation were calculated for Test Year mail processing cost estimates reported in USPS-LR-J-58.
- o. See instructions for Question 22 in USPS-LR-I-14/R2000-1 (Handbook F-45, In-Office Cost System, Field Operating Instructions).
- p. Shape definitions can be found in section C050 and C820 of the Domestic Mail Manual.
- q. The Standard Regular Mail postage statement (PS Form 3602) indicates that shape ("processing category") is based on the shape definitions defined in sections C050 and C820 of the Domestic Mail Manual.
- r. All Standard Mail estimates in the Revenue, Pieces, and Weight Report derive from postage statement (also referred to as mailing statement) data. Therefore, the shape definitions in RPW are the same as given in my response to 2q above.

Revised 10/26/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

POSTCOM/USPS-T-43-3. Please refer to LR58aECR.xls, worksheet 3CREG Parcels (combined).

- a. What is the coefficient of variation on the Test Year mail processing cost estimate for Standard ECR parcels?
- b. What is the coefficient of variation on the Test Year total cost estimate for Standard ECR parcels?
- c. Please describe the mail characteristics (in particular the contents of) Standard ECR parcels.

RESPONSE:

- a. Given limited resources and the fact that the cost estimates were only used to indicate the general relationship between cost and weight, no coefficients of variation were calculated for Test Year mail processing cost estimates reported in USPS-LR-J-58.
 - b. Given limited resources and the fact that the cost estimates were only used to indicate the general relationship between cost and weight, no coefficients of variation were calculated for Test Year mail processing cost estimates reported in USPS-LR-J-58.
 - c. The Postal Service does not collect data on the contents of Standard ECR parcels. Presort and dropship characteristics are presented in Attachment B.
-

Revised 10/26/01

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE

ATTACHMENT A TO POSTCOM/USPS-T43-1-3

Standard 3 to 5 Ounce Parcels By Presort Level and Entry Discount PFY 2000					
	None	DBMC	DSCF	DDU	Total
Basic Nonautomation	22,683,706	278,005	137,741	0	23,099,453
3/5 Nonautomation	15,311,036	416,446	2,075,739	0	17,803,221
ECR Basic	937,500	73,070	290,822	14,357	1,315,749
ECR High Density	3,496	0	98,077	37,222	138,795
ECR Saturation	21,563	15,867	77,919	77,257	192,407
STD Paid at First-Class Rates	622,538	0	0	0	622,538
Totals	39,579,838	783,189	2,680,299	128,836	43,172,162

Source: USPS-LR-J-112

Revised 10/26/01

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF ASSOCIATION FOR POSTAL COMMERCE**

ATTACHMENT B TO POSTCOM/USPS-T43-1-3

Standard ECR Ounce Parcels By Presort Level and Entry Discount					
PFY 2000					
	None	DBMC	DSCF	DDU	Total
ECR Basic	13,459,920	80,726	703,417	139,173	14,383,237
ECR High Density	8,942	0	121,414	124,038	254,394
ECR Saturation	69,189	18,960	1,585,370	814,310	2,487,829
Total	13,538,051	99,686	2,410,201	1,077,521	17,125,460

Source: USPS-LR-J-112

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

RIAA/USPS-T43-1. Please refer to your response to PostCom/USPS-T43-2h. Has the Postal Service or any of its contractors performed any analysis to explain cost changes from R2000-1 to R2001-1 for Standard Regular or Non-Profit parcels for any weight ranges? If so, please provide a copy of each analysis.

RESPONSE:

No formal analysis has been performed to explain cost changes from R2000-1 to R2001-1 for Standard parcels for any weight ranges.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

RIAA/USPS-T43-2. Please refer to your responses to PostCom/USPS-T43-2m and PostCom/USPS-T43-2n concerning Test Year costs for Standard Regular and Non-Profit parcels provided in the Excel file LR58AREG.xls of LR-J-58.

- (a) Has the Postal Service calculated coefficients of variation for any Test Year unit costs for any weight ranges of Standard Regular and Non-Profit parcels? If so, please provide these coefficients of variation.
- (b) Please confirm that the Test Year unit costs for Standard Regular and Non-Profit parcels within each weight range result from dividing Test Year total cost for Standard Regular and Non-Profit parcels within each weight range by the corresponding Test Year total volume for Standard Regular and Non-Profit parcels within that weight range. If not confirmed, please explain fully.
- (c) Please confirm that the Test Year costs and volumes for Standard Regular and Non-Profit parcels within each detailed weight range result from applying the rollforward methodology to Base Year costs and volumes for Standard Regular and Non-Profit parcels within each detailed weight range. If not confirmed, please explain fully.
- (d) Please describe the rollforward adjustments that are performed to transform Base Year costs and volumes for Standard Regular and Non-Profit parcels into Test Year costs and volumes for Standard Regular and Non-Profit parcels.
- (e) Has the Postal Service calculated coefficients of variation for any Base Year costs or volumes for any weight ranges of Standard Regular and Non-Profit parcels? If so, please provide these coefficients of variation.

RESPONSE:

- (a) Given limited resources and the fact that the cost estimates were only used to indicate the general relationship between cost and weight, no coefficients of variation were calculated for Test Year mail processing cost estimates reported in USPS-LR-J-58.
 - (b) Confirmed.
 - (c) Confirmed.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

- (d) TY volumes by shape and ounce increment are determined by multiplying base year volumes by shape and ounce increment by the test year to base year volume ratio (from USPS-LR-J-53, workbook SHP03U~1.xls, sheet 'Class' cell D57). Test year mail processing costs are determined by multiplying base year mail processing costs by shape, ounce increment, and cost pool by the final reconciliation factor and the cost ratio and by the sum of the premium pay factor and the test year piggyback factor less one. Test year window service costs are determined by taking the base year costs by ounce increment and shape and multiplying by both the test year piggyback factor and the ratio of the total test year cost segment 3.2 and base year cost segment 3.2 costs. Test year city carrier in-office costs are determined by taking the base year costs by ounce increment and shape and multiplying by both the test year piggyback factor and the ratio of the total test year cost segment 6.1 and base year cost segment 6.1 costs. All other test year costs are determined by taking the total CRA cost for each modeled segment times the piggyback factor and distributing them to shape by the appropriate distribution key.
- (e) Given limited resources and the fact that the cost estimates were only used to indicate the general relationship between cost and weight, no coefficients of variation were calculated for Base Year mail processing cost estimates reported in USPS-LR-J-58.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

RIAA/USPS-T43-3. Please refer to the Excel file LR58AREG.xls of LR-J-58, worksheets "3CREG Flats (detailed)" and "3CREG Parcels (detailed)".

- (a) Please confirm that Standard mail (previously referred to as Standard (A) mail) must weigh less than 16 ounces. If not confirmed, please explain fully.
- (b) Please confirm that both of the two referenced worksheets include a column labeled "15 to 16+" that indicates the weight increment in ounces of the mail for which the column provides information. If not confirmed, please explain fully.
- (c) Please confirm that any mail weighing 16 ounces or more is incorrectly classified as Standard mail. If not confirmed, please explain fully.
- (d) For the two referenced worksheets, please provide a revised version of the volumes and costs listed in the column labeled "15 to 16+" that excludes all data for mail pieces weighing 16 ounces or more.

RESPONSE:

- (a) Confirmed. The DMM (section E610) states that Standard mail must weigh less than 16 ounces.
- (b) Confirmed that the column is labeled "15 to 16+" to indicate the weight increment in ounces.
- (c) While it is technically true that mail paying Standard rates has to weigh less than 16 ounces, mail paying Standard rates could weigh more than 16 ounces if this mail was not discovered and disqualified during the verification process.
- (d) The base year and test year cost data for mail processing, window service, and city carrier in-office Standard costs for 15 to 16 ounce and 16+ ounce pieces separately are provided in LR58AREG(revised).xls, in sheets 'TY MP' (columns V and W), 'TY Window' (columns U and V), and 'TY City' (columns V and W), respectively. As these data show, only 0.34 percent of total Standard costs are

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

assigned to pieces weighing 16 or more ounces. The other costs for 15 to 16+ ounce pieces cannot be disaggregated to provide the costs for pieces that are 15 to 16 ounces only. The volume data presented in USPS-LR-J-58 for 15 to 16+ ounces cannot be split up to show those the number of pieces that are less than 16 ounces from the number that are more than 16 ounces. Volumes by ounce increment are obtained from USPS-LR-J-112. The ultimate source of these volume data is postage statement data (i.e., data on piece weights provided by the mailer). Since pieces found weighing 16 ounces or more are disqualified from being mailed at Standard rates, this data source would not provide an estimate of the number of pieces weighing 16 ounces or more mailed at Standard rates.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

RIAA/USPS-T43-4. Please refer to your response to PostCom/USPS-T43-2r, in which you state that "[a]ll Standard Mail estimates in the Revenue, Pieces, and Weight Report derive from postage statement (also referred to as postage statement) data."

- (a) Please provide a copy of the postage statements that were used for Standard Mail during Base Year R2000-1 and Base Year R2001-1.
- (b) Please describe in detail what data are entered into the RPW system that indicate the shape of mail. Please further describe in detail how the shape-related data entered into the RPW system are determined from each of the postage statements provided in (a).
- (c) Please describe in detail how the shape-related data in the RPW system were used to determine the shape of mail for the volume and weight data provided in LR-J-58 and LR-I-92.
- (d) Please describe in detail how the weight of mail to be entered into the RPW system is determined from each of the postage statements provided in (a).

RESPONSE:

- (a) A copy of each postage statement used in the two base years is provided in USPS-LR-J-19, Appendix A, and USPS-LR-I-26, Appendix A.
- (b) The shape of the mail in RPW is determined by the "processing category" indicated on the postage statement, which, as shown on the postage statement, is based on the shape definitions defined in sections C050 and C820 of the Domestic Mail Manual.
- (c) The volume and weight data in USPS-LR-J-58 and USPS-LR-I-92 come from RPW data, so the shape of mail for that data is determined by the processing category indicated on the postage statement, as described in RIAA/USPS-T43-4b.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

(d) It is my understanding that the weight reported on the postage statements that is entered under the PERMIT system is summarized by accounting period and finance number for input to the RPW system. Weight can be obtained from a postage statement in two different ways: either from the unit weight of identical pieces times the number of pieces or from the total weight for non-identical pieces. PERMIT computes the total weight, which is the weight reflected in RPW. For piece-rate mailings with single-piece weight under the break point, for which there is no explicit pound-rate charge, the total weight reported from the postage statement is assigned by PERMIT to each presort category in proportion to its presort volume. For pound-rated mail, the total weight for each presort category is provided on the postage statement.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA

RIAA/USPS-T43-6. In LR-J-58, please refer to worksheet "Table 5" in Excel file LR58STDCBS.xls, worksheet "Table 5" in Excel file LRSTDCBS1.xls, and worksheet "Table 6" in Excel file LR58ADJ.xls. Please further refer to USPS-T-32, page 10, footnote 11.

- a. Please confirm that the citation to Table 6 in USPS-T-32, page 10, footnote 11 (in the sentence containing the passage "Table 6 has the unadjusted parcel-flat differential of 93.4 cents") is an incorrect citation to worksheet "Table 5" in the Excel file LR58STDCBS.xls. If not confirmed, please explain fully.
- b. Please confirm that the citation to Table 7 in USPS-T-32, page 10, footnote 11 (in the sentence containing the passage "Table 7 has the adjustment for presort and destination entry profile of 9.5 cents") is an incorrect citation to Table 6 in the Excel file LR58ADJ.xls. If not confirmed, please explain fully.
- c. Please confirm that the worksheet "Table 5" in Excel file LR58STDCBS1.xls provides a version of "Table 5" in Excel file LR58STDCBS.xls that calculates costs separately for "Regular" and "ECR" Standard Mail. Please confirm further that the "Regular" column includes costs for both the Regular and Nonprofit subclasses, and that the "ECR" column includes costs for both the Enhanced Carrier Route and Nonprofit Enhanced Carrier Route subclasses. If not confirmed, please explain fully.
- d. Please confirm that the worksheet "Table 6" in Excel file LR58ADJ.xls calculates presort and dropship cost differences for Standard Mail for all four subclasses together. If not confirmed, please explain fully.
- e. Please provide a version of the worksheet "Table 6" in Excel file LR58ADJ.xls that calculates the presort and dropship cost differences for only the Regular and Nonprofit subclasses of Standard Mail. If data are not available for calculating the entire table for these two subclasses, please provide those portions of the table for which data are available for the Regular and Nonprofit subclasses.

RESPONSE:

- a. Confirmed.
 - b. Confirmed.
 - c. There was no worksheet named LR58STDCBS1.xls filed with USPS-LR-J-58, or in any other library reference sponsored by me.
 - d. Confirmed.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

- e. The cost avoidance (\$/lb) data are not available for Standard Regular (commercial and nonprofit) separate from Standard ECR (commercial and nonprofit) to the best of my knowledge. The pieces by presort level are already provided for Standard Regular and ECR separately. The weight by entry discount data, which is obtained from USPS-LR-J-112, is provided below.

Weight By Entry Discount (000)					
	None	BMC	SCF	DOU	Total
Regular (commercial and nonprofit)					
Flats	1,416,483	1,104,647	1,059,916	0	3,581,046
Parcels	280,745	96,299	35,540	0	412,584
ECR (commercial and nonprofit)					
Flats	185,722	499,212	2,580,795	1,461,540	4,727,269
Parcels	2,549	23	840	384	3,796

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE RECORDING INDUSTRY
ASSOCIATION OF AMERICA**

RIAA/USPS-T43-7. Please refer to your responses to PostCom/USPS-T43-2m and PostCom/USPS-T43-2n concerning Test Year costs for Standard Regular and Nonprofit parcels provided in the Excel file LR58AREG.xls of LR-J-58. Please further refer to Presiding Officer's Information Request No. 5/12 and to the generalized variance function (GVF) approach to calculating coefficients of variation that was used by witness Ramage in R2000-1 to respond to interrogatory ANM/USPS-T2-13 (Docket R2000-1, Tr. 4/1116). Using the GVF approach used by witness Ramage in R2000-1 and requested in POIR 5/12, please calculate coefficients of variation for each combined weight increment of the IOCS-based Test Year costs for Standard Regular and Nonprofit parcels provided in worksheet "3CREG Parcels (combined)" in the Excel file LR58AREG.xls of LR-J-58.

RESPONSE:

See Attachment A.

ATTACHMENT A TO RESPONSE TO RIAA/USPS-T43-7

Standard Mail Regular (Commercial and Nonprofit) Parcels: Costs (000) and Coefficients of Variation By Combined Weight Increments

		Broad Weight Groups									
		<u>0 to 3</u>	<u>3 to 5</u>	<u>5 to 7</u>	<u>7 to 8</u>	<u>8 to 10</u>	<u>10 to 11</u>	<u>11 to 12</u>	<u>12 to 13</u>	<u>Over 13</u>	<u>Total</u>
Mail Processing (CS 3.1)	Total Cost	57,912	55,691	23,839	20,469	23,323	11,063	18,068	14,388	50,170	274,922
	CV*	4.9%	5.0%	7.3%	7.8%	7.4%	10.3%	8.3%	9.2%	5.2%	2.4%
Window Service (CS 3.2 direct labor)	Total Cost	222	379	0	0	0	88	242	0	423	1,355
	CV*	60.7%	46.6%	N/A	N/A	N/A	95.6%	58.2%	N/A	44.2%	24.9%
City Carrier In-Office (CS 6.1 direct labor)	Total Cost	5,762	5,031	1,341	1,168	1,794	735	1,082	597	3,687	21,197
	CV*	12.2%	13.0%	25.0%	26.8%	21.7%	33.6%	27.8%	37.3%	15.2%	6.4%
Total (3.1, 3.2, and 6.1)	Total Cost	63,895	61,101	25,180	21,636	25,117	11,886	19,393	14,985	54,280	297,474
	CV*	4.7%	4.8%	7.2%	7.7%	7.2%	10.1%	8.1%	9.1%	5.1%	2.4%

*Coefficients of Variation (CV) calculated using the generalized variance function approach.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

VP/USPS-T43-1. Please refer to USPS-LR-J-58. In the files Lr58aecr and Lr58areg, which refer respectively to Standard ECR and Standard Regular Mail, a number of tabs contain graphical depictions that plot cost on the vertical axis and weight on the horizontal axis, similar to those found in Postal Service witness Daniel's testimony (USPS-T-28) in Docket No. R2000-1. Witness Daniel's prior testimony concerning the effect of weight on costs, which your testimony updates, also contained regressions computed on the basis of the data depicted in her graphical presentations.

- a. For Standard ECR Mail, did you compute any regressions of the weight-cost relationship?
- b. For Standard Regular Mail, did you compute any regressions of the weight-cost relationship?
- c. Unless your answer to the preceding parts a and b is an unqualified negative, please provide the results for each regression which you computed, or indicate where those regressions results can be found in the extensive files contained in the electronic version of USPS-LR-J-58 or elsewhere.
- d. For each graphical presentation within Standard Mail for which a regression could be computed and where witness Daniel did in fact compute a regression, but you elected not to do so, please explain why you opted not to compute and present the results of a regression.

RESPONSE:

- a. No.
- b. No.
- c. Not applicable.
- d. Regression results were not computed or presented because they were not needed for any analysis presented by Postal Service witnesses in this docket.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

VP/USPS-T43-2. Postal Service witness Hope's testimony, USPS-T-31, (i) at page 13, Table #3, contains data on the unit cost of piece-rated and pound-rated Standard ECR pieces at both a 3.0 ounce dividing line, and a 3.5 ounce dividing line, and (ii) at page 15, Table #4, contains data on the distribution of Standard ECR pieces by weight.

- a. Did you provide witness Hope with the unit cost data shown in her above-referenced Table #3?
- b. Regardless of whether you provided witness Hope with the unit cost data in her Table #3 and the piece distribution in Table #4, what other guidance, data or information (other than your testimony and the library references which you sponsor) did you provide to her with respect to the weight-cost relationship for Standard ECR Mail?

RESPONSE:

- a. Yes.
- b. None, other than the distribution of costs by weight increment for Standard ECR mail provided in USPS-LR-J-58, which is sponsored in my testimony (USPS-T-43).

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

VP/USPS-T43-3.

- a. Does your testimony, your library reference USPS-LR-J-58, or any other document sponsored by you in this docket, contain one or more estimates of the weight-cost relationship for Standard ECR Mail that exceeds the 3.3 ounce breakpoint? If so, please indicate where such estimate or estimates can be found.
- b. If you have developed more than one estimate of the weight-cost relationship for Standard ECR Mail, do you consider any one of those estimates to be more reliable than the others? If so, please indicate which and provide every reason on which you rely for your selection as the most reliable, or "best" depiction of the weight-cost relationship.

RESPONSE:

- a. The only examination of costs by weight increment for Standard ECR Mail that I provide in this Docket is the analysis in Excel workbook LR58AECR.xls in USPS-LR-J-58. Since costs are provided by ounce and half-ounce increments, no estimate for Standard ECR mail that exactly exceeds the 3.3-ounce breakpoint is provided.
- b. Not applicable.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

VP/USPS-T43-4.

- a. For Standard ECR and Standard Regular Mail, regarding the costs that were assigned to individual ounce increments, what percentage was assigned on the basis of direct IOCS tallies, and what percentage was "distributed" to ounce increments using any basis other than IOCS tallies for said distribution?
- b. For each distributed cost, please provide the basis (or "key") used for the distribution, and explain the rationale for selecting that basis (or "key") as the best available to capture the underlying weight-cost relationship.

RESPONSE:

- a. For Standard Regular Mail, 75.5 percent of total volume variable costs were distributed to ounce increments using IOCS tallies, and 24.5 percent were distributed to ounce increments using other methods. For Standard ECR Mail, 46.8 percent of total volume variable costs were distributed to ounce increments on the basis of direct IOCS tallies, and 53.2 percent were distributed to ounce increments using other bases.
- b. The following table provides the basis used for each distributed cost in USPS-LR-J-58.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

RESPONSE CONTINUED:

Keys Used To Distribute Subclass/Shape Costs to Weight Increments in USPS-LR-J-58	
Cost	Key
Total Mail Processing	IOCS tally analysis
Window Service	IOCS tally analysis
City Delivery In-Office	IOCS tally analysis
City Delivery Route	Volume
City Delivery Access	Volume
City Elemental Load	Weight
City Delivery Support	Other city delivery costs
Vehicle Service	Cube
Rural Delivery	Volume
Air/Water Transportation	Weight
Highway/Rail Transportation	Cube

- b. (continued) The general rationale used to select distribution keys is to select the key that best represents the cost driver for the cost segment modeled, consistent with CRA methodology to the extent possible. Exceptions to this rationale used to distribute costs to weight increment in USPS-LR-J-58 are described in my response to VP/USPS-T43-7b.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

VP/USPS-T43-5

- a. Aside from sponsoring the technical work in USPS-LR-J-58, would it be correct to state that it is not the purpose of your testimony to offer any guidance or interpretation of the data and numerical results concerning whether, or the extent to which, those data capture the underlying cost-weight relationship for Standard ECR and Regular Mail (or what you consider to be the most reliable measure of the weight-cost relationship)?
- b. Unless your answer to the preceding question is an unqualified affirmative, please explain the purpose of your testimony as it relates to analyzing, interpreting and offering advice to the Commission and interested parties regarding the quantitative results as they are presented in USPS-J-58.

RESPONSE:

a-b. The purpose of my testimony in regard to sponsoring USPS-LR-J-58 is to present distributions of cost by weight increment for certain mail subclasses and shapes. By replicating witness Daniel's methodology in R2000-1 without comment, I am implicitly incorporating her interpretations and caveats concerning this exercise, as noted in USPS-T-23/R2000-1. I am satisfied that the other Postal witnesses in this docket have used the results in USPS-LR-J-58 with the understanding that they are not intended to be an exact quantification of costs for every individual weight increment.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

VP/USPS-T43-6 Witness Hope's testimony, USPS-T-31, at page 13, Table #3, contains data on the unit cost of piece-rated and pound-rated pieces (i) at a 3.0 ounce dividing line, and (ii) at a 3.5 ounce dividing line which she cites as being obtained from you. In Docket No. R2000-1, Postal Service witness Moeller (USPS-T-35) presented similar data for Standard ECR Mail. Commenting on those data, the Commission at paragraph 5541 of its *Opinion and Recommended Decision* stated:

Witness Moeller's implicit markups reflect the mix of mail on either side of the break point. However, pieces above and below the break point have different worksharing profiles and different shape profiles. The Commission believes that implicit markups comparison should be adjusted for these differences.

- a. Did the unit cost data which you supplied to witness Hope make any or all of the adjustments called for by the Commission?
- b. Unless your answer to part a is an unqualified negative, please indicate which adjustments were made, where they are described, and where they can be found in your testimony, library references sponsored by you, or any other documents sponsored by you in this docket.
- c. If you made any of the adjustments called for by the Commission, but did not document or describe them adequately, please do so in response to this interrogatory.

RESPONSE:

- a. Yes, to the extent that the unit cost data I supplied to witness Hope are developed by shape and weight increment. Those data do not make any adjustments for worksharing differences. It is my understanding that no adjustments are needed, since the costs I provided are consistent with the revenues witness Hope uses, in that both reflect the different profiles above and below the breakpoint.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

RESPONSE CONTINUED:

- b. See USPS-LR-J-58, workbook LR58AECR.xls for the development of costs by shape.

- c. Not applicable.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

VP/USPS-T43-7. The Commission's *Opinion and Recommended Decision* in

Docket No. R2000-1 stated:

[t]he Commission calls on the Service to conduct a new analysis addressing the matters described at the conclusion of this section. [para. 5457]

While the estimates of IOCS costs for pieces above and below the break point are statistically reliable, the Commission has not closely examined the basis upon which transportation and delivery costs are distributed. If the Commission is to make proper further use of the implicit markups in setting the pound rate, the basis for distributing transportation and delivery costs must be subject to more scrutiny. [para. 5539]

- a. Please describe any and all new analysis (other than data updates) conducted by you in USPS-LR-J-58 in response to the Commission's call for such analysis.
- b. Please explain fully the basis for distributing transportation and delivery costs in USPS-LR-J-58, and note explicitly all changes and improvements made since the study was conducted by witness Daniel in Docket No. R2000-1.

RESPONSE:

- a. Other than the data updates, I conducted no new analysis in USPS-LR-J-58, compared with that presented in USPS-LR-I-91, 92, and 93 in Docket No. R2000-1.
- b. The bases used in USPS-LR-J-58 for distributing transportation and delivery costs are provided in VP/USPS-T43-4b, and are the same as those used by witness Daniel in USPS-LR-I-91, 92, and 93 in Docket No. R2000-1.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers'
Association, Inc.

RESPONSE CONTINUED:

Air and water transportation costs are distributed to ounce increment based on weight. This methodology is consistent with CRA methodology. Highway and rail costs are distributed to ounce increment based on cube. This distribution key is a proxy for cubic foot miles (as used in the CRA methodology). Data on cubic foot miles are not available by weight increment.

City delivery in-office costs (cost segments 6.1 and 6.2) are distributed to ounce increment based on IOCS tallies. This methodology is consistent with CRA methodology.

Delivery access costs and rural delivery costs are distributed to ounce increment based on volumes. This methodology is basically consistent with the costing methodology presented in USPS-T-11.

Delivery route costs are distributed to ounce increment based on volumes. In the CRA methodology, delivery route cost segments are distributed based on volume or weight. Since most delivery route costs are distributed based on volume in the CRA methodology, this key was used to distribute delivery route costs to ounce increment.

Delivery support costs are distributed to ounce increment based on the distribution of all other delivery costs, since support costs are

RESPONSE CONTINUED:

related to all delivery aspects (this methodology is consistent with
CRA methodology).

In USPS-LR-J-58, delivery elemental load costs are distributed to
ounce increment based on weight. In the CRA methodology,
elemental load costs are distributed based on volumes. But as
discussed by witness Daniel in Docket No. R2000-1, the purpose in
distributing elemental load costs across weight increments (within
subclass and shape) using weight instead of volume is to set an upper
bound of the effects of weight for city carrier costs (see Tr. 4/1395 in
Docket No. R2000-1). As reiterated by witness Kay, "Ms. Daniel's
distribution of elemental load costs among ounce increments within a
rate category does exactly as she intends and sets an upper bound for
the effects of weight on city carrier costs *within* rate categories."
(USPS-RT-13/R2000-1, at 4). Since previous criticisms of the support
for the pound rate included a concern that the effect of weight was
understated, a distribution key was chosen that would blunt that
criticism. Note that in USPS-LR-J-58, elemental load costs are
distributed across subclass and shape using CRA methodology. It is
only when elemental load costs within subclass and shape are
distributed across weight increment that costs are distributed by

RESPONSE CONTINUED:

weight. Weight was chosen as a distribution key in this instance for illustrative purposes.

If elemental load costs were distributed across weight increments (within subclass and shape) by volume instead of by weight, witness Hope's use of these data in her proposal would strengthen her argument for lowering the ECR pound rate, since the gap in implicit coverage between piece-rated and pound-rated pieces would be wider. An alternative version of her Table 3, including unit cost estimates developed using a volume distribution key for Standard ECR elemental load costs, is provided in Attachment A.

The version of unit costs in Attachment A that is developed using volume to distribute elemental load costs to weight increment is consistent with CRA methodology. The version of unit costs in Attachment A that is developed using weight to distribute elemental load costs to weight increment sets an upper bound for the effects of weight on city carrier costs within subclass and shape. Both versions of unit costs support witness Hope's proposal.

Response of United States Postal Service Witness Leslie M. Schenk
to Interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc.

ATTACHMENT A

USPS-T-31, Table 3 (alternative)										
	BEFORE RATES					AFTER RATES				
	Unit Revenue	Unit Cost (weight)*	Implicit Coverage	Unit Cost (volume)**	Implicit Coverage	Unit Revenue	Unit Cost (weight)*	Implicit Coverage	Unit Cost (volume)**	Implicit Coverage
3.0 ounce dividing line										
Piece-rated	0.14245	0.0675	211.0%	0.0707	201.5%	0.15074	0.0675	223.3%	0.0707	213.2%
Pound-rated	0.20655	0.0827	249.8%	0.0753	274.3%	0.20887	0.0827	252.6%	0.0753	277.4%
3.5 ounce dividing line										
Piece-rated	0.14245	0.0684	208.3%	0.0712	200.1%	0.15057	0.0684	220.1%	0.0712	211.5%
Pound-rated	0.20655	0.0839	246.2%	0.075	275.4%	0.20895	0.0839	249.1%	0.075	278.6%

*Distribution of delivery elemental load costs within subclass and shape by weight

**Distribution of delivery elemental load costs within subclass and shape by volume

**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

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

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.

**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-T43-9.

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.

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

- 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.

**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-T43-10.

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

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

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.

**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-T43-11.

- 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.

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

- 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).

**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-T43-12.

- 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.

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

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

**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-T43-13.

- 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).

**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-T43-14.

- 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

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

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.

**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-T43-15.

- 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).

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

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).

**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-T43-16.

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.

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

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

<u>Shape</u>	<u>Cost</u>	<u>Total</u>	<u>0-3.0 Ounces</u>	<u>3.0+ Ounces</u>	<u>0-3.5 Ounces</u>	<u>3.5+ Ounces</u>	
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%	

**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-T43-17.

- 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.

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-T43-19.

Please refer to your response to MMA/USPS-T43-6(E). Is your response intended to convey that the contractually-specified route evaluation factors for rural carriers may have little relationship to the actual time or cost of performing the specified functions? Unless your answer is an unqualified affirmative, please specify contractually-specified route evaluation factors that, in your opinion, do not bear much resemblance to the actual labor required to perform the function.

RESPONSE:

No. It is not my intention to convey that there is little or no relationship between the contractually-specified route evaluation factors for rural carriers and the actual time or cost of performing the specified functions. It is my understanding that the route evaluation factors are workload measures used to determine rural carrier compensation, and as such represent rural carrier costs to the Postal Service, which are the relevant costs for my analysis.

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-T43-20.

Please refer to USPS-LR-117, spreadsheet LR-J-117, tab 'city load'.

- a. Please refer to row 53, columns c-f, and explain how the title "Total Unit Costs with DMM Volumes" pertains to the numbers shown immediately below it (which are in the hundreds of thousands of dollars).
- b. In row 62 of that spreadsheet, you show the "DMM-definition Based Distribution Key."
 - (i) Are the distributions shown in rows 68-69 based on revenues or volumes?
 - (ii) What use do you make of these distributions?
- c. Please refer to row 67, "Standard Mail A ECR" [sic], and row 68. If the distribution in row 68 is based on volumes, did the volumes used to compute the percentage distribution of letters include detached address labels ("DALs")?

RESPONSE:

- a. The data in C54:F59 are total costs.
- b. (i) The distributions shown in rows 68-69 are based on total costs.
 - (ii) These distributions are used in developing base year and test year cost segment 7.3 costs for First-Class single piece letters, flats, and parcels (see cells H3:H5 in sheets 'Summary BY' and 'Summary TY').
- c. Not applicable (the distributions are based on total costs, not volumes).

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-T43-21.

Please refer to USPS-LR-J-117, spreadsheet LR-J-117, tab 'Delivery Volumes'. Under column G, CCS Letters, Row 7 shows 9,855,793 Standard ECR letters.

- a. Was this total derived from the City Carrier System ("CCS") data base?
- b. Does this total volume of CCS letters include DALs? If not, please explain how DALs were excluded from the count. If so, are you able to estimate the number of DALs that are included in the total? If so, please explain how.

RESPONSE:

- a. Confirmed.
- b. Yes, the total volume of CCS letters includes DALs (see witness Harahush's responses to VP/USPS-T5-1a and VP/USPS-T5-7). As witness Harahush states in his response to VP/USPS-T43-11d (redirected from me), the number of DALs can not be determined from the CCS data.

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-T43-23.

Please refer to USPS-LR-J-117, spreadsheet LR-J-117, tab 'Delivery Volumes'.

- a. Row 1, columns K-M have the label "RPW Permit System." Row 3, columns K-M provide data for First-Class single piece letters, flats, and parcels. Please explain the extent to which these First-Class single piece data are derived from the Revenue, Pieces, and Weight ("RPW") Permit System. If they are not derived from the Permit System, please explain either why those data are presented here, or why the label has not been changed.
- b. Please confirm that in row 3, First-Class single piece letters, column C, rural letters are 10,384,160 and column G CCS letters are 21,308,674, and these are exceeded by the corresponding RPW Permit System volume of 47,033,105 shown under column K, by some 15,340,271. If you do not confirm, please provide the correct figures.
- c. Please confirm that in row 4, First-Class presort letters, column C, rural letters are 10,304,441 and column G CCS letters are 28,757,969, and these are exceeded by the corresponding RPW Permit System volume of 44,931,629 letters shown under column K, by some 5,869,219. If you do not confirm, please provide the correct figures.
- d. Please confirm that in row 8, Standard Regular letters, column C, rural letters are 6,961,372 and column G CCS letters are 23,459,132 and these are exceeded by the corresponding RPW Permit System volume of 37,872,913 letters shown under column K, by some 7,452,408. If you do not confirm please provide the correct figures.

RESPONSE:

- a. The volumes referenced are derived from the Revenue, Pieces, and Weight ("RPW") Permit System. For a description on how the volumes are estimated, see USPS-LR-J-112.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

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-T43-24.

Please refer to USPS-LR-J-117, spreadsheet LR-J-117, tab 'Delivery Volumes'. The volume of rural Standard ECR letters shown under column C, row 7 is 3,810,544. The volume of CCS Standard ECR letters shown under column G, row 7 is 9,855,793. The sum of these two is 13,666,337, which exceeds by 1,773,653 the total RPW Permit System figure for Standard ECR letters shown in column K of 11,892,684.

- a. Please confirm that, in this spreadsheet, the apparent excess of rural and city letters relative to the RPW Permit System figure occurs only with respect to Standard ECR letters. If you cannot confirm, please explain.
- b. Could the apparent excess of rural and city Standard ECR letters in the cells referred to above be accounted for in part or in whole by the fact that the City Carrier System and the National Rural Mail Count both include and count DALs as letters, whereas the RPW system does not record DALs? If not, please provide your best explanation for why this occurs.
- c. Please explain how you reconciled the apparent excess of rural and city Standard ECR letters with the RPW Permit figure, and managed also to estimate a positive figure for Standard ECR letters under column O, Implicit P.O. Box Volume, even though the rural and city carrier letters exceeded the total RPW letters.
- d. Would the excess referred to above of 1,773,653 Standard ECR letters, if added to the Implicit P.O. Box Volume of 1,019,088 Standard ECR letters, be a good or reasonable way to estimate the volume of DALs in Base Year 2000? If not, would it represent a good "lower bound" for the estimated number of DALs? Please explain why or why not, and if you do not consider this is a good estimate, please indicate how you would estimate the number of DALs and provide that estimate.

RESPONSE:

- a. Confirmed. However, the CCS Standard ECR letters volume used in the cost estimates produced in 'Summary BY' and 'Summary TY' do not use the volume provided in column C, row 7. Instead, the adjusted volume of 7,063,051 provided in column G, row 15 is used. Therefore, in the cost estimates produced in this analysis, there is no "apparent excess" of rural and city letters relative to the RPW volume figure.
- b. See part a.

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

c. See part a.

d. See part a.

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

VP/USPS-T5-13.

Please refer to LR-J-131, WP1, Page H, tab COST, column 2, which shows unit delivery costs for ECR letters and flats in various presort conditions.

- d. Do the delivery costs for Standard ECR Mail shown in the above-referenced spreadsheet include all volume variable city carrier costs included in Cost Segment 6 and 7, or are some (or all) of the costs in Cost Segment 6 included under Mail Processing?
- e. Do the delivery costs for Standard ECR Mail shown in the above-referenced spreadsheet include all volume variable rural carrier costs included in Cost Segment 10? If not, please explain how those costs are apportioned between (i) Mail Processing and (ii) Delivery?

RESPONSE:

- d. Yes, the costs for Standard ECR Mail shown in the above-referenced spreadsheet include all volume variable city carrier costs included in Cost Segments 6 and 7.

The "delivery cost" nomenclature used in USPS-LR-J-117 is a carry-over from USPS-LR-I-95/R2000-1; these costs are more correctly described as "carrier costs."
- e. Yes, the costs for Standard ECR Mail shown in the above-referenced spreadsheet include all volume variable city carrier costs included in Cost Segment 10. The "delivery cost" nomenclature used in USPS-LR-J-117 is a carry-over from USPS-LR-I-95/R2000-1; these costs are more correctly described as "carrier costs."

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

VP/USPS-T24-1. a. Please state whether you and/or the Postal Service have studied empirically, modeled separately, or otherwise estimated a separate unit cost for carriers to case saturation Standard ECR mail when such mail consists of:

- i. Letters;
- ii. Enveloped flats;
- iii. Catalogs;
- iv. Detached Address Labels ("DALs");
- v. Flat-shaped pieces (including any inserts) that accompany DALs;
- vi. Periodicals that accompany DALs;
- vii. Merchandise samples that accompany DALs; or
- viii. Bound printed matter that accompany DALs.

b. For each affirmative answer to the preceding part a, please indicate the estimated Base Year unit cost for carrier casing, and provide references to where such unit cost estimates can be found in your testimony, your exhibits and workpapers, or library references on which your testimony relies.

c. For each negative answer to preceding part a, please explain why separate estimates for such unit costs have not been prepared.

RESPONSE:

- a. (i.) – (viii.) No.
- b. Not applicable.
- c. (i.) – (viii.) Cost segment 6 provides costs for all city carrier in-office activities.

Separate costs for casing mail separate from other city carrier in-office activities are not available. Cost segment 10 provides the costs for all rural carrier activities. Separate costs for casing mail separate from other rural carrier are not available.

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

VP/USPS-T31-9e. Could the cost difference between the average ECR flat (most of which are not mailed with DALs) and the average ECR parcel (all of which are mailed with DALs) be due to the additional costs caused by DALs, rather than costs incurred by the shape or weight of ECR parcels? Please explain your answer.

VP/USPS-T31-9f. In Docket No. R2000-1, Postal Service witness Crum (USPS-T-27) observed that the high costs attributed to ECR parcels (\$0.746 in FY 1998) may reflect the costs of DAL mailings. Response to PSA/USPS-T27-5(a), Tr. 8/3427, Docket No. R2000-1.

- (i) Do you believe that the high costs attributed to ECR parcels in this docket are due, at least in part, to the higher costs incurred in processing and delivering DAL mailings? Please explain your answer.
- (ii) What other reason(s) would you suggest that explain the high costs attributed to ECR parcels in this docket?

RESPONSE:

VP/USPS-T31-9e. To my knowledge no study or analysis has been conducted concerning whether the source of the cost difference between the average ECR flat and the average ECR parcel can be attributed to DALs or to other factors, such as shape or weight.

VP/USPS-T31-9f (i-ii). To my knowledge no study or analysis has been conducted that proves that there are higher costs incurred in processing and delivering DAL mailings. In addition, in his response to PSA/USPS-T27-5(a), Tr. 8/3427, Docket No. R2000-1, witness Crum discussed four possible reasons why high costs were attributed to ECR parcels. While he stated that DALs "could cause higher costs for ECR parcels," he also mentioned other factors that may

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

RESPONSE CONTINUED:

cause these higher costs, including the way regular and ECR parcels arrive and are processed, differences in average physical and/or location characteristics, and small sample issues. He did not report any analysis that indicates the degree to which these possible factors contribute to higher costs for ECR parcels. To my knowledge, no study of the cost differences caused by DALs has been done since Docket No. R2000-1, so there is no information available to determine whether higher costs are incurred in processing and delivering DAL mailings. The reasons witness Crum discussed as possible explanations for the high cost of ECR parcels seem reasonable avenues of exploration for determining the source(s) of high ECR parcel costs.

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

VP/USPS-T31-32.

Please refer to your response to VP/USPS-T31-8, part d.

- e. Do the cost data which you used to compute implicit coverages include all volume variable costs attributed to Standard ECR letters and nonletters, respectively, or just some portion of total costs? If just some portion, please list which costs and explain.

RESPONSE:

- e. Yes, the costs used to compute the implicit coverages in witness Hope's response to VP/USPS-T31-8(d) include all volume variable costs attributed to Standard Mail ECR letters and nonletters.

VP/USPS-T31-34.

Please refer to your response to VP/USPS-T31-13.

- a. For each of the rate categories shown in USPS-LR-J-131, WP1, Page H, COST, please provide the Postal Service's best estimate of the other volume variable Test Year unit costs, including associated indirect costs, specified in your response to part a of that interrogatory. If estimates are not available for all of those unit costs, please provide such estimates as are available.
- b. Your response to part b of the above-referenced interrogatory states that although the Test Year mail processing and unit costs shown in your work paper have not been reconciled to estimated total CRA costs for the Test Year, they "should" roll up for those cost segments. The last sentence in your response, which is somewhat conclusory, states that no reconciliation is needed.
 - i. Please state what cost segments are encompassed in your estimated mail processing and delivery unit costs.
 - ii. Please provide an explanation as to why you have confidence that the estimated unit costs would in fact roll up to and reconcile with the CRA total rollforward costs for those cost segments if you or the Postal Service were to make the requisite effort. Should you opt to do such a reconciliation, please provide the results.

RESPONSE:

- a. Estimates of other volume variable Test Year unit costs, including associated indirect costs, specified in witness Hope's response to subpart (a) of VP/USPS-T31-13 are not available by rate categories as shown in USPS-LR-J-131, WP1, Page H.
- b.
 - i. Mail processing costs include Cost Segment 3.1. Delivery Unit costs include Cost Segments 6.1, 6.2, 7.1 – 7.4, and 10.
 - ii. The mail processing and delivery costs reported in USPS-LR-J-131, WP1, page H are developed by tying base year CRA costs to test year CRA costs, as shown in USPS-LR-J-59 and USPS-LR-J-117. Since the mail processing and delivery costs are tied to test year CRA costs, the costs should roll up to the total roll forward costs for the relevant cost segments, and therefore no reconciliation should be needed.

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

VP/USPS-T31-38.

- a. With reference to the total cost data requested in VP/USPS-T31-39, please provide a breakdown among (i) mail processing, (ii) delivery, (iii) transportation, and (iv) other, for each of the four categories discussed: i.e., for piece-rate and pound-rated pieces above and below 3.0 ounces and 3.5 ounces. If the requested breakdown is not available for Test Year costs, please provide it for Base Year 2000.
- b. Please describe how transportation costs are distributed to piece-rated and pound-rated pieces by ounce increment.
- c. Please describe how delivery costs are distributed to piece-rated and pound-rated pieces by ounce increment.

RESPONSE:

- a. I assume this interrogatory is referring to VP/USPS-T31-37, rather than VP/USPS-T31-39 as stated above. The requested breakdown is provided below.

	Standard ECR TY Total Costs (\$000)		
	Piece-Rated Pieces	Pound-Rated Pieces	
3.0 ounce dividing line			
Mail Processing	403,939 213,592	150,922	187,567
Delivery 1,257,523	403,939 645,205	602,574	627,453
Transportation	23,179 18,132	39,063	39,471
Other	55,254 40,027	82,105	83,016
3.5 ounce dividing line			
Mail Processing	449,179 253,305	111,208	142,267
Delivery 1,374,030	449,179 750,968	496,811	570,947
Transportation	28,443 29,197	33,998	34,207
Other	66,510 50,819	71,314	71,760

*Other includes window service, vehicle service, and other.

- b. The same distribution key is used to distribute costs to ounce increment for piece- and pound-rated pieces; see response to VP/USPS-T43-4b for distribution keys.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORY OF VAL-PAK DIRECT MARKETING SYSTEMS, INC. AND VAL-
PAK DEALERS' ASSOCIATION, INC. REDIRECTED FROM WITNESS HOPE**

- c. The same distribution keys are used to distribute costs to ounce increment for piece- and pound-rated pieces; see response to VP/USPS-T43-4b for distribution keys.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORY OF VAL-PAK DIRECT MARKETING SYSTEMS, INC. AND VAL-
PAK DEALERS' ASSOCIATION, INC. REDIRECTED FROM WITNESS HOPE**

VP/USPS-T31-39.

- e. In your computation of TYAR unit cost for letters, did you include any costs, including but not limited to city carrier and rural carrier costs, that were attributable to the handling of DALs?
- i. If not, please indicate how you excluded the volumes of DALs, and the associated costs thereof, from the city carrier and rural carrier database.
 - ii. If your computation of unit costs did include any costs that were attributable to DALs, please explain whether in your opinion the revenues in the denominator of your implicit coverage calculation for letters is fully consistent with the costs used in the denominator. That is, if the revenues from DAL mailings are never recorded as being from letters, why should any costs attributable to such mailings be distributed to and included in the unit cost of letters?
- f. In your computation of TYAR unit cost for letters, did the mail processing costs, and/or city carrier costs, and/or rural carrier costs include or exclude any costs from letter-shaped pieces that weighed more than 3.3 ounces?
- g. If your response to the preceding interrogatory is to the effect that you included any costs attributable to letter-shaped pieces that weighed more than 3.3 ounces, then please explain whether you consider the inclusion of such costs to be consistent with revenues in the numerator of your implicit coverage calculation; i.e., with revenues based only on letters that weighed less than 3.3 ounces.
- h. When you computed the TYAR unit cost for nonletters, did you include in those costs all mail processing costs, and/or all city carrier costs, and/or all rural carrier costs that were recorded as being attributable to the cost of handling DALs?
- i. If so, please indicate how you estimated the volumes of DALs, and the associated costs thereof, in the city carrier and rural carrier database, and transferred those costs from letters to nonletters. Also, please indicate the amount of the costs of DALs that you transferred from letters to nonletters.
 - ii. If your computation of unit costs for nonletters did not include any costs that were attributable to handling of DALs, please explain whether in your opinion the revenues in the numerator of your implicit coverage calculation for nonletters is fully consistent with the costs used in the denominator. That is, if all revenues derived from DAL mailings are recorded as being from nonletters, shouldn't all of the costs attributable to such mailings – including the costs of DALs – be distributed to nonletters?

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

RESPONSE:

- e.
- i. The costs and volumes used in the unit cost computations provided in VP/USPS-T31-8 are obtained from USPS-LR-J-58. The costs in USPS-LR-J-58 are based in part on the IOCS, CCS, and RCS cost systems. In IOCS, the costs for pieces associated with DALs are assigned to the shape of the associated piece. In the CCS system, DALs are generally assigned the letter shape (see witness Harahush's response to VP/USPS-T5-1a, VP/USPS-T5-7, and VP/USPS-T5-8b). In the RCS system, DALs are generally identified as "other letter" or "boxholder" (see witness Harahush's response to VP/USPS-T5-3c and VP/USPS-T5-8b). In the case of the CCS and RCS systems, the costs associated with DALs cannot be separately identified from other letter costs (see witness Harahush's response to VP/USPS-T43-11d, redirected from me). The volumes are obtained from the RPW system, which includes the volumes of the pieces associated with DALs, but does not include the number of DALs (see my response to VP/USPS-T43-11c).
 - ii. The costs in the denominator are consistent with the revenues in the numerator to the extent possible (i.e., where possible, the costs associated with DAL pieces are included under the shape of the associated piece).
- f. In my computation of the unit costs provided in the response to VP/USPS-T31-8, costs are provided by shape as given by the DMM definition. Therefore all costs for all letter-shaped pieces are incorporated into the computation of letter costs.

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

- g. The fact that costs for letters over 3.3 ounces are included in the calculation of letters unit costs in VP/USPS-T31-8, but revenues for letters over 3.3 ounces are included in the calculation of nonletters unit revenues does constitute an inconsistency in the data. However, as discussed by witness Hope in her response to VP/USPS-T31-39i, this inconsistency does not affect the implicit coverages reported in Table 3 of her testimony (USPS-T-31) at all, and does not substantially affect the implicit coverages reported in VP/USPS-T31-8.
- h. See the response to VP/USPS-T31-39e.

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

VP/USPS-T39-48.

Regarding flats which are identified as accompanying detached address labels:

- a. What is the average weight?
- b. What percentage of such flats weighs more than 3.5 ounces?
- c. What percentage of such flats weighs more than 3.0 ounces?

RESPONSE:

a. - c. To my knowledge there are no data available that provide the weight of all flats identified as accompanying detached address labels (DALs). In USPS-LR-J-58, volume and weight data are provided for all flats. These data are from the PERMIT system, which does not identify flats with DALs separately from flats without DALs.

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

VP/USPS-T39-49

Regarding parcels which are identifies as accompanying detached address labels:

- a. What is the average weight?
- b. What percentage of such parcels weighs more than 3.5 ounces?
- c. What percentage of such parcels weighs more than 3.0 ounces?

RESPONSE:

a. – c. To my knowledge there are no data available that provide the weight of all parcels identified as accompanying detached address labels. In USPS-LR-J-58, Spreadsheet ECR Parcels (detailed) in Workbook LR58AECR, I provide the volume and weight data for Standard ECR parcels, all of which must be accompanied by DALs (see witness Hope's response to VP/USPS-T31-12b). These data show that the average weight of all Standard ECR parcels is 0.22 pounds, 31.9 percent of all ECR parcels weigh more than 3.5 ounces, and 34.2 percent of all ECR parcels weigh more than 3.0 ounces. Volume and weight data for other parcels do not distinguish between those with and without DALs. The PERMIT system, which is the source of the volume and weight data in USPS-LR-J-58, does not distinguish parcels with or without DALs.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Schenk?

3 MR. COSTICH: Mr. Chairman, Rand Costich, OCA.

4 CHAIRMAN OMAS: Mr. Costich?

5 MR. COSTICH: I overlooked some redirected
6 interrogatories for this witness, and I'd like to designate
7 them now.

8 I'm going to hand the witness two copies of her
9 responses to Interrogatories OCA/USPS-T-39-5 through 7, and
10 I will ask her to examine those and indicate whether her
11 answers would be the same today.

12 THE WITNESS: Yes, they would.

13 MR. COSTICH: Mr. Chairman, I will hand the two
14 copies to the reporter and ask that they be admitted into
15 evidence and transcribed.

16 CHAIRMAN OMAS: Without objection. So Ordered.

17 (The documents referred to
18 were marked for identification
19 as Exhibit Nos.
20 OCA/USPS-T-39-5 through 7, and
21 were received in evidence.)

22 //

23 //

24 //

25 //

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS KINGSLEY**

OCA/USPS-T39-5. Please refer to LR58ASP.xls, sheet "volume&lbs."

- a. Please confirm that 74.99 percent of single-piece First-Class letter-shaped pieces weight 0.5 ounces or less. If you do not confirm, please explain.
- b. Please confirm that 19.93 percent of single-piece First-Class letter-shaped pieces weigh more than 0.5 ounce and less than or equal to 1.0 ounce. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed. Note that the letters volumes in the named spreadsheet do not include card volumes.
- b. Confirmed. Note that the letters volumes in the named spreadsheet do not include card volumes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS KINGSLEY**

OCA/USPS-T39-6. Please refer to LR58PRE.xls, sheet "volume&lbs."

- a. Please confirm that 38.01 percent of presorted First-Class letter-shaped pieces weigh 0.5 ounces or less. If you do not confirm, please explain.
- b. Please confirm that 59.30 percent of presorted First-Class letter-shaped pieces weigh more than 0.5 ounce and less than or equal to 1.0 ounce. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed. Note that the letters volumes in the named spreadsheet do not include card volumes.
- b. Confirmed. Note that the letters volumes in the named spreadsheet do not include card volumes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS KINGSLEY**

OCA/USPS-T39-7. Please refer to LR58AREG.xls, sheet "volume&lbs."

- a. Please confirm that 35.00 percent of Standard Regular letter-shaped pieces weigh 0.5 ounces or less. If you do not confirm, please explain.
- b. Please confirm that 48.48 percent of Standard Regular letter-shaped pieces weigh more than 0.5 ounce and less than or equal to 1.0 ounce. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed. Note that the letters volumes in the named spreadsheet do not include card volumes.
- b. Not confirmed. The percent of Standard Regular letter-shaped pieces that weigh more than 0.5 ounces and less than or equal to 1.0 ounce is 43.48 percent (18,288,904,399/42,061,307,618). Note that the letters volumes in the named spreadsheet do not include card volumes.

1 CHAIRMAN OMAS: That brings us to oral cross-
2 examination.

3 MR. MCLAUGHLIN: Mr. Chairman?

4 CHAIRMAN OMAS: Yes? I'm sorry.

5 MR. MCLAUGHLIN: Tom McLaughlin for Advo. We'd
6 like to designate an interrogatory we just received. It's a
7 response to Advo/USPS-T-43-1.

8 In addition, there were two others. I'm not
9 certain if these were incorporated into the record, in the
10 packet earlier. I didn't see them in designations. It was
11 VP/USPS-T-43-22 and 27. I'll double check those to see if
12 they're in the packet, but I know that the Advo
13 interrogatory is not there.

14 I'll show these to the witness right now.

15 CHAIRMAN OMAS: Thank you.

16 (Pause.)

17 MR. MCLAUGHLIN: Mr. Chairman, I did check, and
18 they do not appear to be in the packet.

19 I would ask the witness if her answers to these
20 interrogatories would be the same if she were asked orally
21 today?

22 THE WITNESS: Yes, they would.

23 MR. MCLAUGHLIN: Mr. Chairman, with that I will
24 supply two copies to the reporter and ask that these be
25 received into evidence and transcribed in the record.

1 CHAIRMAN OMAS: Without objection.

2 (The documents referred to
3 were marked for identification
4 as Exhibit Nos.
5 Advo/USPS-T-43-1 and
6 VP/USPS-T-43-22 and 27 and
7 were received in evidence.)

8 //

9 //

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF ADVO, INC.**

ADVO/USPS-T43-1. Please provide the mail processing (cost segment 3.1), window service (3.2), and in-office (6.1) data in USPS LR-J-58, spreadsheet LR58aecr_revised.xls, disaggregated by shape and density level. Provide also any supporting documentation, in electronic format, used to develop the disaggregation.

RESPONSE:

The disaggregated costs for mail processing are presented in Attachment A, window service in Attachment B, and in-office in Attachment C. Supporting documentation is provided in USPS-LR-J-198.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF ADVO, INC.

Attachment A – Provided in Response to ADVO/USPS-T43-1

**TY03 Mail Processing (Cost Segment 3.1) Costs (\$000) - Piggyback and Premium Pay Factors Applied
Standard ECR Mail (Regular and Nonprofit)**

	< 0.5 oz	0.5 - 1 oz	1 - 1.5 oz	1.5 - 2 oz	2 - 2.5 oz	2.5 - 3 oz	3 - 3.5 oz	3.5 - 4 oz	4 oz - 5 oz	5 oz - 6 oz	6 oz - 7 oz	7 oz - 8 oz
Basic												
-Letters	49,391	47,184	10,832	6,914	5,149	3,574	2,023	3,862	389	70	26	58
-Flats	18,125	41,390	36,072	35,215	30,227	28,094	36,487	38,354	16,311	11,354	6,928	7,856
-Parcels	1,206	1,933	1,301	1,318	790	2,162	3,099	5,072	1,682	884	1,520	4,076
Total Basic	68,722	90,507	48,206	43,447	36,166	33,830	41,609	47,289	18,382	12,308	8,475	11,990
Saturation												
-Letters	7,312	6,713	1,461	1,257	2,460	767	215	643	8	13	4	9
-Flats	2,670	2,725	5,147	4,751	3,355	888	3,223	3,577	752	806	2,251	980
-Parcels	824	2	1	0	0	1	0	1	0	455	0	651
Total Saturation	10,806	9,439	6,608	6,008	5,815	1,656	3,439	4,221	760	1,274	2,255	1,640
High Density												
-Letters	1,086	738	969	157	1	325	1	4	1	1	0	2
-Flats	684	214	1,620	1,239	822	354	3	671	387	480	192	142
-Parcels	0	0	0	0	0	0	0	0	0	0	0	0
Total High Density	1,770	952	2,589	1,396	823	679	4	674	388	480	192	144
Automation												
-Letters	14,728	14,206	2,869	1,952	114	651	189	1,116	11	16	6	14
-Flats	0	0	0	0	0	0	0	0	0	0	0	0
-Parcels	0	0	0	0	0	0	0	0	0	0	0	0
Total Automation	14,728	14,206	2,869	1,952	114	651	189	1,116	11	16	6	14
Total Standard ECR Mail												
-Letters	72,517	68,840	16,131	10,280	7,724	5,318	2,428	5,625	408	101	36	84
-Flats	21,479	44,330	42,839	41,204	34,404	29,337	39,713	42,601	17,451	12,639	9,371	8,978
-Parcels	2,030	1,935	1,302	1,318	790	2,162	3,099	5,073	1,682	1,339	1,521	4,726
Total	96,025	115,105	60,272	52,803	42,917	36,817	45,240	53,300	19,541	14,078	10,928	13,788

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF ADVO, INC.**

Attachment A – Provided in Response to ADVO/USPS-T43-1 (Continued)

**TY03 Mail Processing (Cost Segment 3.1) Costs (\$000) - Piggyback and Premium Pay Factors Applied
Standard ECR Mail (Regular and Nonprofit)**

	8 oz - 9 oz	9 oz - 10 oz	10 oz - 11 oz	11 oz - 12 oz	12 oz - 13 oz	13 oz - 14 oz	14 oz - 15 oz	15 oz - 16 oz	> 16 oz	Total
Basic										
-Letters	29	10	10	28	0	6	12	485	107	130,159
-Flats	2,510	2,322	2,451	2,575	2,115	1,105	2,009	3,389	292	325,181
-Parcels	1,561	524	656	478	984	1,368	906	2,849	225	34,594
Total Basic	4,100	2,857	3,117	3,080	3,099	2,479	2,926	6,722	624	489,933
Saturation										
-Letters	3	3	1	4	0	1	2	3	7	20,884
-Flats	3	5	285	3	0	1	2	169	21	31,613
-Parcels	0	0	0	0	0	0	0	149	0	2,085
Total Saturation	7	7	285	7	0	1	4	321	28	54,582
High Density										
-Letters	1	1	0	0	0	0	0	0	1	3,286
-Flats	512	1	139	1	0	253	0	1	6	7,720
-Parcels	0	0	0	0	0	0	0	0	0	0
Total High Density	513	2	139	1	0	253	0	1	6	11,006
Automation										
-Letters	7	2	3	7	0	1	4	13	14	35,925
-Flats	0	0	0	0	0	0	0	0	0	0
-Parcels	0	0	0	0	0	0	0	0	0	0
Total Automation	7	2	3	7	0	1	4	13	14	35,925
Total Standard ECR Mail										
-Letters	40	15	13	39	0	8	18	501	129	190,254
-Flats	3,025	2,328	2,874	2,578	2,115	1,359	2,011	3,558	319	364,513
-Parcels	1,561	525	656	478	984	1,368	906	2,998	225	36,679
Total	4,626	2,868	3,544	3,095	3,100	2,735	2,935	7,057	673	591,446

Attachment B – Provided in Response to ADVO/USPS-T43-1

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF ADVO, INC.**

**TY03 Window Service (Cost Segment 3.2) Costs (\$000) - Piggyback and Premium Pay Factors Applied
Standard ECR Mail (Regular and Nonprofit)**

	< 0.5 oz	0.5 - 1 oz	1 - 1.5 oz	1.5 - 2 oz	2 - 2.5 oz	2.5 - 3 oz	3 - 3.5 oz	3.5 - 4 oz	4 oz - 5 oz	5 oz - 6 oz	6 oz - 7 oz	7 oz - 8 oz
Basic												
-Letters	592	1,473	92	53	22	14	4	0	1	0	0	0
-Flats	62	365	189	441	182	209	393	727	304	150	79	40
-Parcels	0	0	0	0	0	1	0	0	0	0	0	0
Total Basic	654	1,838	281	494	205	224	397	728	305	150	79	40
Saturation												
-Letters	404	220	83	77	68	33	10	7	3	0	0	0
-Flats	36	128	621	238	319	190	73	73	359	109	43	20
-Parcels	0	0	0	0	0	0	0	0	0	0	0	0
Total Saturation	440	348	704	315	387	223	83	80	361	109	43	21
High Density												
-Letters	52	16	4	8	10	10	1	0	0	0	0	0
-Flats	3	11	20	30	35	29	14	10	26	25	17	10
-Parcels	0	0	0	0	0	0	0	0	0	0	0	0
Total High Density	55	27	24	38	45	39	15	11	27	25	17	10
Automation												
-Letters	181	555	44	13	6	12	8	0	0	0	0	0
-Flats	0	0	0	0	0	0	0	0	0	0	0	0
-Parcels	0	0	0	0	0	0	0	0	0	0	0	0
Total Automation	181	555	44	13	6	12	8	0	0	0	0	0
Total Standard ECR Mail												
-Letters	1,228	2,264	223	150	107	68	23	7	4	1	0	0
-Flats	102	505	830	709	536	428	480	811	689	284	138	71
-Parcels	0	0	0	0	0	1	0	0	0	0	0	0
Total	1,330	2,769	1,053	860	643	498	503	818	693	285	139	71

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF ADVO, INC.**

Attachment B – Provided in Response to ADVO/USPS-T43-1 (Continued)

**TY03 Window Service (Cost Segment 3.2) Costs (\$000) - Piggyback and Premium Pay Factors Applied
Standard ECR Mail (Regular and Nonprofit)**

	8 oz - 9 oz	9 oz - 10 oz	10 oz - 11 oz	11 oz - 12 oz	12 oz - 13 oz	13 oz - 14 oz	14 oz - 15 oz	15 oz - 16 oz	> 16 oz	Total
Basic										
-Letters	0	0	0	0	0	0	0	0	0	2,250
-Flats	30	15	8	10	4	3	1	2	0	3,214
-Parcels	0	0	0	0	0	0	0	0	0	2
Total Basic	30	15	8	10	4	3	1	2	0	5,466
Saturation										
-Letters	0	0	0	0	0	0	0	0	0	904
-Flats	7	4	2	1	0	0	0	0	0	2,225
-Parcels	0	0	0	0	0	0	0	0	0	1
Total Saturation	7	4	2	1	0	0	0	0	0	3,129
High Density										
-Letters	0	0	0	0	0	0	0	0	0	101
-Flats	6	4	2	1	1	0	0	0	0	246
-Parcels	0	0	0	0	0	0	0	0	0	0
Total High Density	6	4	2	1	1	0	0	0	0	347
Automation										
-Letters	0	0	0	0	0	0	0	0	0	820
-Flats	0	0	0	0	0	0	0	0	0	0
-Parcels	0	0	0	0	0	0	0	0	0	0
Total Automation	0	0	0	0	0	0	0	0	0	820
Total Standard ECR Mail										
-Letters	0	0	0	0	0	0	0	0	0	4,075
-Flats	43	22	11	12	5	3	2	2	0	5,684
-Parcels	0	0	0	0	0	0	0	0	0	3
Total	43	22	11	12	5	3	2	2	0	9,762

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF ADVO, INC.**

Attachment C – Provided in Response to ADVO/USPS-T43-1

**TY03 City Carriers (Cost Segment 6.1) Costs (\$000) - Piggyback and Premium Pay Factors Applied
Standard ECR Mail (Regular and Nonprofit)**

	< 0.5 oz	0.5 - 1 oz	1 - 1.5 oz	1.5 - 2 oz	2 - 2.5 oz	2.5 - 3 oz	3 - 3.5 oz	3.5 - 4 oz	4 oz - 5 oz	5 oz - 6 oz	6 oz - 7 oz	7 oz - 8 oz
Basic												
-Letters	45,467	32,147	10,151	2,708	2,803	1,559	1,786	617	600	506	0	168
-Flats	16,635	35,994	30,656	28,308	23,447	20,040	20,305	31,442	18,930	10,146	4,852	4,245
-Parcels	1,920	312	270	507	0	107	112	121	134	102	0	0
Total Basic	64,022	68,452	41,076	31,523	26,050	21,706	22,203	32,180	19,665	10,754	4,852	4,413
Saturation												
-Letters	24,147	5,829	2,161	1,581	814	757	297	103	282	0	103	96
-Flats	7,142	6,473	5,921	5,154	4,663	6,055	3,195	3,803	2,134	1,577	378	741
-Parcels	4,236	0	105	0	277	0	255	0	0	111	87	0
Total Saturation	35,526	12,301	8,187	6,735	5,754	6,811	3,747	3,905	2,416	1,688	568	837
High Density												
-Letters	4,531	1,701	518	530	258	147	0	0	0	0	0	0
-Flats	1,056	1,698	3,302	2,526	1,016	1,754	1,679	1,611	1,182	1,267	607	424
-Parcels	679	106	0	192	239	129	0	0	0	0	0	0
Total High Density	6,265	3,505	3,820	3,249	1,513	2,029	1,679	1,611	1,182	1,267	607	424
Automation												
-Letters	3,872	4,460	0	440	0	173	0	197	0	0	0	0
-Flats	0	0	0	0	0	0	0	0	0	0	0	0
-Parcels	0	0	0	0	0	0	0	0	0	0	0	0
Total Automation	3,872	4,460	0	440	0	173	0	197	0	0	0	0
Total Standard ECR Mail												
-Letters	78,017	44,137	12,830	5,259	3,675	2,635	2,084	917	882	506	103	264
-Flats	24,833	44,164	39,879	35,988	29,126	27,848	25,178	36,856	22,247	12,990	5,837	5,410
-Parcels	6,836	417	375	699	516	236	367	121	134	213	87	0
Total	109,685	88,718	53,084	41,946	33,317	30,719	27,629	37,893	23,263	13,709	6,027	5,673

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORY OF ADVO, INC.**

Attachment C – Provided in Response to ADVO/USPS-T43-1 (Continued)

**TY03 City Carriers (Cost Segment 6.1) Costs (\$000) - Piggyback and Premium Pay Factors Applied
Standard ECR Mail (Regular and Nonprofit)**

	8 oz - 9 oz	9 oz - 10 oz	10 oz - 11 oz	11 oz - 12 oz	12 oz - 13 oz	13 oz - 14 oz	14 oz - 15 oz	15 oz - 16 oz	> 16 oz	Total
Basic										
-Letters	0	0	0	0	0	0	0	0	0	98,312
-Flats	1,771	1,651	1,272	683	735	515	141	828	0	252,596
-Parcels	0	128	0	190	0	0	0	195	0	4,097
Total Basic	1,771	1,779	1,272	873	735	515	141	1,023	0	355,005
Saturation										
-Letters	0	0	0	0	0	0	0	0	0	36,170
-Flats	0	441	0	220	0	91	0	0	0	47,988
-Parcels	0	0	0	0	0	0	0	0	0	5,070
Total Saturation	0	441	0	220	0	91	0	0	0	89,228
High Density										
-Letters	0	0	0	88	0	0	0	0	0	7,773
-Flats	356	0	151	0	0	200	0	0	0	18,829
-Parcels	0	0	0	0	0	0	0	0	0	1,345
Total High Density	356	0	151	88	0	200	0	0	0	27,946
Automation										
-Letters	0	0	0	0	0	0	0	0	0	9,141
-Flats	0	0	0	0	0	0	0	0	0	0
-Parcels	0	0	0	0	0	0	0	0	0	0
Total Automation	0	0	0	0	0	0	0	0	0	9,141
Total Standard ECR Mail										
-Letters	0	0	0	88	0	0	0	0	0	151,396
-Flats	2,126	2,092	1,422	904	735	807	141	828	0	319,412
-Parcels	0	128	0	190	0	0	0	195	0	10,512
Total	2,126	2,220	1,422	1,182	735	807	141	1,023	0	481,320

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

VP/USPS-T43-22. Please refer to USPS-LR-J-117, spreadsheet LR-J-117, tab Rural Crosswalk. Row 70, column C, shows a total of 3,810,544 Standard ECR letters.

- a. Are these data for rural letters derived from the National Rural Mail Count? If not, from what data source are they derived?
- b. Does this total volume of rural letters include DALs? If not, please explain how DALs were excluded from the count. If so, are you able to estimate the number of DALs that are included in the total? If so, please explain how.

RESPONSE:

- a. No, these data for rural letters are derived from the Rural Carrier Costing System (RCCS).
- b. It is my understanding that these rural letter volumes include those DALs that were identified as being letter-shaped (i.e., those with specific addresses), but the information that would identify whether a letter-shaped piece is a DAL or not is not recorded in the RCCS.

**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-T43-27.

Please refer to your response to VP/USPS-T31-38 (redirected from witness Hope), as well as your response to VP/USPS-T43-26, regarding each of the different delivery costs that you provide for piece-rated and pound-rated pieces.

- a. For each total delivery cost which you have provided for piece-rated and pound-rated pieces below and above the 3.0 ounce dividing line, please provide a breakdown of those total delivery costs as between (i) in-office costs, and (ii) street time costs.
- b. For pound-rated pieces above the 3.0 ounce dividing line, do the street time costs contain costs attributable to handling detached address labels ("DALs") on the street (*i.e.*, for the portion of pound-rated pieces that were accompanied by a DAL)? Please explain why or why not.
- c. For piece-rated pieces below the 3.0 ounce dividing line, do the street time costs contain all costs attributable to handling DALs for Standard ECR Mail on the street? If so, please explain why all such costs should be attributed solely to piece-rated pieces. If not, please explain how you partitioned the street time costs attributable to Standard ECR DALs in a manner that would allow them to be distributed ratably between piece-rated and pound-rated pieces.
- d. Please provide the actual volumes that were used to convert total costs which you have provided into (i) unit mail processing costs above and below the 3.0 ounce dividing line, (ii) unit in-office delivery costs above and below the 3.0 ounce dividing line, and (iii) unit street-time costs above and below the 3.0 ounce dividing line.
- e. When you computed unit costs for (i) mail processing, (ii) in-office delivery, and (iii) street time, did you always use the same volumes, and did the sum of the volumes below and above the 3.0 ounce dividing line equal the total projected volumes for Standard ECR Mail in Test Year? If not, please explain the calculations that you performed.

RESPONSE:

- a. The requested breakdown is provided below. Rural carriers costs cannot be divided between in-office and street time but are included in the table so that the total delivery costs are shown to match those reported in the revised response to VP/USPS-T31-38.

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

	Standard ECR TY Total Costs (\$000)	
	3.0 Ounce dividing line	
	For Pieces Below 3.0 Ounces	For Pieces Above 3.0 Ounces
Delivery		
City Carrier In-Office	422,832	146,496
City Carrier Street Time	384,532	302,900
Rural Carrier	450,160	178,057
Total Delivery	1,257,523	627,453

- b. It is my understanding the DALs are recorded as letters in the carrier cost system (see witness Harahush's responses to VP/USPS-T5-7a, VP/USPS-T5-8b, and VP/USPS-T43-11b (redirected from me)). Street time carrier costs (i.e., cost segment 7) are distributed to weight increment using RPW volume or weight (see my response to VP/USPS-T43-4b). For mailpieces with accompanying DALs, RPW only records the volumes or weights of the accompanying mailpieces (see my response to VP/USPS-T43-11c). Therefore it is my understanding that some street-time costs reported for pound-rated pieces include costs associated with DALs.
- c. It is my understanding that some street-time costs reported for piece-rated pieces include costs associated with DALs (see response to b above).
- d. Unit mail processing costs, unit in-office delivery costs, and unit street-time costs are not provided in the responses to VP/USPS-T31-38 or VP/USPS-T43-26.

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

- e. Unit mail processing costs, unit in-office delivery costs, and unit street-time costs are not provided in the responses to VP/USPS-T31-38 or VP/USPS-T43-26.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination?

3 MR. COSTICH: Mr. Chairman?

4 CHAIRMAN OMAS: Yes?

5 MR. COSTICH: Rand Costich again. We still have
6 three interrogatories directed to this witness outstanding,
7 so we would just like to reserve the right to designate them
8 later if necessary and, heaven forbid, recall the witness.

9 CHAIRMAN OMAS: Without objection.

10 Mr. Hall?

11 MR. HALL: Thank you, Mr. Chairman. I have one
12 additional interrogatory response to designate. That's
13 MMA/USPS-T-43-20. I've handed two copies to the witness.

14 I will ask you, Ms. Schenk, if you were asked the
15 questions that appear in there would your answers be the
16 same as the ones that appear in your response?

17 THE WITNESS: In the copy you've handed me,
18 there's a page missing to my response. The responses to
19 parts B through G is missing.

20 MR. HALL: If we could have one second here?

21 (Pause.)

22 MR. HALL: I'm sorry. Did you say B through G?

23 THE WITNESS: Yes.

24 MR. HALL: Is that two pages that are missing
25 then?

1 THE WITNESS: No, only one page. Wait. I'm
2 sorry. It's in the wrong order. The response -- let's see.
3 I just think the pages are in the wrong order. Pages 2 and
4 3 are in the wrong order in this packet.

5 MR. HALL: Thank you. With that clarification,
6 would your answers be the same as appears in the package
7 there?

8 THE WITNESS: Yes, they would.

9 MR. HALL: I'll take the two copies and hand them
10 to the reporter.

11 CHAIRMAN OMAS: Would you like to enter them?

12 MR. HALL: Yes, please. If we could have those
13 entered? At the break, I will rearrange the pages for the
14 reporter.

15 CHAIRMAN OMAS: Without objection.

16 (The document referred to was
17 marked for identification as
18 Exhibit No. MMA/USPS-T-43-20
19 and was received in evidence.)

20 //

21 //

22 //

23 //

24 //

25 //

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

MMA/USPS-T43-20 Please refer to your response to Interrogatory MMA/USPS-T43-10. There you state that the implied DPS percentage for First-Class single piece letters is not available from your analysis of First-Class delivery costs as provided by Library Reference USPS-LR-J-117. Please refer also to worksheet "summary BY" of USPS-LR-J-117 (revised 11/20/01).

- A. Please confirm that in order to compute the presorted "DPS unit cost by solving equation" as shown in cell A32, you used the following equation:

$$\begin{aligned} A32 &= (C27 - (1-B29) \times A31) / B29 \\ &= (.0106 - (1 - .73693) \times .0265) / .736931 \\ &= .0050 \end{aligned}$$

If you cannot confirm, please provide the correct formula and computation.

- B. Please confirm that in the formula shown in Part A, the cells shown refer to the following information:

C27 = average presorted unit 6.1 cost = .0106

B29 = average presorted DPS percentage = 73.693%

A31 = nonDPS unit cost from [letters 93]H15 = .0265

If you cannot confirm, please provide corrections.

- C. Please confirm that for First-Class single piece letters, all of that same information is available from your analysis. For example, the following information is shown on that same worksheet:

C3 = average single piece unit 6.1 cost = .0202

[letters 93] H8 = nonDPS unit cost = .0255

A32 = DPS unit cost = .0050

If you cannot confirm, please explain. If you determine that the average DPS unit cost for presorted letters cannot be used as the DPS unit cost for single piece letters, please provide precisely your reasons and support for making such a conclusion.

- D. In you can confirm part C, please explain why the implicit single piece DPS percentage for the base year cannot be derived using the following equation:

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

$$\begin{aligned} \text{S.P. DPS\%} &= (\text{C3} - \text{A32}) / ([\text{letters 93}] \text{H8} - \text{A32}) \\ &= (.0222 - .0050) / (.0255 - .0050) \\ &= 73.87\% \end{aligned}$$

Where [letters 93]H8 is your nonDPS base year unit cost for single piece letters.

- E. Please explain why the test year implied DPS % for single piece letters, which yields a result of 68.86%, cannot be computed in the same manner.
- F. Please confirm that you derive the following nonDPS average unit base year costs for First-Class letters:
- Single Piece 2.55 Cents
- Presorted 2.65 Cents
- G. By comparing the two unit costs in Part F, is it possible to conclude that it costs the Postal Service .1 cents less to nonDPS process single piece letters than for presorted letters? Please explain how this is a valid comparison when, as you stated in response to Interrogatory MMA/USPS-T43-7, you do not know the actual volume of letters that incurred the nonDPS costs as shown in worksheet "letters 93".
- H. Please confirm that the two unit costs in Part F are not the unit costs incurred by nonDPS processing, but are the total nonDPS costs incurred divided by all letters, a significant unknown portion of which were delivered to post office boxes and did not cause those costs to be incurred. If you cannot confirm, please explain how all the total volumes shown in column 4 of worksheet "letters 93", including those delivered to post office boxes, caused the costs shown in columns 1-3 to be incurred.
- I. Please explain why the DPS unit costs for First-Class single piece letters and workshare letters, for those letters that are DPS sorted, should not be the same.
- J. Please explain why the nonDPS unit costs for First-Class single piece letters and workshare letters, for those letters that are nonDPS sorted, should not be the same.

RESPONSE:

- A. Not confirmed. The reference to C27 should be to C29, and the last number in the formula in line 2 is properly rounded to 0.73693, not 0.736931.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

- B. Not confirmed. The reference to C27 should be to C29.
- C. Not confirmed. The average single piece unit 6.1 cost and the nonDPS unit costs are available in USPS-LR-J-117 for First-Class Single-Piece letters. The DPS unit cost for First-Class Single-Piece letters is not available in my analysis. I am not aware of any analysis that specifically confirms or denies that the DPS unit costs for single-piece and workshare letters are the same. However, unless the physical and other characteristics of single-piece and presorted First-Class letters were identical, the assumption of identical DPS unit costs would not generally be warranted, *a priori*.
- D. Aside from the fact that I cannot confirm part C, there are also other errors in the equation presented in part D. The average single-piece unit 6.1 cost is 0.0202, not .0222 as indicated in the equation. Also, the formula is incorrect. Solving the equation in cell A32 of USPS-LR-J-117.xls, worksheet "summary BY" (and also given in part A above) for the percent of DPS ("B29" in the equation given in part A above), results in the following equation:

$$\text{S.P.DPS\%} = (\text{C3} - [\text{letters 93}]\text{H8}) / (\text{A32} - [\text{letters 93}]\text{H8})$$

- E. See the response to part C. above.
- F. Confirmed.
- G. See the response to MMA/USPS-T43-11C2.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION**

- H. Confirmed. It should be noted however that First-Class Single-Piece letters may still incur carrier in-office costs even if delivered to a post office box, in that they can incur collection costs. See the response to MMA/USPS-T43-1Q, MMA/USPS-T43-1U, and MMA/USPS-T43-4).
- I. See response to part C. above.
- J. For those letters that are nonDPS sorted, nonDPS unit carrier costs for First-Class single piece and workshare letters would not be the same, since other carrier costs, including but not limited to collection costs and costs related to pieces being undeliverable as addressed will vary between single piece and workshare letters. See my response to MMA/USPS-T43-1C.
-

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Schenk?

3 (No response.)

4 CHAIRMAN OMAS: There appears to be no more. That
5 brings us to oral cross-examination.

6 Five parties have requested oral cross-examination
7 of Witness Schenk, the Association for Postal Commerce,
8 Major Mailers Association, Newspapers Association of
9 America, Recording Industry of America, Val-Pak Direct
10 Marketing Systems, Inc., and Val-Pak Dealers Association,
11 Inc.

12 The Association for Postal Commerce, Mr. Wiggins?

13 (No response.)

14 CHAIRMAN OMAS: Major Mailers Association, Mr.
15 Hall?

16 MR. HALL: This isn't going very well so far.

17 CROSS-EXAMINATION

18 BY MR. HALL:

19 Q Good morning, Ms. Schenk.

20 A Good morning.

21 Q My name is Michael Hall, and I'm going to be
22 asking you questions on behalf of Major Mailers Association.

23 I will be asking you some questions about Library
24 Reference 117, which is entitled Development of Delivery
25 Costs by Rate Category for First Class and Standard, which

1 you are sponsoring, and, to further limit things for you, I
2 am interested in delivery costs for different types of first
3 class mail only.

4 Before we get started, did your counsel show you
5 some draft cross-examination exhibits that we e-mailed to
6 her yesterday?

7 A Yes, she did.

8 Q And you had an opportunity to look those over?

9 A Yes, I did.

10 Q I'd like to hand you a copy of that now and give
11 one to your counsel.

12 MS. MCKENZIE: Mr. Chairman, I'd like to note that
13 we only did receive these yesterday about midday, the cross-
14 examination exhibits. Pursuant to the Rules of Practice
15 31(e), we should have received them two calendar days ahead
16 of time.

17 However, to facilitate these proceedings we will
18 not object. The Postal Service will not object at this time
19 to some questions being asked, but since they do involve
20 four spreadsheets it may go beyond the ability of the
21 witness to answer with the limited time she had to review
22 these.

23 CHAIRMAN OMAS: We'll accept that. Thank you.

24 MR. HALL: At this time I would like to identify
25 the four exhibits for the record. I've handed two copies to

1 the reporter, one copy to the witness and one copy to her
2 counsel.

3 The first exhibit, which is marked Exhibit
4 MMA-X-1, is entitled Summary of FY 1993 Non-DPS City Carrier
5 Delivery Costs. Exhibit MMA-X-2 is entitled Derivation of
6 Average Delivery Costs for First Class Single Piece Letters
7 by Indicia. Exhibit MMA-X-3 is entitled Comparison of FY
8 1993 and BY 2000 First Class Letter Volumes. The final
9 exhibit, Exhibit MMA-X-4, is entitled Comparison of DPS and
10 Non-DPS Unit Costs.

11 (The documents referred to
12 were marked for identification
13 as Exhibit Nos. MMA-X-1
14 through 4.)

15 BY MR. HALL:

16 Q Ms. Schenk, to begin with I would like to get some
17 common understanding with you about certain definitions and
18 principles. First, the term DPS means delivery point
19 sequenced. Is that correct?

20 A Yes.

21 Q And two of the terms that we are going to be using
22 today are DPS letters, meaning letters that can be delivery
23 point sequenced, and non-DPS letters, which means letters
24 that cannot be delivery point sequenced. Is that correct?

25 A Yes.

1 Q So letters, single piece and pre-sort letters that
2 are DPS'd, are sorted to the delivery point using automated
3 equipment? Is that correct?

4 A Yes.

5 Q And single piece and pre-sort letters that are
6 non-DPS must be sorted manually, right?

7 A They would be sorted manually to the delivery
8 point, yes.

9 Q And is that true for city carriers?

10 A Yes.

11 Q And what about post office boxes?

12 A I'm not sure what question you're asking about
13 post office boxes.

14 Q Let me pass on. What about rural letters?

15 A That would be the case for rural letters, yes.

16 Q Are they DPS'd?

17 A I thought your question was that if they were
18 non-DPS that they would need to be manually sorted to
19 delivery point.

20 Q Right. Are rural letters DPS'd, or are they
21 non-DPS?

22 A It's my understanding that some rural letters are
23 DPS'd.

24 Q Do you have any idea what the proportions are?

25 A No.

1 Q And you're not aware of any study that's been done
2 of that?

3 A No.

4 Q Now, in general, manual processing is more
5 expensive than an automated processing. Isn't that right?

6 A Since the library reference I'm sponsoring deals
7 with delivery costs, I think that that's really beyond the
8 scope of my testimony.

9 Q But as a general matter, is that your
10 understanding?

11 A That's my understanding.

12 Q So the significance of DPS and non-DPS lies in the
13 extent to which different letters can be sequenced by
14 automation or manual operations? Is that right?

15 A I'm not sure what you're referring to when you say
16 the significance of it.

17 Q Once again, if it's DPS it gets automated
18 processing. Is that right?

19 A That's my understanding, yes.

20 Q Non-DPS gets a manual?

21 A It gets manually sorted to delivery point.

22 Q That's right. Now, DPS letters can be processed
23 by automation because they have a bar code. Is that right?

24 A I don't know all the -- I don't recall all the
25 rules about DPS. That's really beyond the scope of my

1 testimony. My library reference deals with delivery costs,
2 carrier costs, not with mail processing costs.

3 Q Isn't DPS part of delivery costs?

4 A The costs that I'm referring to in Library
5 Reference 117 are the costs of the carriers, the carrier
6 cost, not the mail processing cost.

7 Q So those carrier costs are going to be far lower
8 if the letters are DPS'd rather than if they can't be DPS'd.
9 Is that right?

10 A Which letters in particular are you referring to?

11 Q Let's start with pre-sort letters.

12 A If you hold all other factors constant, if you're
13 comparing the same letters, then, yes, letters that have
14 been delivery point sequenced would have in general lower
15 carrier costs.

16 Q And the same would be true of single piece
17 letters? Is that correct?

18 A Yes.

19 Q Now in terms of principles, would you agree that
20 if you're going to compare two things they must be
21 comparable? In other words, you don't want to end up
22 comparing apples to proverbial oranges, do you?

23 A I think in general that's preferable.

24 Q Okay. And that would also be true if you're going
25 to compare two things over time? You would want to know

1 that what you're comparing is comparable?

2 A Yes, to the degree that they can be.

3 Q Okay. Now let's go back to Library Reference 117
4 specifically. Is this basically the same study that was
5 done by USPS Witness Daniels in the last case?

6 A Yes. It is an update of that study.

7 Q So did you just take Ms. Daniels' study and change
8 figures that were appropriate to update it?

9 A In general, yes, that's what I did.

10 Q I've taken a look at Ms. Daniels' study in
11 R2000-1. That was Library Reference 95. Is that correct?

12 A Yes, that's correct.

13 Q Do you have your library reference in this case,
14 117?

15 A Yes, I do.

16 Q Could you look at the table marked Letters '93?

17 A I don't have all the spreadsheets with me. No. I
18 have the text with me, but I don't have all the workbooks
19 with me.

20 Q Well, maybe you can see this on what you have. Do
21 you see Footnote 9 and 10?

22 A No.

23 Q Footnote 9 says, "FY '98 wage rate." Is that
24 correct?

25 A I don't have it in front of me, so I can't confirm

1 or deny that.

2 Q Well, maybe you'll take my representation subject
3 to check that that's what it says. That's not really my
4 question. My question is is that what it should say?

5 A I guess I'd have to see the spreadsheet to see
6 what exactly that's referring to. I do believe, however,
7 that, and I'm trying to find them, there were some
8 interrogatory responses that I responded to that did address
9 the question.

10 There were a few headings and designations or
11 explanations of cells where we forgot to update the labeling
12 when we updated the numbers. I'm trying to find exactly if
13 the interrogatory responses would indicate that that's one
14 of the ones that we had to change, but --

15 Q I don't know. It may be. Another one could be on
16 that same spreadsheet, the heading for Columns 6 and 7. Is
17 that correct?

18 A Yes. If you look at Interrogatory MMA-T-43-3,
19 Part D, there I explain that the reference label was
20 inadvertently not updated; that those FY' 98 costs should
21 refer to base year 2000 costs.

22 Q And the FY '01 references?

23 A Should reference test year '03.

24 Q Okay. Now, you revised your library reference on
25 November 20?

1 A Yes.

2 Q But you didn't make that change?

3 A No. That revision was due to a change in one of
4 the inputs that we got from Witness Miller, and it flowed
5 through through the model. We didn't change the labeling on
6 that.

7 Q Okay. Are you going to?

8 A That's something we could do.

9 MR. HALL: Okay. Could I ask that it be done?

10 CHAIRMAN OMAS: Ms. McKenzie?

11 MS. MCKENZIE: That would be fine.

12 CHAIRMAN OMAS: Thank you.

13 BY MR. HALL:

14 Q If you look at the table marked Summary Base Year,
15 BY, at the bottom you have a code. Maybe you can't see it.
16 There is a code or a legend that tells you what is going on
17 in the various columns above.

18 The description for 6.1, Letters, says, "Based on
19 DPS calculations '93 versus BS '98." Are you telling me now
20 that should be changed as well?

21 A Yes. The data were updated. We inadvertently did
22 not update the labels.

23 Q Okay. Now, there is also worksheet in there
24 called DPS Key.

25 A Yes.

1 Q That was there? You just took Ms. Daniels' study?
2 You didn't use that key for anything, did you?

3 A No. I believe there was an interrogatory response
4 that also discussed that; that it's not used in this
5 analysis.

6 It was kept in the spreadsheet just to make -- to
7 show that we were using equivalent methods in general, so it
8 was left in. I don't know exactly which interrogatory that
9 was, but that issue was addressed in an interrogatory, I
10 believe.

11 Q Okay. I believe if you take a chance to review
12 it, you will not find an interrogatory response to that
13 effect.

14 In any event, that whole DPS key which was in
15 there you had to keep in there because if you had removed it
16 a bunch of your other formulas or numbers in your library
17 reference would have just zeroed out. Is that correct?

18 A It made it easier to update the study quickly. We
19 didn't have to change the formulas, but those numbers in
20 that spreadsheet do not affect any of the calculations.
21 They're not needed. It was just we were asked to do the
22 analysis at the last minute, so --

23 Q In other words, you were kind of rushed when you
24 did this?

25 A No.

1 Q You didn't want to spend the time doing it, so you
2 just did it quickly?

3 A We wanted to make sure we had the content
4 correctly. We weren't as concerned with how it looked. We
5 wanted the content to be correct.

6 Q Okay. Now I'd like to focus on one change you did
7 make from the Daniels study, Library Reference 95 in the
8 last case. You broke up first class non-automated letters
9 into eight categories. Is that right?

10 A Yes. That is one difference between the old
11 methodology and this one.

12 Q Ms. Daniels' methodology specifically just lumped
13 all eight of your categories into one that she called
14 non-auto pre-sort letters. Is that right?

15 A I believe that's correct, yes.

16 Q Now, when you first began the task of redoing Ms.
17 Daniels' study for this case, as I believe you've indicated,
18 you wanted to do it quickly. Did you first do what she had
19 done; namely derive the non-DPS average cost for FY '93 for
20 all pre-sorted letters?

21 A No.

22 Q What did you do?

23 A We were asked to provide the pre-sort letter
24 delivery cost by the categories that are shown in Library
25 Reference 117.

1 Q And who asked you to do that?

2 A The Postal Service.

3 Q Did they tell you why?

4 A It's our understanding that that's the way they
5 needed the data presented.

6 Q Who specifically asked you to do that?

7 A I believe it was the cost studies -- the special
8 studies group.

9 Q And was there a memorandum that came out?

10 A I don't believe so.

11 Q Just a directive? Whom did you speak to, and when
12 did you speak to them?

13 A I can't recall.

14 Q Who is on the group? Who did the group consist
15 of?

16 A I believe the group is managed by Virginia Mays.

17 Q So did you speak to Virginia Mays?

18 A Probably. I don't exactly recall.

19 Q Did you ask her why she wanted it that way?

20 A It is my understanding that that's the way they
21 wanted the data.

22 Q So you didn't ask why they wanted it that way?

23 A I don't recall asking, no.

24 Q So in other words, the breaking up of the
25 categories is not something that you're sponsoring in this

1 case?

2 A No. It's in the analysis that I'm sponsoring.

3 Q But the only reason you're doing it is because you
4 were told to do it? Is that a fair summary of your
5 testimony so far?

6 A It seemed like a reasonable request. I didn't see
7 any reason why it shouldn't be broken up.

8 Q But there was no affirmative reason given to you?
9 Is that correct?

10 A We are generally not asked to do things just to be
11 asked to do them. There is generally a reason to do an
12 analysis.

13 Q Okay. But you don't know what that reason was?

14 A I can't say.

15 Q And you don't know what it is?

16 A No.

17 Q Let's go back to what you did as you were getting
18 ready to break up the costs, the non-DPS costs, into these
19 various categories. Didn't you have to derive the non-DPS
20 average costs for FY '93?

21 A Yes. The non-DPS costs for FY '93 are developed
22 in Library Reference 117.

23 Q Then you derived a DPS unit cost for pre-sorted
24 letters using the DPS percentages that you obtained from
25 USPS witness Michael Miller. Is that correct?

1 A Could you repeat the question, please?

2 Q Did you derive a DPS unit cost for pre-sorted
3 letters using the DPS percentages that you obtained from
4 USPS witness Michael Miller?

5 A Yes.

6 Q Now, when you computed the non-DPS average cost
7 you didn't just find the average cost to sort a letter by
8 non-DPS or manually, did you?

9 A I'm sorry. Could you repeat the question?

10 Q Well, let me try to rephrase it into what I think
11 you did. You simply divided total non-DPS costs by the
12 total pre-sorted volume. Isn't that correct?

13 A The non-DPS unit cost was calculated by taking
14 total carrier cost in FY '93 and dividing by the total
15 volume.

16 Q So looking at MMA's first cross-examination
17 exhibit, MMA-X-1, I guess we're still talking about
18 pre-sorted letters. You used the approximately 25½ billion
19 letters in Column 2. Is that right?

20 A My --

21 Q I'm sorry. Twenty-nine and a half billion.

22 A Yes.

23 Q And for single piece letters you used the
24 approximately 50½ billion --

25 A Yes.

1 Q -- letter volume?

2 A Yes.

3 Q And when you did this, were you simply following
4 what Ms. Daniels had done in the last case?

5 A This is the same methodology that was done by
6 Witness Daniels. Yes.

7 Q Okay. So you didn't at that point think to wonder
8 if all of the letter volume that you were using there
9 actually incurred non-DPS costs, did you?

10 A At the time, it was my understanding that this was
11 the best volume data available to make this calculation.

12 Q But did you recognize at the time that that volume
13 included some volumes of letters that in fact didn't incur
14 delivery costs at all?

15 A Yes.

16 Q You're trying to look at just carrier costs,
17 right? Carrier delivery costs?

18 A Yes.

19 Q I'm sorry. City carrier costs. Is that correct?

20 A Yes.

21 Q But it also included other volumes for rural
22 letters? Isn't that correct?

23 A Yes, but at the time it was my understanding this
24 was the best data available to make this calculation.

25 Q Since that time, I guess the Postal Service has

1 filed a response to MMA's Institutional Interrogatory No. 3
2 and actually provided a breakdown of volumes for 1993. Is
3 that correct?

4 A Yes.

5 Q And did you assist in the preparation of the
6 response of that interrogatory?

7 A No.

8 Q But you have seen the interrogatory?

9 A Yes.

10 Q And reviewed it, and you understand it to be
11 accurate?

12 A I understand that that's the data that they found.
13 Yes.

14 Q So now you have better data? Would that be a fair
15 assessment?

16 A No.

17 Q Well, you certainly know that if you're trying to
18 get city carrier non-DPS letter costs that you have rural
19 letters that you could take out of that mix. Don't you know
20 that?

21 A I have not had a chance to review the FY '93 city
22 carrier volumes that they produced to know the reliability,
23 so I can't say that it's better data at this point. I have
24 not had a chance to study that.

25 Q Do you know who did prepare or compile that data?

1 A No. I believe it was presented as a library
2 reference and that the MMA Institutional Response 3 mentions
3 where that data comes -- the source of that data, but I
4 don't know who prepared that library reference.

5 Q Well, do you have any reason to think it isn't
6 accurate since it was produced by the same company, as it
7 were, that gave you the directions on how to break up
8 categories, for example?

9 A There could be reasons why data provided in FY '93
10 was perhaps less reliable. I don't know. I have not
11 studied it, so I can't say that it's more reliable or better
12 data than what I have available.

13 Q But again you have no reason to think that it
14 isn't?

15 A I don't know. I have not studied the data to see
16 whether it is or isn't.

17 Q Let's assume that it is because we don't have a
18 USPS institutional witness here to tell us that we've got
19 inaccurate data, and you can't tell us that. If this data
20 is accurate, you would agree, wouldn't you, that it would be
21 a better measure of non-DPS unit cost to remove, for
22 example, rural letters?

23 A If the data were accurate, reliable, it would be a
24 better way to estimate non-DPS city carrier costs to use the
25 city carrier volumes that were presented in MMA/USPS-3.

1 Q Would it also be true that it would be more
2 accurate to exclude volumes that were delivered to post
3 office boxes?

4 A If that data could be determined. I believe the
5 institutional response to MMA-3 said that they could not
6 find any estimates of FY '93 post office box volumes.

7 Q Let me refer you back to your own Library
8 Reference 117. Do you see the sheet Delivery Volumes?

9 A I don't have it in front of me. No.

10 Q Well, do you recall it?

11 A I recall it in general, yes.

12 Q Okay. Do you recall the fact that the term
13 implicit P.O. boxes or post office boxes volumes were
14 determined?

15 A Yes.

16 Q And could you describe that for me, please?

17 A In general, you can determine or you can estimate
18 the volumes of mail that are not delivered by rural or city
19 carriers by taking the total RPW volume and subtracting out
20 the city carrier volume and the rural carrier volume, as
21 long as you make sure to crosswalk the rural carrier volumes
22 to the DMM shapes.

23 Q When the crosswalk was done for that table, were
24 there significant differences that appeared in terms of the
25 definition of a letter?

1 A I don't recall that particular detail.

2 Q If we could go back now to Exhibit 1, but also
3 please keep your thumb on Exhibit 3 if you need to? There
4 you see in Column 3 we've replicated the way that you
5 calculated the average city carrier delivered costs.

6 A Column 3 in Exhibit 1?

7 Q Yes.

8 A Yes.

9 Q Okay. Now do you see Column 5 entitled Unit City
10 Carrier Delivery Cost per Delivered Letter?

11 A In Exhibit 1? Yes.

12 Q Okay. And do you understand that that's
13 calculated by taking the total delivery cost, which is the
14 same number that you used, but dividing by the fiscal year
15 1993 letter volume actually delivered by city carriers shown
16 in Column 4?

17 A Yes. It is divided by the letter volume that was
18 presented in MMA -- in the response to MMA-3. Yes.

19 Q Okay. Now, there's a difference of about is it
20 8/100ths of a cent that you come up with between single
21 piece letters and pre-sorted letters in Column 3. Am I
22 reading that right?

23 A Yes.

24 Q In other words, something very small, right?

25 A Yes.

1 Q And actually pre-sorted letters, according to you,
2 cost more? Is that right?

3 A Yes.

4 Q Okay. Done just using the city carrier volumes,
5 do you see that the difference between single piece letters
6 and pre-sorted letters is much larger? Do you know that
7 it's 1.6 cents?

8 A That's what this table shows. Yes.

9 Q Okay. As a general matter, you would say that
10 because we focused in on the volumes that actually incur the
11 costs that you're trying to measure that the calculation in
12 Column 5 is more accurate than the calculation that appears
13 in Column 3?

14 A Since I don't know the reliability of the FY '93
15 letter volume data that you present here, I can't say
16 whether it's more or less accurate than the analysis I've
17 presented previously.

18 Q Okay. But assuming that the Postal Service gave
19 us accurate data, then it would follow that the calculation
20 shown in Column 5 is more accurate, wouldn't it?

21 A Given the reliability of that data, that would
22 show the FY '93 unit city carrier costs per delivered
23 letter.

24 Q Was that a yes?

25 A Provided the data that's used there is accurate,

1 yes.

2 Q Now in your mind, what would account of a
3 difference of 1.6 cents?

4 I'm sorry. Before I go there, now the
5 relationship has flipped. It's now single piece letters
6 that are much more expensive than pre-sorted letters. Is
7 that right?

8 A In this hypothetical, yes.

9 Q Okay. I'm sorry. What is hypothetical?

10 A Well, I meant in your analysis that's what it
11 shows.

12 Q Okay. I mean, we're simply using numbers that you
13 gave us, total costs that you used yourself, so there's
14 nothing hypothetical about that.

15 A In 117, I did not use the data in Column 4.

16 Q I'm aware of that. In Column 1, my question went
17 to total delivery cost. You did use that?

18 A Yes.

19 Q Okay. And we've simply used in Column 4 volume
20 information provided by the Postal Service. Is that
21 correct?

22 A Yes.

23 Q And there's nothing hypothetical about that, is
24 there?

25 A I just meant to say that in your analysis, that

1 would be the case.

2 Q Okay.

3 A That's what this table shows. I'm not saying that
4 that's what I agree with.

5 Q Okay. In your mind, what would account for such a
6 substantial difference in non-DPS city carrier delivery
7 costs?

8 A I haven't -- this isn't an analysis that I'm
9 supporting, so I haven't really thought about that.

10 Q Okay. Let's take pre-sorted letters, okay, and
11 single piece letters. When they get down to the delivery
12 section, they all have bar codes on them, don't they?

13 A I don't know if that's true.

14 Q I'm sorry. I got confused myself here. We are in
15 a non-DPS or a manual environment, so there are no bar
16 codes, I believe.

17 Since both types of letters are being handled
18 manually, what would account for the different cost to
19 handle the different types of letters?

20 A As I said, this isn't my analysis so I haven't
21 really thought about what would cause these costs to be.
22 It's not my analysis.

23 Q Did you ask the same question of yourself with
24 respect to your analysis?

25 A When I looked at our numbers, the things that I

1 thought of was there are definitely different
2 characteristics of the pieces that could cause some
3 differences in the cost, one of them being the degree to
4 which pieces were undeliverable as addressed, but I haven't
5 thought about it in terms of your analysis.

6 Q Well, would you expect in terms of your analysis
7 UAA? Would you expect single piece letters to be more UAA
8 than pre-sorted letters?

9 A I don't know what degree they are or not.

10 Q Well, this is what you offered, UAA, as the
11 difference.

12 A I said that that was a factor that could cause a
13 difference.

14 Q Okay. Let's examine how it would impact the cost
15 of single piece and pre-sort letters. Would you tell me
16 how?

17 A If one type of mail tends to have more
18 undeliverable as addressed pieces than another type of mail,
19 then they would cause more carrier cost because the carriers
20 would have to do more. They'd have more workload associated
21 with those pieces.

22 Q And so you would expect single piece letters to
23 have more UAA than pre-sorted letters, wouldn't you?

24 A I don't think you can -- I have not seen any
25 evidence to say that that's true.

1 Q Are you aware of the Postal Service's move update
2 program and requirements?

3 A I'm generally aware of it.

4 Q Do you understand the purpose of the program to be
5 to reduce the amount of UAA mail?

6 A That's my understanding.

7 Q And is it also your understanding that the move
8 update requirements apply to pre-sorted letters?

9 A That's my understanding, yes.

10 Q Do you understand that it applies to single piece
11 letters?

12 A That's my understanding. Well, actually I'm not
13 sure. I know it applies to pre-sorted.

14 Q Let's assume that it doesn't apply to pre-sorted,
15 or maybe I'll just ask you to accept subject to check, I
16 mean, that it doesn't apply to single piece. Let me ask you
17 to accept that subject to check.

18 A Okay.

19 Q So then you would expect single piece to have a
20 higher proportion of UAA letters, right?

21 A Not necessarily.

22 Q And why would that be?

23 A One reason, and I'm sure there are a number of
24 factors. One factor would be that the pieces that are sent
25 single piece, perhaps the people are more aware of people

1 moving and so they have that information already, but that's
2 only one of the factors. I haven't really studied this
3 issue to know whether which one would be more affected.

4 Q Since you are an expert in delivery costs, can you
5 think of any other characteristics which might cause the
6 cost differential?

7 A One other factor would be collection costs.

8 Q Would you happen to know what collection costs
9 were in 1993?

10 A I don't recall that number offhand.

11 Q Well, would you accept subject to check
12 approximately .54 cents, a little over a half a cent?

13 A Is there a source that you're getting? I don't
14 know whether that's correct or not.

15 Q It's one of your interrogatory answers, and if you
16 have --

17 A Could you point that out to me?

18 Q Certainly. Your response to Interrogatory
19 MMA/USPS-T-43-6A.

20 A That was 6A, you said?

21 Q Yes. That provides the collection cost, the unit
22 collection cost, of .65 cents for the base year of 2000.
23 The .54 is simply reversing the factors that were taken to
24 gross up fiscal year 1993 costs to the base year.

25 A According to my copy of that response, excluding

1 collection costs, the base year 2000 unit cost was
2 calculated as 9.57 cents.

3 Q And didn't that come down from 10.22, leaving a
4 difference of .65?

5 A That did come down from 10.22, yes.

6 Q So then you would agree with the .65?

7 A I would agree with .65, yes. I thought before you
8 said .54.

9 Q I am asking you to accept subject to check that
10 that would be the equivalent collection cost in fiscal year
11 1993.

12 A I haven't done that calculation, but the base year
13 was .65.

14 Q I'm just asking you to accept it subject to check,
15 and I assume you'll do that. Would you also accept subject
16 to check that the collection cost would be .76 cents?

17 A I'm sorry?

18 Q .76 cents in the test year.

19 A For?

20 Q Collection costs.

21 A I'm sorry. I'm confused. I'm not sure which
22 number you're referring to when you say .76 cents.

23 Q I'm simply changing from the base year where
24 you've agreed that it's .65 cents.

25 A Uh-huh.

1 Q I'm increasing the cost to .76 cents for the test
2 year.

3 A Like I said, I haven't done that calculation. I
4 don't know if that's the correct one.

5 Q I'm just asking you to accept it subject to check.

6 CHAIRMAN OMAS: Mr. Hall, could you tell me how
7 much longer you have with this witness?

8 MR. HALL: Probably about another 15 or 20
9 minutes. Something like that.

10 CHAIRMAN OMAS: All right. Why don't we take a
11 midmorning break for about ten minutes, if that's all right
12 with counsel. We'll be back here at 11:15.

13 (Whereupon, a short recess was taken.)

14 CHAIRMAN OMAS: Mr. Hall, before you proceed may I
15 just make a general announcement to everyone here?

16 The court reporter would appreciate if you would
17 stop by and give her your card for those of you who are
18 orally cross-examining. Mr. McLaughlin, she would
19 appreciate your card as well.

20 Please be specific and clear. This is a new court
21 reporter, so she's not as familiar as some of those in the
22 past have been with us. I'd appreciate that, and I know she
23 would.

24 Mr. Hall?

25 THE WITNESS: Mr. Chairman?

1 MR. HALL: Thank you.

2 THE WITNESS: I wasn't sure. I thought there
3 might still be a question pending to me about whether I
4 would be willing to accept subject to check those numbers.
5 I wasn't sure.

6 CHAIRMAN OMAS: Okay.

7 MR. HALL: I believe I finished that one.

8 THE WITNESS: I'm not sure I answered the
9 question.

10 CHAIRMAN OMAS: Okay. Why don't you go back?
11 What question are you referring to Ms. Schenk, that you
12 didn't comment?

13 THE WITNESS: He wanted to know whether I was
14 willing to accept subject to check that the FY '03 unit
15 costs excluding collection costs were .76 cents.

16 MR. HALL: No. No. I was asking you to accept
17 subject to check that the FY 2003 collection costs were .76
18 cents.

19 THE WITNESS: Oh. No, I'm not willing to accept
20 that subject to check.

21 BY MR. HALL:

22 Q And would you tell me why?

23 A There's no -- I'm not sure where I'm supposed to
24 check to get that data. I'm not sure where the reference
25 data is. I don't do that calculation in my analysis, so I

1 don't know where to check to find that.

2 Q Don't you ratio things up based on the changes in
3 labor rates?

4 A I've ratioed other costs to get test year costs,
5 but I have not done this cost so I don't know what
6 calculations specifically you're asking me to check.

7 Q I'm simply asking you. You have a general
8 understanding of ratioing things up because that's what you
9 do with other costs, right?

10 A Yes.

11 Q So if we've applied the same ratioing method that
12 you've used for other costs but applied them to collection
13 costs, then I'm not sure why you can't --

14 MS. MCKENZIE: Mr. Chairman?

15 MR. HALL: -- accept that subject to check.

16 MS. MCKENZIE: Mr. Chairman?

17 CHAIRMAN OMAS: Yes?

18 MS. MCKENZIE: Mr. Hall, I am not quite sure
19 exactly what you're asking the witness to do. Subject to
20 check. You need to identify exactly what she's checking.
21 It's unclear to me, I'm afraid, and unclear to the record
22 and to Dr. Schenk where she's supposed to check in order to
23 confirm your number.

24 MR. HALL: She doesn't have to. Well, she can
25 check the mathematical calculation. She gave us the number

1 of .65 cents for the base year, so that's the starting
2 point. That's her number.

3 I'm simply asking her to use the same ratioing up
4 method between the base year and the test year to arrive at
5 what we believe is .76 cents.

6 MS. MCKENZIE: Mr. Chairman, if Mr. Hall would
7 like to put on a witness to that effect, you know, that
8 certainly could be within his client's case, but this goes
9 beyond what the subject to check is meant to cover.

10 MR. HALL: I don't understand the concept or the
11 difficulty. I mean, I can ask the witness if she
12 understands that collection costs, if she had a collection
13 cost of .65 in the base year, .65 cents in the base year, it
14 would be less in fiscal year 1993, wouldn't it?

15 THE WITNESS: I'm sorry. Could you repeat that?

16 BY MR. HALL:

17 Q If you have a unit collection cost of .65 cents --

18 A Yes?

19 Q -- in the base year, --

20 A Yes?

21 Q -- which is the number that you gave us.

22 A Yes.

23 Q Is that correct?

24 A Yes.

25 Q That's your number?

1 A Yes. That's provided in Interrogatory Response
2 MMA --

3 Q Is it your understanding that under the Postal
4 Service's methodology that that cost would be lower in
5 fiscal year 1993 and higher in the test year in this case?

6 A That is true. Under my understanding of the
7 methodology, that would be true.

8 Q And we can agree that you would get there by
9 ratioing? If we're going through the base year to the test
10 year, you would get there by ratioing up your .65 cents by
11 the factors generally applied to base year costs. Isn't
12 that right?

13 A Yes.

14 Q So I think for now we have an understanding that
15 we could use the .67 cents to discuss things, but --

16 A I can't say that that number is correct. I
17 haven't done -- that's not my calculation.

18 Q That's fine. We'll treat it as a hypothetical for
19 now, but certainly there's nothing hypothetical about the
20 .65 cents?

21 A That's true. That's in my interrogatory response
22 to MMA-T-43-6A.

23 Q Okay. Now, if the difference between single piece
24 letters and pre-sorted letters for the non-DPS city carrier
25 delivery cost is 1.6 cents and you've identified collection

1 costs as accounting for .65 cents, then that leaves
2 something approaching almost a cent for other factors.
3 Isn't that right?

4 A I wouldn't agree. I think we're putting apples
5 and oranges together there. The 1.6 cents that you have in
6 your Exhibit 1 was for FY '93 data. The .65 cents that I've
7 indicated in my interrogatory response to MMA-T-43-6A is for
8 base year 2000.

9 Q You're absolutely right. So hypothetically if the
10 correct number for 1993 were the .54 cents that we discussed
11 earlier, then the difference would in fact be over a penny,
12 wouldn't it?

13 When I say difference, I mean the difference
14 between single piece and pre-sorted letters in terms of what
15 other factors could possibly account for that cost
16 difference.

17 A I would agree that the difference between single
18 piece and pre-sort letters that you show on Exhibit 1 for
19 unit city carrier in-office costs for non-DPS is 1.6 and
20 given your hypothetical that the collection costs are .54
21 that that difference is more than one cent.

22 Q Okay. As an expert in delivery costs, what other
23 factors would account for that difference?

24 A As I said before, one other factor that would
25 account for that difference would be undeliverable as

1 addressed related workload. I can't say offhand what other
2 factors would be, but that would be another one.

3 Q Could work sharing account for some portion of
4 that difference?

5 A In what? I'm not sure. In the city carrier
6 in-office costs?

7 Q Yes.

8 A I'm not sure if that's really a factor here.

9 Q So you're telling me you don't know if work
10 sharing could be one of the factors?

11 A I don't know.

12 Q Okay. And you haven't studied it?

13 A No.

14 Q Okay. Let me just ask you sort of as a matter of
15 theory. Shouldn't the actual unit non-DPS cost be similar
16 whether or not a letter is pre-sorted?

17 A For the city carrier in-office costs, yes.

18 Q Actually, let me show you a copy, if I may, of a
19 response that was made by USPS Witness Meehan to an
20 interrogatory request, MMA/USPS-T-43-18. It was redirected
21 by you to her.

22 (Pause.)

23 A Yes.

24 Q You've had an opportunity to review that. Does
25 that response indicate to you that -- by the way, Witness

1 Meehan is a costing witness, right?

2 A It's my understanding she's a base year cost
3 witness, yes.

4 Q Is what she's saying there basically that you
5 can't get collection costs?

6 A What she states in her response is that total
7 collection costs incurred by the Postal Service are not
8 available.

9 Q Right. Did you have to use total collection costs
10 in determining your .65 cent unit collection cost for the
11 base here?

12 A My calculation there was referring to carrier
13 cost. Not total cost.

14 Q What's the difference?

15 A My understanding from Witness Meehan's response to
16 Interrogatory 18C is that total collection costs include
17 various non-carrier costs, including vehicle service costs,
18 contract driver costs and some acceptance costs.

19 Q Okay. So in contrast to Witness Meehan, you've
20 simply focused on carrier costs?

21 A Yes.

22 Q Okay. Thank you. Now could you please turn to
23 your response to Interrogatory MMA/USPS-T-43-11C(3)? Do you
24 have that response before you?

25 A I do.

1 Q You say in part that the referenced costs,
2 specifically city carrier costs, the Library Reference 117
3 non-DPS cost calculations, assume that the percentage of
4 letters delivered on city delivery routes remains constant.
5 Is that correct?

6 A Yes.

7 Q Now if you could look at Exhibit MMA-X-3, please?

8 A Yes. I have that.

9 (Pause)

10 Q Looking at the percentages in columns five, six
11 and seven, can you tell me what you mean by "remains
12 constant"?

13 A What I meant in the interrogatory response is that
14 given that these are, comes from statistical data systems
15 that statistically speaking that the percentage of letters
16 delivered on city delivery routes remain statistically
17 constant. That is constant with -- You know, that's what I
18 said in my response.

19 Q Statistically?

20 A These volume data come from statistical sampling
21 systems. There's going to be some variability. With that
22 kept in mind, that my calculations assume that the
23 percentage of letters delivered on city delivery routes
24 remains constant.

25 Q So actually when you answered this question did

1 you have the breakdown of fiscal year 1993 volumes?

2 A No.

3 Q So then what you were really talking about in your
4 response was that, for example, the first class single piece
5 total letter volume of 50 million would remain fairly
6 constant. Is that right?

7 A I was referring to the percentage of letters, not
8 the volume of letters. In my response.

9 Q But what percentage were you talking about?

10 A The percentage of letters delivered on city
11 delivery routes.

12 Q So without having the actual volumes how would you
13 know that that was the case?

14 A That's why I said that I assumed that was the
15 case.

16 Q Now you have the actual percentages shown here.
17 Do they remain constant?

18 A I don't have the variabilities for these numbers
19 from the data so I don't know whether the changes that you
20 show on this exhibit from FY93 to base year 2000 for city
21 letters, whether those percentages show constancy or not. I
22 don't have enough information in this exhibit to determine
23 that.

24 Q Let me focus on first class pre-sort in 1993 of 76
25 percent versus for the same type of letter in base year

1 2000, 64 percent. Is that a statistically significant
2 variation?

3 A I don't know. I don't have enough information.

4 Q You did have the total letter volume of about 29.5
5 billion versus almost 45 billion in the base year, didn't
6 you?

7 A Those numbers are for FY93.

8 Q FY93 is --

9 A Oh, it's the 29 --

10 Q -- first class pre-sort.

11 A Yes.

12 Q Just so the record is clear, first class pre-sort
13 in 1993 was approximately 29.5 billion letters and for base
14 year the equivalent number is almost 45 billion letters. Is
15 that correct?

16 A Yes.

17 Q Would you expect with that kind of growth in
18 volume that the percentages on city, delivered on city
19 carrier routes would remain constant?

20 A That depends on what's happening with volumes in
21 the other categories.

22 Q So wouldn't you be sort of on notice to be
23 checking those things?

24 A I don't see that I needed to do that for my
25 analysis, no.

1 Q That's because you were just doing what Witness
2 Daniel did?

3 A No. It's a reasonable assumption to make.

4 Q But you didn't even have to reach that assumption
5 because you simply used total letters, right?

6 A Yes.

7 Q So you never looked beyond total letters.

8 A No. As far as I was aware, the data were not
9 available for '93 when I did the analysis for city carrier
10 letters.

11 Q But now we have the data.

12 A Yes.

13 Q Could you turn to Cross-Examination Exhibit MMA-X-
14 4, please?

15 (Pause)

16 A I have that.

17 Q There at the top in columns one through six we
18 have tabulated your non-DPS and DPS average costs for fiscal
19 year 1993, base year 2000 and test year 2003. Do you see
20 that?

21 A Yes.

22 Q And we've also added your DPS percentages, is that
23 correct?

24 A Yes.

25 Q On the bottom half in columns seven through 12 we

1 have tabulated the non-DPS and DPS unit costs, had you used
2 city carrier volumes rather than total volumes. Is that
3 correct?

4 A That's what the table is labeled, yes. I have not
5 had a chance to check all of these numbers.

6 Q Looking at the table, if you had used city carrier
7 volumes rather than total volumes the unit DPS costs
8 calculated and shown in column 11, I'm sorry, would be as
9 shown in column 11. Is that right?

10 A I have not had a chance to check those numbers. I
11 don't know if that's correct.

12 Q We've already discussed the non-DPS unit costs.
13 This time I'd like to have you focus on DPS unit costs.

14 You show that such costs are half a cent per piece
15 in both the base and test years, is that right?

16 A I believe that's correct, yes.

17 Q Does that mean that it costs the Postal Service
18 half a cent on average in order to DPS one extra letter that
19 goes through the delivery point sequencing operation?

20 A As you recall, these are carrier costs, not mail
21 processing costs. So this is the cost to a carrier of
22 processing a letter that went through DPS.

23 Q So with that amendment, is what I said correct?

24 A Could you repeat the question?

25 Q Does that mean that it costs the Postal Service

1 half a cent in order to delivery point sequence -- I'm
2 sorry. For the carrier to do a DPS sort for one additional
3 letter that goes through the DPS operation.

4 A The city carrier and office cost for letters that
5 were DPS'd is .5. That's what those costs are. City
6 carrier and office costs for letters that were DPS'd.

7 Q In terms of your methodology, does this in fact
8 mean that it really costs half a cent on average for a
9 theoretical letter which partially incurs a DPS sort,
10 partially incurs no DPS cost because it is delivered by a
11 rural carrier, and partially incurs no DPS cost because it
12 is delivered to a post office box?

13 A I'm sorry, I don't understand -- Could you repeat
14 the question?

15 Q Aren't we getting into the same question, the cost
16 that you have there reflects, once again it reflects rural
17 volumes, rural carrier delivery volumes. Doesn't it?

18 A Since the calculation of the DPS unit cost does
19 involve the non-DPS unit costs, that yes, in part, to some
20 degree there are rural volumes involved in those
21 calculations. Yes.

22 Q And there are also volumes that are delivered to
23 post office boxes, isn't that right?

24 A Yes.

25 Q And those, we've agreed, don't incur delivery

1 costs, right?

2 A Yes.

3 Q Back to sort of a theoretical conceptual question
4 here. In terms of DPS unit costs, should there be a
5 difference in the costs between pre-sort and single piece
6 letters?

7 A Yes, there are factors that would cause a
8 difference between the DPS, city carrier -- the city carrier
9 and office costs for letters that were DPS'd, depending on
10 whether they were pre-sorted or single piece.

11 Q What are those factors?

12 A As I mentioned before, some of the other factors
13 that affect carrier costs are whether the piece is
14 undeliverable as addressed, as well as collection costs.

15 Q What about work sharing? Does that account for
16 any difference?

17 A Work sharing will affect the DPS unit costs, yes.
18 The DPS unit carrier costs.

19 Q Could you turn now to Cross-Examination Exhibit
20 MMA-X-2?

21 (Pause)

22 A I have that.

23 Q Does your copy have a little handwriting where a
24 number should be?

25 A It has a number written in hand for the 7.1 cost

1 for test year '03 for first class single piece letters.

2 Q Okay. For which I apologize.

3 In any event, do you recognize this as information
4 you supplied in response to interrogatory MMA/USPS-T-43-13A?

5 A I said I did not have time to verify that these
6 numbers were in Library Reference 191.

7 Q Okay. Let's assume that they are. Do you see the
8 column marked 7.4 costs?

9 A Yes, I do.

10 Q Shouldn't the distribution key for that column be
11 the sum of 6.1 through 7.3?

12 A Yes, I believe that's the case.

13 Q And is it?

14 (Pause)

15 Q If you could look down at the formulas used for
16 the 7.4 costs.

17 A I see that.

18 Q So is the distribution key the sum of 6.1 through
19 7.3?

20 A I don't have the actual spreadsheet in front of me
21 so I can't see how the numbers were actually calculated.

22 Q Could you correct the formula if it's wrong?

23 A I can check to see what the formula is, yes.

24 Q And correct the Library Reference if it's not
25 correct.

1 A Yes.

2 MS. MCKENZIE: The Postal Service can do that.

3 CHAIRMAN OMAS: All right. Thank you.

4 BY MR. HALL:

5 Q Would you turn to your response to MMA

6 Interrogatory 13B?

7 (Pause)

8 A I have that.

9 Q There you agreed that the unit costs for BMM, bulk
10 metered mail, of 4.066 cents was almost two cents less than
11 the unit delivery cost per single piece metered letters of
12 5.92 cents, is that correct?

13 A Yes.

14 Q Let me ask you first, when your data shows that
15 BMM costs almost two cents less than single piece metered
16 letters do you assume that each BMM letter and the single
17 piece metered letters are delivered using the same modes of
18 delivery?

19 A I don't do any analysis on BMM letters. That's
20 outside the scope of my testimony.

21 Q Didn't you develop the mixed AADC which is what
22 the Postal Service is using as a proxy --

23 A Yes.

24 Q -- for bulk metered mail?

25 A Yes.

1 Q So can you answer the question? Do you want me to
2 repeat it?

3 A Yes, please.

4 Q Do you assume when your data shows that BMM costs
5 almost two cents less than single piece metered letters, do
6 you assume that each BMM letter and the single piece metered
7 letters are delivered using the same modes of delivery?

8 In other words, wouldn't they have the same
9 percentage of total volume delivered by rural carriers, the
10 volume delivered by city carriers, and the volume delivered
11 to post office boxes?

12 A I don't have any information that shows the
13 percent by delivery method for machinable non-automation
14 mixed AADC first class pre-sort letters. That information
15 is not available to my understanding.

16 Q Then how did you figure out that one cost two
17 cents less than the other?

18 A You don't need those percentages to calculate
19 those costs.

20 Q But the costs are dependent upon the number of
21 pieces delivered by the carriers, aren't they?

22 A Yes.

23 Q So wouldn't they have the same percentages of
24 total volume delivered by rural carriers, city carriers, and
25 to post offices? Post office boxes?

1 A Not necessarily.

2 Q Why is that?

3 A One reason is metered letters, all metered letters
4 include both single piece and pre-sort letters, whereas BMM,
5 as far as Witness Miller has defined it, he's using it as a
6 proxy for his carrier costs, the machinable non-automation
7 mixed AADC first class pre-sort letters.

8 Q Perhaps you misunderstood. I said single piece
9 metered letters.

10 A Oh, I'm sorry. So what's the question?

11 Q Again, when your data shows that BMM costs almost
12 two cents less than single piece metered letters, do you
13 assume that BMM letters and single piece metered letters are
14 delivered using the same modes of delivery?

15 A Actually, I don't assume that the cost for BMM is
16 two cents less than single piece metered letters. It's two
17 cents less than the cost for all metered letters.

18 Q So?

19 A I'm sorry, your question was about single piece.
20 It's two cents less for all metered letters.

21 Q When you say that BMM costs almost two cents less
22 than single piece metered letters, what exactly are you
23 comparing in order to conclude that one costs almost two
24 cents less than the other?

25 A I looked at the unit delivery cost for metered

1 letters versus machinable amount automation mixed AADC first
2 class pre-sort letters.

3 MS. MCKENZIE: Mr. Chairman, if I may.

4 Mr. Hall, where are you saying in an interrogatory
5 response that she said BMM letters are two cents less?

6 MR. HALL: I think they're on 13B.

7 MS. MCKENZIE: I believe 13B says that mixed AADC
8 can be a proxy, but she's not making any statements with
9 respect to BMM, and I wanted to make sure that that was
10 clear for the record.

11 BY MR. HALL:

12 Q Is what your counsel is saying your understanding?

13 A Yes. I thought I made that clear in my responses,
14 that I was saying that what the difference between the
15 metered costs and the costs for machinable, non-automation
16 mixed AADC first class pre-sort letters.

17 My testimony does not determine what the proxy for
18 BMM letters is. That's outside the scope of my testimony.

19 Q Within the scope of your testimony, what accounts
20 for the two cents difference?

21 A I have not studied BMM letters. It's outside the
22 scope of my testimony. I don't know what causes that
23 difference.

24 Q With what you did measure, you measured mixed
25 AADC, right?

1 A Right.

2 Q So what causes the two cent difference?

3 A There are a number of factors that, as I've said
4 before, that could affect the delivery or carrier costs
5 between single piece letters and pre-sort letters.

6 Q And the number of city carrier delivered letters
7 is one of the factors, right?

8 A That's true.

9 Q Don't your unit delivery costs assume, for
10 example, that the percentage of single piece metered letters
11 delivered by city carriers decreased from 47 percent in
12 fiscal year 1993 to 45 percent in base year 2000 while the
13 percentage of BMM letters delivered by city carriers
14 decreased from 76 percent in fiscal year '93 to 64 percent
15 in base year 2000?

16 You can refer to Exhibit MMA-X-3.

17 (Pause)

18 A Those changes that you note in your Exhibit 3 are
19 the actual changes. I did not have the FY93 data for city
20 carrier letters when I developed this analysis, so I did not
21 assume that particular number.

22 Q So you didn't know what they were, right?

23 A For FY93, yes.

24 MR. HALL: Those conclude all my questions. I
25 would mention at this time, first I would like to move

1 admission of Exhibits MMA-X-1 through X-4.

2 (The document referred to was
3 marked for identification as
4 Exhibit Nos. MMA-X-1 through
5 X-4 and was received in
6 evidence.)

7 //

8 //

9 //

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

Summary of FY 1993 NonDPS City Carrier Delivery Costs
 (000's Except Unit Costs)

	[1]	[2]	[3]	[4]	[5]
First-Class Category	Total Delivery Cost	FY 93 Letter Volume	Average City Carrier Delivery Cost (Cents)	FY 93 Letter Volume Delivered by City Carriers	Unit City Carrier Delivery Cost Per Delivered Letter (Cents)
Single Piece Letters	1,076,586	50,443,703	2.13	23,815,756	4.52
Presorted Letters	652,975	29,486,424	2.21	22,324,833	2.92
Total Letters	1,729,560	79,930,127	2.16	46,140,589	3.75
Source	USPS-LR-J-117 "letters 93"	USPS-LR-J-117 "letters 93"	$[1] / [2] * 100$	MMA/USPS-3	$[1] / [4] * 100$

Derivation of Average Delivery Costs for First-Class Single Piece Letters By Indicia
(000's Except for Unit Costs)

BY00 Costs	6.1 Unit Cost	6.1 Costs	6.2 Costs	7.1 Costs	7.2 Costs	7.3 Costs	7.4 Costs	10 Costs	Total Piggybacked Costs	Permit Volume	City Carrier Unit Cost	Rural Carrier Unit Cost	Total Unit Cost
Single-Piece Letters Stamped	0.0200	509,820	92,809	3,779	47,569	98,315	116,534	140,062	1,346,901	25,512,201	0.0460	0.0068	0.0528
Single-Piece Letters Metered	0.0195	363,250	66,127	2,754	34,668	71,651	84,929	102,076	968,353	18,593,167	0.0453	0.0068	0.0521
Single-Piece Letters Other	0.0258	75,390	13,724	434	5,459	11,282	13,373	16,073	181,530	2,927,737	0.0552	0.0068	0.0620
First-Class Single-Piece Letters B	0.0202	948,459	172,660	6,967	87,697	181,249	214,837	258,211	2,496,784	47,033,105	0.0463	0.0068	0.0531

TY03 Costs	6.1 Unit Cost	6.1 Costs	6.2 Costs	7.1 Costs	7.2 Costs	7.3 Costs	7.4 Costs	10 Costs	Total Piggybacked Costs	Permit Volume	City Carrier Unit Cost	Rural Carrier Unit Cost	Total Unit Cost
Single-Piece Letters Stamped	0.0220	514,278	98,007	4,068	50,115	103,818	123,017	144,966	1,401,025	23,334,537	0.0523	0.0077	0.0600
Single-Piece Letters Metered	0.0215	366,426	69,831	2,965	36,524	75,662	89,654	105,650	1,007,436	17,006,096	0.0515	0.0077	0.0592
Single-Piece Letters Other	0.0284	76,049	14,493	467	5,751	11,914	14,117	16,636	188,477	2,677,832	0.0626	0.0077	0.0704
First-Class Single-Piece Letters T	0.0222	956,753	182,331	7497 #####	92,390	191,394	226,789	267,252	2596937.888	43,018,465	0.0526	0.0077	0.0604

Source: USPS-LR-J-191

	Rate Category	Formulas Used For 7.4 Costs
6.1 for letters based on DPS calculations (93 vs. 98)		
6.1 for flats based on LIOCATT 98		
6.1 for ECR based on LIOCATT		
6.2 distributed in proportion to 6.1		
7.1 distributed on basis of volume		
7.2 distributed on basis of volume		
7.3 distributed to shape by elemental load key, then by volume within rate category		
7.4 distributed in proportion to sum of 6.1 through 7.3 costs		
10 distributed to shape by rural key, then by dps% rate category		
	Base Year:	
	Single-Piece Letters Stamped	K5/K9*H9
	Single-Piece Letters Metered	K6/K9*H9
	Single-Piece Letters Other	K7/K9*H9
	Test Year:	
	Single-Piece Letters Stamped	H19*H5/H9
	Single-Piece Letters Metered	H19*H6/H9
	Single-Piece Letters Other	H19*H7/H9

Comparison of FY 1993 and BY 2000 First-Class Letter Volumes
(000's)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Rate Category	Rural Letters	City Car Letters	Total Letters	Implicit P.O. Boxes	Rural Letters % of Total	City Letters % of Total	Implicit P.O. % of Total
<u>FY 1993:</u>							
First-Class Single-Piece	3,204,542	23,815,756	50,443,703	23,423,405	6%	47%	46%
First-Class Presort	3,113,859	22,324,833	29,486,424	4,047,732	11%	76%	14%
Total	6,318,401	46,140,589	79,930,127	27,471,137	8%	58%	34%
<u>BY 2000:</u>							
First-Class Single-Piece	10,384,160	21,308,674	47,033,105	15,505,959	22%	45%	33%
First-Class Presort	10,304,441	28,757,969	44,931,629	5,972,717	23%	64%	13%
Total	20,688,601	50,066,643	91,964,734	21,478,675	22%	54%	23%

Sources:

For FY 1993 Volumes, Response to MMA/USPS-3

For BY 2000 Volumes, USPS-LR-J-117 worksheet "Delivery Volumes"

Comparison of DPS and nonDPS Unit Costs
(Cents)

Derivation of DPS and nonDPS Average Costs Using Total Volumes

	[1]	[2]	[3]	[4]	[5]	[6]
Time Period	Single Pc Avg NonDPS Cost	Single Piece Avg DPS Cost	Single Piece Avg DPS %	Presorted Non DPS Cost	Presorted DPS Cost	Presorted Avg DPS %
FY 1993	2.13	NA	NA	2.21	NA	NA
BY 2000	2.55	NA	NA	2.65	0.50	73.69%
TY 2003	3.00	NA	NA	3.11	0.50	73.68%

Source: USPS-LR-J-117, worksheets "summary BY", "summaryTY" and "letters 93"

Derivation of DPS and nonDPS Unit Costs Using City Carrier Volumes

	[7]	[8]	[9]	[10]	[11]	[12]
Time Period	Single Pc Avg NonDPS Cost	Single Piece Avg DPS Cost	Single Piece Avg DPS %	Presorted Non DPS Cost	Presorted DPS Cost	Presorted Avg DPS %
FY 1993	4.52	NA	NA	2.92	NA	NA
BY 2000	5.41	NA	NA	3.50	0.19	73.69%
TY 2003	6.36	NA	NA	4.11	0.15	73.68%

Source: USPS-LR-J-117, worksheets "summary BY", "summaryTY" and "letters 93"
but substitute city carrier volume for total volume on "letters 93"

FY 93 Volumes	Total Volume	City Car Volume	% of Total Volume
Single Pc	50,443,703	23,815,756	47%
Presorted	29,486,424	22,324,833	76%

1 MS. MCKENZIE: The Postal Service objects, Mr.
2 Chairman. He hasn't laid the appropriate foundation.

3 Dr. Schenk has had a number of problems with the
4 data that is presented there so there is no foundation yet
5 laid for its entry into evidence.

6 Mr. Chairman, if it would help, it would be fine
7 to help clarify the record if these exhibits were attached
8 to the transcript so that the record could be clear. We
9 just object to the admission of them into the evidentiary
10 record.

11 CHAIRMAN OMAS: Is that okay with you, Mr. Hall?

12 MR. HALL: I don't see what the basis of the
13 objection is. I've identified on each of the exhibits the
14 items that belong to the witness. They come directly from
15 her own exhibits. Clearly that's within the ability, and
16 that's the very purpose of Cross-Examination is to draw
17 distinctions between what the witness has done in her
18 exhibits and some possible alternatives based on, among
19 other things, the responses that are in the record from the
20 Postal Service and the witness herself.

21 So there's nothing here that isn't already in the
22 record. It's simply presented in a different form.

23 If you look at Exhibit X-2, that comes entirely
24 from the witness' Library Reference 191. Maybe she hasn't
25 had time to confirm those numbers, but we simply printed it

1 out from the library reference itself.

2 So I think the fact that the witness --

3 CHAIRMAN OMAS: Mr. Hall, would you put the motion
4 in writing and the Service will have three working days
5 within which to respond?

6 MR. HALL: Certainly.

7 MS. MCKENZIE: Thank you, Mr. Chairman.

8 CHAIRMAN OMAS: Thank you.

9 Mr. Hall?

10 MR. HALL: Yes, I would say the witness apparently
11 has had some difficulties with accepting the results of the
12 Postal Service's own response to institutional interrogatory
13 MMA number three. And what we need now then is a witness
14 from the Postal Service to tell us whether those numbers are
15 real numbers or whether they're made up numbers or
16 inaccurate numbers or accurate numbers.

17 THE WITNESS: I'm not sure that really describes
18 what I said about those numbers. I never questioned the
19 numbers themselves, I just questioned the ability to use
20 them in this particular analysis without other information.
21 So I don't think that that really --

22 MS. MCKENZIE: Mr. Chairman, if Mr. Hall would
23 like to propound a follow-up interrogatory, institutional
24 interrogatory, having to do with whatever issues he thinks
25 relevant on reliability, et cetera, that would be fine with

1 the Postal Service.

2 MR. HALL: No, I think we have the right to call a
3 witness when someone else, one of the other witnesses is
4 casting aspersions on information provided by the
5 institution. That's sort of incomprehensible to me that
6 this could occur.

7 CHAIRMAN OMAS: You may include any alternative
8 belief you'd like in your motion.

9 MR. HALL: Thank you.

10 CHAIRMAN OMAS: Is that it?

11 MR. HALL: That's it.

12 CHAIRMAN OMAS: We had several other people who
13 would Cross-Examine. I think we'll take a lunch break at
14 this point. It's a good kind of stop point. I think we'll
15 come back at say 1:15.

16 (Whereupon, the hearing was recessed, to reconvene
17 at 1:15 p.m. this same day, Tuesday, December 18, 2001.)

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

A F T E R N O O N S E S S I O N

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

(1:15 p.m.)

CHAIRMAN OMAS: On the record.

Mr. Baker?

MR. BAKER: Thank you.

CROSS-EXAMINATION

BY MR. BAKER:

Q Dr. Schenk, my name is William Baker and I will be asking you questions this afternoon on behalf of the Newspaper Association of America.

A Good afternoon, Mr. Baker.

Q Good afternoon. And I want to shift subject matters to standard A, enhanced carrier route mail costs.

As I understand it, your assignment from the Postal Service was to update Witness Daniel's testimony from the last case, correct?

A My assignment was to update certain Library References that she had sponsored in her testimony, yes.

Q And with respect in particular to your Library References 58 and 117, and I'll just limit it to those right now, you used or applied the same methodology that Witness Daniel had in the last case, but used the current case's base year and test year cost estimates and so forth, is that correct?

A Yes.

1 Q So you actually didn't change her methodologies.
2 Your update was really to the inputs to her methodologies,
3 is that correct?

4 A Yes.

5 Q And to save a lot of time here, to the extent you
6 used the same methodologies that Witness Daniel did, the
7 same criticisms, well, let me strike that a second.

8 Are you aware that Witness Daniel's testimony was
9 the subject of considerable discussion in the last rate
10 case?

11 A That's my understanding, yes.

12 Q So to the extent that you used the same
13 methodology, then the same arguments about a pro or con
14 would apply to the methodology used in this case.

15 A Yes.

16 Q You were asked I think by Val-Pak in their
17 question number seven whether you had performed any new
18 analogies and your answer to that was no. That's the case,
19 correct? That was the Val-Pak seven.

20 (Pause)

21 A That is correct.

22 Q Could you turn to your answer at ABA and NAPM,
23 number seven?

24 (Pause)

25 Do you have that yet?

1 A That's ABA and NAPM-243-7?

2 Q That's correct.

3 In that question they had asked you, they had
4 characterized your testimony as having stated that you had
5 adopted the methodology of Witness Daniel in the last case
6 in the context of LR-117. And in the preamble to your
7 response you took great care to say that although the
8 methodology you used is the same as that of Witness Daniel,
9 you did not "adopt" it in your testimony.

10 The first question is, does the same go for LR-58
11 as it does for 117 which is the subject of this question?

12 That is to say do you, you used the same
13 methodology in LR-58 as Witness Daniel does, but you didn't
14 state anywhere in your testimony that you adopted the
15 methodology, is that correct?

16 (Pause)

17 A That's correct.

18 Q What do you mean by adopt a methodology?

19 A I was concerned about that wording in the
20 interrogatory which is why I made that clarification. I
21 think in some context that can be taken as that I have
22 studied the methodology in detail and that I have thoroughly
23 evaluated it and taken it as my own.

24 Q And in this case you wouldn't go so far as to say
25 you had done that. It was more that you took the

1 methodology as a given and ran it again.

2 A No, I would not say that. I reviewed the
3 methodology and found it to be a reasonable methodology.

4 Q Does adoption therefore imply to you that some
5 greater endorsement of the methodology as an expert witness
6 is the way you would have done it than otherwise would have
7 been the case?

8 A I wasn't so much concerned about what I, how I
9 interpreted it as how others would interpret that word, and
10 that's why I made that clarification.

11 Q Then is there a -- So in your mind there is a
12 distinction between adopting a methodology as opposed to
13 reviewing it and deciding, concluding that it was reasonable
14 enough under the circumstances to use.

15 A As I mentioned, I was concerned about how others
16 would interpret the word adopt and so I wanted to make the
17 clarification.

18 Q And so you do not adopt, but your use of the
19 methodology is somewhat short of actually full-fledged
20 adopting it as your own, is that correct?

21 A As I mentioned before, I reviewed the methodology
22 and found it reasonable.

23 Q Did you review it enough to decide whether it
24 would be a methodology that you would adopt?

25 A No.

1 Q More time would have been required?

2 A Yes.

3 Q Could you turn now to your answer to NAA
4 interrogatory number seven to you, and Attachment A? There
5 was an Attachment A attached to that as well.

6 (Pause)

7 A I have it.

8 Q In our question we had asked you for the total
9 number of tallies in the FY2000 IOCS data set and you
10 present them in Attachment A, correct?

11 A Attachment A was presented as responsive to Part D
12 which asked to identify the number of tallies that were used
13 to distribute mail processing costs.

14 Q I appreciate the clarification on that.

15 On Attachment A I noticed that there is a column
16 headed record count. To get our terminologies straight, is
17 it your understanding that record count means actual,
18 unweighted IOCS tallies? Or does it mean something else?

19 A It's my understanding that the record count refers
20 to the number of, the sample size in those cases. That's my
21 understanding.

22 Q Actual tallies then.

23 A That's my understanding.

24 Q Okay.

25 And looking down on Attachment A under Classes to

1 the Classes Standard, the first line is regular ECR, and you
2 may know that standard mail has a regular subclass and an
3 ECR subclass. Is it your understanding that by regular ECR
4 this table means commercial mail as opposed to non-profit?

5 A That's my understanding, yes.

6 Q And staying on the regular ECR line where you see
7 the record count of about 2,104 tallies, would you agree
8 that that's about one percent of the total records shown at
9 the bottom of that column, is that correct?

10 A That's correct.

11 Q And those 2,104 tallies equate after applying the
12 weighting process to the \$159,023,000 in the way the tallies
13 count, correct?

14 A Yes.

15 Q Could you turn to the next interrogatory which was
16 NAA 8 which had an Attachment B to that.

17 A Yes.

18 Q And turning back to the question, here we had
19 asked you for the IOCS tallies, under a particular
20 spreadsheet in Library Reference 58, is that correct?

21 A Yes. You've asked for the number of IOCS direct
22 tallies associated with the mail processing costs.

23 Q Right.

24 And if you turn to Attachment B, our units are in
25 thousands of dollars, is that correct?

1 (Pause)

2 A Attachment B provides the data distributed to
3 shape and activity codes. and weight increments, and
4 Attachment A does not.

5 Q Does Attachment B distribute, if I may use that
6 word, the 2,104 number that we saw in Attachment A of number
7 seven?

8 A It is my understanding that in Attachment B it's
9 all of standard mail enhanced carrier routes.

10 Q Including the non-profit?

11 A That's my understanding, yes, sir.

12 Q Does Attachment B include city carrier tallies?

13 A I believe Attachment B is for mail processing
14 costs.

15 Q So if a city carrier is involved in mail
16 processing would it be on Attachment B, do you think?

17 (Pause)

18 A That is my understanding that that was identified
19 by the IOCS tally taker, yes.

20 Q Still on eight in Attachment B, I notice that for
21 all the shapes we have two sets of activity codes. One ends
22 in 10 and the other ends in 30. Do you see that?

23 A Yes, I see that.

24 Q Is it your understanding that the 10's refer to
25 commercial mail and the 30s refer to non-profit mail? Or do

1 you not have an understanding there?

2 A I don't recall that, no.

3 Q I direct your attention just for a moment to the
4 line under flats, activity code 2330, handling category
5 container. Do you see that?

6 A Are we talking about page one?

7 Q Yes.

8 A Yes, I see that.

9 Q And all the way across from 0 to seven ounces
10 there are zero tallies, correct?

11 A Correct.

12 Q And if you turn the page and pick up where we left
13 off on the first page and continue along the same line, We
14 still have zero tallies, yet we have a total of 2,330. Do
15 you see that?

16 A I see that, yes.

17 Q Can you tell me what that 2,330 is a total of?

18 A I don't know. That's something I would have to
19 check on.

20 Q Okay.

21 I had thought it was supposed to be the sum of the
22 whole row.

23 A I don't recall.

24 Q You don't know. Okay.

25 Similarly, if you were to add up the entries on

1 the activity code of 2330 single piece in the item
2 categories under flats, I would ask you to accept, subject
3 to check, that you would again find that the column of total
4 weighted tallies exceeds the sum of the row.

5 A Which rows were those for?

6 Q Well, it would be for the 2330, single piece and
7 single item. And I can further state that I think it is
8 true for just about every single row in the attachment.

9 A I don't recall.

10 Q As we're sitting here today you don't know if the
11 total column is supposed to be the sum of the rows or if it
12 stands for something else?

13 A I don't recall.

14 Q You don't know that. Okay.

15 So if I asked you to assume that the total was
16 supposed to be the sum, then either the total is wrong or
17 there's an error in the numbers in the rows themselves.
18 Would that follow?

19 A That would be one conclusion, yes.

20 MR. BAKER: Commissioner Omas, at this point I
21 think I would ask for a homework assignment which is simply
22 to ask the witness to reconcile the total column on this
23 Attachment B to NAA-8 with the numbers to its left and
24 either, if they are reconcilable to do so later, or if there
25 is an error at one place or another for the correction to be

1 filed.

2 CHAIRMAN OMAS: Ms. Schenk?

3 MS. MCKENZIE: That's fine, Chairman Omas.

4 I've just been informed that we do seem to have an
5 error in the formula.

6 CHAIRMAN OMAS: Thank you. Can you provided that
7 for us?

8 MS. MCKENZIE: Yes.

9 THE WITNESS: Yes.

10 BY MR. BAKER:

11 Q Dr. Schenk, leaving a finger on Attachment B of
12 NAA-8, I'd ask you to turn also to NAA-11. There was an
13 Attachment A to that as well.

14 A Yes.

15 Q Does Attachment A to NAA-11 present the unweighted
16 tallies that correspond to the weighted tallies of
17 Attachment B to NAA-8 that we were just going over?

18 A Yes.

19 Q Do you know if Attachment A to number 11 includes
20 unweighted tallies for city carriers that may have engaged
21 in the mail processing operation?

22 A Yes, those are for mail processing, so anyone
23 involved in mail processing could be in there, yes.

24 Q Looking at Attachment A to number 11 again, are
25 you the person who distributed or spread the tallies to the

1 weight increments?

2 A They were done under my supervision.

3 Q Could you look, it would be on the second page of
4 Attachment A to number 11, on the row under Shape, activity
5 Code 1310 single item, shape is letters, activity code 1310
6 single item. At the 15 to 16 ounce weight increment.

7 A Yes.

8 Q I notice that there's a figure of two and that
9 would indicate there were two unweighted tallies for single
10 piece letters weighing 15 to 16 ounces, is that correct?

11 A That's correct.

12 Q If you flip back a second to Attachment B of
13 number eight, that would correspond to the \$116,000 weighted
14 entry corresponding line in that attachment, assuming that
15 number proves to be correct.

16 A That's correct.

17 Q And the jump from two to 115,000 is the result of
18 the weighting process?

19 A Yes.

20 Q Although subject to --

21 A Subject to the check of the --

22 Q Subject to the check of the numbers.

23 A Yes.

24 Q But that's how the numbers interrelate.

25 We were a little puzzled about the two 15 to 16

1 ounce letters so we did ask you an interrogatory, went to
2 the general subject, and that was number 13 from us. And
3 you can turn to that now.

4 A I have that.

5 Q We had asked what standard ECR letters weigh 15 to
6 16 ounces and your answer as we see there noted that it was
7 a small percentage of the tallies and the ISCS is a sampling
8 system.

9 I appreciate both of those, but you really didn't
10 answer the question which is are there ECR letters that
11 weigh 15 to 16 ounces?

12 A That is the data that's reported in ISCS, yes.

13 Q Do you know whether you can, a mailer can mail ECR
14 letters that weigh in the 15 to 16 ounce range?

15 A I don't recall that there's any restriction on
16 mailing a letter shaped piece and the weight. I don't
17 recall.

18 Q You don't know. But it's your understanding that
19 these were actual tallies.

20 A Right, by the MM Shape.

21 Q The second sentence in your answer to 13 said that
22 ISCS is a sampling system, and the results are therefore
23 subject to sampling error. Sampling variation, excuse me.

24 I wanted to make sure, you did not mean by that to
25 suggest the tallies were somehow not real and they were

1 somehow generated by the sampling system, but they were
2 actually, the fact there were only two in that one or
3 three, --

4 A What I meant by adding that comment was that it
5 was an estimate.

6 Q The two always is an estimate?

7 A Yes.

8 Q They're not actual tallies then?

9 A I'm sorry, the interrogatory was referring to the
10 116 weighted.

11 Q So the 116 weighted is the estimate.

12 A Yes.

13 Q Based on the, if you will, the two actuals.

14 A Yes.

15 Q Could you turn back to Attachment A to NAA-11?

16 (Pause)

17 A Yes.

18 Q I'd like to focus now on the second page of that
19 attachment on the flats category, and these are all flats
20 above seven ounces.

21 A Yes.

22 Q And as we go from seven ounces up, the numbers go
23 from 19 to as low as one, back up a little bit, zero at 14,
24 and then six at the 15 to 16 ounce range, correct? Just
25 reading across on the single piece line, 2310.

1 A And this is Attachment A to --

2 Q To NAA-11, the second page. I'm looking at the
3 number of unweighted direct tallies that appear --

4 A They start at 19:

5 Q Yes.

6 A Yes.

7 Q Would the six at the 15 to 16 ounce range, these
8 again are actual tallies, correct?

9 A That's my understanding, yes.

10 Q I was curious as to what kind of pieces those
11 tallies might have been. I was wondering as we sit here,
12 does your answer to Advo number one to you that was
13 designated this morning shed any information that might tell
14 us if those six, anything about those six pieces by pre-sort
15 level?

16 (Pause)

17 Q I'm actually looking at Attachment A on that on
18 the mail processing cost segment 3.1 costs, and I'm
19 wondering if you can tell me or if you know if the 15 to 16
20 ounce column there, which are weighted costs, are related to
21 the entries we see on Attachment A to NAA-11?

22 A That is my understanding. They're related. These
23 do have piggyback and premium pay factors apply. And they
24 are regular plus non-profit.

25 Q So it might be that, for example, on the flats, on

1 NAA -- Where the unweighted tallies in the attachment to
2 NAA-11 show some 17 tallies on the flats, that those may be
3 basic and saturation pieces when you look at the Advo
4 interrogatory answer. Whereas at the 13 to 14 ounce range
5 we may actually be having high density pieces appearing.

6 Is that a reasonable way to read these two
7 documents?

8 A According to Attachment A of Advo T-43-1, there
9 are also basic flats in the 13 to 14 ounce category so I
10 can't really categorize where those particular tallies would
11 fall. I haven't done a cross-check between the total and
12 the buy rate category.

13 Q It's your understanding that those two documents
14 should relate to each other in this sort of way.

15 A When you look at it in total, yes.

16 Q I would like now to -- Do you have Library
17 Reference 58 with you?

18 A I have the text of it, yes.

19 Q Well, there was a table in that that was entitled
20 Standard Mail ECR Test Year Cost by Weight Increment. Do
21 you have that with you? It's LR-58A-ECR Copy.XOS-Summary.
22 At least on one printed out version of it it was page 1 of
23 47.

24 A I don't have those pages with me, no.

25 Q I don't think you need to have it in front of you,

1 but if you did -- I was going to ask you, that would have
2 been the summary presentation of the results that you
3 presented in 58. There was a page, a table, which presented
4 the total results. And they are presented as test year unit
5 costs, correct?

6 A That's my understanding, yes.

7 Q And these were volume variable costs only.

8 A Yes.

9 Q You made no attempt to distribute non-volume
10 variable costs.

11 A That's correct.

12 Q So the mail processing costs that we've been
13 discussing up until now are part of the total that you
14 presented in the summary page of 58.

15 A Yes.

16 Q That's one of the factors going into it.

17 A Yes.

18 Q The others were, carrier costs and all the others
19 were distributed on the basis of the distribution keys that
20 you described in your testimony and in your interrogatory
21 answers, correct?

22 A That's correct.

23 Q Could you turn in your response to RIAA-2?

24 A I have it.

25 Q This was a question asking you about the standard

1 regular and non-profit parcels. They had asked whether you
2 had calculated coefficient to variation for any of the test
3 year unit costs for any of the weight ranges for standard
4 regular and your answer was no, that you had not, given
5 limited resources and the way they were used.

6 Does that same answer apply to the ECR costs?

7 A That is correct.

8 Q The limited resources, you mentioned earlier today
9 that apparently you didn't have a whole lot of time to
10 prepare your testimony.

11 A No, that's not what I said.

12 Q Oh, that's what I understood you to say. What did
13 you mean to say?

14 A I believe what I said was, it was in reference to
15 Library Reference 117.

16 Q Not 58.

17 A Right.

18 Q What are the limited resources, what resources
19 were limited, looking at RIAA-2?

20 A I was referring more to Postal Service resources.
21 We were not asked to provide that data.

22 Q The resource wasn't time --

23 A No.

24 Q Okay.

25 I'd ask you to turn now to your answer to Val-Pak

1 4.

2 (Pause)

3 A This is Val-Pak T-43-4?

4 Q Yes.

5 (Pause)

6 A Yes, I have that.

7 Q Here they had asked you what percentage of the
8 volume variable costs were distributed on the basis of IOCS
9 tallies comparing standard regular to standard ECR, and the
10 answer was 75.5 percent of the standard regular costs were
11 distributed on the basis of IOCS tallies and 46.8 percent
12 for ECR, is that correct?

13 A That's correct.

14 Q That would be consistent with standard regular
15 making a greater use of mail processing services than ECR
16 mails, correct?

17 A The cost segment for mail processing window
18 service and city carrier in office are distributed based on
19 IOCS tallies. So it would be the combination of those
20 three.

21 Q Right. Which standard regular uses those more
22 than ECR does.

23 A There are more costs that are, more volume
24 variable costs that are associated with those three
25 categories for standard regular.

1 Q Finally, if you turn quickly to Library Reference
2 117, and Table 1 of that Library Reference.

3 A Yes.

4 Q Here again you follow the same methodology as
5 Witness Daniel had in R2000-1, correct?

6 A Yes, in general that's correct.

7 Q And directing your attention at the bottom of
8 Table 1 there are the costs for, unit delivery costs for
9 standard ECR mail, do you see that?

10 A Yes, this is our test year unit carrier costs.
11 Yes.

12 Q To your knowledge are the cost differences you
13 present there based at least in part on Witness Shipe's
14 testimony from R90-1? Or do you not know how far back the
15 calculations go that underlie this.

16 A I'm not sure what your question's referring to in
17 terms of what differences.

18 Q The differences between basic high density and
19 saturation tiers.

20 A And your question is --

21 Q Do you know how we got to a point where we were
22 calculating the differences between the saturation and the
23 high density in the basic tiers? Do you know the analysis
24 that went into that and when it was first done?

25 A I'm not familiar with that, the information on

1 that, no.

2 Q Turning your attention to the last column on the
3 right of that, ECR Basic High Density and Saturation.

4 A Yes.

5 Q I just want to make sure, this was revised on
6 November 20th, correct? Has there been a subsequent
7 revision or is November 20th the most recent version of that
8 table?

9 A That's the most recent version, yes.

10 MR. BAKER: Mr. Chairman, I have no more
11 questions.

12 CHAIRMAN OMAS: Thank you.

13 The Recording Industry Association of America,
14 Val-Pak Direct Marketing Systems, Inc., and Val-Pak Dealers
15 Association, Inc. Mr. Olson?

16 MR. OLSON: Thank you, Mr. Chairman....

17 CROSS-EXAMINATION

18 BY MR. OLSON:

19 Q Dr. Schenk, hi. William Olson representing Val-
20 Pak and before I begin I want to thank you for all your fine
21 work on automatable BRM in a prior life on behalf of other
22 clients.

23 And I want to start with cleaning up a few loose
24 ends. For example, we're taking a look at your response to
25 Advo USPS T-43-1 that was filed on the 17th and that Advo

1 designated today. Do you have that?

2 A Yes, I do.

3 Q You have three charts there for mail processing
4 costs, window services, and then city carrier which I think
5 are in-office costs, is that correct?

6 A That is correct.

7 Q It says there test year '03 costs. Are those
8 before rates or after rates?

9 A Those are before rates.

10 Q And we're talking about all three charts are
11 before rates?

12 A Yes.

13 Q And let me ask you a question about your errata
14 filed December 14th for Val-Pak/USPS T31-38. I believe on
15 that date you intended to file an errata with a new chart
16 but provided the old chart, is that correct?

17 A Yes, I inadvertently provided the old chart
18 instead of the new chart.

19 Q Don't feel bad, I didn't notice.

20 But let me ask you this, the new chart that you
21 provided today is different from the old chart in this
22 respect. Let me just try to tell you what I think you said
23 before when you discussed this when it was going in on
24 written Cross-Exam. I think you said originally the chart
25 was developed for flat only and as revised it is for all

1 shapes, letters, flats and parcels, is that correct?

2 A That is my understanding. We're definitely going
3 to check this again to make sure we have the right numbers
4 and everything, but that's my understanding. I know the
5 original was for flats only and I believe this is for all
6 shapes.

7 Q Was this, did you notice this when we filed T-43-
8 26? Because you reference an errata, this errata, in
9 response to that interrogatory. Do you have your response
10 to that interrogatory?

11 A Yes, I do.

12 In Val-Pak T-43-26 there were, you had asked some
13 questions clarifying what the table in T-43-38 was asking
14 for, and in the revised version some of the column headings
15 were revised to make that clarification. That's included in
16 the, that was supposed to be included in the revised version
17 and the table was inadvertently filed as the old version.

18 Q I'm sorry I can't locate -- I recall the
19 questions, I can't locate my own copy of it. But the first
20 question I believe we asked you was whether the table, the
21 data that you provided originally in response to T-31-38,
22 was above or below the dividing line. Is that clarified in
23 this response now?

24 A Yes.

25 Q What's the answer?

1 A Let me get the original back here.

2 (Pause)

3 A There were two columns of data provided in Val-Pak
4 T-31-38. The first column is for the pieces under the break
5 point and the second column is for the pieces above the
6 break point. That will be clarified in the revised
7 response. That's one of the clarifications that's in there.

8 Q Are you saying that it will be provided or it has
9 been provided to the reporter today?

10 A The numbers in the version that was provided to
11 the reporter today have the updated numbers. We did not
12 update the heading, and I think for clarification we will
13 want to just refile that with the final version in typed
14 numbers, just to make things clear for everyone.

15 Q Great. And when you do that if you could take a
16 look, and I'm sorry, I for some reason mislaid that
17 interrogatory of ours because I didn't designate it. But
18 our interrogatory T-43-26 did ask two or three, I think
19 there were three subparts to it and they asked some other
20 questions about that table to make it clear. Oh, thank you.

21 We also asked for the total costs on the other
22 side of the 30 and the 35 dividing line. Will you likewise
23 make clear those --

24 A Right. As I just mentioned, the numbers in the
25 first column are below the dividing line and the numbers in

1 the second column are above the dividing line. That will be
2 clear in the revised version.

3 Q So the four quadrants will answer that question.

4 A Yes.

5 Q Thank you.

6 MR. OLSON: Thank you, Mr. Baker.

7 BY MR. OLSON:

8 Q Let me also say that we asked you, as you may have
9 noticed, quite a few questions about the attached address
10 labels in this docket. I'm sure you noticed.

11 A I did notice, yes.

12 Q I wonder if you in the course of your work for
13 Christensen Associates for the Postal Service had ever done
14 any special cost studies on detached address labels other
15 than in the course of the study you had to do to answer all
16 of our interrogatories?

17 A No.

18 Q Let me start with some questions that are trying
19 to get at the way you developed costs in Library Reference
20 58 and how -- I'm going to tell you where I'm going so that
21 you can help me along. How you take total volume variable
22 costs in each of the categories you analyze and then
23 distribute those by subclass, by shape and by weight. I
24 have to go through a series of questions with you to help
25 understand that, if you don't mind.

1 A That's what I'm here for.

2 Q Okay, well, we'll see if you feel that way in a
3 couple of hours.

4 A (Laughter)

5 Q First of all, why don't you focus on street time
6 in cost segment seven. We're talking about city carriers to
7 start out with, and last week I cross-examined Witness
8 Harahush about some of this, and he said he did data
9 systems, didn't do costs. I could talk to you or other cost
10 witnesses. And I hope I can ask you about these. Some
11 questions may be elementary, but let me begin.

12 Let me ask you first of all, do you have Library
13 Reference J1 with you? If not I have a copy from dockets I
14 could share with you.

15 A I don't have a copy with me, no.

16 (Pause)

17 A Thank you.

18 MS. MCKENZIE: Mr. Olson, do you have another copy
19 for counsel, by any chance?

20 MR. OLSON: No, I don't. However, with your vast
21 resources you might be able to pull another one. It's a
22 fairly simple question that I'm going to raise. I don't
23 know that it's going to present a problem for you.

24 MS. MCKENZIE: I'll let you go forward and we'll
25 see if we can pull it from the Commission's web site.

1 MR. OLSON: Thank you.

2 BY MR. OLSON:

3 Q I put some tabs on there to facilitate things, and
4 I'd ask you if you would turn to page 7-2 to start out with.
5 You obviously worked through this summary description of how
6 cost segments and components are developed for the Postal
7 Service, correct?

8 A I am familiar with it, yes.

9 Q Page 7-2 deals with street time for city delivery
10 carriers and it has two columns in the chart there, total
11 accrued and volume variable. If you total the volume
12 variable street time it comes to \$2.6 billion roughly, is
13 that correct?

14 A That's what it shows, yes.

15 Q And the Postal Service has a street time sampling
16 system that captures the time spent by carriers in certain
17 activities that to some degree correlate with these
18 components, correct?

19 When I talked to -- There was an interrogatory we
20 filed with Witness Harahush and the Postal Service responded
21 but they came back and said that the street time sampling
22 system has cost pools that are load running time, which is
23 access and route; driving time to route; street support and
24 collection. Is that familiar to you?

25 A It's generally familiar but it's not something I'd

1 know in the course of doing my work.

2 Q Okay. The street time sampling system the Postal
3 Service has, as I understand it, and maybe you can just
4 confirm this if you know this, helps determine how much of
5 the cost segment seven costs are volume variable. Is that
6 an accurate statement? If you know.

7 A That's really something that I don't study as part
8 of mine. I take -- In my work I'm de-averaging costs that
9 are already distributed to subclass so I'm taking those
10 costs as given. So really the details of those is beyond
11 what I'm prepared to discuss today.

12 Q All this happened before you start distributing
13 the costs beyond the subclass level to shape and weight,
14 correct?

15 A That's correct.

16 Q Let me ask you a couple more questions and if you
17 have the same answer that's fine. If you happen to know,
18 that's fine too. When we get the responses from the Postal
19 Service institutionally we have to ask someone these
20 questions so if you can simply respond to the best of your
21 knowledge that would be great.

22 My understanding is that the street time system
23 records time in these various activities creating these cost
24 pools that I went over a second ago, but it doesn't record
25 any information about the volume or class of mail. Is that

1 something you can confirm or not?

2 A I'm really not the best witness to ask that
3 because it's beyond my assignment in terms of developing
4 these costs.

5 Q Okay. I'll get back to the subject of what you
6 did in Library Reference 58, but if we determine how much
7 volume variable costs there are for each of these
8 activities, those cost pools then have to be distributed to
9 classes and subclasses and it's your testimony you don't do
10 that, somebody else does that.

11 A That's correct.

12 Q Do you know who does that?

13 A It's my understanding that Witness Meehan does
14 that in her base year cost analysis.

15 Q Do you know who rolls those costs forward then to
16 the test year? Because we're dealing with test year costs
17 later on.

18 A In Library Reference 58 we take the costs that are
19 distributed to shape and weight increment and roll those
20 forward to test year costs. We take the base year cost by
21 shape and weight increment and roll those forward to test
22 year costs.

23 Q So you do that in Library Reference 58.

24 A Yes.

25 Q And you also take the cost pools for each class

1 and subclass and divide them by shape and by weight.

2 A We distribute the subclass costs to shape and
3 weight.

4 Q In that Library Reference 58.

5 A That's correct.

6 Q There's also something that you may not be
7 directly involved with called the city carrier route test or
8 the city carrier mail count. Are you familiar with those?

9 A I'm generally familiar with them but I don't know
10 the details of those. That's beyond what I do in this
11 Library Reference.

12 Q I understand. Let me state my understanding and
13 see if you can help.

14 My understanding is that the city carrier route
15 test counts volume by subclass but doesn't measure the time
16 spent by the carrier. Do you know if that's --

17 A I think the details of the city carrier costing
18 systems are beyond the scope of what I do here.

19 Q Right. Let me ask you to take a look at your
20 response to Val-Pak T-43-4.

21 A Yes, I have that.

22 Q You talked about the beginning of that with Mr.
23 Baker a minute ago.

24 I want to direct you to the table that is attached
25 to it. My understanding is in Library Reference 58 you take

1 route costs and access costs and distribute those by volume,
2 is that correct?

3 A We distribute the subclass and shape costs for
4 delivery, city delivery route and access to weight increment
5 using volume. Yes.

6 Q To shape also? Or just to weight increments?

7 A I believe it's to shape as well, yes.

8 Q Let me try to give you a simple illustration to
9 see if I understand what you're doing here. This isn't a
10 complex numerical hypothetical but it's got a couple of
11 numbers in it.

12 I'm just assuming there are 100,000 pieces of mail
13 in the Postal Service. 45,000 are first class in the first
14 instance, and then I'll give you some other number at the
15 moment.

16 Are you saying in your response to this
17 interrogatory that because 45 percent of the volume in the
18 Postal Service is first class, that you would distribute 45
19 percent of the route costs and access costs to first class?

20 A No. In Library Reference 58 we take costs that
21 are already at the subclass level and distribute those to
22 weight increment using the volumes for that particular
23 subclass level distributed to weight increments.

24 Q And those come from Witness Meehan to you, by
25 subclass.

1 A The subclass costs, yes.

2 Q Is that in a particular Library Reference that's
3 filed in this docket? The data that you use?

4 (Pause)

5 A I don't recall the particular Library Reference
6 number. I know it's associated with her testimony T-11. I
7 don't remember offhand the particular Library Reference
8 number. I believe it's referenced in the Library Reference.

9 Q Is the information in the Library Reference that
10 Witness Meehan sponsors associated with her testimony that
11 breaks that cost by class and subclass, is that in essence
12 the same form that you received the data from her?

13 A That's my understanding, yes.

14 Q And is it your understanding that when she
15 distributes costs to class and subclass that she does it
16 irrespective of how many let's say first class letter flats
17 or parcels are in the mail stream. Simply there are that
18 many first class pieces and therefore they get allocated by
19 volume to subclass?

20 A I don't recall her methodology for -- I don't
21 recall the details of her methodology for distributing to
22 subclass. That would be something that she described in her
23 testimony and Library References.

24 Q So I take it then that you wouldn't know
25 necessarily that if, for example, within standard ECR there

1 were an extra million pieces in the pool of standard ECR
2 mail, that that would cause a greater distribution to
3 standard ECR mail by witness Meehan than if those pieces
4 were not there?

5 A I don't recall the details of her methodology, so
6 I can't answer that.

7 Q Let's change and look at elemental loads and time.
8 My understanding of that as discussed also on page 7-2 of
9 Library Reference 1 is that load time is the time carriers
10 spend in delivery and box collection, and an elemental load
11 time is the volume variable component of load time. Is that
12 simplistically stated accurate?

13 A Yes, and on page 7-2 it does say that elemental
14 load time is time that is dependent on the volume of mail
15 delivered or collected at stops.

16 Q I want to explore whether elemental load time is
17 distributed the same way in the CRA as it is in your Library
18 Reference 58. Do you first of all have an opinion as to
19 whether they're distributed the same way?

20 A I don't recall the exact details of how they're
21 distributed in the CRA. We take the subclass volume
22 variable, elemental load costs and distribute them to shape
23 and weight.

24 Q Shape first, weight second.

25 A Yes.

1 Q In Library Reference 58, what key do you use to
2 distribute by shape first? What data source do you use?

3 A As is mentioned in the institutional response, or
4 the response to Val-Pak/USPS-11, the volume variable street
5 city carrier, street costs for elemental load are
6 distributed by city load distribution key.

7 Q Can you explain to me how the city load
8 distribution key is developed?

9 A I don't recall the exact details of that but we do
10 get that distribution key from an outside source. As I note
11 in the response to Val-Pak 11, that comes from USPS-LR-J-57.

12 Q In your response to Val-Pak T-43-4 in that chart
13 we looked at a minute ago, it says that you use a weight key
14 to distribute elemental load to shape.

15 A Actually it says that we distribute subclass and
16 shape costs to weight increments using weight.

17 Q So this is the second step of your approach. This
18 is distributing costs that have first been distributed by
19 class and subclass, then by shape, and this is from shape to
20 weight. That's what this attachment deals with?

21 A To weight increment, yes.

22 Q So there would be a different set of keys that
23 gets you from the first step, from class and subclass to
24 shape, correct?

25 A That's correct, and that's what I was referring to

1 in the response to Val-Pak 11 which gives the distribution
2 to shape for these particular costs.

3 Q Is it T-43-11?

4 A No, it's just Val-Pak/USPS-11.

5 Q So there you say route and access costs are by
6 volume from RPW. Correct?

7 A That's correct. The RPW number of pieces.

8 Q And elemental load by city load distribution key,
9 okay, then you reference Library Reference J-57, I see that,
10 and delivery support costs by total carrier costs.

11 A That's correct.

12 Q Is this something that you do or somebody else
13 does?

14 A That is done in LR-58, yes.

15 Q Just out of curiosity, why was this an
16 institutional response, do you think, for the Postal
17 Service? Isn't this what you do?

18 A Yes, and I assisted in providing the response.

19 MS. MCKENZIE: Mr. Chairman, I'd like to note for
20 the record that that was an institutional question so that's
21 why it was given an institutional response.

22 CHAIRMAN OMAS: All right. Thank you.

23 MR. OLSON: Well I guess it could have been
24 directed to a witness, but it was a follow-up to one that
25 was -- T-5(a)(e), I'll just mention for the record, which

1 was redirected to the Postal Service.

2 BY MR. OLSON:

3 Q Did you select these particular distribution keys
4 that are referenced in Val-Pak/USPS 11-A? Or those were
5 there before you got there?

6 A It's my understanding that those are the same
7 distribution keys as was used in the, by Witness Daniel in
8 the studies that I'm updating that are represented in 58.

9 Q In Library Reference 1, it indicates that there is
10 \$1.3 billion of elemental load time, on page 7-2, correct?

11 A That's correct. I'm sorry, that's volume
12 variables to load, yes.

13 Q Which is I guess a redundancy because elemental
14 load is always volume variable, right? That's from what you
15 just read me, also on page 7-2, where you said elemental
16 load time is time that is dependent on the volume of mail
17 delivered and collected at the stops.

18 A That's my general understanding, but that's data
19 that I take as given. That's not part of my study.

20 Q In this chart it's called load time volume
21 variable, \$1.3 billion, correct?

22 A Yes.

23 Q Then that is distributed to class and subclass by
24 Witness Meehan in the Library Reference that she sponsors
25 that we don't know the number of, correct?

1 A That's my understanding, yes.

2 Q And then you take that and distribute that by
3 shape based on the keys set out in Val-Pak/USPS T-11-A in
4 the institutional response to that interrogatory.

5 A That's correct.

6 Q Then once they are distributed by shape, you use
7 the distribution keys set out in response to Val-Pak/USPS T-
8 43-4(a) in that chart on page two of your response on page
9 two of your response to the interrogatory.

10 A Technically the table was provided in response to
11 Part B.

12 Q Okay. But that's nonetheless, if I said Part B
13 that would be a true statement, correct?

14 A Yes.

15 Q And when it says volumes there, are those also RPW
16 volumes or are they city carrier mail count volumes?

17 A Those are RPW volumes.

18 Q And when it says weight, I assume that's an RPW
19 weight also?

20 A Yes, that's true.

21 Q There is no other source of weight, is there?
22 There's no other point that letters are weighed.

23 A I don't recall any other source.

24 Q Again in your response to T-43-4(b) in the chart,
25 where you talk about city delivery support being distributed

1 based on other city delivery costs. What does that mean,
2 other city delivery costs?

3 A That would be all other city delivery costs which
4 would be cost segment 6.1, 6.2, 7.1, 7.2, and 7.3.

5 Q So that would include both cost segment 6, in
6 office costs, and cost segment 7, street time costs.

7 A That's correct, yes.

8 Q What carrier costs would it exclude when it says
9 other? We know what it includes, the four sections you just
10 reference. Five, I'm sorry.

11 A It includes all city carrier costs. It does not
12 include rural carrier costs.

13 Q So instead of other city delivery costs it might
14 be better to say all city carrier costs?

15 A I think the best way to, an alternative way to
16 describe it is all other city carrier costs.

17 Q Other meaning --

18 A Other than 7.4. Yes.

19 Q There's a response from the Postal Service to an
20 interrogatory that I want to draw your attention to. It was
21 originally given to Witness Harahush. Val-Pak T-5-7(b).

22 Do you recall that offhand?

23 A I don't recall it offhand, no.

24 Q There were two that were very similar that were
25 sent to him and were answered by the Postal Service. I'll

1 just read you the two sentences that are in common between
2 the two answers to interrogatories.

3 We asked about cost segment seven costs and how
4 they would be handled with flats with DALs and merchandise
5 samples with DALs, and the response says, "Elemental load
6 time has separate cost pools for letter flats, parcels and
7 accountables. However within each of these specific cost
8 pools the carrier cost system distribution key by subclass
9 of mail is used to distribute volume variable costs to
10 subclass."

11 Does that make sense to you?

12 A I haven't really studied that response. The cost
13 by subclass we take as given. It's not part of what I'm
14 prepared to discuss today.

15 Q The carrier cost system is not something you work
16 with then?

17 A We use some of the data from it but I don't work
18 on a detailed level with that system, no.

19 Q It's the portion that says that elemental load has
20 separate cost pools for letter flats, parcels and
21 accountables that I was interested in.

22 Do you use those separate cost pools that are
23 referenced in this response or do your own allocation by
24 shape to letters, flats and parcels?

25 A As is mentioned in the response to Val-Pak 11 we

1 used the city load distribution key to distribute the
2 elemental load to shape. I don't recall the exact details
3 of that distribution key. I can't recall exactly what
4 information is used in that.

5 Q But you are not provided by someone else these
6 cost pools by letter flats, parcels and accountables for
7 elemental load, and simply you work with those, you'd rather
8 do it the way you say in response to Val-Pak/USPS-11?

9 A That's my recollection, yes.

10 Q Other than yourself do you know which cost witness
11 would have the responsibility for developing the costs that
12 I've just described, elemental load time, separated in the
13 cost pools for letters, flats, parcels and accountables,
14 what witness might do that?

15 A I'm not sure. We get the cost by subclass from
16 Witness Meehan. I don't know if that would be included
17 under her analysis or not.

18 Q Let me ask you to consider two separate
19 hypotheticals and see if this is within the scope of your
20 testimony also. I'm going to postulate that all of standard
21 ECR mail consists of eight billion flats which are all
22 accompanied by DALs. That's the totality of standard ECR
23 mail -- Eight billion flats and eight billion DALs. And
24 I'll also say that it's my understanding that those pieces,
25 the DALs are counted in the cit carrier mail count.

1 Do you know if they are or not?

2 A It is my understanding from Witness Harahush's
3 response to Val-Pak T-5-7 that those DALs, that a DAL would
4 be counted in the city carrier costing system.

5 Q And in fact counted as a letter, correct?

6 A I believe that was his response, yes.

7 Q Let me ask you to contrast that with a separate
8 hypothetical which is that those eight billion flats plus
9 DALs convert to eight billion addressed flats. Catalogs or
10 whatever you'd want to envision them as. And that each DAL
11 and accompanied mail sleeve piece is simply replaced by one
12 catalog, one addressed catalog, one addressed flat.

13 So in other words the total volume of ECR mail is
14 reduced by the number of DALs that have been eliminated
15 because this is addressed mail. Do you have that scenario
16 in mind?

17 A I have that scenario in mind, yes.

18 Q Between the first case which involved the DALs and
19 the second case which had no DALs, could you say whether
20 standard ECR would have a smaller amount of volume variable
21 elemental load costs distributed to it?

22 A I don't know, given that I don't develop those
23 costs by subclass, as you've mentioned, so I don't know what
24 else would go into those calculations.

25 Q I'll just mention for the record that there is a

1 response that I believe the Postal Service gave to Val-
2 Pak/USPS 12-A which says you can't confirm that in general
3 terms. However, if everything in the two mailings was
4 identical that the delivery costs for the covers and DALs
5 would be greater than the delivery cost for the standard ECR
6 flats which are the addressed ones in the scenario.

7 Does that make sense? If you know, if you can
8 speak to that.

9 A That's what that response says. I haven't studied
10 the issue so I don't --

11 Q You can't add anything to what it says.

12 A Or confirm it, no.

13 Q Okay.

14 And if the DALs were no longer in the mail stream
15 under my hypothetical B and if there was a cost reduction,
16 could you say whether the cost reduction was in letters or
17 flats or both?

18 A Given that I'm not the person who develops the
19 subclass costs --

20 Q A moment ago you did indicate that Witness
21 Harahush in response to an interrogatory you cited said that
22 those DALs were considered letters, so if they were
23 eliminated I would think that would reduce the cost
24 distributed to letters, would it not?

25 A Perhaps, but it may be that some of the caveats

1 from the other response are responsive as well. It's not
2 under my jurisdiction to say whether that is or not.

3 Q Okay. That's a fine answer.

4 Do I understand you to have said today that every
5 distribution of cost from the class and subclass level down
6 to shape and down to weight is something that you are
7 responsible for and that you did in Library Reference 58?

8 A In order to provide the cost by weight
9 distribution that I provide in LR 58 I need to take the
10 subclass costs and first divide them into shapes, so I do
11 that analysis for, to derive the cost by weight increment.

12 Q And it's always done by shape first and then
13 weight, correct? For all types of costs.

14 A In my analysis, yes.

15 Q Let's then talk about in your analysis you've got
16 street time, city carrier street time which is volume
17 variable in cost segment seven that we've discussed, and
18 you're told how much is applicable to ECR. You distribute
19 it to letters, flats and parcels. At that point you don't
20 have date, I take, for the weight of letter, average weight,
21 for example, of letters, flats and parcels from some city
22 carrier sample, do you?

23 A We don't use any weight information from the city
24 carrier sample, no.

25 Q But you do use the RPW volume to distribute route

1 and access and weight to distribute elemental loads,
2 correct?

3 A We use the volume for distributing the route and
4 access and then the weight to distribute elemental load to
5 weight increments.

6 Q Are you aware of the fact that the RPW system does
7 not count detached address labels as separate pieces?

8 A Yes, I am.

9 Q And are you aware that the city carrier mail count
10 does include DALs as separate pieces?

11 A Yes.

12 Q And when you're distributing standard A ECR letter
13 costs for example, aren't you assuming that the distribution
14 of standard ECR letters by ounce increments in RPW which
15 excludes DALs is the same as the distribution of ECR letters
16 in the city carrier mail count which includes DALs?

17 A I'm sorry, could you repeat the question?

18 Q Sure. It's just about standard ECR letters.
19 We've established that the RPW system excludes DALs from its
20 count and the city carrier mail count includes DALs.

21 When you distribute costs by weight aren't you
22 assuming that the distribution of standard ECR letters by
23 ounce increment in RPW is the same as the distribution of
24 standard ECR letters in the city carrier mail count which
25 includes DALs?

1 Aren't you making that assumption?

2 A It's not an assumption that I make in my analysis.
3 It's not an assumption I need to make. We're distributing
4 total cost to all pieces that are noted in the RPW.

5 Q You're using RPW volume data. That's clear.

6 A Yes.

7 Q And what I'm asking is, does it not matter that
8 RPW volume data are predicated on a different base than the
9 city carrier mail count? It doesn't matter?

10 A We use the RPW volume because it's the best data
11 available. We don't have a distribution by weight for the
12 city carrier volumes.

13 Q What I'm trying to explore with you is whether, I
14 know it's perhaps the best available data set but I'm trying
15 to explore with you whether it might not have some
16 limitations and whether it doesn't require an assumption on
17 your part that the weight distribution is the same for RPW
18 as it is for the city carrier mail count.

19 A As I mentioned, I don't make that assumption.
20 That's the best data available to that distribution.

21 Q You don't make it expressly, that's correct.
22 Don't you make it implicitly when you choose to use that
23 distribution key?

24 A Yes.

25 Q And for standard ECR flats, do you use the same

1 distribution key as you do for standard ECR letters? The
2 same ones that are set out in response to Val-Pak/USPS T-43-
3 4? Those are both for letters, flats, parcels --

4 A Yes.

5 Q Let me change topics and talk about rural carrier
6 costs.

7 CHAIRMAN OMAS: Can I ask about how much longer
8 you have, Mr. Olson?

9 MR. OLSON: I would estimate about 40 minutes.

10 CHAIRMAN OMAS: Why don't we take a ten minute
11 break at this point.

12 (Recess taken from 2:44 to 2:56 p.m.)

13 CHAIRMAN OMAS: Mr. Olson, you may proceed.

14 MR. OLSON: Thank you, Mr. Chairman. I commend
15 the Chair on picking up on the breaking point between city
16 and rural carrier costs. That's where we now head, Dr.
17 Schenk.

18 CHAIRMAN OMAS: I lucked up on that one.

19 MR. OLSON: It was perfect.

20 BY MR. OLSON:

21 Q Dr. Schenk, I wanted to ask you if you would take
22 that Library Reference 1 and take a look at the other tab
23 that I placed there which was on 10-2. In the rural carrier
24 section, cost segment 10, and simply to find and confirm
25 this fact that in base year 2000, fiscal 2000, that the

1 volume variable costs of evaluated routes, component 10.1
2 was about \$1.7 billion, correct?

3 A That's what the table says for FY2000 yes.

4 Q Of the total 3.5 billion accrued costs for
5 evaluated routes, correct?

6 A That's what the table says, yes.

7 Q Okay. The page before talks about how most rural
8 routes are evaluated in terms of time standards, and the H,
9 J, and K routes cause these evaluated time standards to
10 determine the rural carriers' salary, correct?

11 A That's what's said on page 10-1, yes.

12 Q I've been trying to get a handle on this and this
13 again may not be your area, but if it's outside your area
14 that's fine. I assume you do work with rural costs and
15 you're distributing rural carrier costs just like you're
16 distributing city carrier costs correct? In your Library
17 Reference 58?

18 A In Library Reference 58 we do distribute rural
19 costs to weight increment.

20 Q And shape, correct?

21 A With rural costs we are provided the cost by rural
22 evaluation cost pools, and we do a cross-walk to get those
23 costs in terms of DMM shapes. And it's those costs that we
24 then distribute to weight increments.

25 Q Who provides you that information, and do you know

1 if that's in a Library Reference?

2 A I don't recall the Library Reference number. It
3 would be listed in the worksheets where that work is done,
4 in LR 15-8. I don't recall it at this point.

5 Q Do you know if that's Witness Meehan also?

6 A I don't recall.

7 Q The reason you need a cross-walk to the DMM for
8 rural shapes is that they don't use traditional letter,
9 flat, parcel distinctions, correct?

10 A That's my understanding, yes.

11 Q Can you explain the way that that cross-walk works
12 or is that simply something that you look at the results of
13 that cross-walk which tells you how many letters, flats and
14 parcels are within each class and subclass?

15 A We use information on distribution of pieces that
16 we have the information to do a cross-walk between rural
17 carrier shapes and DMM shapes and use that information to
18 take the cost by rural evaluation cost pool. That is done
19 in LR 58. That cross-walk.

20 Q When I talked to Witness Harahush the other day we
21 talked about the national rural mail count and how they use
22 these different categories -- DPS, sector segment, other
23 letter, et cetera. They also use the term box holder as
24 evaluation factors, and each one of them has an evaluated
25 time. Is that your understanding?

1 A That's my general understanding, yes.

2 Q After you have used this cross-walk to the DMM,
3 are you able to generate shape-based costs for rural
4 carriers, cost segment 10, just as you do for city carriers?

5 A I'm sorry, can you repeat the question?

6 Q After you've used this cross-walk between the
7 terminology in the rural world to the world of the DMM are
8 you able to generate the same kind of letter, flat, parcel
9 volumes for cost segment ten as you are for cost segment
10 seven?

11 A The letter, flat and parcel volumes we get from
12 RPW.

13 Q Let's go through more slowly. Perhaps I'm missing
14 something.

15 Let's take rural carrier costs again isolated from
16 city carrier costs. And in rural carrier costs you were
17 given from Witness Meehan costs by class and subclass, is
18 that correct?

19 A I believe it's Witness Meehan that provides us
20 with cost by subclass and rural evaluation cost pool.

21 Q What are rural evaluation cost pools then?

22 A Those are cost pools that correspond to those
23 evaluation factors that Witness Harahush mentioned.

24 Q So there would be a cost pool for sector segment,
25 there would be a cost pool for other letter, et cetera, is

1 that what you're saying?

2 A Yes.

3 Q When you, let's take one of those as an
4 illustration. Let's take box holder.

5 Do you know how box holder -- Do you convert box
6 holder to shape? Do you distribute it to shape? Do you
7 determine how many box holders are flats, parcels and
8 letters?

9 A In our rural cross-walk we do a distribution of
10 those rural evaluation cost pools to DMM shapes.

11 Q Where does that cross-walk appear in the library
12 references, do you know?

13 A In the specific spreadsheets, the subclass
14 spreadsheets in LR 58 there is a sheet, I don't remember the
15 exact name, I believe it may be called Rural Cross-Walk.
16 That's where that spreadsheet I believe is where that cross-
17 walk is done.

18 Q In that spreadsheet it somehow takes box holder
19 rural evaluation cost pool and it distributes it by shape to
20 letters, flats and parcels, is that what you're saying?

21 A Yes. It takes each of the rural evaluation cost
22 factors and distributes it to DMM shape.

23 Q When I cross-examined Witness Harahush the other
24 day with respect to box holders, for example, he said box
25 holders could be letters, flats or parcels and that the

1 rural carrier cost system gives no way to break out how many
2 of letters, flats or parcels from box holder.

3 A That's my understanding, yes.

4 Q If there's no way to know how many box holder
5 costs are from letters, flats and parcels, do you know how
6 that cross-walk could possibly allocate or distribute by
7 shape?

8 A Yes, I believe it was documented by Witness Daniel
9 in R-2000 that there was a special study done using the
10 rural carrier costing system and that's the data that we use
11 to do that cross-walk. I believe that is documented in
12 Witness Daniel's original study.

13 Q And that special study was filed in R-2000-1?

14 A Yes.

15 Q Do you recall the designation of it or the Library
16 Reference or other reference to it?

17 A No. I believe she may reference it in her Library
18 References for these particular studies which are LR-I-91
19 through 93.

20 Q You did say I-91 through 93, correct?

21 A Yes.

22 Q So they're docket R-2000-I Library References
23 you're referencing, correct?

24 A Yes.

25 Q So your testimony is that box holder is spread to

1 letters, flats and parcels based on a special study Witness
2 Daniel did in R-2000-1?

3 A It's a special study she relied on, yes.

4 Q Do you know if that's been updated, modified,
5 changed in this docket?

6 A Not to my knowledge.

7 Q For mail that's counted as sector segment, another
8 one of the rural evaluation cost pools, do you know how that
9 gets spread by shape?

10 A The rural cross-walk analysis in LR-58 takes each
11 of the rural evaluation cost pools and distributes them to
12 DMM shapes using that same information.

13 Q So it's not just box holders. Every one, DPS,
14 sector segment, other letter, papers, magazines, catalogs,
15 parcels, box holders are all analyzed in that special study
16 Witness Daniel's, R-2000-1?

17 A All the rural evaluation cost pools that we
18 receive, yes.

19 Q Let's take a box holder for a second. The
20 evaluated time standard I think they call it for a box
21 holder has a particular time value, does it not?

22 A That is my understanding, but I don't deal
23 specifically with those studies.

24 Q Right. But it's expressed in terms of minutes, is
25 it not? Or fractions of a minute?

1 A I'm not sure.

2 Q Are you aware that addressed DALs are treated
3 differently than DALs with a simplified address? Is that
4 something you're familiar with, in the evaluated time
5 standards.

6 A I don't know.

7 Q If I were to ask you whether the evaluated time
8 standards covered sorting or delivery or both, would you
9 know that?

10 A I don't know.

11 Q So if I were to ask you any questions about how
12 evaluated time is developed based on factors such as route
13 length or boxes served or mail volume, you wouldn't be able
14 to answer that?

15 A No. That's beyond the scope of what I do.

16 Q Do you know if the national rural mail count makes
17 any record of the weight of the mail?

18 A It's my understanding it doesn't, but I'm not an
19 expert on that study.

20 Q In any event you don't use any weight data
21 generated by the national rural mail count to distribute
22 shape costs to weight increment, correct?

23 A In LR-58 we use the weight data from RPW. As far
24 as I know there's no weight information in any of the
25 carrier costing systems.

1 Q With the rural carrier costs just like the city
2 carrier costs, I take it you are the witness who distributes
3 costs to shape and to weight. It's simply that with the
4 rural system you get data in a different form to begin with,
5 correct?

6 Or as perhaps better stated, there's an
7 intermediate step which is Witness Daniel's study and the
8 analysis that requires to give you -- Now that I'm asking
9 I'm not sure that's true.

10 With respect to city carriers you said you took
11 information from Witness Meehan based on, at the subclass
12 level what the costs were and you did the shape and weight
13 distributions thereafter correct?

14 A That in general is true. I believe I was unsure
15 about the elemental load cost and I know recall that I
16 believe we get those in terms of shape and we used that
17 shape information to develop the city carrier distribution
18 key. So for all the costs except elemental load we get them
19 by subclass and then distribute to shape.

20 Q Let's go back to that. We'll go back to the
21 elemental load costs. I asked you -- One of the Postal
22 Service's responses to our interrogatory said there were
23 separate cost pools for letters, flats, parcels and
24 accountables within elemental load and I asked you whether
25 you used those.

1 A Yes.

2 Q Now you have a new recollection?

3 A Yes.

4 Q What is that?

5 A That is that we do get them by those categories.
6 That's how we get the elemental load costs and that we used
7 that information on shape and that distribution key which I
8 believe you also asked me about and I couldn't recall at the
9 time how that was developed.

10 Q How is it developed?

11 A In general using the information we get from
12 Witness Meehan on those distribution keys, on those
13 distribution costs.

14 Q So are you saying that for elemental load you
15 receive from Witness Meehan more information than you do for
16 route access, street support?

17 A That's correct.

18 Q And the information you receive is that not just
19 costs broken out by subclass but you also receive cost pools
20 for letters, flats, parcels and accountables?

21 A Yes.

22 Q And you use her breakout of cost pools rather than
23 do your own distribution by shape?

24 A We use the information that she provides to
25 develop that distribution key that I mentioned in that

1 response to Val-Pak 11 where I said the elemental load is
2 distributed to shape based on that city load distribution
3 key. We used that information from Witness Meehan to
4 develop that distribution key.

5 Q And you're saying the city load distribution key
6 is nothing more than the elemental load cost pools by
7 percentage?

8 A I don't recall exactly how that's developed. I
9 just recall that we used that information. I don't recall
10 the specific details of how it's developed.

11 Q Is it possible you could provide that to us, for
12 elemental loads

13 A I believe it is developed in LR-58, I just don't
14 remember the details.

15 Q Do you mean LR-57?

16 A No, the distribution key is developed in LR-58.

17 MS. MCKENZIE: Mr. Olson, I believe this is
18 developed in LR-J-117.

19 THE WITNESS: Oh, I forgot.

20 (Pause)

21 THE WITNESS: Yes, I'm sorry. 117. I believe
22 there's a spreadsheet that's named something that is close
23 to what would indicate the context.

24

25 BY MR. OLSON:

1 Q Do you think I would be able to look at that
2 spreadsheet and discern how you developed the city load
3 distribution key?

4 A The spreadsheet includes all the formulas that are
5 used to develop that so that would indicate how it's
6 developed. I just don't remember the details exactly.

7 MR. OLSON: Mr. Chairman, things that are obvious
8 to Postal costing witnesses are not necessarily obvious to
9 the rest of us and I would ask since the elemental load
10 costs are so significant in terms of dollars that we receive
11 a narrative explanation of what is implicit and inherent and
12 incorporated in the spreadsheet.

13 CHAIRMAN OMAS: Ms. McKenzie?

14 MS. McKENZIE: Mr. Chairman, we're going to try to
15 identify now through a soft copy that we have exactly the
16 title of the worksheet here so that we can identify it for
17 him in 117.

18 CHAIRMAN OMAS: Can we see what they come up with
19 and we'll go from there?

20 MR. OLSON: Sure.

21 CHAIRMAN OMAS: Thank you.

22 MS. McKENZIE: The worksheet is called City Load.

23 MR. OLSON: Is it perhaps something that you could
24 show the witness and the witness could then answer the
25 questions so we wouldn't have to do it as a homework

1 project?

2 MS. MCKENZIE: We will attempt to do that.

3 MR. OLSON: Mr. Chairman, would that be
4 appropriate for the witness to take a look at --

5 CHAIRMAN OMAS: I was just going to say, would you
6 mind, Ms. Schenk? Thank you.

7 MS. MCKENZIE: We're not hooked up to a printer,
8 it's a laptop.

9 CHAIRMAN OMAS: Oh, it's a laptop.

10 MS. MCKENZIE: We can bring it to you, Dr. Schenk.
11 We'll just bring the laptop over to Dr. Schenk.

12 CHAIRMAN OMAS: All this technology, I can't stand
13 it.

14 MS. MCKENZIE: But the Commission makes such
15 wonderful use of it.

16 CHAIRMAN OMAS: I'm beginning to learn.

17 MR. OLSON: It makes me feel so much better to
18 know there's --

19 CHAIRMAN OMAS: We appreciate that.

20 MR. OLSON: -- there's some small portion of this
21 that even the witness doesn't grasp. However obscure.

22 THE WITNESS: Unfortunately there's a lot of
23 detail on some of these studies. I don't recall every
24 individual part of it. I do apologize for that.

25 MR. OLSON: I fully understand.

1 (Pause)

2 THE WITNESS: In developing that city load
3 distribution key we take the data we get from Witness
4 Meehan, it looks like in her Worksheet 7 on the different
5 stop types, the distribution by shape and by subclass. We
6 develop total costs from there, get the total unit cost
7 using CCS volumes or city carrier system volumes, and then
8 using those total unit costs, then apply them to volumes
9 using the DMM definition. Then from those total costs using
10 the DMM definition, shape definition, we then get the,
11 within subclass get the shape distribution or the
12 percentages from that. It's in that city load sheet and LR-
13 J-117 and all of the cells do have the formulas in them so
14 somebody can trace back how those are done.

15 BY MR. OLSON:

16 Q So you started off by saying that you get shape
17 and subclass data from Witness Meehan's Worksheet 7?

18 A Yes.

19 Q And then you make use of CCS volumes as opposed to
20 RPW volumes?

21 A Yes, we get from those total carrier costs we then
22 get a total unit cost by dividing the total carrier cost by
23 the CCS volume.

24 Q And if you use the CCS volumes at that point, I
25 have to look at what you --

1 (Pause)

2 Q Strike that.

3 Then you said you developed unit costs and you
4 apply those to volumes using DMM definitions. This is the
5 city carrier world. Do we have to cross-walk it to the DMM
6 or isn't it already in DMM terminology?

7 (Pause)

8 A The reason for that separate calculation is that
9 in the data that we have we needed to adjust the city
10 carrier volumes to make sure that the volumes we had roll up
11 to RPW volumes, so we wanted that second adjustment with the
12 DMM based volumes, make sure that we roll up to the RPW
13 volumes.

14 Q So you developed unit costs by CCS volumes and
15 then gross it up to equal RPW?

16 A Yes. Then those total unit costs, we get
17 distributions across shape within each subclass. Those
18 other distributions we use to, we use those distributions to
19 determine the elemental load costs by shape.

20 Q So all of what you've just described you would
21 call the city load distribution key.

22 A Yes.

23 Q And it's referenced here to Library Reference J-
24 57. CSO 6 and 7.XLS. Is that an accurate reference? I'm
25 looking at Val-Pak/USPS-11-A.

1 A That's where we get the original data that we use
2 to develop that key.

3 Q And you've just been reading from Worksheet 7 of
4 Witness Meehan?

5 A No, we get the data from Worksheet 7, and as I
6 mentioned, this analysis is done in that city load sheet in
7 LR-J-117.

8 Q Is this complicated or is it just me? I think you
9 can answer that, but that's all right.

10 (Laughter)

11 Q Is there anything else about elemental load that
12 you want to tell us now that I should know based on
13 refreshing your recollection?

14 A No.

15 Q Okay.

16 Once the, and I'll be glad to look at that and
17 trace it through as best that I can, but --

18 MS. MCKENZIE: Mr. Olson, by the way, I just
19 wanted to comment. Thank you very much. I prefer as little
20 homework over the holidays as possible.

21 MR. OLSON: Well this was a way to avoid it, so
22 thank you for your indulgence.

23 BY MR. OLSON:

24 Q Am I accurate in saying that once you develop that
25 city load distribution key and you have distributed the

1 costs by shape that then the subsequent distribution by
2 weight of elemental load costs proceeds normally as you've
3 described in response to that other interrogatory T-43-4?

4 A That's correct.

5 Q So there's no peculiarities of how you move from
6 shape to weight in the elemental load area?

7 A No.

8 Q It's done by weight.

9 A Exactly.

10 Q RPW weight.

11 A Yes.

12 Q When I talked to Witness Harahush she was
13 explaining to me how DALs are treated differently depending
14 on whether or not they're specifically addressed to each
15 recipient or whether they are using a simplified address.
16 And that I believe if they use a simplified address they're
17 called box holders and if they're specifically addressed the
18 same DAL is considered other letter. Is that something
19 you're familiar with?

20 A It's my understanding that he was referring to the
21 rural carrier costing system in describing the treatment of
22 DALs in that way. Yes.

23 Q Let me get back to the other aspects of rural, I'm
24 sorry, somehow we got off on elemental load there, but let's
25 go back to rural and just go back to this illustration of

1 box holders.

2 You said there was some method by which you are
3 able to use the special study Witness Daniel did and take
4 box holder as well as the other evaluated time pools and
5 spread them to letters, flats and parcels, correct?

6 A Yes, I'm repeating the methodology that she used
7 in R-2000.

8 Q Let's go back to our illustration that we had a
9 little bit ago about the city carrier costs where we had
10 eight billion total pieces of standard ECR mail, and let's
11 translate that to the rural world. Let's say the whole
12 world of standard ECR mail has eight billion DALs and eight
13 billion accompanying flat shaped pieces, and just for fun
14 that they were all delivered to rural addresses, so they're
15 all in the national rural mail count. If you can take that
16 assumption.

17 We've already discussed how DALs can be counted as
18 other letter or box holder depending on the address,
19 correct?

20 A That's my understanding.

21 Q And the flat covers that accompany these DALs are
22 counted according to a response Witness Harahush made, he
23 amended it. He said first it was either flats or box
24 holders, then he took flats out so he said they were box
25 holders. That the unaddressed wraps were box holders. Is

1 that consistent with your recollection?

2 A I don't recall that part of his response.

3 Q I'll just ask you to assume it because that's my
4 recollection of it.

5 A Okay I'm sorry, what was that again then?

6 Q He said that, in the hypothetical we've got these
7 unaddressed wraps, flats, and there are eight million of
8 them and they all have DALs and the DALs are counted as
9 either box holders or other letters, but the wraps are all
10 considered box holders.

11 Just for the record I'll give you the reference
12 where he amended his interrogatory response so that the
13 record's complete. It's his response to Val-Pak/USPS T-5-
14 8(d) where he said in the city carrier system wraps would
15 almost invariably be counted as flats. In the rural carrier
16 system wraps would almost invariably be counted as either
17 flats or box holders. Then his amendment took out flats or.
18 So he says they would almost invariably be counted as box
19 holders, the flats would.

20 So I'm asking you to assume that.

21 A Okay.

22 Q Since box holders are, the DALs can be either box
23 holders or other letters the hypothetical has to deal with
24 the way they're addressed. It can't just be based on shape,
25 but we have to talk about how the DAL is addressed.

1 Let's assume that they're specifically addressed
2 so that they're all considered other letter.

3 If you can help me with this fine, if you can't
4 fine. But as between these two cases, Scenarios A and B,
5 the first one is eight billion unaddressed, wraps flats with
6 DALs and the second one is you take away the DALs. Just
7 like we did before. It's just eight billion addressed
8 catalogs, okay?

9 A Uh huh.

10 Q As between the first case and the second case.
11 First with the DALs, second without the DALs. Would
12 standard ECR have a smaller amount of volume variable rural
13 carrier costs distributed to it?

14 A Given that I don't do the distribution of costs to
15 subclass I can't answer that question.

16 Q Okay.

17 If there were a, let's assume it did. Let's
18 assume it did result in more attribution if the DALs are in
19 the mailing.

20 Would a reduction in the amount of volume variable
21 rural costs distributed to standard ECR in the second
22 scenario show up as costs distributed to letters? In other
23 words, would the reduction be for letters or flats or both?

24 A I think that would really depend on how the costs
25 are distributed to the rural evaluation cost pools, and

1 since I don't do that, I don't know the details of the
2 methodology and how that's done.

3 Q I'll just try one more time and if you can't help
4 me that's fine. But my understanding is that the DAL
5 specifically addressed is an other letter. If you take the
6 eight billion DALs out, you take out eight billion other
7 letters, and you then have fewer letter costs to distribute
8 in that scenario. And you do distribute costs to letters,
9 flats and parcels.

10 Can you answer my question, isn't it true that if
11 you take the eight billion DALs out that you'd have fewer
12 letter costs to distribute?

13 A I would still like to refer to the fact that it
14 depends on how those rural evaluation cost pools are
15 developed, and I'm sure it would also depend on what, other
16 characteristics of what the pieces with DALs would be versus
17 pieces without DALs. So I really am not able to answer
18 that.

19 Q Well if there are eight billion fewer other
20 letters, doesn't that affect the letter distribution?
21 Wouldn't it reduce the amount of the letter distribution?
22 If you can't say that's fine. I'm just trying to get help
23 where I can find it.

24 A As I said, we take the rural evaluation cost pools
25 and cross-walk them to DMM shapes. I don't know how it

1 would affect those rural evaluation cost pools.

2 (Pause)

3 Q When you distribute the rural carrier costs from
4 shape to weight, isn't it true that you don't have any
5 tallies or direct data from the national rural mail count to
6 guide you?

7 A As mentioned in my response to Val-Pak-T-43-4, we
8 use volumes to distribute rural delivery costs to weight
9 increment and there I'm referring to RPW volumes.

10 Q So nothing out of the national rural mail count,
11 correct?

12 A It's my understanding that the only weight
13 information available is from RPW.

14 MR. OLSON: Mr. Chairman, I thank you. That's all
15 we have.

16 CHAIRMAN OMAS: Thank you, Mr. Olson.

17 MR. OLSON: Thank you, Dr Schenk.

18 CHAIRMAN OMAS: Is there anyone else who would
19 like to cross-examine this witness?

20 COMMISSIONER GOLDWAY: I have --

21 CHAIRMAN OMAS: Just a moment. We'll go with
22 Commissioner Goldway first.

23 COMMISSIONER GOLDWAY: Thank you, Chairman Omas.

24 My questions are somewhat technical and they deal
25 with the parcel post weight study that was performed and

1 submitted and is part of Library Reference J-113.

2 THE WITNESS: Yes.

3 COMMISSIONER GOLDWAY: According to Table 1 in the
4 parcel post weight study in that Library Reference, only 21
5 out of the 85 mailers responded to the survey that you
6 conducted, and we're concerned that this large non-response
7 rate could result in bias. I'd like you to discuss the
8 likelihood of whether the non-response bias and the effect
9 of non-response bias, what kind of results that could have
10 on the survey results.

11 THE WITNESS: In developing the sample for the
12 study, we used a stratified random sample methodology. That
13 was done in part to help mitigate any bias that might result
14 from non-response. I don't actually have that table in
15 front of me. I believe that the sample volumes in that
16 table are reported by stratum.

17 COMMISSIONER GOLDWAY: If it makes things easier,
18 I have copies of Table 1, parcel post weight study, survey
19 piece coverage by stratum, taken from your Library Reference
20 and if I could give one to you and circulate it.

21 I don't know if this needs to be submitted as an
22 exhibit since it's part of the Library Reference. It's
23 really just for discussion.

24 CHAIRMAN OMAS: Yes, I think it does need to be
25 admitted as an exhibit.

1 COMMISSIONER GOLDWAY: Maybe our counsel can tell
2 me what the proper label would be for doing that.

3 (Pause)

4 CHAIRMAN OMAS: This will be designated as
5 Commission XE-1 (Schenk).

6 (The document was marked for
7 identification as Commission
8 Exhibit XE-1 (Schenk) was
9 received into evidence.)

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

Table 1
Parcel Post Weight Study
Survey Piece Coverage by Stratum

Stratum	Rate	Respondent Mailer Pieces	Respondent Mailer Pieces With First Stage Inflation	Average First Stage Inflation Factor	Stratum Pieces PFY 2000	Second Stage Inflation Factor
PSA 3 of 49 Responding	DBMC	54,942,561	62,127,741	1.13	135,516,783	2.18
	DSCF	23,690	48,139	2.03	1,272,349	26.43
	DDU	34,052,895	26,379,571	0.77	28,004,030	1.06
NonPSA Certainty 11 of 20 Responding	DBMC	1,807,509	21,743,798	12.03	52,776,981	2.43
	DSCF	0	0	NA	2,724,551	NA
	DDU	2,220,721	3,265,638	1.47	9,145,081	2.80
DBMC - 1 Random 2 of 4 Responding	DBMC	21,382	392,423	18.35	4,930,354	12.56
DBMC - 2 Random 1 of 4 Responding	DBMC	12,117	32,576	2.69	951,513	29.21
DSCF Random 3 of 4 Responding	DSCF	5,870	5,870	1.00	70,134	11.95
DDU Random 1 of 4 Responding	DDU	2,341	25,263	10.79	228,049	9.03
All	DBMC	56,783,569	84,296,538	1.48	194,175,631	2.30
	DSCF	29,560	54,009	1.83	4,067,034	75.30
	DDU	36,275,957	29,670,472	0.82	37,377,160	1.26

1 COMMISSIONER GOLDWAY: Thank you.

2 If you look at the table, at the column which is
3 the second from the last, stratum pieces Postal fiscal year
4 2000.

5 THE WITNESS: Yes.

6 COMMISSIONER GOLDWAY: You'll see that the actual
7 volume are 52,760,000 whatever, over 52 million in DBMC
8 versus 9,145,000 in DDU.

9 But if you look at the respondent mailer pieces
10 you'll see that the DBMC pieces are only 1.807 million,
11 100,807,506. And I guess it's two billion 220 -- I'm sorry.
12 The numbers speak for themselves here.

13 But the point is that regardless of my inability
14 to express the decimals correctly there are more DDU pieces
15 in the respondents column than there are DBMC even though in
16 the overall volume the DBMC is so much greater.

17 Might this suggest that this survey response was
18 not necessarily random?

19 THE WITNESS: One of the reasons that we use a
20 stratified random sample is that it helps to mitigate any,
21 it helps us to adjust, to mitigate any bias in the
22 responses.

23 The numbers you're referring to refer to the non-
24 PSA certainty stratum and there we had 11 out of 20
25 responding. Those 11 mailers who were responding only

1 represent those 20 in that stratum. They don't represent
2 any other mailers when we roll up to an overall average.

3 So although the volumes there indicate that
4 there's more DDU mail among the respondents than in general
5 in that stratum, so there will be some variation there in
6 the estimates, they only represent mailers in that stratum.
7 So any variation that would add to the overall results is
8 somewhat mitigated because of the stratified random sample
9 method.

10 COMMISSIONER GOLDWAY: But even within that
11 category only 10 of the 21 responded or 11 of the 21.

12 THE WITNESS: 11 of the 20 is indicated
13 responding.

14 COMMISSIONER GOLDWAY: If their sample was biased,
15 and did not represent -- It's still not a complete group
16 from your stratum, if their results were biased would that
17 further bias the results even if you have factored in some
18 adjustment?

19 THE WITNESS: That would cause more variation in
20 the estimates, but I'm not sure if it necessarily causes
21 bias in the estimates. Just more variation.

22 COMMISSIONER GOLDWAY: Did you do any calculation
23 for standard errors?

24 THE WITNESS: No, I think on page five of that
25 Library Reference we describe, we talk about standard errors

1 and how they were not calculated in this case.

2 COMMISSIONER GOLDWAY: Would it be possible to do
3 such?

4 THE WITNESS: One of the problems is because of
5 the low response rate it's difficult to do a bootstrapping
6 estimate of those standard errors.

7 One thing that I do want to note is that the
8 results for average weight at least come very close to the
9 results you would find in RPW, and that does indicate that
10 there may be some, that there's validity in the results of
11 the study.

12 I'm just concerned with the low response rate
13 whether the variances that would be calculated would be very
14 informative to us.

15 COMMISSIONER GOLDWAY: We're concerned, too.

16 I have another question which is on page six of
17 Library Reference J-113. You mentioned that the survey
18 estimate lies in, the quality of the survey estimate lies in
19 the closeness of their average weight to the RPW average
20 weight, I think that's what you just commented on.

21 Do you have any statistical measure of closeness,
22 confidence intervals that you might suggest or that you've
23 used in estimating that there was a closeness in the average
24 weight.

25 THE WITNESS: I don't recall, since we don't have

1 standard errors we can't really do a confidence interval on
2 that average. I don't recall what the specific numbers were
3 so I don't know how --

4 COMMISSIONER GOLDWAY: How would you determine
5 closeness then?

6 THE WITNESS: I think in this case what we were
7 looking at was looking at the estimates and seeing just in a
8 relative way how close they were. I don't recall the exact
9 estimate so I can't --

10 COMMISSIONER GOLDWAY: Is there anything more
11 specific that you might be able to offer in writing?

12 THE WITNESS: Yes. We can look at that. I don't
13 recall the specific numbers so I can't adjust them right
14 now.

15 COMMISSIONER GOLDWAY: Would it be possible to
16 derive similar estimates of mean values from distributions
17 that differ substantially? Given the small survey results.

18 THE WITNESS: Yes, that is possible.

19 COMMISSIONER GOLDWAY: If it's all right with
20 postal counsel, can we get some additional clarification of
21 the term closeness if the witness is able to do that within
22 the next seven days?

23 MS. MCKENZIE: Certainly, Commissioner Goldway.
24 Again, with the holidays I just wanted to --

25 COMMISSIONER GOLDWAY: It's all right if it's

1 after the first of the year.

2 MS. MCKENZIE: Okay, thank you very much.

3 CHAIRMAN OMAS: Thank you.

4 COMMISSIONER GOLDWAY: Thank you.

5 CHAIRMAN OMAS: Commissioner Covington?

6 COMMISSIONER COVINGTON: Thank you, Mr. Chairman.

7 I just have some general questions that I want to ask Dr.
8 Schenk here in regard to your cost savings analyses and so
9 forth because I think the overall purpose and scope of your
10 testimony was to discuss savings, and regretfully I haven't
11 heard too many people here today mention the profound or the
12 significant impact that bundle breakage probably had, even
13 though that was one of the first things that you touched on
14 in your testimony. So maybe as these proceedings go on we
15 can look at breakage and what it does with flats, and
16 periodicals as it figures in the processing cost.

17 But what I wanted to know, I as looking at some of
18 your responses to interrogatories and found very interesting
19 the way a lot of the responses came back when looking at
20 rural carriers versus the amount of, well, in comparison to
21 what the city carrier does as far as cost.

22 When you do these analyses, and I know Dr. Schenk,
23 that you tie in a lot of other references from Ms. Daniel,
24 from R-2001, to Witness Robinson and Moeller. But when you
25 looked at some of your cost savings as it related to the

1 purpose and scope of your testimony did you consider any
2 factors like manual productivity, what affect the new FS-
3 100s are having on performance? I think back in R-2000-1
4 there was a lot of thought that was given to maybe
5 retrofitting your FSM-1000s with OCRs and automatic feeders.
6 Did you put any -- How much relevancy was put on that when
7 you were looking at preparing your testimony here in R-2001-
8 1?

9 THE WITNESS: In preparing the cost savings
10 analysis for the bundle breakage study, one of the inputs I
11 used is Witness Miller's flats mail processing cost model in
12 order to estimate those cost savings. So to what degree he
13 looks at these various factors, that's how it would be
14 reflected in those estimates.

15 COMMISSIONER COVINGTON: When we talk about, we
16 noticed there's been more automation as far as flat
17 processing has occurred which has led to cost savings as far
18 as USPS is concerned.

19 I think back in R-2001-1 the Commission actually
20 recommended that periodical mailers might want to do a
21 better job or might want to be required to prepare their
22 carrier routes, pre-sorted mail, using I think our
23 Commission language was using up-to-date USPS line of travel
24 or LOT information. Are you in a position to expound on how
25 that's coming along?

1 THE WITNESS: I don't know to what degree mailers
2 are doing more line of travel preparation for periodicals
3 than they were back in R-2000.

4 COMMISSIONER COVINGTON: One other question, we
5 know, at least I've learned in the short time that I've been
6 here that there is a great difference in processing and
7 dealing with mails in sacks as opposed to pallets, am I
8 correct?

9 How much emphasis did you look at when -- I mean
10 looking at your cost savings I think in one of your tables
11 beginning you look at basically the test year cost
12 differentials between periodical flats, mail which was
13 prepared on pallets, and then that prepared with sacks. Can
14 you expound on that a little bit for me as to how you
15 arrived at this per piece savings?

16 THE WITNESS: I think you're referring to Library
17 Reference 100 and what we did to determine that or what I
18 did to determine that cost difference between palletized and
19 sack mailings was to look at the cost difference associated
20 with the mail, when it arrives at the destinating plant,
21 that is when that sack or pallet is going to be broken and
22 that mail would be processed as bundles or pieces instead of
23 in the container.

24 So we looked at what different activities were
25 involved with the handling of sacks and pallets at that

1 point in the process and then costed out those different
2 activities. That's what's presented in the analysis in
3 Library Reference 100.

4 COMMISSIONER COVINGTON: Another question, Dr.
5 Schenk, what impact has AL-001, what impact has that
6 requirement or how has USPS use of a five digit sort scheme
7 figured into your most recent analysis?

8 THE WITNESS: I don't really look at the cost
9 savings in any of my analysis of L-001. That wasn't
10 something I was asked to look at in this case.

11 COMMISSIONER COVINGTON: Okay. Vertical flat
12 casings. Did you have an occasion to deal with any of that?

13 THE WITNESS: No.

14 COMMISSIONER COVINGTON: One final question, as
15 far as your combined automation and your pre-sort mailing
16 analysis which I guess would be your bar coded versus non-
17 bar coded pieces of mail, how much time was -- How much mail
18 process cost savings or how much time did you personally put
19 into looking at that part of the testimony that has been
20 submitted in this current rate case?

21 THE WITNESS: That's not something I was asked to
22 look at.

23 COMMISSIONER COVINGTON: Okay. Thank you, Mr.
24 Chairman. That's all I have for this witness.

25 CHAIRMAN OMAS: Thank you, Commissioner.

1 Dr. Schenk, I have two questions. I have two
2 requests to make. One to you and one to the Postal Service
3 in general.

4 To facilitate the process I have provided both you
5 and counsel with a copy of the questions. I will read it
6 for the record.

7 Dr. Schenk, I understand that your analysis
8 involves FORTRAN programs that were run on a mainframe. For
9 example, the program code submitted was Library Reference J-
10 59 and Library Reference J-117.

11 Could you please provide these FORTRAN programs in
12 a form that can be run on a PC and include the
13 identification of any special equipment, compilers,
14 applications and instructions that may be required to run
15 them on a PC? Or as an alternative, provide the program in
16 PCSAS.

17 The question to the Postal Service, could you
18 please provide the corresponding program used to develop
19 with Ms. Schenk's results using the cost methodology adopted
20 by the Commission in R-2000-1. In particular, please
21 provide FORTRAN programs in Library Reference J-83 as
22 programs that can be run on a PC plus the identification of
23 any special equipment, compiler, applications, and
24 instructions that may be required to run them on a PC. Or
25 as an alternative, provide programs in a PCSAS.

1 Could you please provide this material to us as
2 promptly as possible?

3 MS. MCKENZIE: Mr. Chairman, while Dr. Schenk was
4 testifying we checked with Christensen Associates and we
5 were not able to talk to the technician there to see if it's
6 possible, but some of Dr. Schenk's colleagues here are
7 expressing some grave concern of being able to do it.

8 We will get back to you with a status report as to
9 whether we can provide a PC version.

10 CHAIRMAN OMAS: Get back to us on that as soon as
11 possible, please.

12 MS. MCKENZIE: Yes. Certainly before the end of
13 this week.

14 CHAIRMAN OMAS: Thank you.

15 Ms. McKenzie, would you like some time with your
16 witness?

17 MS. MCKENZIE: Yes please, Mr. Chairman.

18 CHAIRMAN OMAS: How much?

19 MS. MCKENZIE: We think ten minutes might be
20 enough time.

21 CHAIRMAN OMAS: Great, we will reconvene at ten
22 after 4:00.

23 (Recess taken from 3:59 to 4:10 p.m.)

24 CHAIRMAN OMAS: Ms. McKenzie?

25 MS. MCKENZIE: Thank you, Mr. Chairman. We have,

1 I believe, just one question on Redirect.

2 REDIRECT EXAMINATION

3 BY MS. MCKENZIE:

4 Q Dr. Schenk, you indicated to counsel for Val-Pak
5 that you rolled the base year costs forward in LR-J-58.
6 Would you like to clarify your response?

7 A Yeah, I would like to make one clarification to
8 that.

9 While I do calculate test year costs by subclass,
10 shape and weight increment, I used the test year before
11 rates costs from Witness Patelunas in his testimony T-12.
12 So I don't do an independent roll forward. I use his roll
13 forward costs in developing my test year costs.

14 MS. MCKENZIE: Thank you. That's all we have.

15 CHAIRMAN OMAS: Is there any Redirect? Mr. Olson?

16 RECROSS-EXAMINATION

17 BY MR. OLSON:

18 Q Thank you. I have to ask, Witness Patelunas when
19 he rolls forward costs doesn't care about things like shape
20 and weight as I understand it. He thinks in big terms. So
21 when he's doing his roll forward, how does that help you
22 roll forward these costs by shape and weight from base year
23 to test year?

24 A In addition to the totals that we get from Witness
25 Patelunas there are various factors that we use for cost by

1 shape as well as the distributions from the base year in
2 order to roll up the base year numbers to test year.

3 So we do use other factors by shape to do those
4 calculations as well.

5 Q Can you give me an illustration of one of those
6 other factors?

7 A You will notice that in the test year, in the
8 summary test year sheets in the LR-58 workbooks, we
9 reference some cost factors that were developed in, I can't
10 remember if it's LR-J-52 or 53. I can't remember exactly
11 which one. But that has to do with the ratio of costs, of
12 total test year costs by shape, test year to base year costs
13 by shape from those Library References. That's an example
14 of some of the factors we used.

15 Q Just to clarify then, you're saying that you do
16 project the base year cost to the test year, but you also
17 use some of what Witness Patelunas does in his roll forward,
18 is that correct?

19 A Yes. We take our base year weight distributions
20 and project them to test year using the factors that are
21 developed from Witness Patelunas' roll forward analysis.

22 Q And the same thing would be true for shape, would
23 it?

24 A Yes.

25 Q You said weight factors.

1 A Oh.

2 Q So you mean shape and weight factors.

3 A Yes.

4 MR. OLSON: Thank you, Dr. Schenk.

5 Thank you, Mr. Chairman.

6 CHAIRMAN OMAS: Mr. Hall, any Recross?

7 MR. HALL: No Recross, but I do have one
8 procedural matter if I may.

9 CHAIRMAN OMAS: Please.

10 MR. HALL: You deferred ruling on the admission of
11 the four MMA Cross-Examination exhibits which sort of leaves
12 me a little bit in limbo in terms of their placement in the
13 record.

14 I think that whatever will happen with them will
15 be governed by your evidentiary ruling so, and this is
16 perhaps consistent with Postal Service counsel's suggestion
17 that they be appended to the transcript. I would suggest
18 that they be copied into the transcript at the place that I
19 asked that they be admitted. And then whether or not I can
20 use them as evidence will be, as I say, dependent upon what
21 your ruling is. But I'm concerned that we not get them too
22 far removed or in some different transcript or something.

23 CHAIRMAN OMAS: Counsel?

24 MS. MCKENZIE: The Postal Service has no objection
25 to them being transcribed into the transcript associated

1 with Dr. Schenk's testimony.

2 CHAIRMAN OMAS: Without objection.

3 Ms. Schenk, that completes your testimony here
4 today. We appreciate your appearance and your contribution
5 to our record and we thank you. You're excused.

6 (Witness excused)

7 CHAIRMAN OMAS: This concludes today's hearings.
8 We will reconvene tomorrow morning at 9:30 a.m. when we will
9 receive testimony from Postal Service witnesses Mays, Miller
10 and Moeller. Thank you.

11 (Whereupon the hearing was concluded, to reconvene
12 at 9:30 a.m. on Wednesday, December 19, 2001.)

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

REPORTER'S CERTIFICATE1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

DOCKET NO.: R2001-1
CASE TITLE: Postal Rate and Fee Changes
HEARING DATE: December 18, 2001
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission.

Date: December 18, 2001



Beth Roots

Official Reporter
Heritage Reporting Corporation
Suite 600
1220 L Street, N.W.
Washington, D C. 20005-4018

