OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R2001-1

VOLUME #6

Date: December 19, 2001

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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 6 Wednesday, December 19, 2001

The above-entitled matter came on for hearing

pursuant to notice, at 9:34 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:

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APPEARANCES: (cont'd.)

On behalf of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers Association, Inc.:

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On behalf of Association for Postal Commerce and Recording Industry of American Association:

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WITNESSES APPEARING: MICHAEL W. MILLER JOSEPH D. MOELLER

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WITNESSES:	DIRECT	<u>CROSS</u>	REDIRECT	<u>RECROSS</u>	VOIR <u>DIRE</u>
Michael W. Miller	998				
by Mr. Wiggins by Mr. Miles		1039			
Joseph D. Moeller	1083				
by Mr. Wiggins		1126			
by Mr. Miles					

DOCUMENTS TRANSCRIBED INTO THE RECORD	PAGE
Designation of corrected written cross-examination of USPS witness, Virginia J. Mayes, USPS-T-23	964
Designation of corrected written cross-examination of USPS witness Michael W. Miller, USPS-T-24	1002
Designated of corrected written cross-examination of USPS witness, Joseph D. Moeller, USPS-T-32	1087

EXHIBITS

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
Corrected direct testimony of Virginia J. Mayes on behalf of the USPS, USPS-T-23	962	963
Designation of corrected written cross-examination of USPS witness Virginia J. Mayes, USPS-T-23	963	963
Corrected direct testimony of Michael W. Miller, on behalf of the USPS, USPS-T-24	998	1000

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<u>E X H I B I T S</u>

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
Designation of corrected written cross-examination of USPS witness Michael W. Miller, USPS-T-24	1001	1001
Corrected direct testimony of Joseph D. Moeller on behalf of the USPS, USPS-T-32	1083	1085
Designation of corrected written cross-examination of USPS witness Joseph D. Moeller, USPS-T-32	1086	1086

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1	PROCEEDINGS
2	(9:34 a.m.)
3	CHAIRMAN OMAS: Good morning. Today we continue
4	hearings to receive testimony of Postal witnesses in support
5	of Docket No. R2001-1, Request for Rate and Fee Changes.
6	Yesterday, Major Mailers Association filed a
7	motion to accept follow up interrogatories one day out of
8	time. That motion is granted.
9	Does anyone have any procedural matters to discuss
10	before we continue?
11	(No response.)
12	CHAIRMAN OMAS: Three witnesses are scheduled to
13	appear today. They are Witnesses Mayes, Miller and Moeller.
14	Mr. Alverno, would you proceed?
15	MR. ALVERNO: Yes, Mr. Chairman.
16	(The document referred to was
17	marked for identification as
18	Exhibit No. USPS-T-23.)
19	MR. ALVERNO: Mr. Chairman, I would like to move
20	into evidence the direct testimony of Virginia J. Mays on
21	behalf of the U.S. Postal Service, which is marked as
22	USPS-T-23. In addition, Ms. Mays is sponsoring Library
23	Reference LR-J-68.
24	I have given two copies of the testimony with
25	declarations attached to the reporter. In addition, I have
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given two copies of the designated written cross-examination 1 2 of Witness Mayes to the reporter with declarations attached. 3 CHAIRMAN OMAS: Is there any objection? 4 (No response.) 5 CHAIRMAN OMAS: Hearing none, the corrected direct testimony of Virginia J. Mayes is received into evidence. 6 7 As is our practice, it will not be transcribed. 8 (The document referred to, 9 previously identified as 10 Exhibit No. USPS-T-23, was 11 received in evidence.) 12 CHAIRMAN OMAS: Mr. Alverno, do you also have a 13 declaration of authenticity for the answers provided by 14 Witness Mayes to designated written discovery? 15 MR. ALVERNO: Yes, Mr. Chairman. We have provided two copies of the designated written cross-examination of 16 17 Witness Mayes to the reporter, and we have attached 18 appropriate declarations for those responses. 19 That material is received into CHAIRMAN OMAS: 20 evidence, and it is to be transcribed into the record. 21 (The document referred to was marked for identification as 22 23 Exhibit No. USPS-T-23 and was 24 received in evidence.) 25 11

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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 VIRGINIA J. MAYES (USPS-T-23)

Party

Interrogatories

Amazon.com, Inc.

AMZ/USPS-T23-1-2

American Business Media & McGraw-Hill

Magazine Publishers of America

ABM-MH/USPS-T23-5

ABM-MH/USPS-T23-1-4

MPA/USPS-T23-1-2

MPA/USPS-T34-8a, c, 10e-g, 15-17, 27, 29 partial, 30a partial, 31a partial, 32 partial, 33 partial redirected to T23

Newspaper Association of America

NAA/USPS-T23-1-2

Respectfully submitted,

to a.a.elin

Steven W. Williams Secretary

INTERROGATORY RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS VIRGINIA J. MAYES (T-23) DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
ABM-MH/USPS-T23-1	ABM-MH
ABM-MH/USPS-T23-2	ABM-MH
ABM-MH/USPS-T23-3	ABM-MH
ABM-MH/USPS-T23-4	ABM-MH
ABM-MH/USPS-T23-5	MPA
AMZ/USPS-T23-1	Amazon
AMZ/USPS-T23-2	Amazon
MPA/USPS-T23-1	MPA
MPA/USPS-T23-2	MPA
MPA/USPS-T34-8a redirected to T23	MPA
MPA/USPS-T34-8c redirected to T23	MPA
MPA/USPS-T34-10e redirected to T23	MPA
MPA/USPS-T34-10f redirected to T23	MPA
MPA/USPS-T34-10g redirected to T23	MPA
MPA/USPS-T34-15 redirected to T23	MPA
MPA/USPS-T34-16 redirected to T23	MPA
MPA/USPS-T34-17 redirected to T23	MPA
MPA/USPS-T34-27 redirected to T23	MPA
MPA/USPS-T34-29 partial redirected to T23	MPA
MPA/USPS-T34-30a partial redirected to T23	MPA
MPA/USPS-T34-31a partial redirected to T23	MPA
MPA/USPS-T34-32 partial redirected to T23	MPA
MPA/USPS-T34-33 partial redirected to T23	MPA
NAA/USPS-T23-1	NAA
NAA/USPS-T23-2	NAA

ABM-MH/USPS-T23-1. At lines 13-15 of page 7 of USPS-T-23, witness Mayes states: "In previous proceedings, the Postal Service has estimated that nondestination SCF Zone 1&2 Periodicals will incur one transfer through a nondestination transfer hub before it is dispatched to the appropriate destination SCF." With respect to this statement, please provide all studies or documents from prior proceedings that support this assumption. Please confirm that, in this proceeding, the USPS is presenting no new studies or other new evidence in support of this assumption.

RESPONSE

It is my understanding that, in Docket No. R84-1, witness Byrne (USPS-T-14) first assumed that destination SCF second-class mail (Periodicals) would "bypass a dock transfer handling at one non-destination SCF normally incurred by inter-SCF [non-DSCF] Zone 1 and 2 mail". (Docket No. R84-1, USPS-T-14. page 57 at lines 8-10). He further assumed that "the nonpreferential portion of SCF rate mail...will also bypass a transfer handling at one BMC normally incurred by nonpreferential inter-SCF Zone 1 and 2 mail". (Ibid, lines 11-14) In Docket No. R87-1, Witness Acheson (USPS-T-12) stated, "I assumed that 80% of zones 1 and 2 mail not entered in the destination SCF area receives one cross-dock and that 20% of that mail receives two." (Docket No. R87-1, USPS-T-12, pp. 25-26) In Docket No. R90-1, the cost study underlying the DSCF discount for second-class mail, USPS-LR-F-179, stated: "it is assumed that any zone 1 and 2 mail not deposited in the SCF area where it is to be delivered would be crossdocked at a BMC; however, some proportion of the time this mail would avoid a second intermediate handling." (USPS-LR-F-179 at page 2) This same assumption was used in Docket No. R97-1, and mentioned at page 7 of USPS-LR-H-111. Witness Crum (USPS-T-27) adopted the same assumption in Docket

No. R2000-1 at page 18 of his testimony, lines 10-13. Confirmed; the Postal

Service is presenting no new studies with regard to this assumption.

ABM-MH/USPS-T23-2. At lines 19-21 of page 7 of USPS-T-23, witness Mayes states: "In previous proceedings, it has been assumed that 20 percent of nondestination SCF Zone 1&2 Periodicals incur a trip through a non-destination SCF/ADC before being dispatched to the destination SCF." With respect to this statement, please provide all studies or documents from prior proceedings that support this assumption. Please confirm that, in this proceeding, the USPS is presenting no new studies or other new evidence in support of this assumption.

RESPONSE:

Please refer to the response to MPA/USPS-T23-1(a). In Docket No. R87-1,

Witness Acheson (USPS-T-12) stated, "I assumed that 80% of zones 1 and 2 mail not entered in the destination SCF area receives one cross-dock and that 20% of that mail receives two." (Docket No. R87-1, USPS-T-12, pp. 25-26) In Docket No. R90-1, USPS-LR-F-179 at page 2 used the same 80%/20% split to calculate DSCF cost savings. This same assumption was used in Docket No. R97-1, and mentioned at page 7 of USPS-LR-H-111. Witness Crum (USPS-T-27) adopted the same assumption in Docket No. R2000-1 at page 18 of his testimony, lines 9-16. Confirmed; the Postal Service is presenting no new

studies in this docket regarding this assumption.

ABM-MH/USPS-T23-3. At lines 21-24 of page 7 of USPS-T-23, witness Mayes states: "It has also been assumed that 3.14 percent of non-destination SCF Zone 1&2 Periodicals go directly from the destination transfer hub to the destination DDU, bypassing intermediate handlings at the destination ADC or destination SCF." With respect to this statement, please provide all studies or documents from prior proceedings that support this assumption. Please confirm that, in this proceeding, the USPS is presenting no new studies or other new evidence in support of this assumption.

RESPONSE:

It is my understanding that this assumption was first employed by witness Acheson (USPS-T-12) in his testimony in Docket No. R90-1. At page 3 of his Exhibit B, he stated that he assumed that "96.86% of all mail going to the destination SCF will continue on to another facility, and the other 3.14% destinates within or is delivered from the SCF itself." This same assumption was used in Docket No. R97-1 and mentioned at page 8 of USPS-LR-H-111. In addition, in Appendix F of USPS-LR-H-111, in section "4.0 Other Inputs", a citation is made to Docket No, R90-1, Exhibit USPS-12B, page 5 as a reference for this assumption. Witness Crum (USPS-T-27) adopted this assumption in Docket No. R2000-1 at page 20 of his testimony, lines 8-13. Confirmed; the Postal Service is presenting no new studies regarding this assumption in this docket.

ABM-MH/USPS-T23-4. At lines 25-28 of page 7 of USPS-T-23, witness Mayes states: "In Docket No. R2000-1, witness Stralberg testified on behalf of the Publishing Mailers that the dropship cost avoidance models should be adjusted to account for the fact that mailers are expected to unload their own trucks when they drop periodicals at destination delivery units." With respect to this statement, please list all activities that publishing mailers or periodicals are now expected to perform at each of the following facilities: Destination Delivery Units, Destination SCFs, Destination ADCs and other non-destination entry facilities.

RESPONSE:

Please refer to the Postal Service's Publication 804, Drop Shipment procedures for Destination Entry. Publication 804 lists the requirements associated with dropshipping at various types of postal facilities and is available in pdf format at <u>http://new.usps.com/cpim/ftp/pubs/pub804.pdf</u>. The implications of witness Stralberg's observation regarding mailer unloading at DDUs were incorporated into the cost model because there were direct results on the elements of the model. Specifically, the model included a postal cost of unloading mail at the DDU. His observation permitted the elimination of this specific element of cost from the model. The model does not include an element for every activity that may be described in Publication 804.

ABM-MH/USPS-T23-5. At lines 13-15 of page 8 of USPS-T-23, witness Mayes presents her estimates of Periodicals non-transportation dropship cost savings on both a per piece and per pound basis. With respect to this presentation, please confirm whether, in Ms. Mayes' view, these dropship cost savings actually occur on a per piece basis only, a per pound basis only, or both a per piece and per pound basis. Explain your answer fully.

RESPONSE:

As is apparent from Appendix F of USPS-LR-J-68, the costs avoided are calculated on a **per-container** basis and translated to per-piece and per-pound bases using average numbers of pieces per container and average weights per piece conversion factors. The productivity estimates used are developed on a per-container basis. These productivity estimates may be influenced by the weight of the container, but the relationship of weight to cost has not been adequately studied in order to definitively state that the container productivities are directly related to weight as opposed to, for instance, cube.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF AMAZON.COM (AMZ)

AMZ/USPS-T23-1.

- a. Please confirm that according to USPS-LR-J-68, Appendix B, Table 9, the average Test Year transportation cost avoidance for Standard Mail dropshipped to Destination Delivery Units ("DDUs") is \$0.1391 per pound. If you do not confirm, please provide the correct figure.
- b. Please confirm that the transportation cost avoided for Standard Mail dropshipped to a DDU should be approximately equal to the Postal Service's total cost of shipping to DDUs Standard Mail that is entered with no dropshipment. If you do not confirm, please provide the Postal Service's correct cost per pound for transporting to DDUs Standard Mail that is entered with no dropshipment.
- c. Please confirm that according to USPS-LR-J-2, the Cost and Revenue Analysis ("CRA") report for FY 2000, the density of Standard Mail is 17.8 pounds per cubic foot. If you do not confirm, please provide the correct CRA density.
- d. Please confirm that the Postal Service's average Test Year Before Rates transportation cost for shipping to DDUs a cubic foot of Standard ECR with no destination entry is approximately \$2.4760. If you do not confirm, please provide the correct cost.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. I can confirm that 17.8 multiplied by \$0.1391 is approximately \$2.4760. I

do not have a measure of the density of Standard ECR mail that is not

dropshipped. Consequently, I cannot confirm that the Postal Service's

average test year transportation cost for shipping to DDUs a cubic foot of

Standard ECR with no destination entry is \$2.4760.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF AMAZON.COM (AMZ)

AMZ/USPS-T23-2.

- a. Please confirm that according to USPS-LR-J-68, Appendix B, Table 9, the average Test Year transportation cost avoidance for Standard Mail dropshipped to Destination Sectional Center Facilities ("DSCFs") is \$0.1124 per pound, and the difference between mail dropshipped to DSCFs and DDUs is \$0.0267 per pound; *i.e.*, \$0.1391 \$0.1124. If you do not confirm, please provide the correct figures.
- b. Please confirm that the difference in transportation costs avoided for Standard Mail dropshipped to DSCFs and DDUs, \$0.0267 per pound, should be approximately equal to the Postal Service's cost of shipping Standard Mail from DSCFs to DDUs. If you do not confirm, please provide your best estimate of the Postal Service's correct cost per pound for transporting mail from DSCFs to DDUs.
- c. Assuming that the density of Standard Mail is 17.8 pounds per cubic foot, as shown in the CRA Report for FY 2000, please confirm that the Postal Service's average Test Year Before Rates transportation cost for shipping a cubic foot of Standard Mail from DSCFs to DDUs is approximately \$0.47526; *i.e.*, 17.8 pounds per cubic foot times \$0.0267 per cubic foot. If you do not confirm, please provide the correct cost.

RESPONSE:

- a. Confirmed.
- b. Confirmed, as provided in USPS-LR-J-68, Appendix B, Table 9, as X^{DSCF}.
- c. I can confirm that 17.8 multiplied by \$0.0267 is approximately \$0.47526. I

do not have a measure of density for Standard Mail that must be

transported by the Postal Service from DSCFs to DDUs. Consequently, I

cannot confirm that the cost per cubic foot of transporting this mail is

\$0.47526.

MPA/USPS-T23-1. Please refer to your response to MPA/USPS-T34-15(b) where you state, "For non-destination SCF [Sectional Center Facility] Zone 1 & 2 pieces entered at the DBMC [destination bulk mail center] or destination transfer hub, it is assumed that 80 percent will be transported directly to the DSCF and 20 percent of the pieces will first travel through an intermediate facility (assumed to be the destination ADC [Area Distribution Center]) then be cross-docked to the DSCF."

(a) Please provide a citation to the original source of your assumption that 80 percent of zones 1 & 2 pieces that are entered at the DBMC or destination transfer hub will be transported directly to the DSCF and that 20 percent of these pieces will first travel through an intermediate facility.

(b) Please confirm that zones 1 & 2 pieces that are not entered at the Destination Area Distribution Center (DADC) or the DSCF can be entered at facilities other than the DBMC. If not confirmed, please explain your response fully. If confirmed, please answer the following questions:

(i) Why did you use zones 1 and 2 DBMC-entered periodicals as your benchmark against which to determine the DSCF and DADC nontransportation cost avoidances?

(ii) What percentage of zones 1 and 2 periodicals that are not entered at the DSCF or the DADC is entered at the DBMC? Please provide the source of your data.

RESPONSE

(a) The assumption that 80 percent of Zone 1&2 Periodicals that are not DSCF

experience a transfer through one upstream facility prior to arrival at the

DSCF and 20 percent of non-DSCF Zone 1&2 Periodicals experience two

transfers is not unique to non-DSCF Zone 1&2 Periodicals entered at a

DBMC or destination transfer hub. Rather, this assumption is extended to all

non-DSCF Zone 1&2 Periodicals. The DBMC and destination transfer hub

facilities were used as illustrations for the example provided in MPA/USPS-

T34-15. Although in Docket No. R84-1 witness Byrne (USPS-T-14) first used

a 1981 study of the percent of mail using the preferential and non-preferential routings to estimate the percentage of second-class (Periodicals) mail that would incur one or more than one dock transfer, the simplifying assumption that 80 percent of Zone 1&2 non-DSCF Periodicals receives one dock transfer and 20 percent receives two dock transfers first appears at pages 25-26 of witness Acheson's testimony (USPS-T-12) in Docket No. R87-1.

(b) Confirmed.

- (i) I maintained the use of the same benchmark as has been used in previous calculations of the dropship discounts in order to permit maintenance of continuity in the calculation of the cost avoidances and the development of rate design. The DBMC or destination transfer hub is used as a proxy, or stand-in, for a facility at which a dock transfer takes place upstream from the DADC; it is not meant to imply that this mail necessarily would have been entered at the DBMC. In my response to MPA/USPS-T34-15(b), I was using "DBMC" or "DBMC or destination transfer hub" as shorthand for a transfer hub facility upstream from the DADC in order to draw the distinction between the costs potentially avoided by the ADC pallet entered at the DADC relative to the costs of the 3-Digit sacks entered at the OADC.
- (ii) I am unaware of any data source that would permit me to answer this question.

MPA/USPS-T23-1. Please refer to your response to MPA/USPS-T34-5(b) where you state, "For non-destination SCF [Sectional Center Facility] Zone 1 & 2 pieces entered at the DBMC [destination bulk mail center] or destination transfer hub, it is assumed that 80 percent will be transported directly to the DSCF and 20 percent of the pieces will first travel through an intermediate facility (assumed to be the destination ADC [Area Distribution Center]) then be cross-docked to the DSCF."

(a) Please provide a citation to the original source of your assumption that 80 percent of zones 1 & 2 pieces that are entered at the DBMC or destination transfer hub will be transported directly to the DSCF and that 20 percent of these pieces will first travel through an intermediate facility.

(b) Please confirm that zones 1 & 2 pieces that are not entered at the Destination Area Distribution Center (DADC) or the DSCF can be entered at facilities other than the DBMC. If not confirmed, please explain your response fully. If confirmed, please answer the following questions:

(i) Why did you use zones 1 and 2 DBMC-entered periodicals as your benchmark against which to determine the DSCF and DADC nontransportation cost avoidances?

(ii) What percentage of zones 1 and 2 periodicals that are not entered at the DSCF or the DADC is entered at the DBMC? Please provide the source of your data.

(c) Please confirm that if a zones 1 and 2 periodical is entered at an origin associate office (OAO) that is in the DADC service territory, but not in the DSCF service territory, it will almost always be handled at the OAO and at an origin SCF (OSCF) before arriving at the DSCF. If not confirmed, please explain your response fully.

(d) Please confirm that if a zones 1 and 2 periodical is entered at an origin associate office (OAO) that is in the DADC service territory, but not in the DSCF service territory, it may be handled at the OAO, an OSCF, and the DADC before arriving at the DSCF. If not confirmed, please explain your response fully.

(e) Please confirm that is a zones 1 and 2 periodical is entered at an OSCF within the DADC service territory, it may be handled at both the OSCF and the DADC before arriving at the DSCF. If not confirmed, please explain your response fully.

(f) Please confirm that if a zones 1 and 2 periodical is entered at an OSCF within the DBMC service territory, but not the DADC service territory, it could be handled at the OSCF, the OADC, the DBMC and the DADC before arriving at the DSCF. If not confirmed, please explain your response fully.

(g) Please confirm that if a zones 1 and 2 periodical is entered at an OADC within the DBMC service territory, it may be handled at the OADC, the DBMC, and the DADC before arriving at the DSCF. If not confirmed, please explain your response fully.

(h) Please confirm that, on average, mail entered in higher zones (e.g., zone 5) will be transported through more facilities than mail entered in lower zones (e.g., zones 1 and 2). If not confirmed, please explain your response fully.

(i) Please confirm that the advertising zone differentials in the Periodicals Outside-County subclass rate design do not reflect any nontransportation cost differences between lower zone mail (e.g., zones 1 and 2) and higher zone mail (e.g., zone 8). If not confirmed, please explain your response fully.

RESPONSE

- (c) Confirmed
- (d) Confirmed.
- (e) Confirmed.
- (f) Confirmed. However, typically there is direct transportation linking ADCs within the same DBMC service area. Hence, the mail could bypass the DBMC.
- (g) Confirmed. See also response to subpart (f).
- (h) I am unaware of any empirical work that would confirm that the number of facilities through which a piece of mail is transported would be highly correlated with the distance between the origin of entry and the destination. The number of facilities through which mail will travel would be related to the number of service territories crossed, but not necessarily to the distance between origin and destination, except to the extent that as distance increases, there may be a higher number of service territories crossed. In the example given, it is possible that the Zone 5 piece and the Zone 1&2 piece

are within the same BMC service territory and would be handled in exactly the same number of facilities. It is also possible that, in the interest of service, direct transportation exists between the facility of origin and the destination ADC or destination SCF for the Zone 5 piece, whereas the Zone 1&2 piece might have to travel through the DBMC, DADC, and DSCF. In its Opinion and Recommended Decision in Docket No. MC91-3, the Second-Class Pallet Discount case, the Commission commented that: "In [the Commission's] view, the record clearly demonstrates that, on average, the number of dock transfers increases with distance." (Page 70, para. 2097) However, it is my understanding that the relationship between number of dock transfers and distance as stated in Docket No. MC91-3 was based on assumptions and expert opinion rather than on empirical evidence.

(i) Redirected to witness Taufique.

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MPA/USPS-T23-2. Please refer to pages 25-26 of Docket No. R87-1, USPS-T-12. In particular, please refer to where witness Acheson states, "The reason mail processing times were estimated for both one and two dock transfers is that zones 1 and 2 mail includes not only that mail I characterized as intra-sectional center facility (SCF) and intra-SDC [State Distribution Center] (see Table 2 on page 9) in the pallet study but also a portion of inter-SDC mail (mail requiring two intermediate handlings). For this analysis, I assumed that 80% of zones 1 and 2 mail not entered in the destination SCF area receives one cross-dock and that 20% of that mail receives two."

(a) Please confirm that area distribution centers (ADC) in today's operating environment serve a similar role in the postal network to that served by state distribution centers in the late eighties. If not confirmed, please explain your response fully.

(b) Is mail entered at the DBMC inter-ADC mail, intra-ADC mail, or could it be either? Please explain your response fully.

RESPONSE:

 (a) Confirmed, although the service territories vary. There are more ADCs than there were SDCs.

(b) It is my understanding that it could be either. For example, mail entered

at DBMC Atlanta, which is in ADC Atlanta, could destinate within ADC

Atlanta (intra-ADC) or ADC Birmingham (inter-ADC).

MPA/USPS-T34-8. Please refer to page 4 of your testimony, where you state, "I am also proposing a change to DMCS 421.45 to limit the destination entry discounts to mail entered at the destination facility."

(a) Please describe in detail how this change will benefit the Postal Service.
(c) Has the Postal Service or any of its contractors performed any analyses of the cost difference between pieces claiming the DSCF rate that are not entered at the destination facility, and pieces claiming the DSCF rate that are entered at the destination facility? If so, please provide a copy of each analysis. If not, please describe in as much detail as possible the cost savings that will result from this requirement.

RESPONSE

- (a) The proposed change to the requirements for destination entry Periodicals
 will align the eligibility requirements for discounts with the assumptions that
 underlay the estimated cost savings upon which the discounts were based.
 The current and proposed discounts are based on cost savings estimates
 developed using the assumption that mail receiving the destination entry SCF
 discount is dropped at the destinating facility and not just at any facility within
 the service area of that SCF. This change in requirements could potentially
 lead to cost savings if it results in mail that is not currently dropped at the
 appropriate facility being dropped at the appropriate facility, and if this change
 results in less postal handling and transportation.
- (c) No. Neither the Postal Service nor its contractors have performed any analyses of the cost difference between pieces claiming the DSCF rate that are not entered at the destination facility and pieces claiming the DSCF rate that are entered at the destination facility.

MPA/USPS-T34-10. Please refer to oc01.xls, worksheets Calc. Of new Cells and Rev Adj+Ed Cont.

(e) Please confirm that, ceteris parabis, the transportation and mail processing cost for a piece entered at the DADC facility is lower than the transportation and mail processing cost for a piece entered at an OSCF or OAO in the DADC service territory. If not confirmed, please explain fully.

(f) Does the Postal Service typically transport Periodicals Outside-County mail that is entered at the OSCF (within the DADC service territory, but not the DSCF service territory) to the DADC? Please explain your answer fully.

(g) Does the Postal Service typically transport Periodicals Outside-County mail that is entered at an OAO (within the DADC service territory, but not the DSCF service territory) first to the OSCF and then on to the DADC? Please explain your answer fully.

RESPONSE

(e) The response to this question depends on the availability of direct

transportation between the OSCF and the DSCF and the level of

preparation of the mail. I cannot confirm this statement in all instances.

Depending on the level of presortation and the mail makeup (e.g., 5-digit

pallets or SCF pallets) and the availability of direct transportation between

the OSCF and the DSCF within the service territory of the same DADC,

the mail may go directly from the OSCF to the DSCF. Depending on the

circumstances, mail entered at the OSCF may simply be cross-docked and transported directly to the DSCF. The estimated cross-docking cost for a handling at an SCF is calculated in LR-J-68, AppenF.xls, RESULTS as being less than the cost for a handling at an ADC (the cost for which is developed by proxy reference to the cost of a cross-docking at a BMC).

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- RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA REDIRECTED FROM WITNESS TAUFIQUE The question then becomes one of calculating the relative transportation costs from the DADC to the DSCF as compared to the transportation costs from the OSCF directly to the DSCF. If the transportation cost from the DADC is lower than that from the OSCF, then one would have to check if this transportation cost difference were large enough to offset the difference in cross-docking costs. Mail entered at the OAO would most likely incur a leg of transportation to the OSCF and require an additional cross-docking than would mail entered at the DADC.
- (f) The response to this question depends on the availability of direct transportation between the OSCF and the DSCF and the level of preparation of the mail. If, for example, the mail is prepared on 5-digit or SCF pallets for the DSCF and there is direct transportation available between the OSCF and the DSCF, then it may not be necessary for the mail to travel from the OSCF to the DADC before it goes to the DSCF.
- (g) Please refer to the response to subpart (f) above. It is my understanding that the mail would typically be transported from the OAO to the OSCF, but from there, it may not necessarily travel to the DADC before heading to the DSCF.

MPA/USPS-T34-15. Please refer to USPS-LR-J-68, USPS-LR-J-100, and USPS-LR-J-107, OC01.xls. Assume that a mailer currently enters 50 3-Digit sacks containing a total of 1,500 pieces at an OADC that is not in the DBMC service territory. Assume further that all of the mail in these sacks destinates in the service territory of one Area Distribution Center (ADC). Finally, assume that, in the Test Year, this mailer entered this mail on an ADC pallet at the DADC.

(a) Please describe the mail flows of the OADC-entered 3-Digit sacks and the mail flow of the DADC-entered ADC pallet.

(b) Please discuss and compare the costs avoided by the shift in mail preparation described above and the pallet and DADC nontransportation cost avoidances shown in USPS-LR-J-68 and USPS-LR-J-100.

RESPONSE

(a) There is no universal mail flow for 3-Digit sacks entered at an OADC, an OBMC or an OSCF. The flow of these sacks will depend on at which facility the mail was entered and the destination of the sacks. Some 3-Digit sacks will be sorted and cross-docked at the originating facility and placed on direct transportation to the destination SCF. Other sacks will need to travel through intermediate facilities, such as ADCs, BMCs or HASPs, before reaching the destination SCF, depending on available transportation links.

The opening of the sacks and the distribution of the contents would likely be at a facility, such as a DSCF, that is downstream from the facility at which the ADC pallet is opened. Typically, ADC pallets would be broken down and the packages sorted at the DADC. Some of the mail in noncarrier route packages on the pallet could be finalized to carrier route at the DADC, some could be finalized at the DSCF, and some at the RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA REDIRECTED FROM WITNESS TAUFIQUE destination delivery unit downstream from the DADC and DSCF. The carrier route packages will be sorted and transported to the downstream delivery unit intact. Typically, 3-Digit sacks will be opened and the contents sorted at the destination SCF and the sack contents either finalized to carrier route at the destination SCF or at a delivery unit downstream from the SCF. Please also refer to the response to part (b) of this question.

(b) If the sacks went to the DADC, any transportation and nontransportation costs from the stated origin facility (OSCF, OBMC, or OADC) to the DADC would have been bypassed if the mail had instead been prepared on an ADC pallet entered at the DADC. However, as noted above, the sacks may bypass the DADC.

The cost avoidances calculated in LR-J-68 are comparisons of the costs of non-destination SCF Zone 1&2 pieces not entered at a destination facility downstream from the DBMC with pieces entered at a destination facility downstream from the DBMC. For non-destination SCF Zone 1&2 pieces entered at the DBMC or destination transfer hub, it is assumed that 80 percent will be transported directly to the DSCF and 20 percent of the pieces will first travel through an intermediate facility (assumed to be the destination ADC) then be cross-docked to the DSCF. It has also been assumed that 3.14 percent of non-destination SCF Zone 1&2 Periodicals go directly from the destination transfer hub to the destination delivery

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA REDIRECTED FROM WITNESS TAUFIQUE unit, bypassing intermediate handlings at the destination ADC or

destination SCF.

If the mail is entered at the DADC; the mail would have bypassed a BMC cross dock, but 3.14 percent of the time, the mail entered at the DBMC would have gone directly to the DDU and avoided the DADC and DSCF handlings. Of the mail that does not go directly from the DBMC to the DDU, 80 percent of the time the mail from the BMC would have gone directly to the DSCF and avoided the DADC handling. All DADC mail will incur, at a minimum, cross-dock costs at the DADC to get the mail to the DSCF. Thus, it is assumed that mail entered at the DADC will save the Postal Service the difference between BMC cross-dock costs and ADC cross-dock costs 80 percent of the time that it did not go directly from DBMC to DDU, and the cross-dock costs at the DBMC 20 percent of the time.

If, as in the hypothetical presented, the mail is entered at an OADC, OSCF or OBMC and destinates inside the service territory of another BMC, it may incur several cross-docks before it reaches the destination SCF, as described in the response to part (a) above. The cost savings to the Postal Service of having this mail drop-shipped to the DADC are likely to include at least the cross-docking costs, similar to those calculated in LR-J-68, associated with each upstream facility through which the 3-Digit sacks would have traveled. However, for the mail that would have bypassed the DADC, the savings would have to be reduced by the DADC 985

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA REDIRECTED FROM WITNESS TAUFIQUE costs that the pallet would incur but the sacks would not have. LR-J-68 can be adjusted by changing the inputs in Table 2 of Appendix F such that the number of pieces per sack matches the hypothetical example's stated 30 pieces per sack and the pieces per pallet matches the hypothetical example's 1500 per pallet. To compare the cost of a cross-dock for the sacks as opposed to the pallet, the proportion of mail in sacks can be set at 100 percent in Table 2 of Appendix F and then the proportion of mail on pallets can be subsequently set at 100 percent. To do a complete comparison of the change in costs due to the change in containerization and presortation, the costs of opening and dumping sacks at the DSCF would also have to be offset by the cost of breaking apart the pallet and performing package distributions at the DADC.

It is my understanding that the cost avoidances calculated in LR-J-100 are a comparison of mail in sacks versus mail on pallets holding the presort level of the container constant. If, as in the hypothetical, mail migrates from a 3-digit container to an ADC container, some of the mail will incur additional bundle handlings because of the loss of container presort. Thus, the cost avoidances calculated in LR-J-100 overestimate the perplece cost savings associated with migrating 1,500 pieces from 3-Digit sacks to an ADC pallet. 986

MPA/USPS-T34-16. Please refer to USPS-LR-J-68, USPS-LR-J-100, and USPS-LR-J-107, OC01.xls. Assume that a mailer currently enters 50 3-Digit sacks containing a total of 1,500 pieces at an OSCF that is not in the DADC or DBMC service territory. Assume further that all of the mail In these sacks destinates in the service territory of one ADC. Finally, assume that, in the Test Year, this mailer entered this mail on an ADC pallet at the DADC.

(a) Please describe the mail flows of the OSCF-entered 3-Digit sacks and the mail flow of the DADC-entered ADC pallet.

(b) Please discuss and compare the costs avoided by the shift in mail preparation described above and the pallet and DADC nontransportation cost avoidances shown in USPS-LR-J-68 and USPS-LR-J-100.

Response:

Please refer to my response to MPA/USPS-T34-15(a) and (b).

MPA/USPS-T34-17. Please refer to USPS-LR-J-68, USPS-LR-J-100, and USPS-LR-J-107, OC01.xls. Assume that a mailer currently enters 50 3-Digit sacks containing a total of 1,500 pieces at an OBMC. Assume further that all of the mail in these sacks destinates in the service territory of one ADC. Finally, assume that, in the Test Year, this mailer entered this mail on an ADC pallet at the DADC.

(a) Please describe the mail flows of the OBMC-entered 3-Digit sacks and the mail flow of the DADC-entered ADC pallet.

(b) Please discuss and compare the costs avoided by the shift in mail preparation described above and the pallet and DADC nontransportation cost avoidances shown in USPS-LR-J-68 and USPS-LR-J-100.

Response:

Please refer to my response to MPA/USPS-T34-15(a) and (b).

MPA/USPS-T34-27. Please refer to USPS-LR-J-68, AppenF.xls, which contains Periodicals dropship nontransportation cost models. Please confirm that setting the conversion factors in cells A11 and A12 on worksheet "App F, Tab 2" equal to 1 develops the crossdocking and unloading costs per container shown in Table 6 below. If you do not confirm, please explain and provide the correct data.

Container	Costs per Container			
Туре	Crossdock at Sectional Center Facility (SCF)	Crossdock at Bulk Mall Center (BMC)	Unioad at Destination Delivery Unit (DDU)	
	"App F, Table 3"	"App F, Table 4"	"App F, Table 5"	
Sacks	\$0.693	\$0.785	\$0.321	
Pallets	\$15.142	\$14.978	\$4.257	

Table 6. Crossdocking and Unloading Costs¹

¹ Sum of the products of "Cost per Piece" and "Percent of Volume by Method" or "Percent Vol. In Operation."

RESPONSE:

I can confirm that setting the conversion factors in cells A11 and A12 equal to one piece

of mail per container results in the figures shown in the chart above.

MPA/USPS-T34-29. Please refer to MPA/USPS-T34-27-28, above. Please confirm that Table 7 presents costs per piece for crossdocking, unloading, and moving operations for containers of different sizes by dividing the costs per container by the number of pieces per container. If you do not confirm, please explain and provide the correct figures.

Container	Crossdocking at Sectional Center Facility (SCF)	Crossdocking at Bulk Mall Center (BMC)	Unioading at Destination Delivery Unit (DDU)	Unloading and Moving at 'Destination' Facility
6-piece sack	\$0.116	\$0.131	\$0.054	\$0.145
12-piece sack	\$0.058	\$0.065	\$0.027	\$0.073
1,062-piece pallet ¹	\$0.014	\$0.014	\$0.004	\$0.012
Average pallet ²	\$0.009	\$0.009	\$0.002	\$0.008

Table 7. Per-Piece Container-Handling Costs

¹ A 500-pound pallet assuming the average 0.471 pounds per piece. ² A pallet with 1,728.9 pieces (USPS-LR-J-114).

RESPONSE:

In partial response to this interrogatory, the per-piece container-handling costs in the

first three columns of figures (Crossdocking at SCF and BMC, and Unloading at DDU)

are the costs per piece for unloading, crossdocking, moving and, at the SCF and BMC,

loading as shown in Appendix F of USPS-LR-J-68.

MPA/USPS-T34-30. Please refer to MPA/USPS-T34-29, above. Assume that a 6piece sack containing 3-digit automation pieces is entered at an origin sectional center facility (OSCF) in Zone 4 and is crossdocked at the OSCF, the origin bulk mail center (BMC), and the destination BMC and incurs unloading and moving costs at a destination facility. Further, please assume that each piece in the sack weighs 0.471 pounds and has an advertising percentage of 43.5.

(a) Please confirm that the Postal Service incurs a cost per piece of \$0.523 (sum of \$0.116, \$0.131, \$0.131, and \$0.145) for crossdocking, unloading, and moving this sack. If you do not confirm, please explain and provide the correct figure.

RESPONSE:

(a) In partial response, for the pieces in the sack as described, the figures of \$0.116,

\$0.131 and \$0.131 costs per piece for unloading, moving, crossdocking and loading

this sack at the OSCF, OBMC and DBMC are confirmed.

MPA/USPS-T34-31. Please refer to MPA/USPS-T34-29, above. Assume that a 12piece sack containing 3-digit automation pieces is entered at an origin sectional center facility (SCF) in Zone 4 and is crossdocked at the origin SCF, the origin bulk mail center (BMC), and the destination BMC and incurs unloading and moving costs at a destination facility. Further, please assume that each piece in the sack weighs 0.471 pounds and has an advertising percent of 43.5.

(a) Please confirm that the Postal Service incurs a cost per piece of \$0.261 (sum of \$0.058, \$0.065, \$0.065, and \$0.073) for crossdocking, unloading, and moving this sack. If you do not confirm, please explain and provide the correct figure.

RESPONSE:

(a) In partial response, for the pieces in the sack as so described, the figures of \$0.058,

\$0.058, and \$0.065 per piece for unloading, moving, crossdocking and loading this sack

at the OSCF, OBMC and DBMC are confirmed.
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC., REDIRECTED FROM WITNESS TAUFIQUE

MPA/USPS-T34-32. Please refer to MPA/USPS-T34-29, above. Assume that a 1,062piece pallet (500 pounds assuming each piece weighs 0.471 pounds) containing 3-digit automation pieces is entered at an origin sectional center facility (SCF) and is crossdocked at the origin SCF, the origin bulk mail center (BMC), and the destination BMC and incurs unloading and moving costs at a destination facility. Please confirm that the Postal Service incurs a cost per piece of \$0.054 (sum of \$0.014, \$0.014, \$0.014, and \$0.012) for crossdocking, unloading, and moving this pallet. If you do not confirm, please explain and provide the correct figure.

RESPONSE:

In partial response, for the pieces on the pallet as so described, the figures of \$0.014,

\$0.014, and \$0.014 per piece for unloading, moving, crossdocking and loading this sack

at the OSCF, OBMC and DBMC are confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC., REDIRECTED FROM WITNESS TAUFIQUE

MPA/USPS-T34-33. Please refer to MPA/USPS-T34-29, above. Assume that a 1,728.9-piece pallet containing 3-digit automation pieces is entered at an origin sectional center facility (SCF) and is crossdocked at the origin SCF, the origin bulk mail center (BMC), and the destination BMC and incurs unloading and moving costs at a destination facility. Please confirm that the Postal Service incurs a cost per piece of \$0.035 (sum of \$0.009, \$0.009, \$0.009, and \$0.008) for crossdocking, unloading, and moving this pallet. If you do not confirm, please explain and provide the correct figure.

RESPONSE:

In partial response, for the pieces on the pallet as so described, the figures of \$0.009,

\$0.009 and \$0.009 per piece for unloading, moving, crossdocking and loading this sack

at the OSCF, OBMC and DBMC are confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

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NAA/USPS-T23-1. Please refer to your testimony at Page 2, lines 9-12 and Appendix B, Table 2, or LR-J-68.

- Please confirm that the cost data that you provide to witnesses а. Moeller and Hope is [sic] expressed in cost per pounds [sic]. Please confirm that the cost data that you provide to witnesses
- b. Moeller and Hope are not expressed in cost per piece.
- If you cannot confirm (b) or (c), please explain why not. C.

RESPONSE:

- Confirmed. а.
- b. Confirmed.
- Not applicable. C.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA)

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NAA/USPS-T23-2. Please refer to your testimony at Page 4, lines 9-12. Please confirm that the non-transportation cost savings associated with destination entry of Standard Mail are costs of handling mail in bulk (cross-docking) and not costs related to piece handlings. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed.

POSTAL RATE COMMISSION DOCKET NO. R2001-1 DECLARATION OF VIRGINIA J. MAYES

I hereby declare, under penalty of perjury, that:

I prepared the interrogatory responses which were filed under my signature and which have been designated for inclusion in the record of this docket; and

if I were to respond to these interrogatories orally today, the responses would be the same.

VIRGINIA MAYES

Date: 12-17-01

1	CHAIRMAN OMAS: Is there any additional written
2	cross-examination for Witness Mayes?
3	(No response.)
4	CHAIRMAN OMAS: Mr. Alverno, would you introduce
5	your next witness, please?
6	MR. ALVERNO: Thank you, Mr. Chairman. The Postal
7	Service calls Michael W. Miller.
8	Whereupon,
9	MICHAEL W. MILLER
10	having been duly sworn, was called as a witness
11	and was examined and testified as follows:
12	CHAIRMAN OMAS: Please be seated.
13	(The document referred to was
14	marked for identification as
15	Exhibit No. USPS-T-24.)
16	DIRECT EXAMINATION
17	BY MR. ALVERNO:
18	Q Could you please introduce yourself?
19	A I'm Michael W. Miller.
20	Q Mr. Miller, earlier I handed you two copies of a
21	document entitled Direct Testimony of Michael W. Miller on
22	behalf of U.S. Postal Service, which is marked as USPS-T-24.
23	I have now given those copies to the reporter. Have you had
24	a chance to examine them?
25	A Yes, I have.

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And was this testimony prepared by you or under 1 0 2 your direction? 3 А Yes, it was. And if you were to testify orally today, would 4 0 your testimony be the same? 5 6 Α Yes, it would. 7 MR. ALVERNO: Mr. Chairman, I ask that the direct 8 testimony of Michael Miller on behalf of the U.S. Postal 9 Service, which is marked as USPS-T-24, be received as evidence at this time. 10 11 CHAIRMAN OMAS: Is there any objection? 12 (No response.) 13 CHAIRMAN OMAS: Hearing none, I will direct 14 counsel to provide the reporter with two copies of the corrected direct testimony of Michael W. Miller. 15 16 MR. ALVERNO: Mr. Chairman? 17 CHAIRMAN OMAS: Yes? 18 MR. ALVERNO: We also have two library references 19 associated with this testimony. May I proceed to enter 20 those into evidence as well? 21 CHAIRMAN OMAS: Yes. 22 BY MR. ALVERNO: 23 Q Mr. Miller, are you familiar with Library References USPS-LR-J-61 and USPS-LR-J-63? 24 25 Α Yes, I am. Heritage Reporting Corporation

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And were these library references prepared by you 1 0 2 or under your direction? Yes, they were. 3 А 4 And do you sponsor these library references? 0 5 Yes, I do. Α 6 MR. ALVERNO: Mr. Chairman, I ask that the library 7 references which are marked as USPS-LR-J-61 and USPS-LR-J-63 be received as evidence at this time. 8 9 CHAIRMAN OMAS: Is there any objection? 10 (No response.) 11 CHAIRMAN OMAS: Hearing none, I will direct 12 counsel to provide the reporter with two copies of the corrected direct testimony of Michael W. Miller. 13 That 14 testimony is received into evidence. However, as is our 15 practice, it will not be transcribed. 16 (The document referred to, 17 previously identified as 18 Exhibit No. USPS-T-24, was 19 received in evidence.) 20 CHAIRMAN OMAS: Mr. Miller, have you had an 21 opportunity to examine the packet of designated written 22 cross-examination that was made available to you this 23 morning in the hearing room? 24 THE WITNESS: Yes, I have. 25 CHAIRMAN OMAS: If the questions contained in that Heritage Reporting Corporation

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packet were posed to you orally today, would your answers be the same as those provided in writing? THE WITNESS: Yes, they would. CHAIRMAN OMAS: Are there any corrections or additions you would like to make at this point to your answers? THE WITNESS: No. CHAIRMAN OMAS: Counsel, would you please provide two copies of the corrected designated written crossexamination of Witness Miller to the reporter? That material is received into evidence, and it is to be transcribed into the record. (The document referred to was marked for identification as Exhibit No. USPS-T-24 and was received in evidence.) Π

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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 W. MILLER (USPS-T-24)

Party	Interrogatories
American Bankers Association and National Association of Presort Mailers	ABA&NAPM/USPS-T24-1-6
AOL Time Warner	AOL-TW/USPS-T24-1-5, 6a-e
Association for Postal Commerce	PostCom/USPS-T24-1-8 PostCom/USPS-T39-2, 6 redirected to T24
Newspaper Association of America	PostCom/USPS-T24-6 VP/USPS-T24-2-4
Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association Inc.	VP/USPS-T24-2-4

Respectfully submitted,

Steven W. Williams Secretary

INTERROGATORY RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MICHAEL W. MILLER (T-24) DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
ABA&NAPM/USPS-T24-1	ABA&NAPM
ABA&NAPM/USPS-T24-2	ABA&NAPM
ABA&NAPM/USPS-T24-3	ABA&NAPM
ABA&NAPM/USPS-T24-4	ABA&NAPM
ABA&NAPM/USPS-T24-5	ABA&NAPM
ABA&NAPM/USPS-T24-6	ABA&NAPM
AOL-TW/USPS-T24-1	AOL-TW
AOL-TW/USPS-T24-2	AOL-TW
AOL-TW/USPS-T24-3	AOL-TW
AOL-TW/USPS-T24-4	AOL-TW
AOL-TW/USPS-T24-5	AOL-TW
AOL-TW/USPS-T24-6a	AOL-TW
AOL-TW/USPS-T24-6b	AOL-TW
AOL-TW/USPS-T24-6c	AOL-TW
AOL-TW/USPS-T24-6d	AOL-TW
AOL-TW/USPS-T24-6e	AOL-TW
PostCom/USPS-T24-1	PostCom
PostCom/USPS-T24-2	PostCom
PostCom/USPS-T24-3	PostCom
PostCom/USPS-T24-4	PostCom
PostCom/USPS-T24-5	PostCom
PostCom/USPS-T24-6	NAA, PostCom
PostCom/USPS-T24-7	PostCom
PostCom/USPS-T24-8	PostCom
PostCom/USPS-T39-2 redirected to T24	PostCom
PostCom/USPS-T39-6 redirected to T24	PostCom
VP/USPS-T24-2	NAA, Val-Pak
VP/USPS-T24-3	NAA, Val-Pak
VP/USPS-T24-4	NAA, Val-Pak

ABA&NAPM/USPS-T24-1 Please refer to Table 1 at page 14 of your T-24 Direct Testimony. Please provide "Actual Total Mail Processing Unit Costs (Cents) for First Class single piece flats. Why did you not include this information in your Table 12 or in LR-J-61?

RESPONSE:

The test year First-Class single-piece flats CRA mail processing unit cost estimate (38.751 cents) can be found in USPS LR-J-53. This information was not included in USPS LR-J-61 because it was not needed to complete my analysis.

ABA&NAPM/USPS-T24-2 Please confirm that mail processing unit cost savings of automated flats are an important factor in setting discounts for automated flats. If you can not confirm this fact, explain why not.

RESPONSE:

Not confirmed. Worksharing related savings estimates involve cost comparisons between a known benchmark and a given rate category. The First-Class automation presort flats cost studies have not historically made such comparisons. I am also not aware of an acknowledged First-Class automation presort flats benchmark as defined in the context of Postal Rate Commission proceedings. Please see USPS-T-29 (page 23 at 11-19) for a discussion regarding the automation presort flats rate design.

ABA&NAPM/USPS-T24-3 Why did you calculate Total Mail Processing Unit Costs for the various First Class Automated Flats rate categories, but fail to measure worksharing related savings of those rate categories?

RESPONSE:

Please see the response to ABA&NAPM/USPS-T24-2.

ABA&NAPM/USPS-T24-4 Please calculate worksharing related savings for each First Class Automated Flats rate category, using First Class single piece flats as the benchmark.

RESPONSE:

The analysis described in this interrogatory has not been performed due to the reasons described in the response to ABA&NAPM/USPS-T24-2. As stated in my response to ABA&NAPM/USPS-T24-1, the test year First-Class single-piece flats CRA mail processing unit cost estimate (38.751 cents) can be found in USPS LR-J-53.

ABA&NAPM/USPS-T24-5 Do you have any experience from observation of or conversations with presort bureaus or mailers of First Class automated flats which would merit the conclusion that if such flats were not delivered to the Postal Service as First Class Automated Flats, those presort bureaus and other mailers would take the time and resources necessary to deliver those flats as First Class non-automated presort flats?

RESPONSE:

No.

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ABA&NAPM/USPS-T24-6 Do the "Actual Total Mail Processing Unit Costs" in your Table I of your T-24 Direct Testimony include delivery costs? Please confirm that delivery costs are relevant to worksharing related savings of First Class Automated flats.

RESPONSE:

No. Please see the purpose of my testimony as outlined in Section I. My testimony calculates total mail processing unit cost estimates. It does not calculate worksharing related savings estimates. In addition, there is no reason to expect that there will be delivery cost differences related to worksharing in the test year as flat-shaped mail will not be processed in Delivery Point Sequence (DPS).

AOL-TW/USPS-T24-1 In the LR-J-61 mailflow models, which you sponsor, flats are characterized as machinable or non-machinable.

- (a) Please confirm that a machinable flat, as you use the term, is a flat that can be processed on either an AFSM-100 or an FSM-881 flat sorting machine.
- (b) Please confirm that your models assume that machinability on the FSM-881 and AFSM-100 is the same. If not, please explain.
- (c) Do your models assume that, apart from less than perfect accept rates, all "non-machinable" flats can be processed on FSM-1000 machines, provided machine availability? If no, what portion of "nonmachinable" flats is non-machinable also on the FSM-1000?
- (d) Do your models assume that all "non-machinable" flats will be machinable on the automated feed system planned for installation on the FSM-1000? If no, please explain all exceptions.
- (e) Please confirm that for "machinable" flats requiring piece sorting, except incoming secondary sorting, your model assumes <u>all</u> such flats

will be entered on either an AFSM-100 machine or an FSM-881 machine, with only rejected flats being sorted manually. If not confirmed, please explain.

(f) Does your model assume that every SCF will have either AFSM-100's or FSM-881's or both, and that those machines in FY2003 will have enough capacity to perform all required sorting of machinable flats to the 5-digit level, without compromising service standards? If no, please

explain.

RESPONSE:

(a) Confirmed.

- (b) Confirmed. See response to AOL-TW/USPS-6(f).
- (c) Yes.
- (d) Yes.
- (e) Confirmed.

(f) Yes, the models assume there will be enough capacity to process machinable flats in the test year. However, the models do not address service standards issues.

AOL-TW/USPS-T24-2

(a) Please confirm that the mailflow models in LR-J-61 assume that no incoming secondary sorting will be done with the FSM-1000

machines.

If not confirmed, please explain.

(b) Assume that a 5-digit package of "non-machinable" flats arrives in a 5-

digit container (e.g., sack) at its destinating SCF. Please confirm that in your model such flats will always receive manual incoming secondary sort, regardless of whether or not they are pre-barcoded. If not confirmed, please explain.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

AOL-TW/USPS-T24-3 Please explain the criteria used by USPS clerks and/or mailhandlers to determine whether a flat is machinable or non-machinable. If written instructions exist, please provide a copy. Please also explain who has the responsibility for deciding whether flats in a given bundle are machinable or non-machinable and at what point in the flow of mail this decision is normally made.

RESPONSE:

Please see response to AOL-TW/USPS-6(f). In addition, please see Docket No. R2000-1, USPS LR-I-193 (Publication 128, "Strategic Improvement Guide for Flats Processing" - September 1999).

AOL-TW/USPS-T24-4 Please refer to worksheet "BY00 VOLUME" in spreadsheet Period.xls in USPS LR-J-61. Please confirm that the following percentages of machinability for Periodicals flats can be inferred from the volume data given in that worksheet:

Carrier route presorted:	78.11%	
Pre-barcoded, non-carrier route:	68.22%	
Non-barcoded, non-carrier route:	45.92%	
All Periodicals Flats:	69.08%	

RESPONSE:

Confirmed.

AOL-TW/USPS-T24-5 Please refer to worksheets "package sort" and "entry profile" in spreadsheet Period.xls in USPS LR-J-61. Refer to row 50 on both sheets.

(a) Please confirm that row 50 represents carrier route packages in carrier

route sacks.

(b) Confirm that your model assumes carrier route sacks to represent 3.64% (364 out of 10,000 pieces) of the Periodicals carrier route presorted volume.

(c) Please refer to cell AE50 on sheet "entry profile" and confirm that your model assumes that 64 out of every 364 carrier route presorted pieces

in carrier route sacks will undergo incoming secondary piece sorting, even though a carrier route sack by definition contains mail only to one

carrier route and therefore can be taken to the carrier station before it needs to be opened. If not confirmed, please explain.

- (d) Even if some bundles in a carrier route sack turn out to be broken when the sack is opened and its content extracted, do you believe it is necessary and/or desirable for the pieces from those broken bundles to be brought back to an incoming secondary sorting operation, where they are mixed together with pieces going to other carrier routes? Please explain if your answer is affirmative.
- (e) Do you believe a carrier route bundle extracted from a carrier route sack needs to undergo an incoming secondary bundle sort? Please explain your answer.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.

(c) It can be confirmed that cell AE50 on page 63 in USPS LR-J-61 shows that
 64 carrier route presort pieces in carrier route sacks would undergo an
 incoming secondary operation.

(d) (e) It is my understanding that an incoming secondary package sorting operation would be performed in a given facility by one or more employees who open the containers. These employees would be sorting bundles from all opened containers, regardless of container presort level. Therefore, even if a carrier route sack contained bundles for one carrier route, that bundle is still

sorted. In addition, carrier "routes" sacks can contain bundles for more than one

RESPONSE TO AOL-TW/USPS-T24-5 (CONTINUED)

carrier route such that a bundle sortation would be required. If any bundles were to break in the bundle sorting operation just described, it is reasonable to assume that those pieces would be forwarded to a piece distribution operation.

AOL-TW/USPS-T24-6 Please refer to worksheets "package sort" and "entry profile in spreadsheet Period.xls in USPS LR-J-61. Refer to rows 39 and 40 on both sheets.

- (a) Please confirm that rows 39 and 40 refer to non-barcoded flats entered by mailers in 5-digit bundles in 5-digit containers.
- (b) Please confirm that 5-digit bundles in 5-digit sacks constitute 51.85% of all 5-digit non-automation Periodicals flats, including 40.66% nonmachinable flats. If not confirmed, please provide the correct figures.

(c) Please confirm that your model assumes <u>no</u> opening unit costs for this

mail category, and that piece-sorting costs are the only costs modeled.

If not confirmed, please explain how you have modeled opening unit costs for non-automation 5-digit flats entered in 5-digit containers,

and

state the per-piece opening unit costs your model calculates for this mail.

- (d) Please confirm that even though 5-digit bundles in a 5-digit sack obviously do not need bundle sorting, it is still necessary for the sack
- to

be opened, its contents removed from the sack and for the sack to subsequently be stored and eventually returned to mailers in order to be used again. If not confirmed, please explain.

- (e) Please confirm that the sack handling functions described in part d of this interrogatory are also performed at mechanized as well as
- manual

bundle sorting operations, and that they are included in the bundle sorting productivity rates used in your model.

(f) Please confirm that, according to Table 1 in the spreadsheet in LR-J-100, the cost of the sack handling functions described in part d of this interrogatory is 2.85 cents per piece. If not confirmed, please provide an alternative estimate.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.

(e) It can be confirmed that the referenced sack handling tasks are imbedded in the manual and mechanized productivities. However, productivity data are not available for these isolated sack handling tasks. Therefore, they are not included

RESPONSE TO AOL-TW/USPS-T24-6 (CONTINUED)

- in the package sorting costs.
- (f) Redirected to witness Schenk.

POSTCOM/USPS-T24-1 Please refer to the discussion on page 18 at 16-18 of USPS-T-39 which discusses the significant processing concern related to the OCR on the FSMs. Please confirm that the flats mail processing cost models in USPS LR-J-61 do not model mailflows that result from missorting. If you do not confirm, please explain and identify the appropriate mailflows.

RESPONSE:

It is assumed that the term "missorting" refers to mail pieces that are initially routed to the incorrect delivery address.

It can be confirmed that the cost <u>models</u> developed in USPS LR-J-61 do not model any mail flows specific to the missorting of mail. In addition, the cost <u>models</u> do not include mail flows specific to the processing of Undeliverable As Addressed (UAA) mail.

However, the total mail processing unit cost <u>estimates</u> developed in USPS LR-J-61 do include piece and package distribution costs for tasks that are not included in the cost models, such as those tasks related to the missorting of mail and the processing of UAA mail. CRA adjustment factors have been applied to the rate category model costs to account for the fact that some tasks have not actually been modeled.

POSTCOM/USPS-T24-2. Please refer to USPS-LR-J-61, Standard.xls, which develops Standard Mail total mail processing unit cost estimates by rate category for flats.

(a) Please confirm that the cost estimates contained in Standard.xls for the Nonautomation Basic nonletter rate category are averages of cost estimates for flats that could be considered Nonautomation MADC flats and others that could be considered Nonautomation ADC flats. If you do not confirm, please explain fully.

(b) Please refer to worksheet 'BY00 Volume' that presents Standard Mail flats FY2000 volumes. Please confirm that, by applying sack-based and packagebased presort level eligibility requirements similar to current eligibility requirements (i.e., nonautomation, sacked flat eligibility is based on the sack presortation level and nonautomation, palletized flat eligibility is based on the package presortation level), the FY 2000 volume of 1,072,621,169 Nonautomation Basic category flats (volumes in cells F15:G28 and I15:J28) is comprised of 457,907,997 Nonautomation MADC flats (volumes in cells F15:F16, G15:G22, I15:I16, and J15:J22) and 614,713,172 Nonautomation ADC flats (volumes in cells F17:F18, F23:F24, G23:G28, I17:I18, I23:I24, and J23:J28). If you do not confirm, please explain your response fully and provide the appropriate volumes and your underlying calculations.

(c) Please confirm that the following modifications develop a mailflow for Nonautomation MADC flats (as defined in subpart (b) of this interrogatory) with a base model mail processing unit cost of 17.984 cents. If you do not confirm, please explain and provide the appropriate cost and your underlying calculations.

'BY00 Volume' Worksheet

<u>Cells</u> <u>Formulae</u>

O15:O22 Replace \$P\$29 with SUM(\$P\$15:\$P\$22)

'Basic Nonauto Cost' Worksheet

- Cell Formula
- C15 =SUM('PACKAGE SORT'!U9:U16)
- C16 =SUM('PACKAGE SORT'IV9:V16)
- C19 =SUM('PACKAGE SORT'IY9:Y16)
- C20 =SUM('PACKAGE SORT'IZ9:Z16)

'Basic Nonauto Model' Worksheet

- <u>Cell Formula</u>
- G13 ='ENTRY PROFILE'!T12+'ENTRY PROFILE'!W14+'ENTRY PROFILE'!W16
- G15 ='ENTRY PROFILE'IT14+'ENTRY PROFILE'IX14+'ENTRY PROFILE'IAA16

RESPONSE TO POSTCOM/USPS-T24-2 (CONTINUED)

- G16 ='ENTRY PROFILE'!T16+'ENTRY PROFILE'!X16+'ENTRY PROFILE'!AB16
- O13 ='ENTRY PROFILE'IT11+'ENTRY PROFILE'IW13+'ENTRY PROFILE'IW15
- O15 ='ENTRY PROFILE'IT13+'ENTRY PROFILE'IX13+'ENTRY PROFILE'IAA15
- O16 ='ENTRY PROFILE'IT15+'ENTRY PROFILE'IX15+'ENTRY PROFILE'IAB15

(d) Please confirm that the following modifications develop a mailflow for Nonautomation ADC flats (as defined in subpart (b) of this interrogatory) and a base model mail processing unit cost of 13.351 cents. If you do not confirm, please explain your response fully and provide the appropriate cost and your underlying calculations.

'BY00 Volume' Worksheet

<u>Cells</u>	Formulae
M23:M28	Replace \$P\$29 with SUM(\$P\$23:\$P\$28)
023:028	Replace \$P\$29 with SUM(\$P\$23:\$P\$28)

- 'Basic Nonauto Cost' Worksheet
- Cell Formula
- <u>C</u>11 =0
- C12 =0
- C15 =SUM('PACKAGE SORT'IU17:U22)
- C16 =SUM('PACKAGE SORT'IV17:V22)
- C19 =SUM('PACKAGE SORT'IY17:Y22)
- C20 =SUM('PACKAGE SORT'!Z17:Z22)

'Basic Nonauto Model' Worksheet

- Cell Formula
- G11 =0
- G13 ='ENTRY PROFILE'IW18+'ENTRY PROFILE'IW20+'ENTRY PROFILE'IW22+'ENTRY PROFILE'IX18
- G15 ='ENTRY PROFILE'!X20+'ENTRY PROFILE'!AA22
- G16 ='ENTRY PROFILE'IX22+'ENTRY PROFILE'IAB22
- 011 =0
- O13 ='ENTRY PROFILE'!W17+'ENTRY PROFILE'!W19+'ENTRY PROFILE'!W21+'ENTRY PROFILE'!X17
- O15 ='ENTRY PROFILE'IX19+'ENTRY PROFILE'IAA21
- O16 ='ENTRY PROFILE'IX21+'ENTRY PROFILE'IAB21

RESPONSE TO POSTCOM/USPS-T24-2 (CONTINUED)

(e) Please confirm that the weighted average (weighted based upon Standard Mail base year mail volumes) of the base model mail processing unit cost of Nonautomation MADC flats of 17.984 cents and the base model mail processing unit cost of Nonautomation ADC flats of 13.351 cents equals the base model mail processing unit cost of Nonautomation Basic category flats of 15.329 cents. If you do not confirm, please explain your response fully and provide the appropriate weighted average unit cost and your underlying calculations.

(f) Taking into account your response to subpart (e) of this interrogatory, please confirm that deaveraging the Nonautomation Basic flat unit cost into MADC and ADC Nonautomation flat unit costs does not change any of the CRA adjustment factors presented in USPS-LR-J-61.

(g) Please confirm that applying the CRA adjustment factors in USPS-LR-J-61 to the Nonautomation MADC base model mail processing unit cost of 17.984 cents results in a total mail processing unit cost for MADC Nonautomation flats of 22.445 cents. If you do not confirm, please explain your response fully and provide the appropriate unit costs and your underlying calculations.

(h) Please confirm that applying the CRA adjustment factors in USPS-LR-J-61 to the Nonautomation ADC base model mail processing unit cost of 13.351 cents results in a total mail processing unit cost for Nonautomation ADC flats of 17.706 cents. If you do not confirm, please explain your response fully and provide the appropriate costs and your underlying calculations.

(i) Please confirm that the weighted average (weighted based upon base year Standard Mail volumes) of the total mail processing unit costs of Nonautomation MADC flats of 22.445 cents and of Nonautomation ADC flats of 17.706 cents equals the total mail processing unit cost of Nonautomation Basic category flats of 19.729 cents. If you do not confirm, please explain your response fully andprovide the appropriate costs and your underlying calculations.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.

RESPONSE TO POSTCOM/USPS-T24-2 (CONTINUED)

- (e) Confirmed.
- (f) Confirmed.
- (g) Confirmed.
- (h) Confirmed.
- (i) Confirmed.

POSTCOM/USPS-T24-3. Please refer to USPS-LR-J-61, Standard.xls, which develops Standard Mail total mail processing unit cost estimates by rate category for flats.

(a) Please confirm that the cost estimates for the Automation Basic rate category are averages of cost estimates for flats that could be considered Automation MADC flats and others that could be considered Automation ADC flats. If you do not confirm, please explain.

(b) Please refer to worksheet 'BY00 Volume' that presents Standard Mail flats FY2000 volumes. Please confirm that, by applying package-based presort level eligibility requirements similar to current eligibility requirements (i.e., automation flat eligibility is based on the package presortation level), the FY 2000 volume of 424,818,179 Automation Basic category flats (volumes in cells F47:F48, G43:G48, I47:I48, and J43:J48) is comprised of 156,201,184 Automation MADC category flats (volumes in cells G43:G44 and J43:J44) and 268,616,995 Automation ADC category flats (volumes in cells F47:F48, G45:G48, I47:I48, and J45:J48). If you do not confirm, please explain your response fully and provide the appropriate volumes, and your underlying calculations.

(c) Please confirm that the following modifications develop a mailflow for Automation MADC flats (as defined in subpart (b) of this interrogatory) with a base model mail processing unit cost of 16.507 cents. If you do not confirm, please explain your response fully and provide the appropriate costs and your underlying calculations.

'BY00 Volume' Worksheet

Cells Formulae

O43:O44 Replace \$P\$49 with SUM(\$P\$43:\$P\$44)

'Basic Auto Cost' Worksheet

Cell Formula

C11 =SUM('PACKAGE SORT'!Q39:Q40)

C12 =SUM('PACKAGE SORT'!R39:R40)

- C15 =0
- C16 =0

'Basic Auto Model' Worksheet

- Cell Formula
- C11 ='ENTRY PROFILE'IS40+'ENTRY PROFILE'IT40
- C13 =0
- K11 ='ENTRY PROFILE'IS39+'ENTRY PROFILE'IT39
- K13 =0

RESPONSE TO POSTCOM/USPS-T24-3 (CONTINUED)

(d) Please confirm that the following modifications develop a mailflow for Automation ADC flats (as defined in subpart (b) of this interrogatory) and a base model mail processing unit cost of 11.581 cents. If you do not confirm, please explain your response fully and provide the appropriate costs and your underlying calculations.

 'BY00 Volume' Worksheet

 Cells
 Formulae

 M45:M48
 Replace \$P\$49 with SUM(\$P\$45:\$P\$48)

 O45:O48
 Replace \$P\$49 with SUM(\$P\$45:\$P\$48)

'Basic Auto Cost' Worksheet

Cell Formula

C11 =SUM('PACKAGE SORT'IQ41:Q42)

C12 =SUM('PACKAGE SORT'IR41:R42)

C15 =SUM('PACKAGE SORT'!U43:U44)

C16 =SUM('PACKAGE SORT'IV43:V44)

'Basic Auto Model' Worksheet

Cell Formula

C11 ='ENTRY PROFILE'IS42

K11 ='ENTRY PROFILE'IS41

(e) Please confirm that the weighted average (weighted based upon Standard Mail base year mail volumes) of the base model mail processing unit costs of Automation MADC flats of 16.507 cents and of Automation ADC flats of 11.581 cents equals the base model mail processing unit cost of Automation Basic category flats of 13.392 cents. If you do not confirm, please explain your response fully and provide the appropriate costs and your underlying calculations.

(f) Taking into account your response to subpart (e) of this interrogatory, please confirm that deaveraging the Automation Basic flat unit cost into MADC and ADC Automation flat unit costs does not change any of the CRA adjustment factors presented in USPS-LR-J-61. If not confirmed, please explain your response fully.

(g) Please confirm that applying the CRA adjustment factors from USPS-LR-J-61 to the Automation MADC model unit cost of 16.507 cents results in a total mail processing unit cost of 20.934 cents. If you do not confirm, please explain your response fully and provide the appropriate costs and your underlying calculations.

RESPONSE TO POSTCOM/USPS-T24-3 (CONTINUED)

(h) Please confirm that applying the CRA adjustment factors from USPS-LR-J-61 to the Automation ADC model unit cost of 11.581 cents results in a total mail processing unit cost of 15.896 cents. If you do not confirm, please explain your response fully and provide the appropriate costs and your underlying calculations.

(i) Please confirm that the weighted average (weighted based upon base year mail volumes) of the total mail processing unit costs of Automation MADC category flats of 20.934 cents and of Automation ADC category flats of 15.896 cents equals the total mail processing unit cost of Automation Basic category flats of 17.748 cents. If you do not confirm, please explain, provide the appropriate costs, and describe your calculations.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) Confirmed.
- (f) Confirmed.
- (g) Confirmed.
- (h) Confirmed.
- (i) Confirmed.

POSTCOM/USPS-T24-4. Please refer to your testimony at pages 12-13, which discusses the presort-adjusted mail processing unit cost methodology, and to USPS-LR-J-61, Standard.xis, which develops Standard Mail total mail processing unit cost estimates by rate category for flats.

(a) Please confirm that "using the identical entry profile from the corresponding nonautomation mail flow model" and the mail flow models discussed in POSTCOM/USPS-T24-2 and POSTCOM/USPS-T24-3, the presort-adjusted total mail processing unit costs for Nonautomation MADC flats is 22.445 cents, Nonautomation ADC flats is 17.706 cents, Automation MADC flats is 19.057 cents, and Automation ADC flats is 15.484 cents. If you do not confirm, please explain your response fully and provide the appropriate costs and your underlying calculations.

(b) Please confirm that the weighted average cost (using base year Standard Mail volumes) of the presort-adjusted total mail processing unit costs of Automation MADC flats of 19.057 cents and of Automation ADC flats of 15.484 cents equals the presort-adjusted total mail processing unit cost of Automation Basic category flats of 17.009 cents. If you do not confirm, please explain, provide the appropriate costs, and describe your calculations.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.

POSTCOM/USPS-T24-5. Please refer to USPS-LR-J-61, Standard.xls, and confirm that (using the definitions provided in POSTCOM/USPS-T24-2-3) the base year Standard Mail volume figures in the table below are correct. If you do not confirm, please explain, provide the appropriate figures and describe your calculations.

	MADC		ADC	
Description	Nonautomation	Automation	Nonautomation	Automation
Standard Regular	319,935,391	135,721,800	549,013,442	210,414,564
Standard Nonprofit	137,972,606	20,479,384	65,699,730	58,202,431

Table 1. Standard Mail Base Year 2000 Flat Volumes

RESPONSE:

Confirmed.

POSTCOM/USPS-T24-6 In your answer to Postcom/USPS-T24-1, you differentiate between "models" and "estimates." Please describe the fashion in which the "estimates" are derived without reliance on the "models."

RESPONSE:

The total mail processing unit cost estimates by rate category are derived using the model costs by rate category. However, the subject interrogatory concerned the costs related to missorting. Those costs are not included in the cost models. Consequently, the model costs by rate category contain no costs related to missorting.

The CRA mail processing unit costs, however, do contain the costs related to missorting. The CRA costs are used to develop adjustment factors. These adjustment factors are, in turn, applied to the model costs as described in USPS-T-24, page 12 at 21-22. Consequently, the total mail processing unit cost estimates by rate category do contain costs related to missorting.
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE

POSTCOM/USPS-T24-7. Please refer to USPS-LR-J-61, Standard.xls, which develops Standard Mail total mail processing unit cost estimates by rate category for flats.

(a) Please confirm that the AFSM 100/FSM 881 incoming secondary machinable flats coverage factor for Standard mail in cell D19 in worksheet 'COVERAGE FACTORS' is 65%. If you do not confirm, please explain fully.

(b) Please confirm that both the automation and nonautomation mailflow models use the AFSM100/FSM 881 incoming secondary machinable flats coverage factor of 65%. If you do not confirm, please explain fully.

(c) Please confirm that the manual incoming secondary machinable flats coverage factor for Standard mail in cell D21 in worksheet 'COVERAGE FACTORS' is 35%. If you do not confirm, please explain fully.

(d) Please confirm that the automation and nonautomation mailflow models use the manual incoming secondary machinable flats coverage factor of 35%. If you do not confirm, please explain fully.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE

POSTCOM/USPS-T24-8. Please refer to USPS-LR-J-61, Standard.xls, which develops Standard Mail total mail processing unit cost estimates by rate category for flats.

(a) Please confirm that the following modifications apply the same incoming secondary machinable flats coverage factors for Standard mail as in your unmodified worksheets, allow the application of different incoming secondary machinable flats coverage factors for automation and nonautomation mail, and do not change the mail processing unit cost estimates. If you do not confirm, please explain fully.

'COVERAGE FACTORS' Worksheet

<u>Cells</u>	<u>Formulae</u>
A19	AFSM100/FSM881 – Barcoded
A20	AFSM100/FSM881 - Nonbarcoded
A21	Manual – Barcoded
A22	Manual – Nonbarcoded
0.00	

- D20 65.00%
- D22 35.00%

'3-5 NONAUTO MODEL' Worksheet

<u>Cells</u> <u>Formulae</u>

- C83, C84 Replace 'COVERAGE FACTORS'!D19 with 'COVERAGE FACTORS'ID20
- H83, H84 Replace 'COVERAGE FACTORS'!D19 with 'COVERAGE FACTORS'!D20
- T83, T84 Replace 'COVERAGE FACTORS'!D21 with 'COVERAGE FACTORS'!D21

'BASIC NONAUTO MODEL' Worksheet

Cells Formulae

- C83, C84 Replace 'COVERAGE FACTORS'!D19 with 'COVERAGE FACTORS'!D20
- H83, H84 Replace 'COVERAGE FACTORS'ID19 with 'COVERAGE FACTORS'ID20
- T83, T84 Replace 'COVERAGE FACTORS'ID21 with 'COVERAGE FACTORS'ID22

(b) Please confirm that the modifications in subpart (a) of this interrogatory and the following incoming secondary machinable flats coverage factors develop presort-adjusted total mail processing unit costs on the 'PRESORT LEVELS HELD CONSTANT' worksheet for 3/5-digit Nonautomation Presort of 13.050 cents and for 3/5-digit Automation Presort Rev of 11.628 cents. If you do not confirm, please explain fully.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE

RESPONSE TO POSTCOM/USPS-T24-8 (CONTINUED)

'COVERAGE FACTORS' Worksheet

<u>Cells</u>	<u>Formulae</u>			
D19	70.00%			
D20	60.00%			
D21	30.00%			
D22	40.00%			

(c) Please confirm that the modifications in subpart (a) of this interrogatory and the following incoming secondary machinable flats coverage factors develop presort-adjusted total mail processing unit costs on the 'PRESORT LEVELS HELD CONSTANT' worksheet for 3/5-digit Nonautomation Presort of 13.177 cents and for 3/5-digit Automation Presort Rev of 11.605 cents. If you do not confirm, please explain fully.

'COVERAGE FACTORS' Worksheet

<u>Cells</u>	Formulae			
D19	70.00%			
D20	50.00%			
D21	30.00%			
D22	50.00%			

RESPONSE:

- (a) Confirmed.
- (b) Confirmed. However, machinable nonautomation and automation presort flats mail pieces are typically processed on the same equipment at the same time. There is no evidence suggesting that the coverage factors used in the cost models for machinable nonautomation and automation presort flats mail pieces should differ.
- (c) Confirmed. However, machinable nonautomation and automation presort flats mail pieces are typically processed on the same equipment at the same time. There is no evidence suggesting that the coverage factors used in the cost models for machinable nonautomation and automation presort flats mail pieces should differ.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE REDIRECTED FROM WITNESS KINGSLEY

POSTCOM/USPS-T39-2 Please list and describe all factors that cause an automation flat to be less expensive for the Postal Service to handle than a similar nonautomation flat.

- (a) Individually for each factor, indicate whether the resulting savings are modeled in the flats mail processing cost models contained in USPS LR-J-61.
- (b) For each factor not modeled in USPS LR-J-61, please describe in detail why it reduces Postal Service costs.
- (c) For each factor not modeled in USPS LR-J-61, please provide a copy of all studies, reports, and analyses that discuss or quantify the benefits to the Postal Service of the factor.

RESPONSE:

The interrogatory does not define how the nonautomation and automation flats are "similar." It is assumed that the only mail piece characteristics that differ between the two flats are: (1) presence of a barcode on the automation flat, and (2) the address quality associated with each mail piece. Therefore, these factors would be the only ones that would affect the mail processing costs and result in a cost difference.

(a) Yes. The Bar Code Reader (BCR) and Optical Character Reader (OCR) accept rates found in USPS LR-J-61, page 57, were from engineering tests that quantified the acceptance percentages for pre-barcoded (93.87%) and non-barcoded mail pieces (73.63%), respectively. In addition, see please the response to POSTCOM/USPS-T24-1 for a discussion of how CRA proportional adjustment factors are applied to the model costs to account for the fact that some tasks are not actually modeled.

(b) (c) Not applicable.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE REDIRECTED FROM WITNESS KINGSLEY

POSTCOM/USPS-T39-6 Please provide any reports, studies, analyses or data that quantify the incidence of or costs of missorted mail.

RESPONSE:

It is assumed that the term "missorted mail" refers to mail pieces that are initially routed to the incorrect delivery address. To my knowledge, the Postal Service does not have any information responsive to this request. Also, please see the response to POSTCOM/USPS-T24-1.

VP/USPS-T24-2 Please refer to your testimony at page 6, lines 24-27, where you discuss "worksharing related fixed" cost pools and state that "[t]hese costs represent tasks that have not actually been modeled."

- a. Please identify all tasks or cost pools for Standard flats that have not actually been modeled.
- b. What plans does the Postal Service have to model any of these "worksharing related fixed" tasks/cost pools that as yet have not actually been modeled?
- c. Is it possible that if or when these tasks/cost pools were to be modeled, they could turn out to be reclassified as "worksharing related proportional?" That is, to what extent do you know that they are worksharing related fixed, and to what extent are you simply assuming that they are worksharing related fixed?
- d. Have you modeled any cost pools/tasks that either were or have turned out to be "worksharing related fixed?" If so, please describe them.

RESPONSE:

a. See USPS LR-J-61, page 71, column E. The "worksharing related fixed" cost pools that have not been modeled are cost pool numbers 22 ("1BULKPR") and 44 ("LD79").

b. There are currently no plans to model the tasks represented by cost pools 22 and 44.

c. No. The costs found in cost pool 44 ("LD79") represent the acceptance and verification tasks that occur in the Business Mail Entry Unit (BMEU) when mailers submit their mailings to the Postal Service. The costs found in cost pool 22 ("1BULKPR") represent the tasks performed by mailhandlers once they receive the accepted and verified mail from the BMEU clerks. These mailhandlers sort the containers of mail based on the next operation to which that mail needs to be routed. The tasks represented by these cost pools occur because the mail is entered at the BMEU. These cost pools are accordingly classified as

RESPONSE TO VP/USPS-T24-2 (Continued)

worksharing related. Each mail piece would incur these costs only once, however, regardless of whether that mail piece were prebarcoded and/or presorted. Therefore, it is reasonable to conclude that these costs are fixed.

d. No.

VP/USPS-T-24-3 At page 7, lines 6-9, you discuss briefly the "non-worksharing fixed" category of costs.

- a. Have you modeled any of these costs? If so which ones?
- b. What plans does the Postal Service have to model any of these nonworksharing fixed tasks/cost pools that as yet have not actually been modeled?
- c. For Standard ECR Mail, what percentage of mail processing costs did this classification represent in Base Year?
- d. For Standard ECR mail, please provide representative examples of the types of cost pools or tasks that constitute non-worksharing related fixed costs.

RESPONSE:

a. No.

b. There are no plans to model these cost pools.

c. & d. My testimony develops cost estimates for non-ECR Standard Mail flats only. Standard Mail ECR cost estimates can be found in the testimony of witness Schenk (USPS-T-43). The Standard Mail ECR cost estimates rely on a cost methodology different from that used in my testimony. Consequently, the Postal Service has no information responsive to this request.

VP/USPS-T24-4 Please refer to Table 1 at page 14 of your testimony.

- a. For each unit cost shown in that table, please provide (i) the modeled cost and (ii) the adjustment(s) used to reconcile the modeled cost with the Cost and Revenue Analysis ("CRA") cost.
- b. Please provide also the percentage adjustments that were necessary to reconcile the modeled cost with the CRA cost, if those percentages are not readily calculable from the data which you provide.

RESPONSE:

a.b. Please see Attachment 1.

RESPONSE TO VP/USPS-T24-4 (Continued)

	(1)	(2)	(3) Worksharing	(4)	(5) Non-	(6) Total	(7) Total
	Actual Model	Presort-Adj Model	Related Proportional	Worksharing Related Fixed	Worksharing Related Fixed	Actual Mail Proc	Presort-Adj Mail Proc
Category FIRST-CLASS MAIL FLATS	Cost (Cents)	Cost (Cents)	Adj Factor	Adjust (Cents)	Adjust (Cents)	Cost (Cents)	Cost (Cents)
Nonautomation Flats	11,769	11,769	1.970	0.082	9.350	32.514	
Nonautomation Mixed ADC Flats	_	20.545	1.970	0.082	9.350	-	49.901
Nonautomation ADC Flats		14.367	1.970	0.062	9.350	-	37.732
Nonautomation 3-Digit Flats		13.914	1.970	0.062	9,350		36.839
Nonautomation 5-Digit Flats		6.954	1.970	0.062	9,350		23,129
Automation Mixed ADC Flats	15.903	15,903	1.970	0.082	9,350	40.757	40,757
Automation ADC Flats	11.378	11.378	1.970	0.082	9.350	31,844	31.844
Automation 3-Digit Flats	11.379	11,379	1.970	0.082	9.350	31.845	31.845
Automation 5-Digit Flats	6.211	6.211	1.970	0.062	9.350	21.666	21.666
PERIODICALS FLATS							
Nonautomation Basic Flats	16.702	16.702	1.208	0.046	4.826	25.051	25.051
Nonautomation 3-Digit Flats	12.625	12.625	1.208	0.046	4.826	20.126	20.126
Nonautomation 5-Digit Flats	6.982	6.982	1.208	0.046	4.826	13.308	13.308
Nonautomation Carrier Route Flats	1.701	1.701	1.208	0.046	4.826	6.927	6.927
Automation Basic Flats	12.958	13.753	1.208	0.046	4.826	20,529	21.489
Automation 3-Digit Flats	10.387	10.812	1.208	0.046	4.826	17.422	17.936
Automation 5-Digit Flats	6.275	6.485	1.208	0.046	4.826	12,454	12.707
STANDARD MAIL FLATS			-				
Nonautomation Basic Flats	15.329	1\$.329	1.023	0.047	4.003	19,729	19.729
Nonautomation 3/5-Digit Flats	8.619	8.619	1.023	0.047	4.003	12.866	12.866
Automation Basic Flats	13.392	12.670	1.023	0.047	4.003	17,748	17.009
Automation 3/5-Digit Flats	7.488	7.442	1.023	0.047	4.003	11.709	11.662

(1) USPS LR-J-61 pages 1 (First-Class Mail), 34 (Periodicals), and 69 (Standard Mail) (2) USPS LR-J-61 pages 2 (First-Class Mail), 35 (Periodicals), and 70 (Standard Mail) (3) USPS LR-J-61 pages 1 (First-Class Mail), 34 (Periodicals), and 69 (Standard Mail) (4) USPS LR-J-61 pages 1 (First-Class Mail), 34 (Periodicals), and 69 (Standard Mail) (5) USPS LR-J-61 pages 1 (First-Class Mail), 34 (Periodicals), and 69 (Standard Mail) (6) (1) $^{\circ}$ (3) + (4) + (5) (7) (2) $^{\circ}$ (3) + (4) + (5)

CHAIRMAN OMAS: Is there any additional written 1 cross-examination for Witness Miller? 2 (No response.) 3 There being none, this brings us CHAIRMAN OMAS: 4 Two parties have requested oral to oral cross-examination. 5 cross, the Association of Postal Commerce and Val-Pak Direct 6 Marketing Systems, Inc. and Val-Pak Dealers Association, 7 8 Inc. Is there any other parties who wish to cross-9 examine Witness Miller? 10 (No response.) 11 There being none, Mr. Wiggins, CHAIRMAN OMAS: 12 would you please begin and identify yourself for the record? 13 MR. WIGGINS: Thank you, Mr. Chairman. 14 CROSS-EXAMINATION 15 BY MR. WIGGINS: 16 Mr. Miller, my name is Frank Wiggins. I'm here 17 Q for the Association for Postal Commerce or PostCom as it's 18 abbreviated in the interrogatories to you. 19 Take a look with me if you would, please, at page 20 9 of your testimony, and particularly I'm interested in the 21 sentences running from lines 14 through 17 on page 9. What 22 I'd like to do so that we all have them freshly in our head 23 is just to read those few lines aloud. 24 "First, the originating and destinating coverage 25 Heritage Reporting Corporation (202) 628-4888

1 factors by class of mail that were calculated in Docket No.
2 R2000-1 are again used in this document as a footnote. The
3 FSM-1000 coverage factors are used for both the AFSM-100 and
4 the FSM-1000 machines. In general, the same facilities tend
5 to have both machines."

6 That's all I'm going to read. The paragraph does 7 go on. I take it that that last sentence, "In general, the 8 same facilities tend to have both machines," is the 9 explanation for why you used the same coverage factors?

10 A Yes.

11 Q Okay. There aren't the same number of machines?
12 A Are you referring to the same number of machines
13 in a given facility?

14 Q No. In total.

15 A In total, no.

16 Q There are rather a lot more AFSM-100s. Am I 17 right?

18 A Yes, there are.

19 Q Define the word coverage as you use it in the 20 context that I've just supplied if you would, please. What 21 does coverage mean?

A Coverage factors in the equipment context refer to the percentage of mail that has access to a given piece of equipment.

-

25

Q And when you say has access to a given piece of

equipment, suppose this. Suppose a mail processing facility with 1,000 pieces of mail in it that has both an AFSM-100 and an FSM-1000. Then suppose a sister processing facility that has equally 1,000 pieces of mail, but has only the FSM-1000 equipment in it.

How would you calculate the coverage for eachfacility in each of those hypothetical instances?

8 A First of all, the coverage factors are calculated 9 on a nationwide basis.

10

Q Well, suppose that's the nation.

11 A At the facility where there were both an AFSM-100 12 and an FSM-1000, the coverage factor would be 100 percent 13 for both of them.

14 In the other instance, the coverage factor for the 15 AFSM-100 would be 100 percent, and the FSM-1000, which I 16 believe you said they didn't have an FSM-1000, would be zero 17 percent.

Q Okay. When you do the calculation on a nationwide basis, let's suppose that these two facilities taken together constitute the nation. Could you tell me what the national coverage factor would be in that circumstance? It would still be 100 percent for the AFSM-100 because it's 100 percent in both instances, right?

A I guess I'm having a problem with extrapolating
 25 this to a nationwide basis because not all facilities have

an AFSM-100, so I'm not really following what you're asking
 me.

Q Well, would it be helpful to put in a third facility that had neither? Would that help your calculation? I'm just trying to figure out how this stuff works. It's not clear to me.

7 A The way the coverage factors have typically been 8 calculated is they're calculated using Otis data, and 9 they'll look at equipment inventories at each facility and 10 what three digit zip codes are process through for each 11 facility.

12 Then based on whether that facility has the 13 specific piece of equipment, they'll just total all the 14 three digit zip codes that have a processing facility that 15 has that equipment and divide it by the total volume. 16 That's where they get the coverage factors. I'm not sure if 17 that helped.

Q Well, I think it does. You don't really think about this on a machine by machine basis. You think about it on a nationwide --

21 A Yes.

22 Q The relationship of certain streams of mail to 23 certain kinds of machines. Is that right?

24 A Yes.

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Q Okay. Take a look if you would, please, to your

answer to PostCom/USPS-T-24-7 and particularly subparts B
 and C and your answers to those. Particularly B, I guess.

What you're telling me there when you confirm the statement that the automation and non-automation mail flow models use an incoming machine to a class coverage factor of for percent, you're telling me that there's no differentiation between automation and non-automation mail flows when it comes to setting the coverage factor.

9 That's I think consistent with the definition of 10 coverage factor that you just gave me. Am I right about 11 that?

12 A Actually, the definition I just gave you referred 13 to equipment coverage factors.

Q Right. Okay.

14

15 A Coverage factor may not have been the best term to 16 use in this instance. This actually is an operations 17 estimate based on the percent of mail just for the incoming 18 secondary that would be processed on automation.

19 Q Are you telling me that the notion of coverage 20 factor isn't appropriate in this context?

21 A I'm not saying that. I'm just saying it's a 22 different sort of analysis.

23 Q Did you intend to convey the impression that I 24 received that coverage factor doesn't have anything to do 25 with whether a given piece of mail is going actually to be

processed on a machine; it's only whether there's a machine there on which the mail might be processed? Is that right?

3

A That's correct.

Do you have a view whether as an operational fact, Ο 4 5 to the extent that you're conversant with operational facts, if there's a facility and it's got a machine, and it's got 6 in front of it two piles a mail, a pile of automation mail 7 and a pile of non-automation mail, either of which if run 8 over the machine would keep the machine busy at capacity so 9 that you have three choices, I suppose. You can choose Pile 10 A, automation, Pile NA, non-automation, or you can merge the 11 piles and do half of each of them. Roughly right? 12

13

14

A (Non-verbal response.)

Q You have to say yes or no.

15 A Yes.

16 Q Okay. If you were in charge of that machine or 17 the people who operate that machine, what would be your • 18 choice among those three alternatives?

19 A Actually, I've never worked in that capacity where 20 I would make those sort of decisions, so I would defer that 21 sort of guestion to somebody from operations.

Q I'm not an operations guy either obviously, but it seems to me, and you tell me if you disagree with this analysis. We can both do analysis, even if we're not operations guys.

1 If I'm looking at this from sort of a systems 2 point of view and I've got a pile of automation mail and a 3 pile of non-automation mail and I've got a machine, I'd put 4 the automation mail on the machine, wouldn't you?

5 A Again, I've never worked in that capacity. I 6 would imagine if somebody is supervising a flat sorting 7 operation they're more familiar with the mail they get.

8 I could see instances where maybe mail 9 characteristics for non-automation or automation mail would 10 have an impact also on what they do in addition to just the 11 fact that one has a bar code and one doesn't.

12 Q Let's take that out of play because neither of us 13 knows enough to get down to that finely resolved analysis.

14 Suppose the mail pieces have every characteristic 15 in common except that one has a bar code and one doesn't. 16 I'm not trying to press you into information or opinions 17 that you don't have, so just say I really can't tell you if 18 that's it. Wouldn't the choice be fairly clearly there?

A If you have two mailings there and one is automation and one is not automation and they have the exact same mail piece characteristics except one has a bar code and if there were problems that you've had with the bar codes, the accept rate for bar codes on an AFSM-100 is higher than the accept rate for mail pieces that just have machine printed addresses, so what you're saying would make

1 sense.

Q Sure, and because the accept rate is higher the throughput is faster or larger, right? You can handle more mail if you have a better accept rate?

5 A I don't know if I'd say the throughput is higher. 6 I mean, the flat sorting machines are mechanized and pretty 7 much go at the same pace.

8 Q Well, that gets to a definition of throughput that 9 probably neither of us is confident to talk about.

Have a look, if you would, now at your response to part B as in boy of PostCom-T-24-8. Have you had a chance to review that?

- 13 (Pause.)
- 14 A Yes, I have.

When you say, and I'm now reading the last 15 Q sentence of your answer to subpart B, "There is no evidence 16 suggesting that the coverage factors used in the cost models 17 for machineable non-automation and automation pre-sort flats 18 mail pieces should differ," is that just another way to say 19 the conclusion that you and I have just been talking about 20 21 in the previous series of questions, or is there something more there that I'm not grasping? 22

A No. In the example you used, the assumption was that there were two mailings requiring processing in which one would be chosen first.

Q Correct.

1

2 A The coverage factors are for the total volume in 3 terms of what gets processed on a machine and the incoming 4 secondary operations on an AFSM-100.

5 I was just saying there's no data to say that the 6 coverage factors would be any different for non-automation 7 than automation.

8 Q Let me see whether I can parse this. No evidence 9 suggesting that the coverage factors for machineable 10 non-automation and automation should differ.

Are you just saying that there isn't enough empirical data? There aren't enough empirical data out there to come to a conclusion? If you had more facts, you might be able to create separate coverage factors for nonautomation and automation pre-sort flats, but you just don't have the data?

17 A Yes, to the extent that the coverage factors would18 be different.

19 Q Correct.

A But since you're talking about incoming secondaries, I would assume you're going to have a mixture of non-automation and automation mail that needs to be processed to that zip code, so it seems like it would be at least close. There is no data that would provide a way to calculate separate coverage factors.

Q Okay. Thanks. Look now, if you would, at your answer to AOLTW/USPS-T-24-1 and particularly subpart C of that question, which asks whether all non-machineable flats can be processed on FSM-1000 machines, provided machine availability, and you say yes, they all can. Is that right? A Yes, that's true.

Q We have it from another witness, and I'll ask you to accept the accuracy of her answer subject to check or as a hypothetical, whichever you would prefer, that all flats, that is pieces that meet the definition, the DMM shape definition of a flat, can be processed on the AFSM-100.

Okay. So the stuff that's perfectly flat in the Postal definition sense gets processed or is processable on the AFSM-100, and you say that everything that's nonmachineable, and you've said that your definition of nonmachineable is that which cannot be processed on the AFSM-100, right?

18

А

That's correct.

19 Q Okay. So we've got those that can be processed on 20 the AFSM-100. Witness Kingsley says they can all be 21 processed on that machine.

Now you're telling me that everything else can be processed on the FSM-1000, correct? Everything that's a flat?

------.

25

A That's correct.

Q Yes. So am I right if I try to put those two factoids together? Am I right in thinking that all flats can be processed on a machine? There's no need for manual processing unless, of course, you don't have enough machines?

A Actually, I would say that my response to this interrogatory was made and the assumptions that I used in the cost model was made in the cost modeling sense. I would defer that question to Witness Kingsley in terms of can all flats actually be processed on both pieces of equipment in total.

12 Q But you've assumed for purposes of your modeling 13 that they can?

14 A Yes.

Q So if the real world diverges from that assumption, there's something disjointed here that may lead to inaccuracies in the rates that are taken out of your models?

A In general, cost models are simplified
representations of the actual mail processing network, and
that's one reason why we've been using hybrid cost
methodologies applying CRA adjustment factors.

Q Do you know whether there is an adjustment factor applied to account for flats that are not capable of being sorted by machine?

1 A There wouldn't be an adjustment factor for that 2 specifically.

Q So there isn't? Is that correct?

4 A There isn't a factor that's applied just for that 5 purpose.

Q Yes. When you say there's not --

7 A Just the aggregate adjustment factors that have
8 been applied.

9 Q I wasn't trying to be picky with you there, but 10 when you say there wouldn't, that's not really a fact 11 statement, and we should have fact statements for the 12 record, here.

13There wasn't, correct? There wasn't an adjustment14of that kind applied here?

15 A Just for that specific purpose.

16 Q Correct.

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17 A There's one that would take care of --

18 Q A multitude.

19 A -- any difference between the CRA mail processing
20 unit cost estimates and the cost model estimates.

Q Understood. You talk in your answer to AOLTW-T-24-2 in subpart B -- do you have that? You talk about non-machineable flats. I just want to be clear what the definition of non-machineable flats as you've used it in that answer is.

We're looking at AOL-Time Warner Interrogatory 2? Α 1 The question consists only of two T-24-2. 2 0 Yes. subparts. There isn't a main part. There's just an A and a 3 в. 4 I just confirm the statement that was made Yes. 5 Α in part B. I didn't really discuss non-machinability. 6 I understand, but the question has in it the 7 0 No. term non-machineable. 8 9 Α Yes. I just want to be clear about how you were using 10 0 or how you interpreted that term when you confirmed the 11 12 statement. It would be the flats that were classified as 13 Ά non-machineable in the mail characteristics studies that are 14 used to develop the entry profile and the cost models. 15 Can you tell me what characteristics those mail Q 16 pieces have? 17 They basically would be the mail pieces that 18 А couldn't be processed on the FSM-881, I believe, at the time 19 these mail characteristic studies were carried out. 20 But today your definition would be, and I think 21 0 this is what you told me a little bit ago, that they 22

24 machineable means?

- 25

23

A I'm sorry. I must have gotten confused when you

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couldn't be processed on a machine. That's what non-

1 asked the question earlier. Non-machineable to me means 2 that it just can't be processed on the FSM-881 or the 3 AFSM-100.

Q Okay. Perhaps I misunderstood. A piece is not non-machineable if it can't be processed on either the 881 or the AFSM-100, but can be processed on the FSM-1000?

A Yes, that's correct.

Q That's a non-machineable piece?

9 A Yes.

А

10 Q Okay. As well as all pieces, if there are any, 11 and I think we've determined there are no flat pieces that 12 meet this characteristic, but any pieces that could not be 13 processed on any of the three machines would also be non-14 machineable?

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That's correct.

16 Q In your answer to PostCom-T-24-2 and 3, which are 17 parallels, one for automation and one for non-automation 18 pieces, just look at 2.

We had in our question and, therefore, you have in your answer combined non-automation flats and automation flats for purpose of this analysis. Is that right? You've combined the costs?

23 A You're referring to the analysis described in24 Interrogatory 2?

25

Q Yes. In PostCom 2 to you, yes.

Could you repeat your question? Α 1 Does the analysis that you're performing Sure. 2 0 into which we're inquiring here, does it in measuring costs 3 combine or in reporting costs combine the costs of 4 automation and non-automation mail? 5 I guess I'm confused by your question. 6 Α Interrogatory 2 only deals with non-automation mail pieces, 7 and Interrogatory 3 deals with automation mail pieces. 8 Okay. I was a little confused by your answer, but 9 Q let me put a different question, which is I think clear from 10 our guestion, though I'm not clear about the answer. 11 Do you in the same analysis combine MADC flats and 12 ADC flats in reporting cost? 13 They're both part of either the non-А Yes. 14 automation basic rate category or the automation basic rate 15 category. 16 To put it a different way, if I look at the 17 0 automation rate category I don't see a separate cost number 18 for MADC and ADC flats. They're not broken apart? 19 That's correct. 20 А Okay. And why is that? Why did you determine not 21 0 to deaverage those two different varieties or mail streams? 22 Pieces in different mail streams I guess is the right way to 23 think about it. 24 The purpose of my testimony was to develop cost 25 Α

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estimates for the flats rate categories, so in order to fulfill that purpose I didn't really need to deaverage the costs.
You did deaverage letter costs in a comparable

4 Q You did deaverage letter costs in a comparable 5 circumstance, didn't you?

6 A Could you give me the example that you're 7 referring to?

Q I don't have the citation at hand, so let's just
9 let what is speak for its own self.

10 Speaking of speaking for one's own self, you spoke 11 for Ms. Kingsley in a response to an interrogatory that we 12 put to her that was referred to you. Can you look at 13 PostCom/USPS-T-24, Ms. Kingsley's hyphen 1?

This is just for context really because what I'm really going to ask you is we followed up on this and asked T-24-6, to which --

A Excuse me. Do you mean T-39?

17

Q I'm sorry. T-39, yes. The one I'm really going to ask you about is T-24-6, which is a follow up. Wait. No. I'm sorry. This was your answer. I apologize. This is No. 1 to you, Mr. Miller. It refers to T-39, and then our follow up to you is T-24-6.

If I understand this correctly, in explaining to me, and it's a thing that you touched on just a little bit ago. When you move from models to estimates, you do so by

making a variety of adjustments. You adjust the model results to try to come to estimates that will more closely model the world as you have seen it or mimic the world. Model is probably a bad word to use there. Mimic the world as it appears. Is that basically the sense of it?

6

That's true.

А

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Q Okay. And you do that by making adjustments, by applying the adjustment factors that you and I have talked about earlier, correct?

10

A That's true.

11 Q Are those adjustment factors created as a matter 12 of logic? Do you sit down and say this is what my model 13 looks like, but for reasons A, B and C, reasons exogenous to 14 the model, I think that I should adjust my modeled results? 15 Is that how the process works?

16 A I would say it's a limit of hybrid cost 17 methodologies that have been used in the past few cases 18 where cost models are tied back to the CRA mail processing 19 unit cost estimates. Logic is used in the sense that you 20 make the determination in how to classify each cost pool.

For example, in my cost models I've classified the cost pools that contain costs related to the activities that are in my cost models as work share and related proportional cost pools.

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Explain to me how that melds itself into the

1 adjustment process.

2 А The work share and related proportional adjustment factor would be the sum of the work share and proportional 3 cost pools divided by a weighted model cost. 4 5 0 Am I right in thinking that the process that you 6 have just described is in a sense mirrored or reflected on 7 page 69 of your Library Reference J-61? Do you have that? Yes, page 69 contains those calculations. 8 А Yes. 9 0 Take me through the progression of logic that we 10 see here, if you don't mind. Is it right to say that we 11 start off in terms of the data manipulation here with Column 5, the model cost column? 12 13 Α Yes. 14 Ο And you're going to then perform some adjustments 15 to that number, correct? 16 Α Yes. 17 And you then take the base year volumes, and from Q 18 the base year volumes you create base year volume Column 7 is an arithmetic creature of Column 19 percentages. 20 6, correct? That's correct. 21 Α 22 0 Your note says that. Note 7 says Rate Category 6 23 divided by Total Category 6. That's the definition of 24 Column 7 values, right? 25 Α That's correct. Heritage Reporting Corporation (202) 628-4888

Q And you calculate the CRA proportional adjustment,
 the number that is labeled nine here, correct?

A Yes.

3

Q And what you then do in Column 11 is to take the model unit cost and adjust it by the CRA proportional adjustment, correct?

7 A That's correct.

8 Q Okay. So the formula that's associated with 9 Column 11 says you take CRA proportional adjustments, and 10 you multiply it by model unit cost to get the Column 11 11 value, correct?

12 A Yes.

13 Q And that's an example of the sort of adjustment 14 that you and I were just talking about? Is that correct? 15 A Yes.

Q Okay. Am I right in thinking that what that does is to square the modeled costs in terms of their values with the CRA values that have been measured by the CRA system or whatever produces the CRA in the real world, correct?

A It basically compares the costs that are included in my cost models to the corresponding costs that would be found in the CRA mail processing unit cost estimates --

23 Q Right.

A -- for standard flats.

Q Right. And why is it that you have to go through

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the modeling process at all if what you want to do at the end of the day is to come up with something that matches with the CRA numbers?

A I think you'd have to go back to the Commission's MC95 opinion recommended decision where they discuss different cost methodologies and state that cost models tend to understate savings and full cost difference approaches overstate savings.

9 Q Sure.

Α

10 A Since that time we've been using hybrid approaches11 like the one in my testimony.

Q Sure. This isn't really something that you invented and sponsor as your own intellectual child. This is a procedure that the Commission, if it didn't mandate it, at least it strongly enforced, and the Postal Service has been following it ever since?

17

That's correct.

18 Q And now we get to your answer to a question 19 initially propounded to Ms. Kingsley. Would you look at 20 PostCom/USPS-T-39-2?

Particularly I'd like you to focus on your reference there that the accept rate for a couple of kinds of machines were from engineering tests. It's only on those two words that I'd like initially to focus. Tell me what you mean by engineering tests.

A Given that non-automation mail and automation mail can both be processed on the AFSM-100, it's difficult to look at an end run report, for example, and see what the accept rate for bar coded mail would be versus non-bar coded mail.

As part of the AFSM-100 program, before they deployed the machines I believe they conducted tests where they only processed bar coded mail on the machines or they only processed non-bar coded mail on the machines, and then these were the results that were from those tests.

11 Q Let me be sure that I understand that. The 12 question that we put to Ms. Kingsley and that you answered 13 was, "Individually for each factor, indicate whether the 14 resulting savings are modeled in the flats mail processing 15 cost models contained in USPS Library Reference 61."

16 You say, "Yes. The bar code reader and optical 17 character reader accept rates were from engineering tests." 18 That means they were modeled in the sense that the 19 engineering test results were incorporated in the model. Is 20 that what you're saying?

In other words, let me put it a different way. I'm confusing even myself now. Your model has accept rates in it, correct?

24

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Yes, that's correct

А

Q That's an imperative part of the model. You can't Heritage Reporting Corporation (202) 628-4888 1 do what you did without an accept rate.

You've got to take that accept rate from someplace. Are you telling me here that your accept rate is not from experience in the field or your imagination, but from the engineering tests that were run what, after the machines were produced or to set standards for the machines or something like that?

8 A It is my understanding that these tests were 9 performed on machines that were deployed to the engineering 10 group. They actually had some machines they used for 11 testing purposes.

As I stated earlier, it's difficult to look at an end run report, for example, for that machine and get this information because both non-automation and automation mail can be processed on that machine, so that's why I used the engineering test results. They're not from actual field operations.

Q Sure. I understood that. I think you said early in this little stage of our colloquy that, for example, the engineering test, unlike the experience in the field, would have a run of all bar coded or mail that was all bar coded, correct?

A Yes. That's how they determined the rates by mailtype.

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And why is that important information to have?

1 Why is that information more valuable to the Postal Service 2 than information as to how the machines actually work in the 3 field?

A I wouldn't describe it as more valuable information. I would describe it as the only information that was available at the time the cost models were developed.

8 Q Well, I think you've just told me that it was the 9 only information available because you chose to run these 10 engineering tests instead of tests in the field. Did I 11 misunderstand you?

A I think I just answered that. It wasn't that it's more valuable information. It was the only information available at the time I developed the cost models. I didn't have the results from any field study.

16 Q And you aren't responsible for deciding whether 17 there should be a field study or an engineering study? You 18 had no vote on that question?

19 A I wouldn't have had time to develop such a study 20 prior to finishing these cost models. In addition, a lot of 21 these machines are still in the process of being deployed, 22 so I don't know if there would have been any better data at 23 the time I had to develop these cost models.

24 Q Mr. Miller, don't take me wrong. I'm not 25 intending to be accusatory here. I was really just asking

1 an historical question.

2 Were you involved in deciding to do engineering 3 tests instead of field tests? The engineering tests were conducted --4 Α No. 5 0 That's all I was looking for. 6 А -- prior to the time I developed my testimony. 7 0 Okav. Thanks. Let me ask you one, and it will be one last question about your response to -- it may be a 8 9 series of questions -- ABM&NAPM/USPS-T-24-2. 10 They ask you there whether mail processing unit 11 cost savings are an important factor in setting discounts. 12 and you say no. Then you go on to explain your answer with 13 a discussion that I must say I just can't penetrate. Let's take it a sentence at a time, and maybe you can sort of 14 15 illuminate what you intended as we go along. The first 16 sentence, "Work sharing related savings estimates involve 17 cost comparisons between a known benchmark and a given rate 18 category." 19 What I'd like you to have in your mind when you 20

explain to me what you meant by that is why this is unlike mail processing unit cost savings, okay? You're saying don't pay attention to mail processing unit costs savings.
Pay attention to what I'm telling you here. I want to know how that sentence is different from mail processing unit cost savings.

Let me ask it a different way. That's a pretty long question. When you look at a known benchmark, and you're here talking about first class mail so the benchmark would be? What do you use as a benchmark for first class mail?

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Α

For first class flats?

Q Automated flats, yes. Well, use first class automated letters if that's easier for you. Anything for which you remember a benchmark. It's not what the benchmark is so much that I care about as its relationship to something, so just tell me anything that you remember what you used the benchmark for.

13 A Well, in terms of flats, I think I said in this 14 response that it's my understanding there is no known 15 benchmark for flats that has historically been used.

16 Q Okay. Use letters then, first class letters.17 What do you use as the benchmark?

18 A Bulk meter mail letters --

19 Q Okay.

Α

20

Q Right. Okay. So there is a benchmark, and we're going to do a cost comparison between bulk metered mail, bulk metered letters, and a given rate category, say first class, first ounce, right? Is that what you mean when you say a given rate category?

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-- have historically been used as the benchmark.

- 1
- That's correct.

Α

2 Q Okay. Now we have a benchmark, and we have a 3 given rate category. What is the cost comparison? 4 You're going to have two numbers, correct? You're 5 going to have the cost for each of those items, and you're going to look at the difference between them, and you're 6 7 going to use that, that difference, in setting a discount, 8 correct? 9 Α (Non-verbal response.) 10 You have to say yes or no again. 0 11 Α Yes. Nods don't record well. Now, is it likely that 12 0 some part of that cost difference will be the mail 13 14 processing unit cost savings differential between those two 15 mail categories? 16 You're referring to first class letters or just in А 17 general? 18 Q Well, since we've got a concrete example of a benchmark and a rate category, let's stand with that, so 19 20 yes. 21 Α Yes, that's true. 22 MR. WIGGINS: Okay. Thank you very much, Mr. 23 Miller. 24 Mr. Chairman, I have no further questions. 25 CHAIRMAN OMAS: Thank you. Heritage Reporting Corporation

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1 Val-Pak Direct Marketing System, Inc. and Val-Pak 2 Dealers Association, Inc., Mr. Miles? 3 Thank you, Mr. Chairman, members of MR. MILES: 4 the Commission. John Miles on behalf of the Val-Pak 5 companies. 6 CROSS-EXAMINATION 7 BY MR. MILES: 8 Q Good morning, Mr. Miller. 9 Good morning. Α 10 I wanted to ask you a couple of questions about Ο the beginning of your modeling career. Looking at your 11 autobiographical sketch with respect to the Postal Service, 12 I believe you said that you began working on modeling cost 13 studies in preparation for Docket No. R2000-1. 14 Is that 15 correct? 16 А No. I actually started in January, 1997 and worked in Docket No. R97-1. 17 18 0 You worked on cost modeling studies for that 19 docket? 20 Α Yes. 21 Q Had you worked on any prior to that time? 22 А In the rate making context? No. 23 Q In your work for Docket No. R97-1, did you 24 determine what the cost models of the Postal Service had 25 been in the past? Did you look, for example, at the cost Heritage Reporting Corporation (202) 628-4888

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1 modeling efforts of the Postal Service in Docket No. MC95-1?
2 A Yes.

Q Now, I took it from your autobiographical sketch that in Docket No. R97 you testified as a direct witness about prepaid reply mail and qualified business reply mail, as well as the OCA's courtesy envelope mail. Isn't that correct?

8

A Yes, that's correct.

9 Q And you did cost modeling studies in connection 10 with those efforts?

11 A Yes, I did.

12 Q Did you testify in that case with respect to13 standard mail?

14

A No, I did not.

Q In Docket No. R2000-1, as a direct witness you presented standard mail letters mail processing unit cost estimated and work sharing related savings estimates. Is that right?

19 A Yes, that's correct.

20 Q Did you work with respect to standard flat mail 21 processing estimates in that case?

22 A No, I did not.

Q When you worked on the cost model for Docket No. R97-1 and Docket No. R2000-1, how deep in the system did the models go? Were the costs configured at the plant level,

1 the PNDC level?

0

Q

2 A No.

3 Q Well, what level are they? It's an amalgamation,
4 is it not, of --

A They were nationwide cost estimates.

6 Q How far deep into the system do the estimates go 7 when you arrange a cost model?

A Which docket are you referring to?

9

8

5

R97-1. Do you remember?

10 A That analysis was very limited in scope and had to 11 do with the cost savings between a pre-approved pre-bar 12 coded reply mail piece and a handwritten reply mail piece, 13 and the only costs that were included in that analysis had 14 to do with tasks required to apply a bar code to a 15 handwritten reply mail piece.

16

How about in R2000-1? Do you recall?

17 A In R2000-1, the letter cost models attempted to 18 model all the operations up to the point that the mail was 19 delivered to the carrier for delivery.

20 Q So that included the destination delivery units or 21 not?

A It included delivery unit cost estimates.
Q Do they in this case? Do your flat mail
processing estimates in this case include delivery unit
costs?

1 A The flats cost studies don't have delivery unit 2 costs as an element.

Q Mr. Miller, at page 1 of your testimony you refer to the two sets of estimates that are provided. Did you prepare those estimates?

6 A

A Yes, I did.

Q When you take on a cost study, a cost modeling study like you did in this case, are you involved in designing the study, or do you carry out a cost modeling study that's already been designed?

11 A As an analyst, I would have the responsibility of 12 determining whether there's something that was used in the 13 past that I could use or whether I should develop something 14 different.

Q Did you have occasion in preparing the cost model study for this docket to recommend that studies or data be provided that weren't or that the cost model study that you undertook should be configured in a certain way that hadn't been in the past?

20

А

Could you repeat that question?

Q In undertaking the cost study model for this docket, did you make recommendations or decisions about changing the cost model study from that which had been done previously for other dockets with respect to let's say standard flats mail processing?

1 A Are you referring to a specific docket or just in 2 general?

Q In general. As you took on the task of undertaking the study for let's say standards flats mail processing cost in this docket, did you raise questions about the available data or approach with respect to that cost study and make recommendations that it be changed in any way?

9 A As the analyst for the flats costs, I was the one 10 that made the decision to the cost models that are in 11 Library Reference 61.

12 Q Did that cost model formula differ in any way from 13 the cost model formula for standard flats mail processing 14 costs that had been performed in the past?

15 A The cost models I used in this docket aren't the 16 same that had been used in any other docket. I developed 17 them specifically for this docket.

Q Did you use all or substantially all of a model that had been used in a prior docket? I know you've testified that the Postal Service has been using hybrid approaches. How similar is your cost model study in this docket to, for example, the study that was performed in MC95-1?

A I'm not intimately familiar with the study that 25 was in that specific docket.

Q Mr. Miller, in general the primary reason for doing a cost model study, and correct me if I'm wrong, is because the CRA cost simply cannot capture the cost differences or the specific rate category cost. Is that correct?

A I don't know if that would be a specific reason that has ever been given for why we're using hybrid cost methodologies, but I believe there are some interrogatory responses regarding limitations in terms of trying to develop CRA mail processing unit costs at the rate category level.

Would you turn to your testimony at page 7? 12 0 In 13 the second full paragraph headed by No. 2, Model Based Mail 14 Processing Unit Costs, you indicate that when it's not 15 possible to isolate CRA mail processing unit costs at the 16 rate category level an alternative method of cost estimation 17 is needed. Is that correct? That's what your testimony 18 says, right?

19 A That's true. That's probably not the best worded20 sentence I could have used.

Q In general, in maybe perhaps plainer English, is it correct to say that CRA costs don't capture the rate category costs and so you --

A That's true.

25 Q -- cost model in an effort to do that?

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- 1
- A That's true.

2 0 Would you turn now, please, to Val-Pak Interrogatory T-24-3? Do you have that, Mr. Miller? 3 4 Α Yes. I do. In parts C and D of that interrogatory we asked 5 0 6 you questions with respect to standard ECR mail, and you 7 indicate that your testimony doesn't develop rates for 8 standard ECR mail. Is that correct? 9 А That's correct. 10 0 And why is that? 11 Α It's my understanding that ECR cost studies are 12 more of a tally based study, and this is consistent 13 methodology with what I believe has been done in the last 14 two dockets. 15 Ο How about in MC95-1? 16 Α I think I've already stated I'm not really 17 familiar with that specific study, that docket. 18 0 So you don't know? 19 А I don't know. 20 Mr. Miller, could you develop a cost model 0 I see. 21 to study costs at the designation delivery unit level, 22 including ECR costs? 23 Α I would think it's possible. 24 Do you think it would be difficult? Q 25 Α I haven't really looked into that, so I don't Heritage Reporting Corporation

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really know the extent to which it would or would not be
 difficult.

3 Q But off the top of your head, with that 4 qualification is there any particular reason why it couldn't 5 be done that you know of?

A Not off the top of my head, but I actually -- I really don't know why those studies have been tally based in the last few cases.

9 Q So in other words, maybe a cost study would be 10 productive? A cost modeling study?

A Again, I haven't really looked into that so I
don't know what the response to that would be.

Q Isn't it true that in preparing even your cost model study you weren't able to model a number of costs? I think you described in your testimony that the working share proportional costs that you modeled were about 50 to 70 percent of total costs for the categories you addressed.

18

А

Α

Yes, that's true.

19 Q Wouldn't you say that a cost modeling study that 20 could accomplish more in that regard would be in the best 21 interests of determining more accurate costs for rate 22 categories?

23

Could you repeat that?

24 Q Would you say in light of the fact that there are 25 substantial costs that cannot even be modeled that a cost

modeling study that undertook to improve on that, such as perhaps modeling costs at designation delivery units, would improve the effort to obtain more accurate cost estimates at the rate category level?

5 A I don't know if I'd say that's necessarily true 6 because you could exert resources developing cost studies 7 where the data is inconclusive or the results don't make 8 sense.

9 Q Were you involved in discussions in connection 10 with this case or in connection with R2000-1 where that was 11 discussed about whether the cost modeling studies that were 12 undertaken should address mail processing costs deeper into 13 the system?

14 A I'm not sure what you mean when you use the term 15 deeper into the system, but --

16 Q Well, at the destination delivery units, as 17 opposed to at the plant level.

18 A And your question was was I involved --

19 Q Yes.

20

A -- in discussions of the extent of that?

21 Q Are you familiar with that as being a subject of a 22 topic of discussion in the Postal Service undertaking cost 23 modeling efforts?

24 A Not that I'm aware of.

A NOT CHAT I III aware OI.

25 Q You were speaking previously with Mr. Wiggins this

1 morning about the CRA adjustment factor --

A Yes.

Q -- that's explained in your testimony. Am I correct in saying that once you determine the model costs for the rate categories that you're studying and you apply the weighted factor to that, those costs are divided by the parallel costs in the CRA?

8 A Actually, it's the reverse. The sum of the work 9 share and related proportional cost pools is divided by a 10 weighted model cost.

11

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Q And then what happens?

12 A The model cost for each rate category is 13 multiplied by that proportional factor.

Q When you arrive at the model cost, can you look at those costs as set forth in the CRA and compare them, the whole numbers, the unit costs, for example, or the total volume cost?

18

23

I'm not sure I'm following your question.

19 Q Well, let me try to rephrase it. Maybe it doesn't 20 make sense, but I'm trying to determine in developing your 21 modeled costs you arrive at unit costs. Is that correct? 22 Modeled unit costs?

A That's correct.

А

Q And you apply a percentage to those costs, a weighted model cost to those costs to arrive at a

1 percentage, correct?

If you look at LR-61, maybe we can do it in the 2 3 context of that. If you look at page 69 in LR-J-61 where you set forth the CRA proportional adjustment factor, Mr. 4 Miller, you describe the various steps that are taken in 5 6 arriving at that factor, I believe. Is that correct? 7 Α Yes. 8 Q What I'm asking is when you arrive at the modeled

9 costs, let's say Column 5, do you compare those costs to 10 what they would have been in the CRA without modeling? 11 A Again I'm not sure I'm following your question,

12 but you're comparing them by dividing away the model cost 13 or, excuse me, by dividing the CRA cost for those cost pools 14 by the weighted model cost?

15 Q I do understand that that's what you do to 16 complete your formula, but I'm asking sort of a preliminary 17 question.

As you conduct your study and you arrive at Column 5, when you arrive at your modeled cost that you arrived at by going through your cost study, do you take that model unit cost at that point and compare it to the unit cost that would have resulted from the CRA cost for that rate category had you not modeled? Does that make sense? Do you compare --

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A Are you asking if you compare a model cost for a Heritage Reporting Corporation

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Exactly. 0 3 4 А No. You did never did that? You don't do that? 5 Q I think I mentioned earlier that it's my 6 А 7 understanding that there are issues with trying to use a CRA at that level of detail. 8 9 Ο Well, I do understand that. In fact, that's why you do the model cost study, isn't it? 10 Α 11 Exactly. I'm just curious about what the difference would 12 0 13 be and whether that interests the Postal Service. 14 А I haven't performed that analysis. Mr. Miller, do you as a cost modeling expert make 15 0 recommendations to the Postal Service with respect to the 16 construct of models in future rate cases? 17 I would say those decisions are made more in an 18 А immediate sense in terms of the upcoming rate case. 19 I don't know if it's a -- I'm not sure what you meant by future. 20 21 0 I really meant that, for example, once whatever 22 rates result from this case are implemented, would the Postal Service gather together its cost modeling experts and 23 24 say what should we do for the next one immediately, let's 25 say? Heritage Reporting Corporation (202) 628-4888

rate category to a CRA derived cost for that same rate

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category?

A Well, since I've been here since 1997, this is the third rate case so there hasn't been a lot of in between time where people have gotten together and made that sort of planning effort.

Q It's one rate case after another? About how long before the filing of a rate case, in your three experiences as a cost modeler, were you given the cost modeling assignment? Let's say in R97. To the best of your recollection, how long did you have to do your study before the case was filed?

11 A In R97, I believe I was assigned the cost study 12 that was in my testimony in February of 1997.

13 Q And how long before the filing was that? Do you 14 know?

A I can't remember the exact filing date. It waseither June or July.

17 CHAIRMAN OMAS: It was July.

18 BY MR. MILES:

19 Q It was in your testimony in February. Does that 20 mean you were given the assignment in February, or your work 21 was completed in February?

A I started in January, so I was assigned the taskin February.

24 Q How about in R2000-1?

25

A I would say my recollection is October, 1998.

1 Q How about in this case? In R2000, how long was 2 that before the filing?

A I believe the case was filed in January, 2000. Q And how about the cost modeling study you did for standard mail and other mail class flat processing in this case?

- 7 A In this case?
- 8 Q Yes.

9 A In this case, I wouldn't say I was really even 10 assigned a flats cost study. It sort of just happened. We 11 had some resource problems in our group, and I would say I 12 knew I was going to be doing it for sure probably by March 13 of 2001.

14 Q Approximately how long did it take you to do the 15 study?

16 A I really can't answer that, given that I also did 17 the letters and cards work. I was working on them both 18 simultaneously, so it's kind of hard for me to say in terms 19 of like the total labor that might have been required.

Q How about total time expense? March to April or March to June, for example? In other words, how long would it take to do a cost modeling study of these dimensions, Mr. Miller?

A It depends on what the cost study is. I would say most of the work for this case I had to get done in six

1 months.

6

2 MR. MILES: Thank you very much. No further 3 questions.

4 CHAIRMAN OMAS: All right. Is there any follow up 5 cross-examination?

(No response.)

7 CHAIRMAN OMAS: Are there any questions from the 8 bench? Mr. Covington?

9 COMMISSIONER COVINGTON: Mr. Miller, I have one 10 question. Maybe it was in the testimony, maybe some of the 11 reference material you submitted to the Commission.

I need to know the number of flat mail pieces that 12 can't be read through an AFSM-100. I think in your 13 testimony you stated that for those pieces that can't be 14 15 read through an AFSM-100 that they're going to have to go through the VCS, the video coding system. I need to know 16 how many pieces of flats would we be talking about? Do you 17 know that number, or can you provide that number for us? 18 19 THE WITNESS: The number that go through the VCS

20 system?

COMMISSIONER COVINGTON: No. I need to know the number of flat mail pieces that cannot be read by an AFSM-100 because I think in your testimony you stated that for those pieces they would have to probably end up going through the video coding system, the VCS. Is there anywhere

in your testimony where you give us a number on how many pieces of flats you're talking about?

As a matter of fact, if you have your testimony, 3 Mr. Miller, I think it's under Letters Costs and Flat Costs, 4 which would be page 3, beginning at line 10. I'll start at 5 It says, "First, as stated previously, flat mail 6 line 9. processing equipment cannot apply bar codes to mail pieces. 7 As such, a flat mail piece that cannot be read by the AFSM-8 100 will have to be processed through the VCS at each level 9 10 of processing."

11 What I need to know is what number are we talking 12 about? How many numbers of mail would that be? How many 13 pieces of mail? As I understand it, your FSM-1000s do 14 non-machineables, and the FSM-881s do the machineables. Can 15 you provide us with a number if it's not anywhere in your 16 reference material?

17 THE WITNESS: I guess it depends on the context in 18 which you're talking, if you're total flats or by class 19 or --

20 COMMISSIONER COVINGTON: Okay. Basically what I 21 noticed that you did in your testimony is you broke it down 22 by subclass as far as the pieces of mail that goes through 23 it and how much money that represents in revenue. That's 24 what I would be interested in knowing.

25 THE WITNESS: Actually, the only accept rates I Heritage Reporting Corporation (202) 628-4888

have in my testimony for the AFSM-100 are from those 1 engineering tests, and so one minus those accept rates for 2 3 both non-automation and automation mail pieces would be the volume that would go to the VCS. 4 COMMISSIONER COVINGTON: Okay. And what number 5 б would that be? THE WITNESS: Okay. For automation mail, it would 7 8 be 6.13 percent. COMMISSIONER COVINGTON: 9 6.13? 10 THE WITNESS: Yes, that's correct. COMMISSIONER COVINGTON: Okay. 11 THE WITNESS: And for mail pieces that don't have 12 13 bar codes it would be 23.67 percent. 14 COMMISSIONER COVINGTON: And that's non-15 machineable? 16 THE WITNESS: Actually, it's non-automation. COMMISSIONER COVINGTON: Non-automation. Okay. 17 They would all be machineable pieces 18 THE WITNESS: because that's for the AFSM-100. 19 20 COMMISSIONER COVINGTON: Okay. All right. Thank you, Mr. Miller. 21 22 That's all I have, Mr. Chairman. CHAIRMAN OMAS: Mr. Alverno, do you need any time 23 24 with your witness? MR. ALVERNO: Yes, please. A few minutes? 25 Heritage Reporting Corporation

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Ten minutes? 2 MR. ALVERNO: Ten minutes. Is that okay? 3 CHAIRMAN OMAS: All right. We'll take our 4 5 midmorning break, and we'll be back here at let's say 11:15. 6 (Whereupon, a short recess was taken.) CHAIRMAN OMAS: Mr. Alverno? 7 MR. ALVERNO: Thank you, Mr. Chairman. We have 8 nothing further. 9 10 CHAIRMAN OMAS: Thank you. Mr. Miller, that 11 completes your testimony here today. We appreciate your 12 appearance and your contribution to our record. Again, thank you. You're excused. 13 14 (Witness excused.) CHAIRMAN OMAS: Mr. Alverno, would you call your 15 16 next witness, please? 17 MR. ALVERNO: Thank you, Mr. Chairman. The Postal Service calls Joseph D. Moeller. 18 19 Whereupon, JOSEPH D. MOELLER 20 21 having been duly sworn, was called as a witness 22 and was examined and testified as follows: 23 CHAIRMAN OMAS: Please be seated. 11 24 11 25 Heritage Reporting Corporation (202) 628-4888

CHAIRMAN OMAS: A few minutes? How many?

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Five?

1	(The document referred to was
2	marked for identification as
3	Exhibit No. USPS-T-32.)
4	DIRECT EXAMINATION
5	BY MR. ALVERNO:
6	Q Please introduce yourself.
7	A My name is Joseph D. Moeller. I work in pricing
8	and classification in the headquarters marketing department
9	located in Rosslyn, Virginia.
10	Q Earlier, Mr. Moeller, I handed you two copies of a
11	document entitled Direct Testimony of Joseph D. Moeller on
12	behalf of U.S. Postal Service, which is marked as USPS-T-32.
13	I have now given those two copies to the reporter. Did you
14	have a chance to examine them?
15	A Yes.
16	Q And was this testimony prepared by you or under
17	your direction?
18	A Yes.
19	Q And do you have any changes or corrections to
20	make?
21	A Yes. I have a few changes and clarifications. At
22	page 16, line 2, in the parentheses insert non in front of
23	automation, and then also as a result of the errata filed by
24	Witness Miller on November 15 some of the underlying letter
25	costs that serve as a basis for the discounts changed. I
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have prepared a page to be added to my testimony that serves 1 2 as a guide to the pass throughs that would produce the rates as proposed. 3 4 Q Okay. And with these changes, if you were to testify orally today would your testimony be the same? 5 6 А Yes. 7 MR. ALVERNO: Mr. Chairman, I ask that the direct testimony of Joseph D. Moeller on behalf of the U.S. Postal 8 9 Service marked as USPS-T-32 be received as evidence at this time. 10 Is there any objection? 11 CHAIRMAN OMAS: (No response.) 12 13 CHAIRMAN OMAS: Hearing none, I will direct 14 counsel to provide the reporter with two copies of the corrected direct testimony of Joseph D. Moeller. 15 That testimony is received into evidence. However, as is our 16 practice, it will not be transcribed. 17 Thank you, Mr. Chairman. 18 MR. ALVERNO: We also have a library reference associated with his testimony. 19 May 20 I proceed to move that into evidence as well? 21 CHAIRMAN OMAS: Without objection. 22 BY MR. ALVERNO: Mr. Moeller, are you familiar with Library 23 Okay. Q Reference USPS-LR-J-132? 24 Α 25 Yes.

And was this library reference prepared by you or 1 Q 2 under your direction? 3 А Yes. 4 Ο And do you sponsor this library reference? Yes. 5 Α MR. ALVERNO: Mr. Chairman, I ask that Library 6 Reference USPS-LR-J-132 be received as evidence at this 7 8 time. 9 CHAIRMAN OMAS: Without objection. Hearing none, I will direct counsel to provide the reporter with two 10 copies of the corrected direct testimony of Joseph D. 11 That testimony is received into evidence. Moeller. 12 However, as is our practice, it will not be transcribed. 13 14 (The document referred to, previously identified as 15 16 Exhibit No. USPS-T-32, was 17 received in evidence.) 18 CHAIRMAN OMAS: Mr. Moeller, have you had an opportunity to examine the packet of designated written 19 20 cross-examination that was made available to you in the 21 hearing room this morning? 22 THE WITNESS: Yes. 23 CHAIRMAN OMAS: If the questions contained in that 24 packet were posed to you orally today, would your answers be the same as those you previously submitted in writing? 25 Heritage Reporting Corporation

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THE WITNESS: Yes.

2	CHAIRMAN OMAS: Are there any corrections or		
3	additions you would like to make at this point?		
4	THE WITNESS: No.		
5	CHAIRMAN OMAS: Counsel, would you please provide		
6	two copies of the corrected designated written cross-		
7	examination of Witness Moeller to the reporter? That		
8	material is received into evidence, and it is to be		
9	transcribed into the record.		
10	(The document referred to was		
11	marked for identification as		
12	Exhibit No. USPS-T-32 and was		
13	received in evidence.)		
14	//		
15	11		
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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 JOSEPH D. MOELLER (USPS-T-32)

<u>Party</u>	Interrogatories
Association for Postal Commerce	PostCom/USPS-T32-1-10
Direct Marketing Association, Inc.	DMA/USPS-T32-1
	VP/USPS-T32-5-9
Newspaper Association of America	DMA/USPS-T32-1
	PostCom/USPS-T32-9
	VP/USPS-T32-4-7
Recording Industry Association of America	RIAA/U\$PS-T32-1-5
Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association Inc.	PostCom/USPS-T32-7, 10
	VP/USPS-T32-1-9

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Respectfully submitted,

Steven W. Williams Secretary

INTERROGATORY RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS JOSEPH D. MOELLER (T-32) DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory DMA/USPS-T32-1 PostCom/USPS-T32-1 PostCom/USPS-T32-2 PostCom/USPS-T32-3 PostCom/USPS-T32-4 PostCom/USPS-T32-5 PostCom/USPS-T32-6 PostCom/USPS-T32-7 PostCom/USPS-T32-8 PostCom/USPS-T32-9 PostCom/USPS-T32-10 RIAA/USPS-T32-1 RIAA/USPS-T32-2 RIAA/USPS-T32-3 RIAA/USPS-T32-4 RIAA/USPS-T32-5 VP/USPS-T32-1 VP/USPS-T32-2 VP/USPS-T32-3 VP/USPS-T32-4 VP/USPS-T32-5 VP/USPS-T32-6 VP/USPS-T32-7 VP/USPS-T32-8 VP/USPS-T32-9

Designating Parties DMA, NAA PostCom PostCom PostCom PostCom PostCom PostCom PostCom, Val-Pak PostCom NAA, PostCom PostCom, Val-Pak RIAA RIAA RIAA RIAA **RIAA** Val-Pak Val-Pak Val-Pak NAA, Val-Pak DMA, NAA, Val-Pak DMA, NAA, Val-Pak DMA, NAA, Val-Pak DMA, Val-Pak DMA, Val-Pak

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DMA/USPS-T32-1.

Please refer to page 19 of your testimony (USPS-T-32) where you state, "Specifically, the law [Public Law 106-384] requires that Nonprofit revenue-perpiece should be 60 percent of commercial revenue per piece." Please refer further to Exhibit USPS-28D where you show that the proposed rate increase for Standard Regular is 8.0%, the proposed rate increase for Standard Nonprofit is 6.7%, the proposed rate increase for Standard Enhanced Carrier Route is 6.2%, and the proposed rate increase is Standard Nonprofit Enhanced Carrier Route is 6.5%.

- a. Given the enactment of Public Law 106-384, please explain in as much detail as possible why the percentage rate increase for Standard Nonprofit is not the same as the percentage rate increase for the Standard Regular subclass.
 - (i) In particular, is the difference in rate increases between the two subclasses related to the migration of Basic ECR letters to the 5-Digit Automation rate category?
 - (ii) If so, please explain the relationship.
- b. Given the enactment of Public Law 106-384, please explain in as much detail as possible why the percentage rate increase for Standard Nonprofit Enhanced Carrier Route is not the same as the percentage rate increase for the Standard Enhanced Carrier Route subclass.
 - (i) In particular, is the difference in rate increases between the two subclasses related to the migration of Basic ECR letters to the 5-Digit Automation rate category?
 - (ii) If so, please explain the relationship.

RESPONSE:

a-b. The requirement, embodied in recent changes to 39 USC 3626, that the

revenue-per-piece for nonprofit be 60 percent of the commercial counterpart's

revenue-per-piece does not necessarily translate into equivalent percentage

changes for the two groupings, although the percentage changes should be

similar. Intuitively, one might suspect the percentage changes to be

equivalent; however, a change in mail mix from Base Year to Base Year (from

one rate case to the next) will affect the revenue-per-piece relationship

between the two groupings. As an illustration, assume that the 60 percent

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relationship is incorporated into the rates using the billing determinants for Fiscal Year X. In the next fiscal year, the mail mixes for nonprofit and commercial may change to different extents. For example, the commercial grouping may become more letter-shaped than it was the previous year. This would tend to pull down its revenue-per-piece. Assuming nonprofit did not experience a similar mail mix change, the revenue-per-piece ratio would have crept above 60 percent. For example, assume 10 cents per piece for commercial and 6 cents per piece for nonprofit in Fiscal Year X. If the mail mix change caused the revenue per piece for commercial to fall to 9.8 cents-with no change in nonprofit's mail mix--the percentage would then be 61.2 percent. Assuming that the following rate case included a zero percent change for commercial, the nonprofit rates would have to be reduced in order to restore the relationship to 60 percent. If the new rates were to maintain the 9.8 cent revenue per piece for commercial, the nonprofit rates would have to result in a revenue per piece of 5.88 cents in order to meet the 60 percent requirement, which would imply a 2 percent reduction in their rates.

With respect to subpart (i), any number of shifts in mail mix could affect the revenue-per-piece figures. While the particular phenomenon noted here (migration from ECR Basic to Automation 5-digit) would affect the revenue per piece figures for the subclasses involved, it has not been identified as the source of the change in underlying mail mix between commercial and nonprofit that causes the small disparity in percentage change. Certainly,

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though, as described in the example above, if 5-digit automation letters grew at a faster clip in Regular than in Nonprofit, that might tend to suppress the revenue-per-piece for Regular. The 60 percent "target" for nonprofit would then be lower, requiring a lower percentage increase.

In any event, the legislation was intended to narrow the disparity in the percentage changes that could occur under the formula in the Revenue Forgone Reform Act. By removing the "half-the-markup" rule, and the measurement of separate costs for nonprofit, the disparity has indeed been narrowed. Incidentally, the mail mix changes can "cut" either way, as is evidenced by the lower increase for Nonprofit as compared to Regular, and the higher increase for NECR as compared to ECR.

POSTCOM/USPS-T32-1. Please list all changes in mail preparation requirements for Standard Mail and eligibility requirements for Standard Mail discounts that have been implemented since the beginning of FY 2000 or are expected to be implemented before the end of FY 2003. Please also provide a summary of each change, its actual or planned implementation date, and an explanation of the reason for the change. If there is no planned implementation date for a particular change, please provide your best estimate for the implementation date.

RESPONSE:

This Summary of Changes provided below lists all of the revisions to the *Domestic Mail Manual* since the publication of Issue 56 (1-7-01), which coincided with implementation of the Docket No. R2000-1 omnibus rate case. In addition to these changes, the USPS frequently revised labeling lists to reflect changes in mail processing operations. These changes affect the labeling of containers of Standard Mail.

Effective October 4, 2001

<u>E620.2.0</u> is amended to clarify that commingled Standard Mail machinable and irregular parcels are eligible for 3/5 rates. Published in Postal Bulletin (PB) 22060 (10-4-01).

Effective September 6, 2001

<u>A930</u> and <u>M050</u> are revised to change the documentation requirements for Periodicals and Standard Mail mailings sequenced in line-of-travel (LOT) order and to fully describe the sequencing product options. Published in PB 22058 (9-6-01).

Effective September 1, 2001

E610, E752, M011, M041, M045, M130, M610, M620, M723, M820, M910, M920, M930, and M940 are revised to implement mail preparation changes for First-Class Mail, Standard Mail, and Bound Printed Matter flats. Published in PB 22052 (6-14-01).

Effective July 15, 2001

<u>M031</u>, <u>M045</u>, <u>M920</u>, <u>M930</u>, and <u>M940</u> are revised to require pallets of Periodicals and Standard Mail containing carrier route mail and/or Presorted rate mail to show "NONBARCODED" or "NBC" in the pallet label. These pallet label standards were originally revised effective January 7, 2001, in conjunction with implementation of the R2000-1 omnibus rate case. Mailers were given until July 15, 2001, to comply. Published in PB 22052 (6-14-01).

Effective July 12, 2001

E610, E620, E713, E714, E751, E752, E753, M011, M032, M041, M045, M073, M610, M710, M722, M723, M730, and M740 are revised and labeling list L606 is added for the new optional 5-digit scheme preparation for Standard Mail machinable and irregular parcels and for Package Services machinable and nonmachinable parcels. Published in PB 22054 (7-12-01).

M031.4.7 is amended to correct information about the mailer information line on pallet labels. Published in PB 22054 (7-12-01).

Effective July 1, 2001

<u>M020</u> is revised to improve package integrity for Periodicals and Standard Mail by prescribing basic standards for preparing and securing all packages and

incorporating standards that pertain individually to packages on pallets, packages in sacks, and packages in trays. Published in PB 22050 (5-17-01).

Effective June 14, 2001

<u>M013</u> is revised to provide mailers with two new optional endorsement lines (OEL). These new format options allow mailers to list carrier route line-of-travel (LOT) information for Periodicals and Standard Mail within an OEL. Published in PB 22051 (5-31-01).

<u>M031.4.0</u> is amended to clarify the required information that must appear on a pallet label. This revision provides descriptions of what should appear on the destination line (Line 1), content line (Line 2), and office of mailing or mailer information line (Line 3) of pallet labels. Published in PB 22052 (6-14-01).

<u>M041.5.3</u> is revised to remove the minimum weight requirement for pallets of Periodicals, Standard Mail, and Package Services mail dropped at a destination delivery unit by the mailer or mailer's agent. Published in PB 22052 (6-14-01).

Effective April 5, 2001

<u>E670.8.1</u>, <u>G091.2.1</u>, <u>G091.2.2</u>, <u>G091.3.0</u>, and <u>G091.4.1</u> are revised to introduce an option to mail at Nonprofit Standard Mail rates via the NetPost Mailing Online experiment. Published in PB 22047 (4-5-01).

Effective January 1, 2001

<u>E670.5.11</u> is revised to reflect an increase for low-cost products mailable at Nonprofit Standard Mail rates. Published in PB 22043 (2-8-01).

Planned Changes

The following list describes planned changes to Standard Mail.

- On August 28, 2001, the Postal Service published in the Federal Register a
 notice proposing to add a new preparation option named "co-packaging."
 Specifically, this notice proposed that mailers be allowed to combine flat-sized
 automation rate pieces and flat-sized Presorted rate pieces of the same mail
 class within the same package. This change is scheduled to be implemented
 in Spring, 2002.
- The Postal Service is considering a DMM revision to allow a new optional level of pallet sort for a limited number of SCF service areas. This option would be available for Periodicals, Standard Mail, and Bound Printed Matter flats prepared on pallets. In some areas of the country, a single SCF service area is served by multiple mail processing facilities. This is most prevalent in farge metropolitan areas such as Manhattan and Chicago. Current labeling lists direct all of the mail for an SCF service area to a single facility, even though not all of the mail is processed at that facility. New labeling list L006 would direct flats for specific 5-digit ZIP Codes directly to the facility (sometimes called an "annex") where that mail is processed. To implement this change, the Postal Service would add a new optional pallet level, tentatively called an "SCF Split" pallet; it would contain mail for certain 5-digit ZIP Codes that is all processed within a single facility. In the sortation hierarchy, the SCF Split pallet would fall after the 5-digit sort and before the 3-digit sort. The tentative date for this change is Spring 2002.
- Although specific requirements have not yet been drafted, a number of changes may be implemented as a result of Docket No. R2001-1. Specifically, DMM changes will be needed to implement the proposed separation of the basic tier in Regular and Nonprofit, nonmachinable letter surcharge, and the barcode requirement for ECR letter rates.

POSTCOM/USPS-T32-2. Is page 59 of USPS LR-J-60 the source of the "added cost[s] due to non-machineability" that you recite at page 15 lines 19-21 of your testimony?

RESPONSE:

Yes.

POSTCOM/USPS T32-3. Should the parenthetical at the end of the sentence beginning at line 21 of page 15 and ending at line 2 of page 16 read "(4.9 cents for 5-digit <u>non</u>automation)."

RESPONSE:

Yes.

POSTCOM/USPS T32-4. Why have you chosen to set the surcharge slightly below the "lowest cost differential" that you found in LR-J-60?

RESPONSE:

The surcharge was not explicitly chosen to be slightly below the lowest cost

differential. For simplicity, one surcharge was proposed to apply to all levels of

sortation. The statement referred to in the question was merely noting that even

the piece with the lowest cost differential was being surcharged at less than

100% passthrough.

POSTCOM/USPS T32-5. Please define the term "nonmachinable" as it is used in section IV(C)(5)(c) of your testimony and explain every difference between that definition and the provisions of DMM § M810.

RESPONSE:

It is expected that the definition will be refined through the rulemaking process. As an initial matter, however, it should be noted that the DMM M810, which is cited in the interrogatory, describes mail preparation standards for automation letters. This provision does not list characteristics of nonmachinability.

The current working definition of a nonmachinable letter is as follows:

Any letter-size piece is considered nonmachinable if it meets any of the following criteria:

- Has an aspect ratio of less than 1.3 or more than 2.5.
- Is polybagged or polywrapped.
- Has clasps, strings, buttons, or similar closure devices.
- Is non-rectangular (i.e., does not have 90 degree corners).
- Contains rigid or odd-shaped items (e.g., pens, pencils, keys, and loose coins).
- Does not bend easily when subjected to a transport belt tension of 40 pounds
 Has around an 11-inch diameter turn (e.g., wooden postcards).
- Is too flimsy such that the equipment could damage the mailpiece.
- Contains an address parallel to the shortest dimension instead of the longest dimension.
- Is a folded self-mailer where the folded edge is not parallel to the longest dimension, regardless of the use of tabs, wafer seals, or other fasteners.

- Is a booklet-type piece where the bound edge (spine) is not the longest edge of the piece, or is not at the bottom, regardless of the use of tabs, wafer seals, or other fasteners.
- Is a certain type of glossy postcards that would require letter mail labeling machine (LMLM) labels. When labels applied to the front or the back would cover the address and/or message.
- Is labeled for "manual only" processing by the mailer, which also indicates that tabbing equipment and LMLM labels should not be used.
POSTCOM/USPS-T32-6. Please refer to USPS-LR-J-132. Assume that the difference (as estimated using a model similar to that contained in USPS-LR-J-61) between the unit cost of Standard Regular MADC automation flats and the unit cost of Standard Regular ADC automation flats is 5.039 cents. Assume further that the volume of Standard Regular MADC automation flats is 135,721,800 and the volume of Standard Regular ADC automation flats is 210,414,564. Please confirm that setting the Standard Regular rate for MADC automation flats to \$0.331 (rounded from \$0.33063) and the Standard Regular rate for ADC automation flats to \$0.280 (rounded from \$0.28024) passes through approximately 100 percent of the 5.039 cent cost difference between a Standard Regular MADC automation flat and a Standard Regular ADC automation flat while generating approximately the same amount of revenue as the basic automation flat rate of \$0.300. If you do not confirm, please explain your response and provide the appropriate rates and your underlying calculations.

RESPONSE:

Confirmed. The revenue difference is less than \$1,000.

POSTCOM/USPS-T32-7. Please refer to page 3 of USPS-T-32 where you discuss the Postal Service's proposal to deaverage the rate for Basic Automation letters into separate rates for MAADC and AADC letters. Please explain the reasons why the Postal Service's rate design contains more presort levels for automation letters than for presort letters.

RESPONSE:

There are a number of reasons why there are fewer rate categories within Regular presort category letters. For example, there is relatively little volume in the presort categories. At the Basic presort tier, there are almost three times more automation letters than presort letters. Moreover, at the 3/5-digit tier, over 90 percent of the letters are automation-rated. Another reason for limiting presort letters to two categories is for consistency with the non-letter categories, which also have Basic and 3/5-digit tiers. The cost differentials between letters and nonletters at these tiers serve as the basis for the shape differentials in the Regular subclass, and a parallel structure facilitates this rate design. Fewer categories are also easier to administer; however, in automation letters, the separate rate for 5-digit automation letters assists in creating the appropriate rate relationship with ECR Basic. The added complexity in this instance is offset by the benefit of this rate relationship. Also, automation mailers tend to be more sophisticated and can likely deal with the added complexity better than some presort mailers.

POSTCOM/USPS-T32-8. In your answer to Postcom/USPS T32-4, you note that "the statement referred to in the question was merely noting that even the piece with the lowest cost differential was being surcharged at less than 100% pass-through." Did you consider using different surcharges for different categories of surchargeable mail?

- (a) If your answer is negative, on consideration of this possibility would you continue to take the approach that you have and if so, why?
- (b) If your answer is affirmative, why did you decline to adopt different surcharges?

RESPONSE:

No.

- a.) There are several reasons to have one level of surcharge for both of the letter presort tiers. The nonmachinable surcharge is a new rate element, and, as such, can cause significant rate increases for the affected mail if not moderated initially. If, for example, a higher surcharge were proposed for the Basic tier, it is possible that the rate impact might be deemed too severe. Also, one level of surcharge limits the added complexity that is associated with new rate elements. Moreover, the surcharged rate categories are relatively low-volume: only 12 percent of Regular letters are in the presort categories, and of those letters, only about one-fourth are expected to be assessed the surcharge. Nevertheless, it is possible (after successful implementation of the initial surcharge) that future proposals might include separate surcharges by presort tier.
- b.) Not applicable.

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POSTCOM/USPS-T32-9. Please refer to Table 1 below, USPS-LR-J-132, USPS-LR-J-60, USPS-LR-J-61, and USPS-LR-J-68.

Table 1. Standard Regular Pound Rate, Standard Mail Transportation Costs, and Standard Mail Crossdocking Costs

Category	Proposed Pound Rate	Transportation Cost Per Pound	Crossdocking Cost Per Pound	Trans/Cross Cost Per Pound	Pound Rate Minus Trans/Cross Cost per Pound	
	[1]	[2]	[3]	[4]=[2]+[3]	[5]=[1]-[4]	
Origin-Entered	\$0.708	\$0.139	\$0.046	\$0.185	\$0.523	
DBMC	\$0.608	\$0.042	\$0.025	\$0.067	\$0.541	
DSCF	\$0.583	\$0.027	\$0.011	\$0.038	\$0.545	

[1] USPS-LR-I-132, WP 1, Page Z

[2] Calculated From USPS-LR-J-68, Appendix B, Table 9

[3] Calculated From USPS-LR-J-68, Appendix C, Table 1

- (a) Please confirm that all of the figures in Table 1 are correct. If not confirmed, please provide the correct figures and provide citations of the data that you used to calculate the correct figures.
- (b) Please confirm that the Standard Mail dropship cost avoidance model (USPS-LR-J-68) calculates crossdocking and transportation costs per pound (rather than per piece) and that the reason why the dropship cost avoidance model calculates crossdocking and transportation costs per pound (rather than per piece) is that these costs vary primarily with weight (as opposed to mail volume). If not confirmed fully, please explain your response.
- (c) Please confirm that the Standard Regular mail processing and delivery cost estimates (USPS-LR-J-60, USPS-LR-J-61, and USPS-LR-J-117) are calculated on a per-piece basis (not a per-pound basis) and the reason for this is that these costs vary primarily with mail volume (as opposed to weight). If not confirmed fully, please explain your response.
- (d) Are there any significant Standard Mail costs other than crossdocking and transportation costs that vary primarily with weight (as opposed to number of pieces)? If so, please identify and quantify these other costs.

RESPONSE:

a.) Confirmed.

- b.) Not confirmed. The dropship cost avoidance model calculates crossdocking and transportation costs per pound (rather than per piece) because of how they are used in the pricing model. For an explanation of cost drivers by cost segment, please see USPS-LR-J-1, Summary Description of USPS Development of Costs by Segments and Components, FY2000.
- c.) Not confirmed. The Standard Mail Regular mail processing and delivery cost estimates (USPS-LR-J-60, USPS-LR-J-61, and USPS-LR-J-117) are calculated on a per-piece basis (not a per-pound basis) because of how they are used in the pricing model. For an explanation of cost drivers by cost segment, please see USPS-LR-J-1, Summary Description of USPS Development of Costs by Segments and Components, FY2000.
- d.) For an explanation of cost drivers by cost segment, please see USPS-LR-J-1, Summary Description of USPS Development of Costs by Segments and Components, FY2000.

POSTCOM/USPS-T32-10. Please refer to your response to VP/USPS-T32-1(b) where you state, "However, if the rate were available and the pieces were prepared as automation letters, it is my understanding that the criteria for processing on automation equipment include dimensions such as length, height and thickness, not necessarily weight. Thus, the fact that a letter-shaped piece meeting all the requirements for automation compatibility happens to weigh between 3.3 and 3.5 ounces should not affect whether it is processed on automation equipment." Please confirm, given the adoption of your proposals, that you believe a Standard Mail automation letter weighing between 3.3 ounces and 3.5 ounces is as likely to be processed on automation equipment as a Standard Mail automation letter weighing less than 3.3 ounces.

RESPONSE:

Confirmed.

RIAA/USPS-T32-1. Page N of your WP1 indicates (at n.2) that 4.683 percent of TYBR Volume Nonletters will be subject to the residual shape surcharge. Please display the numbers from USPS LR-J-98 G5,p.1 and G6,p.1 you employ to derive this number.

RESPONSE:

The number of pieces subject to the Residual Shape Surcharge in FY2000 is

681,937,930 from G-6 page 1. The total number of nonletters in FY2000 is

14,563,483,428 from G-5 page 1.

RIAA/USPS-T32-2. Your WP1 from R2000-1 shows (at page 14 n.2) that the number in that proceeding comparable to the 4.683% discussed above to have been 5.90% and assumed that the after rate percentage would be the same. Does the difference between the R2000-1 estimation of "% residual shape" and the R2001-1 estimation of that percentage imply that the assumption that there would be no change in the percentage between before rates and after rates was in error?

(a) If so, why do you continue to employ the same assumption in this case?

(b) If not, please fully explain why not.

RESPONSE:

a.-b.) No, not necessarily. The percentage of nonletters that pay the residual shape surcharge (RSS) is a function of the number of nonletters as well as RSS pieces. If the number of nonletters not paying the RSS were to increase (or decrease) while the number of pieces paying the RSS remained the same, the percentage would decline (or increase). There is no separate forecast for RSS pieces. In absence of a specific forecast, the most reasonable course is to follow the established method – use the most current percentage of nonletters as a means to estimate the number of RSS in the Test Year. If a lower percentage were used (as seems to be advocated in the question), the anticipated revenue from the surcharge would decline, putting upward pressure on the base rates for all Standard Mall.

RIAA/USPS-T32-3. Does the 4.683% number reflect any effect on volume consequent to the implementation of the increase in the surcharge in January of this year?

- 1. If not, does this fact suggest that the 4.683% estimation overstates the volume of mail that will be subject to the residual shape surcharge in the test year?
- 2. If not, please fully explain why not.

RESPONSE:

No. The percentage itself does not, but it is applied to a number that does.

- 1. No.
- 2. Any volume effect of the January rate increase is incorporated in the volume estimate for total nonletters. Applying the fixed percentage to that total nonletter volume, therefore, results in an estimate of surcharged pieces that incorporates the effect of the rate increase on nonletters as a whole (including the RSS increase). Using the fixed percentage implies that RSS and non-RSS pieces were affected similarly by the rate increase.

RIAA/USPS-T32-4. In your answer to RIAA/USPS-T32-2 you say "in absence of a specific forecast, the most reasonable course is to follow the established method...." Please supply a citation to the document or documents that established that method and to documents reflecting the use of that method prior to your invocation of it.

RESPONSE:

Please see the workpapers for Standard Mail accompanying the Governors'

Docket No. R2000-1 modification decision, GOVS-LR-11, page 14 of WP1, which

replicate the Commission's workpapers from Docket No. R2000-1 (WP1 page 13

of PRC LR-15). The same percentage of nonletters subject to the residual shape

surcharge was used before and after rates.

RIAA/USPS-T32-5. Your answer to RIAA/USPS-T32-3 concludes by saying "using the fixed percentage implies that RSS and non-RSS pieces were affected similarly by the rate increase."

- (a) Were the two categories of pieces (RSS and non-RSS) subject to the same percentage increase in rates as a result of the January rate increase?
- (b) If not, please explain why you believe them to have been "affected similarly by the rate increase."

RESPONSE:

- a.) No.
- b.) My statement was merely explaining the theoretical implication of applying the "fixed percentage" assumption. My statement was not intended to imply that indeed RSS and non-RSS pieces were affected similarly by the rate increase. In any event, the assumption is reasonable for the purpose of estimating revenue from the surcharge in the Test Year.

VP/USPS-T32-1. Please refer to your testimony at pages 3-5, where you discuss extension of the weight limit for Standard Mail Regular Automation letters.

- a. Please confirm that one rationale for your proposal is that it will enable mailers of Standard Regular Automation letter-shaped mail that weighs between 3.3 and 3.5 ounces and that can be processed on automation equipment to avoid a big increase in postage that otherwise would occur when an automation letter crosses the breakpoint weight. If you do not confirm, please explain fully.
- b. Is it your understanding that the Postal Service can and does process routinely on automation equipment letter-shaped mail that weighs between 3.3 and 3.5 ounces and is pre-barcoded? If not, please explain.
- c. Please state and explain any other justification or rationale on which you rely to support your proposed rates for Standard Regular and Nonprofit Automation letters that weigh between 3.3 and 3.5 ounces.

RESPONSE:

- a. Confirmed as stated on page 4 lines 17-19 of my testimony.
- b. Since there are relatively few prebarcoded letter-shaped pieces weighing

between 3.3 and 3.5 ounces, it is difficult to determine how they are

currently processed, let alone whether that process is "routine."

Furthermore, under current rates and mailing requirements, pieces

weighing more than 3.3 ounces would not be prepared as automation

letters, so they may not be routinely processed on letter automation

equipment since they are not be identified as automation letters.

However, if the rate were available and the pieces were prepared as automation letters, it is my understanding that the criteria for processing on automation equipment include dimensions such as length, height and thickness, not necessarily weight. Thus, the fact that a letter-

shaped piece meeting all the requirements for automation compatibility

happens to weigh between 3.3 and 3.5 ounces should not affect whether it

is processed on automation equipment.

b. Please see my testimony page 4 line 3 through page 5 line 10.

VP/USPS-T32-2. In this docket, Postal Service witness Hope (USPS-T-31) is proposing that all ECR High Density and Saturation letters must bear delivery point barcodes and meet other Postal Service requirements for automation compatibility in order to qualify for the letter rate (USPS-T-31, p. 9).

- a. Would you agree that ECR and NECR High Density and Saturation letters that meet the stipulated requirements and weigh between 3.3 and 3.5 ounces also can be run on Postal Service automation equipment just as can Standard Regular and Nonprofit Automation letters weighing between 3.3 and 3.5 ounces? If you do not agree, please explain fully.
- b. Would you agree that extending your proposed treatment for Standard Regular and Nonprofit Automation letters weighing between 3.3 and 3.5 ounces to ECR and NECR High Density and Saturation letters weighing between 3.3 and 3.5 ounces would enable ECR and NECR mailers of such letters to avoid a big increase in postage that would otherwise occur when ECR and NECR High Density and Saturation letters cross the breakpoint weight? If not, please explain.
- c. Please state and explain every argument on which you and the Postal Service rely to justify or support your statement at page 15, lines 12-13, that "This proposal [for automation letters in the 3.3 to 3.5 ounce weight range] is limited to Regular and Nonprofit Automation Letters" and which, thereby, necessarily excludes ECR and NECR High Density and Saturation letters.

RESPONSE:

- Under the ECR proposal, mail processing would have the option of merging letters into the DPS mailstream. While physically the ECR pieces may be just as machinable as Regular letters, they may be less likely to actually be processed on automation given the walk-sequence preparation of ECR letters and the casing option.
- b. The difference in the Standard Mail Regular subclass between the current method versus the proposed method for determining the rate for an

automation letter weighing more than 3.3 ounces is \$0.058 (equivalent to the letter-nonletter differential). For instance, for a non-destination entry 3-digit automation letter this \$0.058 represents a change of 28.6 percent. On the other hand, if the classification proposal were extended to ECR, the difference would be \$0.007 (equivalent to the letter-nonletter differential). For a non-destination entry saturation letter this \$0.007 represents a 4.6 percent change. I would not characterize this as a big increase for ECR, especially relative to the change in Regular.

c. Please see my response to subparts a and b to this interrogatory.

VP/USPS-T32-3.

- a. Please confirm that the maximum percentage rate increase that your (sic) propose for any cell in Standard Regular mail is 9.5 percent for Mixed AADC (automated area distribution center) Automation letters, as shown in your WPI, page AA (LR-J-132). If you do not confirm, please indicate the correct cell and the proposed percentage increase for that cell.
- b. Please confirm that Mixed AADC Automation letters is the rate cell with the highest ratio of percentage rate increase (9.5 percent) to the percentage change in revenue per piece (8.0 percent) shown on page 1 of your testimony; i.e., 1.1875, if you do not confirm, please provide the correct figures for the preceding computation.

RESPONSE:

- a. Not confirmed. A Mixed AADC letter subject to the \$0.04 nonmachinable surcharge would be subject to a 29.5 percent increase.
- b. Not confirmed. The math in the interrogatory is correct, but as stated in

subpart (a), the Mixed AADC rate does not represent the highest rate of

increase. Thus, the correct ratio would be 29.5 percent divided by 8.0

percent, or 3.6875.

VP/USPS-T32-4. In Docket No. R2000-1, you prepared a chart showing the implicit coverage for Standard (A) Mail ECR that weighed (i) both less than and more than 3.0 ounces, and (ii) both less than and more than 3.5 ounces (Docket No. R2000-1, USPS-T-35, p. 21 (Revised 4/3/2000)). In this docket, witness Hope offers a similar chart for Standard Mail ECR (USPS-T-31, p. 13, Table 3).

- a. In this docket, when preparing your testimony (USPS-T-32), did you compute implicit coverages for Standard Regular Mail similar to those you computed for Standard (A) Mail ECR in Docket No. R2000-1?
- b. If your answer to the preceding question is affirmative, please provide the results in a format similar to that used by witness Hope in this docket.
- c. If your answer to part a is negative, please explain why you did not consider the computation to be worth the effort.
- d. Please provide the implicit coverages for Standard Mail Regular that weighs (i) both less than and more than 3.0 ounces, and (ii) both less than and more than 3.5 ounces.

RESPONSE:

- a. No.
- b. N/A
- c. The reasoning for not computing implicit coverages is same as in the last omnibus rate proceeding. Specifically, as explained in Docket No. R2000-1 at Tr. 10/4017, lines 5-7: "[t]here are a number of issues at play in commercial regular involving the residual surcharge and the effect of push-up on the piece rates . . ." The overriding concerns in setting the pound rate in this docket as explained on page 11 lines 3-5 of my testimony are "(i) recognition of the reduced role or the pound rate as a proxy for shape change... and (ii) restraint of the percentage changes for individual rate cells." Calculation of implicit coverages would not necessarily provide information that would outweigh these considerations.

Furthermore, one would expect that since about 90 percent of pieces subject to the residual shape surcharge are pound-rated, and since these pieces are still "contribution-challenged," the implicit coverage for poundrated pieces would be lower than piece-rated pieces. If true, raising the pound rate might not be the best way to address the disparity in the implicit coverages.

d.

	BEFORE RATES			AFTER RATES		
	Unit Revenue	Unit Cost	Implicit Coverage	Unit Revenue	Unit Cost	Implicit Coverage
3.0 ounce Dividing Line for Costs						
Piece-rated	\$0.1901	\$0.1250	152%	\$0.2047	\$0.1250	164%
Pound-rated	\$0.3440	\$0.2565	134%	\$0.3747	\$0.2565	146%
3.5 ounce Dividing Line for Costs						
Piece-rated	\$0.1901	\$0.1274	149%	\$0.2047	\$0.1274	161%
Pound-rated	\$0.3440	\$0.2810	122%	\$0.3747	\$0.2810	133%

VP/USPS-T32-5.

- a. For Base Year 2000 or FY 2001 to date, does the Postal Service have any performance data for Standard Regular Mail?
- b. If your answer to part a is anything other than an unqualified negative, please provide copies of all available data.
- c. If your answer to part a is that no data are available, when does the Postal Service expect to implement data gathering that will produce performance data for Standard Regular Mail?

RESPONSE:

a. No.

b. N/A

c. There currently are no plans to gather nationally representative, randomly

sampled, externally validated data. Internal systems such as Advance and

CONFIRM may provide an indication of performance on a mailing by mailing

basis, but are dependent upon mailer participation.

VP/USPS-T32-6. Please refer to your response to VP/USPS-T32-5, and describe all efforts, including unsuccessful efforts, by the Postal Service over the years to develop a performance measurement system for Standard Mail (formerly Standard A and third-class mail) that is nationally representative and statistically valid, regardless of whether such system was planned to rely on internal data or externally validated data. In your response, please cite all instances of which you or others in the Postal Service are aware where the Postal Service has publicly indicated plans to have some such performance measurement system in place.

RESPONSE:

Although I am not familiar with the complete history of performance

measurement, I am aware that there have been a number of efforts (e.g., EX3C,

ADVANCE/DAR, TCMAS) to measure performance of individual mailers' mail,

with the goal of developing nationally representative performance figures;

however, it is my understanding that none of these efforts culminated in a

performance measurement system. Certainly, the Postal Service is aware of

mailer concerns regarding service and the availability of a performance

measurement system, and has expressed -- in a variety of forums -- an interest

in working with mailers on these issues.

VP/USPS-T32-7.

- a. Please refer to your response to VP/USPS-T32-5, and indicate whether the Postal Service aggregates performance data - over those Standard Mail mailings that participate - in either the Advance or the CONFIRM internal systems mentioned in your response. Unless your answer is an unqualified negative, please indicate whether such aggregated data are developed on a quarterly basis.
- b. For Base Year 2000, please provide such quarterly (or annual) aggregate performance data as are available for Standard Mail. If you have such data broken down as between Standard Regular and Standard ECR, please do so. If the data show the actual time to deliver versus the standard set forth in the Postal Service's response to Rule 54(n) in its Request in this case which, incidentally, still refers to "Standard A" please provide the breakdown.

RESPONSE:

My response to interrogatory VP/USPS-T32-5 stated that such systems may provide *an indication* of performance; however, the Advance and CONFIRM systems are not performance measurement systems since they do not provide aggregated performance data that show the actual time to deliver as compared to the applicable service standard.

VP/USPS-T32-8. Please refer to the chart in the Postal Service's response to Rule 54(n) in its Request in this case that shows the service standards for all major classes of mail.

- a. Please confirm that in the above-referenced chart "Standard A" (now Standard Mail) has the lowest performance standard for all the classes shown, lower even than "Standard B" (now Package Services). If you do not confirm, please explain.
- b. Would you agree that the volume of Standard Mail is sufficient to warrant development of a nationally-representative, statistically-valid performance measurement system? If not, please explain.
- c. Please explain why the Postal Service appears to put such a low priority on developing a nationally-representative, statistically-sound system for measuring actual performance that is provided to Standard Mail.
 - (i) In your response, please indicate whether the reason in part is that the Postal Service does not want to know and/or publicize the actual service given to and received by Standard Mail (formerly Standard A and thirdclass).
 - (ii) In your response, please state whether the reason in part is that Standard Mail has such a low service standard, as evidenced by the abovereferenced chart in the response to Rule 54(n), that the Postal Service deems such effort not worthwhile.

RESPONSE:

- a. The interrogatory does not state how service standards between the classes can be compared in a relative sense. I can, however, confirm that the chart referred to in this interrogatory includes a "10th day" standard for Standard A (now Standard Mail), whereas Standard B (now Package Services) has the "9th" day as its latest standard.
- b. It is not within the scope of my responsibilities to make such determinations, and I have not performed a statistical analysis to determine whether volume characteristics of Standard Mail pose a difficulty in developing a nationally-representative, statistically-valid performance measurement system.
- c. Although the Postal Service is currently faced with extraordinary
 challenges of high priority, the interrogatory's characterization that the
 Postal Service has placed "such a low priority" on developing a nationally-

representative, statistically-sound system for measuring actual Standard Mail service performance is not accurate. A number of factors could make the development of such a system difficult, and, to my knowledge, the hypotheses provided in subparts i) and ii) are not among them.

VP/USPS-T32-9.

- a. Please confirm that H.R. 22, a bill proposed in the last Congress, would have required the Postal Service to develop a performance measurement system for Standard Mail. If you do not confirm, please explain.
- b. With respect the above referenced performance measurement provision in H.R.22, did the Postal Service at any time take any public position, whether endorsing it, opposing it, or just explaining the perceived difficulty that it might cause the Postal Service? If so, please explain fully.
- c. Has the Postal Service at any time formulated any plans, however tentative, with respect to how it would develop and implement a performance measurement system in response to the provision for same in H.R. 22? If so, please describe.

RESPONSE:

- a. Confirmed.
- b. I am not aware of any public position taken that specifically or exclusively dealt with this provision of H.R. 22.
- c. While the general topic of performance measurement is always under consideration, I am not aware of any specific plans related to the cited provision of H.R. 22.

1 CHAIRMAN OMAS: Is there any additional written cross-examination for Witness Moeller? 2 3 (No response.) CHAIRMAN OMAS: This brings us to oral cross-4 Three parties have requested oral cross-5 examination. examination, the Association for Postal Commerce, the 6 7 Recording Industry Association of America, and Val-Pak Directing Marketing Systems, Inc., and Val-Pak Dealers 8 Association, Inc. 9 Is there anyone else who wishes to cross-examine 10 11 this witness? 12 (No response.) There being none, Mr. Wiggins? 13 CHAIRMAN OMAS: Thank you, Mr. Chairman. 14 MR. WIGGINS: 15 CROSS-EXAMINATION 16 BY MR. WIGGINS: Mr. Moeller, Frank Wiggins here for the 17 0 18 Association for Postal Commerce. You have proposed, among other things, in your testimony that the Commission 19 implement a surcharge for non-machineable standard letters, 20 21 right? That's correct. 22 А I'd like to think with you a little bit about 23 0 24 that, and I guess the starting place for thinking about it is to understand with clarity just exactly to which mail 25 Heritage Reporting Corporation

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1 pieces the surcharge would be applied.

We ask you in PostCom-T-32-5 to define the term non-machineable. You responded saying that a full definition would be refined -- that's your word -- through the rule making process, but as an initial matter you might look at DMM-M810. Then you go on to say, "This provision does not list characteristics of non-machinability."

8 I'm trying to sort of paste together there why I 9 should be looking at it if it doesn't define non-10 machinability, which is what I'm concerned with.

A I'm thinking that the DMM section M-810, since it describes preparation standards for automation letters, it doesn't necessarily say what's non-machineable. I think that's the distinction there. Then we go on to offer a definition as we see it now of how you will define a nonmachineable letter.

Q We'll talk about those specific things in a minute. I just want to understand. Are you signaling to me that whatever non-machinability will eventually be defined to mean, it will mean at least that you must meet automation standards as they are pronounced in DMM-M810? Is that sort of a threshold in your view?

A If you meet the automation standards you're likely in the automation rates, so you would not be subject to the surcharge. The surcharge is only going to apply to the pre-

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sort categories of letters that are then defined within that
 as being non-machineable.

Q Yes. I kind of figured that out myself, and that made me still more confused about why you're referring me to the automation standard. I'm just trying to bridge your view of the relationship between automation rate eligibility and being subject to the non-machineable surcharge.

A Maybe the reasoning is all these things are talking about characteristics of pieces of mail, and they're interrelated for that reason. When you see what's automation compatible, that helps you get a picture of what not be automation compatible. It's that group that might be subject to the surcharge.

Q Well, we can say with certainty I guess, and I think you just told this to me, that if I do meet the automation rate eligibility standards I am not going to be subject to the non-machinability surcharge?

18 A That's correct.

19 Q Okay. You then go on to give me the current 20 working definition are your words of a non-machineable 21 letter, and you list a bunch of things.

Having already warned me that all of this is subject to revision through the rule making process, are you reasonably confident or highly confident that these criteria that you list will after the rule making is concluded

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continue? If you have any of these characteristics, you
will continue to be ineligible? You will be subject to the
non-machinability surcharge?

A Well, I think the reason there is this rule making process is because things may come to light. There will be comment periods and such, so I wouldn't want to jump ahead of that process and declare yes, it's likely these are indeed what will come out after that. I don't think it's good for me to make that conclusion.

10 Q So you're saying that perhaps I could persuade you 11 in the course or the process, or whoever is going to make 12 the decision, of the rule making that some of these things 13 ought not to be criteria that would subject a mail piece to 14 the non-machinability surcharge?

15 A Well, we included it here in this response because 16 we wanted to be as forthcoming as possible about what it's 17 likely to be without making a definitive conclusion because 18 of the rule making process.

I appreciate that. The problem here, Mr. Moeller, 19 0 is, you know, it's terribly important to my clients to know. 20 This is not a minor deal whether they're going to be subject 21 to this surcharge. I know you can't tell me with certainty 22 now because of the rule making process, but anything that 23 you can tell me, and I know you've tried to do exactly that 24 right here. 25

Is there anything else that you can think of that you, Mr. Moeller, would advocate as a characteristic of mail that should make that mail subject to the non-machinability surcharge?

A I don't have anything to add to this list. Just now I'm just checking to make sure that the last bullet was actually on there. The surcharge would also apply to pieces that the mailer in preparing the mail designates on the tray as requesting manual only processing.

10 Q Well, that's generous of you, but that's not what 11 my clients are worried about. You can't think of anything 12 other than the things that are listed here?

13

A No, I can't.

14 Q Do you know what the derivation of this list is?
15 Where did you find this list?

16 A This list came from the people who work with the 17 domestic mail manual, the publication of it and the 18 revisions to it.

19 Q Let me just get the process straight. You went to 20 them and said that rascal Wiggins is hounding us again. 21 Could you create a list for me? Is that how that happened?

A No. When we were formulating this proposal, we had an idea of what would be subject to the surcharge, and so it didn't come up just because of you asking the question.

Q And you went to the folks who were most intimate with the domestic mail manual and said create us a checklist of things that ought to be considered as indicates of nonmachinability?

5 A It's not just them. There are other people. 6 Q Whatever population you polled. You got a bunch 7 of folks, and you said to them collectively or individually 8 we're trying to get a notion of what ought to make mail 9 pieces subject to a non-machinability surcharge. Is that 10 roughly the way it went?

11 A There are a number of people who have information 12 that would give us some kind of background on what defines a 13 piece as being non-machineable. I think Witness Kingsley 14 probably identified some of these things, too.

Q She actually testifies in her answer to an
interrogatory with this list, I believe.

17 A Okay.

18 Q Have you consulted with her on this question?
19 A On this particular question, this interrogatory,
20 maybe, but certainly on the broader question of non21 machinability, yes. I've had discussions with Witness
22 Kingsley.

Q Okay. Turning away from the definition of what is it to the question of how do you define the cost that ought to be associated with it, we asked you in PostCom-T-32-2

1 what the source of your cost data was, and you confirmed that it was page 59 of Library Reference J-60. Do you have 2 3 that handy? Yes, as a matter of fact I do. 4 Α There are on page 59 seven different unit cost 5 0 numbers, correct? 6 7 Actually, there are a lot more than seven. Α Well, there are seven. The numbers that I'm 8 0 looking at, Mr. Moeller, are the numbers associated with Row 9 3, 6, 9, 9 again, 12, 9 again and 9 again. 10 11 Α Right. I think those are references to the footnotes rather than line numbers. 12 I know they are. They're not line numbers, but 13 0 that's a way to identify those numbers I'm talking about. 14 15 Α Yes. It is those numbers to which I refer, and there 16 0 are seven of them. They represent a considerable range. 17 18 They go all the way from rounded 4.9 to rounded 21.3. 19 We inquired of you why you chose the 4.9 as the 20 number that you were going to get close to to get your four cent surcharge. We didn't ask the question terribly well, 21 22 so let me try again. Why did you chose that number? You're talking about Interrogatory PostCom/ 23 А USPS-T-32-2, and you're saying --24 Well, no. Probably No. 4 is the one that comes 25 0 Heritage Reporting Corporation

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1 closer to asking that question.

A Okay.

2

Q What I'm saying is we didn't clearly ask that question in any interrogatory, so I'd like to get clear babout it now.

A And the question again then was? I'm sorry. Q Why did you chose four cents, the number that is closest to the lowest number on what I've called the total numbers on page 59?

10 A I think there was a question that asked why the 11 surcharge was set at four cents, and in that answer I said 12 that -- I just pointed out that the four cents was lower 13 than the lowest cost difference of any of these seven 14 numbers you're speaking of.

Q And the question that sort of immediately pops into mind, and I think we did ask this of you, is why make the determination to have only one surcharge when you've got this considerable range of cost differentials?

19 A I think you're referring to PostCom/USPS-T-32-8.
20 Q Correct.

A In that response, I mentioned that there are several reasons why you would only have one level of surcharge. Today there's none, so these cost differences are there today with no rate distinction. We're now proposing to recommend it.

We now propose that it be recognized that there's a cost difference, and we've proposed one level of surcharge for the reasons that I say here in this interrogatory. It's a new rate element, and as such it can cause a significant rate increase for the affected mail if not moderated initially.

Yes, the four cents is lower than a lot of those numbers on that page, but if it were any higher it might cause a very large increase for a particular grouping of mail, and that rate impact may be deemed too severe.

11 Q Well, it's going to cause what might be perceived 12 as a pretty large rate increase for non-automation, non-13 machineable five digit mail now, right? Did you consider 14 that? You could have moderated.

Let me put it a different way. You could have moderated the level of the surcharge for those rate categories in which the cost difference is smaller. It could have been less than four cents there had you had a large surcharge in some of the categories where the cost differential is greater.

A Right. If there were a lower surcharge and a higher surcharge, that would be more than one level of surcharge.

Q Yes, it sure would.

25 A The idea was that we would have one level of

surcharge for the reasons that are in this response. Added
 complexity, which I didn't get to a minute ago when I was
 going through this response.

4 It's simpler just to have one surcharge that will apply to pieces that are defined as non-machineable in terms 5 of eligibility for that surcharge, in addition to those 6 other reasons we've already covered, which would be if you 7 have a higher and a lower surcharge that means the higher 8 9 one is probably going to cause a bigger percentage increase for that category of mail, and that may have been deemed as 10 too extreme or too much for implementation of a new rate 11 element. 12

Q When you say a higher percentage, say what you mean by that. Let's just take one of these examples on page 59. Take the first one, the unit cost comparison between non-automation, non-machineable all pre-sort levels and nonautomation machineable all pre-sort levels. Do you have that?

A The first chunk of numbers on that page, the firstthree lines? That's the section you're talking about?

21 Q That's correct, which shows a unit cost 22 differential of 9.075 cents.

A Yes. I think actually I should clarify at this point that I think you're going with the originally filed figures. They were revised on November 15, so what I'm

1 looking at has a differential there of 9.373.

Q Well, whatever. Let's use your number of 9.373. You haven't changed your recommendation as to the level of the surcharge, if I understood your testimony earlier today correctly.

6

13

Α

That's correct.

Q Okay. So the surcharge is edging up to covering
half of the cost differential. It's a bit less. Forty
percent or thereabouts.

10 A That particular number is for all pre-sort tiers 11 combined.

12 Q Of the average. That's correct. Yes.

A And four is approaching half of 9.3.

14 Q And yet if you look down at the last three numbers 15 on this page before you get to the footnotes, how much is 16 that number? What is that number on your page?

17 A It now reads 6.020.

18 Q So the four cent surcharge is covering roughly 19 two-thirds of that cost differential?

20 A Yes.

Q So that if we were talking about percentages is what got me here. There is a significant difference in the percentage coverage between those two examples that we've looked at, correct?

-

25

A If you wanted to describe the four cents as a pass
1 through of a cost difference, you mentioned two-thirds. It
2 would be about 67 percent pass through --

3 Q Right.

A -- of the differential for that tier. It would be somewhat lower as a pass through on the other pre-sort tiers.

Q Right. And I guess when you're talking about percentage changes or percentage impact, and I realize at some point you're going to have to have more surcharges than probably would be healthy, but if you had more than one you could come closer to equalizing the pass through percentage for these various cost differentials, could you not?

13 A If you were open to the notion of having more than 14 one level of surcharge, you could chose the same pass 15 through or different pass throughs to obtain those different 16 levels of surcharge.

17 Q To distill things down, is it fair to say that you 18 just were not open to having more than one level of 19 surcharge?

A It came out of, you know, obviously when we put these proposals together we review issues and think about implications of various proposals. This was a classification change, and there was criteria to go through. One of them is complexity.

25

For those reasons recited here in the response to Heritage Reporting Corporation (202) 628-4888 PostCom/USPS-T-32-8, we went with one level. It wasn't as though I went into it with a closed mind saying oh, it has to be one level.

Q No, no. After examining the construct and the possibilities, you just concluded that one level was really an imperative condition here?

A One level was the right proposal to make.

7

8 Q Okay. And deciding that there should only be one 9 level, you decided that level should not be higher than a 10 small cost differential, correct?

11 A That may not have been the distinct cause and 12 effect. I mean the four cents, also you look to see what 13 the implication is for the percentage change for different 14 rate categories, and that too says to limit it to four 15 cents.

For instance to non-profits the charge is only two cents. That's the guiding reason there. If they were to get the full four cent surcharge for non-profit the rate increases for some of those would have been much much higher than the average for the subclass.

21 Q Another of the things you propose in your 22 testimony is that the basic letter category, automation 23 letter category, be divided into an AADC and an MADC, a 24 subgrouping, each of which has a different rate, correct? 25 A That's one of the classification proposals in this

1 testimony, yes.

2 Q Well you did propose that. I'm not saying it's 3 the only thing you proposed, but you did propose that.

And we ask you in post-conference number seven to you, why you didn't carry the idea of the averaging farther. And you say a number of things there, and I wonder, are there reasons that you express here in some kind of hierarchical order? Are the things you say first the most important? I'm just trying to mesh these things together and figure out what really drove this decision.

I can tell you I didn't go through and put them in Α 11 any kind of hierarchy here. I think what you do when you're 12 considering about splitting the rate category into two 13 groupings or making a classification change of that nature, 14 you consider a number of factors, and this interrogatory 15 gets to those factors, and you weigh them and you decide 16 whether there's a case to be made that deaveraging a 17 particular rate category is a good thing to do in terms of 18 the classification criteria. 19

20 Q One of the things that you say in your testimony 21 at page three when you're explaining what you call there in 22 a heading for this paragraph subdivision of basic automation 23 letters, is that there is a cost differential between the 24 AADC and the MADC letters, right?

25

A There's a cost differential between those two Heritage Reporting Corporation (202) 628-4888 preparation levels of preparation levels of basic automation
 letters, exactly.

Q Did you examine whether there were cost
differentials between AADC and MADC in categories other than
letters flat, say? Did you look at that?

I didn't look at the particular cost difference 6 А between those two tiers for a number of reasons, one of 7 which, within automation flats and standard, only three 8 percent of the flats are in that basic tier. So it didn't 9 appear to me as that would be a good candidate to consider 10 deaveraging anyway. If you only have three percent of 11 automation letters in that tier, that doesn't, I don't think 12 that is a fairly attractive candidate for deaveraging 13 14 further.

Q Do you think if you asked mailers of those three percent of flats their perception might be a little different?

Again, one of the classification criteria involves 18 Α complexity and adding complexity to the rate structure. I 19 think on balance you consider the cost difference that may 20 21 be underlying that basic tier and you match that up against the volume that's in that tier, and whether processing 22 efficiency can be enhanced, and if there's a fairness and 23 equity issue that could be addressed, you consider all those 24 25 things.

1 In this case I think you conclude that one rate is 2 enough for that grouping of three percent of automation 3 letters.

Q When you talk about fairness and equity and you think about it in this context, isn't the most fair and equitable thing to do -- putting aside the other considerations, complexity and the rest, just looking at fairness and equity. Isn't the most fair and equitable single precept in pricing is that prices should follow costs?

11 A I think one of the subcriteria that you would 12 think when you're looking at fairness and equity is you'd 13 decide if there's a big cost difference there that needs to 14 be reflected in the rates.

For instance on page three, I say creation of a separate rate for AADC automation letters would enhance their equity and that mailers that are able to create those tray will not have to shoulder the additional cost associated with the mixed AADC trays. So I think that --There I said an example of fairness and equity being costrelated.

Q Sure. I'm just suggesting that there might be other candidates for application of your fairness and equity precept such as, if it were the case that flats is more economical if they were AADC rather than MADC, ought equally

1 to qualify. So there would be the same fairness and equity, 2 would there not?

I don't think it would necessarily be the same. Α 3 Ι think there's a different definition, by the way, about what 4 the preparation requirements are within flats. Not AADC, I 5 6 don't think, but in any event, you can go through the entire standard mail rate chart and look at individual categories 7 and contemplate whether there is a rationale for splitting 8 9 it into smaller groupings.

10 Q Sure, I understand you can carry deaveraging 11 forever, if you want to. I was just trying to get a handle 12 on why you chose the quicker deaveraging where you did, and 13 I guess you just have to draw a line. Is that fair if not 14 equitable?

15 A The particular idea came up in the context of 16 putting our proposal together and it rose to the level of 17 the decision that yes, the deaveraging of that particular 18 tier is an advantageous thing to do.

19 Q We asked you in PostCon 32-9, some questions about 20 the constituent costs. The mail transportation and cross-21 docking costs. We said, particularly, and I'm going to 22 truncate the question because it was kind of a long 23 question, then we'll get to your answer.

Please confirm the drop ship cost avoidance model calculates cross-docking and transportation, cross-docking

costs per pound rather than per piece because the cross docking costs vary primarily with weight.

Do you see that in (b)? That's only part of the question. But you say no, it does it per pound instead of per piece because of how they are used in the pricing model. That just really left me at sea. Can you elaborate on that a little bit?

I think the response intended to impress upon the 8 Α 9 reader that these particular studies are done with the 10 purpose of facilitating the rate design. And the rate design standard has, just makes an entry related to cost 11 12 differentials as an input on a per pound basis. It has to be converted to a per-piece basis for the people that are 13 14 paying the piece rate only. This response was just 15 articulating that notion that these cost avoidance studies are done with the purpose of feeding into the pricing model. 16

17 It goes on to say that how those costs, in the 18 bigger picture, the cost measurement, there are various 19 distribution keys that are used. I didn't want to confirm 20 that indeed all of these costs are weight-related 21 necessarily.

22 Q Do you know whether they are? If we were just 23 asking directly, are these costs weight related?

A Again, I've listed a source here that --25 Q Well what does it say? Do you know what the Heritage Reporting Corporation (202) 628-4888 1143

1 answer is?

2 A I can't speak for every cost implement that's 3 boiled into --

4 Q No, no. If you don't know just say no, I don't 5 know.

6 A I'm not in a position to confirm that all the 7 costs are weight related and not piece related.

- 8 Q So you don't know.
- 9 A I do not know.

10 Q Another thing you did PostCon that I salute you 11 for, is to once again propose to make eligible for the 12 automation classification letter shaped pieces weighing 13 between 3.3 and 3.5 ounces, and that really is something 14 near and dear to the hearts of PostCon members, and they do 15 thank the Postal Service for recurring to that mission.

We asked the question in PostCon number 10 to you, and a very closely comparable question was asked by Val-Pak in their number 32 to you. Essentially what we were trying to get at -- When you have those, just let me know.

20 A Actually you said Val-Pak 32. I think 32 is my 21 witness number, but --

- 22 Q I'm sorry, Val-Pak 1, question one.
- 23 (Pause)

24 A I have those.

25 Q Essentially what both of those are trying to get

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at is whether there may, whether for all purposes other than calculation of the rate, a mail piece, a letter shaped mail piece weighing between 3.3 and 3.5 ounces will be treated as an automation letter.

5 A If that piece meets all the preparation 6 requirements for automation letters, is prepared and labeled 7 as such, that identifies it to the mail processing people 8 that indeed these are automation-compatible letters, related 9 pieces, and as responded here in PostCon/USPS T-32-10, it's 10 reasonable to expect that they will be processed in 11 automation.

12 Q There won't be a requirement that there be an 13 additional label, for example? A slightly pudgy automation 14 letter. As far as you know.

15 A As far as I know. We discussed earlier the 16 rulemaking process that goes on, and the specific markings 17 and tray labels and such, the details of how people are 18 going to be able to qualify for these rates and what they 19 have to do in terms of mail preparation.

Q In your answer to the two interrogatories to which I cited you, you just confirmed, you didn't make that qualification.

A Well I say, what I'm confirming in PostCon 10 - Q Is a processing --

A It says -- No, it says the fact that a letter

shaped piece meeting all the requirements for automation 1 compatibility. I include in that the markings and the tray 2 3 labels and whatever. 0 Okay. 4 Thank you Mr. Moeller. 5 MR. WIGGINS: Mr. Chairman, I have no further questions. 6 CHAIRMAN OMAS: Val-Pak Direct Marketing Systems, 7 Incorporated; Val-Pak Dealers Association, Incorporated. 8 Mr. Miles? 9 Thank you, Mr. Chairman. MR. MILES: 10 Good morning, Mr. Moeller. 11 THE WITNESS: Good morning. 12 13 CROSS-EXAMINATION 14 BY MR. MILES: As the Chairman indicated, I'm asking you 15 Q questions on behalf of Val-Pak Company. 16 You said in your testimony that you're an 17 economist in the service of pricing and classification. Is 18 that a division? 19 In I'm not sure what we calling the structure. 20 А the Marketing Department now there is a group called pricing 21 and classification. I'm in that group. 22 Mr. Moeller, in addition to your testimony for the 23 0 Postal Service that we're asking you about today you also 24 submitted testimony as Witness P-28, did you not, with 25 Heritage Reporting Corporation (202) 628-4888

- 1
- respect to coverages?

2 P-28 is also my testimony, yes. It involved the Α rate level testimony in this case. 3 4 Your testimony in T-32 proposes classification 0 5 changes in rates for standard mail regular and non-profit, 6 correct? 7 Α Correct. 8 But not for ECR, correct? 0 9 Α I'm not the ECR pricing witness, no. In past dockets, for example Docket No. R97-1 and 10 0 11 Docket R2000-1, you presented the rates designed for all of what is now standard mail, did you not? 12 13 Yes, I did. Α 14 Q Including what is now ECR, correct? Correct. 15 Α You're familiar with the Postal Service's proposal 16 0 17 with respect to ECR in this docket, aren't you? 18 А I'm familiar with the proposal. And you know which witness of the Postal Service 19 Q presents those proposals? 20 Α Yes, I do. 21 22 Q That's Witness Hope, T-31? 23 А Yes. Are you familiar with her testimony? 24 0 25 Α Certainly I'm familiar with it. I'm not, Heritage Reporting Corporation (202) 628-4888

- 1 obviously, testifying to it.
 - Q But you have read it.
- 3 A Yes.

4 Q And you've consulted with her in connection with 5 that testimony, have you? As a prior ECR witness?

A Sure, in the development of the case I was involved with any number of witnesses discussing the various rate designs and cost coverages, obviously, because that's the topic of my other testimony.

10 Q Are you aware of Witness Hope's proposal, Mr. 11 Moeller, for a classification change that would require ECR 12 high density and saturation letters to become automation 13 compatible? In other words -- Or should I be more specific?

14 A I'm familiar with the proposal that in order to 15 qualify for letter rates within the ECR subclass there will 16 be additional requirements related to automation 17 compatibility.

18 0 Do you know that under Witness Hope's proposal the ECR high density and saturation letters would have to be 19 20 pre-bar coded and meet all the other automation requirements 21 that the Postal Service imposes in its MERLIN system? 22 I didn't catch the first part. You said --Α 23 0 I just referred to high density and saturation. 24 А High density and saturation will have to meet whatever requirements there are for automation compatibility 25

1 to qualify for letter rates within ECR.

Q Mr. Moeller, if you know, why in this case was ECR carved out, so to speak, of the standard mail? Why not present all of standard mail through one witness such as Ms. Hope or through you?

A That gets into the internal management of resources at the Postal Service. There were a number of people changing jobs and there were new hires, and for whatever, all those various reasons, there were assignments made. And since I was taking on the rate level witness role, it seemed generous of people to try to at least reduce my workload somewhere else.

13 Q But not to the extent of giving all of standard 14 mail to Ms. Hope?

15 A Or other people in general. Again, there were a 16 number of personnel movements that had this assignment fall 17 in my lap or be in my province.

Q As you discussed a few moments ago with counsel for PostCon; on page three of your testimony you present a proposal in this docket that would effectively extend the weight limit for automation letters by giving the letters at discount, if those letters were between 3.3 and 3.5 ounces, is that correct?

A I'm not sure I want to accept your description of it being a discount.

There is an eligibility for automation rates for pieces between, automation letter rates, excuse me, for pieces between 3.3 and 3.5 ounces.

4

Q It's more involved than simply a discount.

5 A Well, there's a rate mechanism on how you will 6 calculate that rate. It turns out that it's the difference 7 between the non-letter and letter rate.

Q That differential is actually part of the formula,9 is it not? In calculating the rate.

10 A I'm trying to see if there's a description of how 11 the rate was calculated.

12 Q I'll tell you what, Mr. Moeller, I'll lead up to 13 it by a couple of other questions if that's okay with you.

14 In R2000 when the Postal Service presented a 15 proposal as well, did it not, that is in this ball park of 16 the heavy weight letter mail, but was it precisely the same 17 as this one?

In R2000-1, the last rate case, in my 18 А No. testimony in that case it included an acknowledgement that 19 we contended that implementation of whatever rates came out 20 of that process to apply the automation letter rates for 21 pieces from 0 to 3.5 ounces. There wasn't a specific rate 22 proposed for the incremental weight over 3.3 ounces. That's 23 what differentiates it from this proposal. But yes, if your 24 question was was there something involving a weight issue 25

for automation letters in R2000-1, yes, there was.

2 Q As I recollect from your testimony you said the 3 Commission had adopted your proposal but the Governors 4 rejected it?

5

A Do you have a reference for where --

6 Q Would you look at page 3 of 5 where you begin to 7 describe your proposal in this case?

8 A Right. The Commission, however, recommended 9 classification -- Maybe I should start from the beginning 10 which sort of says what I said a minute ago.

In Docket No. R2000-1 the Postal Service explained that as an administrative matter it planned to extend the weight limit for automation letters to 3.5 ounces without any additional postage. The Commission, however, recommended classification language in the footnotes to the rate schedule fixing the break point weight at 3.3 ounces for automation letters.

18 And the Governors rejected that recommended19 change.

That change didn't involve 3.5 ounces for automation letters, it involved fixing, in the DMCS, the break point at 3.3 ounces.

Q And that would have taken away the administrativediscretion that the proposal wanted?

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25 A I can't speak for the attorneys and how this would Heritage Reporting Corporation (202) 628-4888

be interpreted to DMCS or other things, but it's my 1 understanding that, well, I'll let my testimony speak for 2 That's the extent of what I know about why it 3 itself there. 4 was rejected. Mr. Moeller, your proposal in this case would 5 0 amend the automation rate schedule, would it not, to include 6 a per piece discount depending on trade preparation level to 7 be applied to the piece pound rates for automation flats. 8 Is that accurate? 9 Now you're getting to the mechanism of how that 10 Α rate would be established. 11 Will you turn to page five of your testimony? 12 0 13 Α Yes. And look at lines 3 through 5. 14 0 Yes. 15 Α Does that accurately recite what I just said? 16 Q 17 Α I believe you read this sentence, yes. Would you turn to page 15 of your testimony? 18 0 Okay. 19 А There you give an example of how your proposal 20 Ο would work with respect to a 3.4 ounce, five digit 21 automation letter shapes and regular automation piece, 22 23 correct? 24 Α Yes. There's an example there of a rate 25 calculation for that type of mail. Heritage Reporting Corporation

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Q In looking at that calculation the piece would pay a rate of 19.5 cents, correct?

A A 3.4 ounce five digit automation letter would pay 4 19.5 cents. Yes.

5 Q This would be arrived at by subtracting the 6 letter flat differential, if you look at page 18 of your 7 testimony, which is 7.1 cents from the flat rate for pound-8 rated flats of a 3.4 ounce piece. Is that correct?

9 A It's the difference between the 3.5 digit 10 automation flat and a five digit automation letter, --

Q That's the discount.

12 A That's the rate element that you apply there to 13 get the net rate of 19.5 cents.

14 Q For a similar three digit piece the same kind of 15 computation would follow, would it not? Although the 16 numbers would change a bit.

17 Α The mechanism stays the same, the numbers change. In looking at page 18 of your testimony, under the 18 0 19 first column, you'd still have to determine a flat rate for 20 a piece like that, prepared for three digits, but the discount in this case would be 5.8 cents, correct? Which 21 22 would be the differential between the letter rate for that 23 piece and the flat pound rate for that piece.

In other words, instead of a 7.1 discount for the five digit piece, you're giving a 5.8 cent discount for the

three digit piece, correct?

In doing the math, 26.1 minus 20.3. Yes. 2 А These discounts of 7.1 cents for five digit and 3 Ο 4 5.8 cents for three digit would be the same for 3.5 ounce 5 pieces as well as 3.4 ounce pieces, correct? You would still take the difference between those 6 А 7 categories for any weight between 3.3 and 3.5. Right. In other words you'd still have to do the pound 8 0 9 rate calculation, but the discount is an absolute, more or less. It's the letter flat difference. 10 11 Ά Correct. And the implication of that is they're paying for the additional weight above 3.3 ounces. 12 13 But you have proposed, could this be a fair 0 14 statement, that you proposed discounts subject to the 15 calculation of the correct calculation of the pound rate, which is a step that has to be done dependent on weight. 16 17 You propose discounts of 7.1 cents and 5.8 cents for 18 standard, regular automation pieces with five digit and 19 three digit pre-sort respectively. Those are the right numbers, and you probably 20 Α notice I've been not saying discount, I've been saying the 21 22 rate element. 23 0 I understand you want to qualify that, Mr.

Moeller, but look at page five of your testimony, please.Line three.

- 1 It reads, "The proposal amends the automation 2 rate schedule to include a per piece discount."
- 3

6

So am I not using your language?

4

A The mechanism for calculating the rate as a thing, as an element in the automation rate schedule, it's called a discount in the way you're calculating the rates.

Q So it is correct to say discount as long as youunderstand the entire process.

9 A In the context of how you calculate the rate, 10 discount is a handy word to use. There are other ways you 11 can get the same rate, taking the automation letter rate and 12 just taking that incremental rate and multiplying that by 13 the pound rate, you get the same number. You wouldn't 14 describe that as a discount necessarily. That's --

15

I understand the point you're making.

Now the example we just talked about had to do with standard regular automation letters or letter shaped pieces with five digit and three digit pre-sort, but your proposal would extend to standard non-profit automation pieces in the same weight category, would it not?

21 A Yes.

Okay.

0

Q Please turn to page 27 of your testimony where you list the proposed rates for standard, non-profit automation pieces.

25 A

Could you do a quick calculation with me that with 1 0 respect to the five digit piece in the first column, whether 2 it be 3.4 or 3.5 ounces and subject to your qualification on 3 4 using this word, the discount would be 5.2 cents. For the five digit automation letter. 5 А Yeah, and for the three digit pieces it would be 6 0 7 3.7 cent discount, correct? Α Yes, that's correct. 8 Would your proposal extend to standard basic 9 0 automation letters? 10 What subclass are you talking about? 11 Α Standard regular. 12 0 Can you turn to page 18 of your testimony? 13 The reason -- Basic wouldn't be a category under 14 Α the proposed rates for this mixed AADC and AADC. 15 You're talking about which page? 16 Eighteen. 17 0 I'm there. 18 Α Yes. In addition to the three digit and five digit, 19 0 let's call them discounts just for ease, is there another 20 discount in that first column that we haven't talked about? 21 I want to go back to my page three again. 22 Α (Pause) 23 Back to page five, the first full paragraph. Α The 24 proposal included the discount dependent upon the trade 25 Heritage Reporting Corporation

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preparation level. That doesn't mean it's limited just to 1 2 the three and five that we've been discussing. So it would apply to the difference between what? 3 0 4 On page 18 again, with respect to mixed AADC and auto AADC, what would, how would you calculate the discount there? 5 А It would be a parallel calculation to what we just 6 7 went through. 8 Q You subtract those amounts from the basic flat 9 rate? Α Correct. 10 So for mixed AADC the discount would be .081, 8.1 11 0 cents? 12 The difference between 30 cents and 21.9. 13 А 14 0 For auto AADC it would be the difference between 30 cents and 21.2. 15 16 Α Correct. 17 Or 8.8, correct? 0 Yes. 18 А 19 0 Thank you. 20 Mr. Moeller, on page five you talk about the 21 considerations that led to the proposal, and I believe in 22 summarizing what you said that you testified it would be advantageous in your opinion to serve mailers and that it 23 24 would allow some mailers to avoid the substantial increase 25 in postage that occurs under the current system when an Heritage Reporting Corporation

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automation letter crosses the break point weight, correct?

2

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A Correct.

Q That was one consideration. And you believed the Postal Service would benefit under your proposal because the additional automation of heavy weight letter shaped pieces, between 3.3 and 3.5 ounces, could be handled in the automation letter mail stream resulting in processing and efficiency benefits, correct?

9

Α

From reading my testimony here, yes.

10 Q And the third consideration that led to this 11 proposal is you believe the effect of your proposal on 12 revenues and costs would be de minimis is that correct?

13

I believe that's on page four.

A That's mentioned to explain why there's not a calculation of what the rates, what the revenue and cost implications would be. It's not really a reason for or against doing it, it just says, it just explains that this had a de minimis effect on revenue to cost.

19 Q Having read your testimony I'm not aware of any 20 other reason, other than the three we just discussed, 21 assuming that revenue and cost effect is a reason, that 22 there is any other reason that led you to make this 23 proposal, other than the three that we just discussed.

In other words, advantage to mailers, advantage to Postal Service, and processing efficiency, and revenue and

1 cost effect de minimis. Is that accurate? There's nothing 2 else is there in your testimony?

A I believe this page you've been referring to lays out the reasons for the proposal, and as Mr. Wiggins said it was something they were interested in too.

6 Q But as I summarized them or quoted them, that's it 7 isn't it? There's nothing else that I'm not aware of is 8 there?

9 A I think my testimony here gives the full story 10 about why we're proposing this.

11

0

And I've accurately summarized it?

12 A You pretty much read it right from here, so --13 Q And the same with respect to non-profit automation 14 letters, isn't that true? There's nothing else that led you 15 to make the proposal with respect to non-profit.

16 A Non-profit is generally because we try to keep 17 consistent rate structures for the two briefings, keep them 18 parallel.

19 Q Mr. Moeller, isn't it true that mailers and the 20 Postal Service would also benefit for the same reasons you 21 spoke about with respect to extending the weight limit of 22 standard regular automation and non-profit automation 23 letters if your proposal were extended to ECR high density 24 and saturation letter shaped pieces between 3.3 and 3.5 25 ounces if automation compatible?

1 Α Again, I'm not, as we covered earlier, in the 2 assignment of various tasks I'm not the ECR pricing witness. 3 I think it's a very distinct grouping of mail. I think that's why there's a different subclass for it. And having 4 5 two separate witnesses is fully consistent with the fact that it's a different subclass. I think that also means 6 7 that you weight those situations differently and there's not a direct comparison between the proposal we've made in 8 regular to the proposal or lack of proposal of such a thing 9 10 in ECR.

11 Q Did you discuss your proposal with Witness Hope 12 and ask if she was interested in making a similar proposal 13 with respect to ECR?

14 A We had conversations about all the details of all 15 the proposals between the two subclasses and that carries 16 over to a number of people in the pricing function.

17 Q I understand, but do you recall discussing this 18 with her?

19 A I'm sure we discussed the 3.5 ounce issue.
20 Q Do you recall discussing or hearing in your
21 discussions or articulating yourself in your discussions of
22 why this proposal that you were advancing for standard
23 regular would not also be advanced for standard ECR high
24 density and saturation?

25

A I think the response to the Val-Pak, or VP/USPS T-

32-2 gets into this a bit. Even though I don't want to
 wander into ECR necessarily, there are a number of reasons
 why I don't think it makes sense necessary because it's
 being done in regular it has to be done in ECR.

I think the numerical examples we were going through, we were talking about some pretty big numbers, 7.1 cents, that automation letter mailers incur if they happen to go above the 3.3 ounces. It's a big increase. That was one of the reasons, when you look at the classification criteria, of why you would think that might be a candidate to do something about.

For instance in this response, if you look at ECR in a similar light, we're not speaking of 5.8 cent increases or 7.1 or even the larger numbers when you have to go to the example at the basics here. Instead of the 5.8 cents in this example for the regular subclass which my testimony covers it's not 5.8, it's actually .7 in ECR.

18

Q Seven-tenths of a cent.

A .7, seven-tenths of one cent. So that is a very
different situation than what the automation mailers are
facing in the regular subclass.

There are other reasons. In regular, when those trades are labeled automation mail if they weight 3.4 ounces, as I confirmed with Mr. Wiggins, they're just as likely as any other automation piece to see automation.

1 That's not necessarily true in ECR, where although those 2 pieces would be bar coded they also have to be prepared in 3 walk-sequence because there are various ways that that mail 4 might be processed. It won't necessarily see automation 5 like it will in the regular subclass.

6 So I think they're very different situations and 7 ECR doesn't rise to the level, in my mind at least, as a 8 situation where you'd want to extend this proposal and take 9 on the added complexity of calculating rates in ECR for 3.4 10 ounce letters, for instance.

11 Q Before when you were talking about your statement 12 that this would have a de minimis effect on revenues and 13 costs, do you have any studies that would support that?

A I'm generally familiar with weight studies and data that are presented in that context that show relative volumes along different weight increments, and there's not a lot of volume out there at 3.3 ounces for letters. That leads to the conclusion that there wouldn't be a big effect on cost of revenues.

20 Q Because giving away, for example, the standard 21 regular automation, 7.1 cents or 5.8 cents or more on each 22 letter would be significant, would it not? If there were 23 volume.

A I don't think giving away is the right word. I think mailers are very careful not to get in that situation

where they're paying that additional 5.8 cents in this situation. So it won't be as though someone's giving us 5.8 cents less. They may have a heavier piece now because they can go beyond the 3.3 ounces and not get pushed up that much.

6 So I disagree with the statement that we're giving 7 away 5.8 cents.

Q Let me just be sure about this. I understand that you have experience and knowledge in this area based on your past work life. Is there a study that supports what you're saying? That the Postal Service wouldn't be hurt by this proposal, or that would support your conclusion that it wouldn't be?

I think there are a number of sources, not a 14 А 15 specific study that would isolate what you're talking about, an actual calculation of the revenue and cost implications 16 17 of this weight break change -- not a weight break change, 18 but a weight limit change for automated letters. But there 19 are a number of sources of data that would allow you to make 20 the conclusion that it is de minimis and one of them is the 21 volume we just talked about.

Other things, there have been automation weight studies that show that these pieces do run through automation and then we also couple that with the notion that automation is less expensive processing than is manual, and

all that kind of adds up to the conclusion that there's
 isn't a big rate revenue or cost effect.

Q If there were, whatever it would be, Mr. Moeller, it would be significantly less with respect to ECR, would it not? There would be virtually no harm to the Postal Service whatsoever if this were extended, if this proposal of yours were extended to ECR high density and saturation. Isn't that correct?

Again, I haven't studied the ECR aspect of this, 9 А but those same sources I've been talking about that talk 10 about weight distribution would also come into play for ECR, 11 There may not be large revenue or cost 12 I would assume. 13 implications in ECR, but there are the other considerations 14 of complexity and fairness and equity and those issues that 15 would probably argue against making it a separate rate element in ECR. 16

Q I'm surprised that you would mention fairness and equity. I would think extending this rate, weight extension, so to speak, discount, to standard automation with automation compatible you would extend it to ECR mail that was automation compatible.

Is there really any more complexity to the rate structure beyond what you're already doing for standard automation?

25

A It's just another big grouping of mail that would Heritage Reporting Corporation (202) 628-4888 have a rate element in it that doesn't apply to a lot of
 volume.

As we were discussing in the calculation of that 3 4 rate, it's not a simple thing to do and it's caused a lot of confusion on how you exactly calculate that rate for 3.4 5 I think limiting that complexity and that 6 ounce piece. rather convoluted way of coming up with a rate for a 3.4 7 ounce automation letter, if you can limit that to the 8 subclass where it's the most important, which would be 9 regular, that's probably a good thing to do. 10

11 Q Mr. Moeller, you mentioned the idea that standard 12 regular and non-profit automation would virtually always be 13 processed on automation or often or usually. Is that 14 correct?

15 A If you're referring to the conversation we had 16 saying that if a piece is prepared as an automation letter 17 and it's labeled as such and presented to the Postal Service 18 with those markings, it's likely to be processed in 19 automation yes.

20 Q Whereas ECR possibly not because it could be,
21 having been prepared for walk-sequence --

A The application of the bar code in that separate proposal, the 3.5 ounce proposal, is intended to facilitate options of processing, one of which would be entering that mail into the DPS mail stream, or treating it, as it

probably is treated today, if it's not an automation piece but a letter it would be cased, and having it in walksequence facilitates that operation.

4 So since we're asking for a bar code and having it 5 walk-sequenced, there are options there on how it might be 6 processed.

To the extent the manual casing option is chosen,
then it's not likely to see automation, not as likely to see
automation as a regular subclass automation piece.

10 Q Aside from logic that that possibility could 11 arise, are you aware of any study whatsoever supporting, or 12 any data supporting what you just said about it's not as 13 likely that it would not be processed on automation if it 14 was ECR?

15 A This is a new proposal we've had. WE've never 16 required bar codes for letter rates on high density and 17 saturation so there wouldn't be any study of existing volume 18 necessarily that would answer that question.

19 Q So there is no study. You're just talking about 20 what you think based on common sense, is that correct? Or 21 more accurately, your common sense.

A I think it's reasonable to expect that there would be situations where it would be advantageous to case that mail rather than feed it through automation equipment, but -25 -

 \cap

Mr. Moeller

T	Q MI. MOEIIEI
2	A it's not my decision to make.
3	Q Wasn't Ms. Hope's proposal that we spoke about
4	earlier that would require ECR high density and saturation
5	letters to be, to meet all automation requirements, wasn't
6	this made for the purpose of giving the Postal Service the
7	option of either automating it if it wanted or not if it
8	wanted?
9	A Yeah, I think that's what I've been saying.
10	There's an option that implies that it's probably not going
11	to be 100 percent one way or 100 percent the other way, it
12	will be somewhere in between.
13	Q It's not 100 percent for standard regular or non-
14	profit automation either, is it?
15	A I think it's closer to 100 percent because it's
16	marked as automation and that's the best way to handle that
17	mail.
18	Q It may be closer, but you don't know how much
19	closer, do you?
20	A It
21	Q You'd need a study for that, wouldn't you?
22	A I don't think you need a study. A processing
23	operation person is confronted with a tray of mail that is
24	sorted to AABC and it says automation compatible, and it's a
25	place where they have automation, they're going to put it on

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1 automation equipment.

They get to ECR and you have various options on the best way to process it, depending on whether you want to take advantage of the walk sequence and case it or have it mixed into the DPS mail stream. I think it's a much clearer case in the regular subclass that you would choose automated handling for that tray of mail than you would manual handling certainly.

9 Q I understand your rationale, Mr. Moeller, but 10 again, there's no study. I just want to make sure there's 11 no study or data you're aware of that supports what you're 12 saying.

13 A I'm not aware of a study. I'm aware of my 14 response to number 10, PostCon, where I confirm that piece 15 of mail, or a tray of letters that are marked automation 16 compatible and prepared according to those rules will be 17 processed on automation for the regular subclass.

Q Ms. Hope's proposal to require ECR high density and saturation letters to automatible was made to give the Postal Service the option of merging letters into the DPS mail stream, isn't that correct?

22 MR. ALVERNO: Mr. Chairman, I have to object. I 23 believe this is really straying from Mr. Moeller's testimony 24 and going into Ms. Hope's testimony. I think it's beyond 25 the scope of this witness.

MR. MILES: Mr. Chairman, I think that Mr. Moeller addresses in his response to Val-Pak interrogatory number two. But we've already talked about it this morning. I was just going to --

5

BY MR. MILES:

That was just a follow-up to my question about 6 Q 7 whether if you extended your proposal that you're making 8 with respect to standard regular automation to ECR high 9 density saturation, wouldn't you also be giving the Postal 10 Service the option that Ms. Hope wants to give it with respect to ECR high density and saturation letters? 11 Isn't 12 that advantageous to the Postal Service, Mr. Moeller? Isn't 13 that a reason to do it?

14

A A reason to do what?

Q To extend your proposal for the heavy weight pieces to ECR high density and saturation. It gives the Postal Service the same options that Ms. Hope wants to give it in her proposal for ECR.

19 A When we're talking options we're talking about 20 automated processing versus manual casing. That has nothing 21 to do with the 3.3 or 3.5 ounces.

Q I'm talking about an advantage to the Postal Service which should be a consideration and which I believe was a consideration in your proposal for the heavy weight letter extension.

I'm saying isn't it advantageous to the Postal Service if ECR high density and saturation is automated for the same reason, and we're talking about 3.3 to 3.5, for the same reason that Ms. Hope wants it to be automated for letters? Shouldn't the same rationale apply?

6 Α I think on that small segment of the argument of 7 whether or not you extend the proposal to a particular rate 8 category, in this instance the 3.5 ounce for automation 9 letters in ECR high density and saturation, one of the considerations is what you described, but there are other 10 11 considerations that we've been over which is the relative 12 impact on mailers if they do go above 3.3 ounces, it's not 13 as severe in ECR, and there are complexity considerations, 14 and on balance I think it argues against an extension to 15 ECR, the 3.5 ounce proposal.

16 Q Prior to today did you ever articulate that as a 17 recommendation to either Ms. Hope or anyone else?

A I've had, we've had a number of conversations about the various rate designs and the proposals, and I know Vive had that in my own mind why it wouldn't make sense for ECR, and I would imagine that I've spread that -- that has come up. I'm not saying I was advocating one position or another, but those considerations were probably discussed in a larger context than just me here today.

25

Q Do you recall anyone in any of those conversations Heritage Reporting Corporation (202) 628-4888 1 taking the contrary point of view that perhaps your proposal 2 should be extended to ECR high density and saturation letter 3 shaped pieces between 3.3 and 3.5 ounces?

A I would think that, or hope that when we're considering our entire proposal we look at the pros and cons and advantages and disadvantages of various proposals, and it would not surprise me that there would be people who would express some of the advantages that maybe you've tried to articulate here today.

But again, on balance, it lays against it in this instance.

12 Q But just to be sure, you don't recall anyone 13 taking the position that I asked about?

14 A I don't recall a particular conversation or debate 15 or resolution of a different opinion on that subject.

16 Q Thank you.

17 MR. MILES: That's all I have, Mr. Chairman.

18 CHAIRMAN OMAS: Thank you.

19 Is there any follow-up cross-examination with this 20 witness?

21 MR. WIGGINS: There is, still RIAA examination for 22 this witness I believe, Mr. Chairman.

23 CHAIRMAN OMAS: All right.

24 Mr. Wiggins, proceed?

25 I'm sorry, the Recording Industry Association of

1 America.

2 MR. WIGGINS: Thank you. 3 CHAIRMAN OMAS: Mr. wiggins, I'm sorry. MR. WIGGINS: No problem at all. 4 CROSS-EXAMINATION 5 6 BY Mr. WIGGINS: Mr. Miller, I'm now speaking for the Recording 7 Ô Industry Association of America. 8 9 One of the things that you and I have talked about previously in the context of the parcel surcharge that 10 11 you're proposing to increase yet again, if I understand your testimony, is that right? You're advocating still another 12 increase in the parcel surcharge? 13 There is a residual shaped surcharge rate element 14 Α

14 A There is a residual shaped surcharge rate element 15 proposed at a higher level than it is currently.

Q Exactly. Can we just, instead of calling it the residual shaped surcharge, can we just call it the parcel surcharge because it's a lot easier to say? When I use the word parcel surcharge I mean what you mean when you say the residual shaped surcharge.

You and I have talked previously about my concern that there's some ambiguity as to the mail pieces to which the surcharge ought to be applied, the pieces that are subject to the surcharge. And you may recall the basis for that concern is that there is an overlap in the dimensional
definition of flat mail and parcel-shaped mail. A piece of
 exactly the same size can be either flat or parcel shaped.

A There are pieces that if prepared as flat are considered flat for rate purposes, and those piece if they're prepared as machinable parcels are considered parcels.

Q I didn't mean to imply that there was a precise congruity. There can be parcels that are both smaller than pieces that are eligible to be flats and larger than pieces that are eligible to be flats, but there can also be parcels that are exactly the same size as pieces that if prepared properly can be flat.

13 A That's what I was confirming, that indeed there 14 are pieces that would, depending on how they're prepared, 15 would qualify for either definition.

16

Exactly.

Q

17 Do you, in the Postal Service's experience with application of the parcel surcharge, has there been study 18 19 made of things that have been done or should be done to be 20 sure that the surcharge is only being applied to parcels and 21 that it's being applied to all parcels? That is that there 22 are some things that are flats to which the surcharge has 23 been applied, and there are some things that are parcels to 24 which it has not been applied. Have you looked at that 25 question?

A Witness Kingsley touches on this perhaps where she describes situations where pieces prepared as flats and avoiding the surcharge and paying the automation flat rate in that particular instance are not being surcharged that maybe should be because they're being handled as parcels, special hand delivery.

So there has been discussion that in some
instances there are pieces that have cost characteristics
that might align them more with parcels but yet they're not
getting surcharged.

11 Q Are you endorsing the position that Ms. Kingsley 12 took in her testimony? I don't read any of that in your 13 testimony.

A No, I haven't spoken to changing any kind of definition. This was merely a, my proposal is limited to the rate element itself, not any kind of eligibility of it.

17 Q Sure, just whacking them harder in terms of the18 level of the surcharge.

There's a slight increase in the surcharge. 19 Α 20 0 In examining the history that has unrolled 21 following the implementation of the surcharge in R97, as I 22 recall it, painfully, has the Postal Service studied the 23 question of whether there are characteristics of things that are properly characterized as parcels and therefore 24 25 surcharged, but that are flat shaped, that fall within the

dimensional definition of a flat? Have you examined the cross characteristics of pieces of that kind as compared with the cross characteristics either of flats or pieces that are also legitimately classified as parcels and pay the surcharge, but are larger or smaller than the flat --

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7

A Obviously I'm not a cost witness here today.A No, but you're a surcharge witness.

A I know the cost studies have been updated 9 regarding the support for the surcharge. I am not aware of 10 any detailed study that gets to what I think you're talking 11 about which is taking a portion of what's surcharged and 12 identifying that small portion of it and trying to ascertain 13 the cost for it separate from the grouping of pieces that 14 are being surcharged.

15 Q That's exactly what I'm asking about, yeah. If 16 you're not the right person to ask I will ask Ms. Kingsley.

17 A I'm not aware of any studies that get to that18 particular issue you're talking about.

19 Q Okay.

In RIAA's question number two to you, if you could have that in front of you, we noted that in your presentation, your work paper one in R2000 you projected that 5.9 percent of the non-letter shaped mail pieces would be parcels subject to the surcharge, right? That's what that 5.9 number represents.

- 1 A That was the number used to try to project the 2 revenue we would be getting from the surcharge.
 - Q In R2000.
- 4 A Yeah.

3

Q In this case when you look back at what actually had been surcharged parcels in the period covered by R2000 during, up to the time that you took your look, you determined that 4.683 percent of the non-letter pieces were surcharged, right?

10 A As we get experience and the rate element is out 11 there and we start capturing data that can be put in the 12 building determinants, for instance, for these various 13 subclasses, you can get a percentage of non-letters that are 14 paying the surcharge, and that's what the 4.683 is.

Our point in this question was that what you saw 15 0 when looking back at history was a smaller number, smaller 16 17 percentage to be correct, of non-letter pieces that were 18 surcharged that you had projected that you would see when 19 you were predicting in a forward looking way. Is that a 20 fair characterization of the difference between the 5.9 and the 4.683? 21

22 A As a percentage. It doesn't get to the whole 23 number itself, but as a percentage of non-letters --

Q No, I understand that perfectly. You pointed it out elegantly in your answer to this interrogatory.

We said doesn't that mean that you inaccurately predicted by predicting too much, and you say no not necessarily. It's unarguable, as an arithmetic man, I completely agree with you.

5 The percentage of non-letters, I'm now reading 6 from his answer, "The percentage of non-letters that pay the 7 residual shape surcharge (RSS) is a function of the number 8 of non-letters as well as RSS pieces. If the number of non-9 letters not paying the RSS were to increase, or decrease, 10 while the number of pieces paying the RSS remained the same, 11 the percentage would decline (or increase)."

12 And I say to you, Mr. Moeller, that is 13 arithmetically an impeccable piece of logic. Which 14 happened? Which of these two things happened?

15 Α I'm not, I haven't done the calculation to know 16 which way it cut. I was just, as you say, explaining that 17 that percentage itself is a function of two things. If one were to say that oh, the 5.9 was too high and you expected 18 19 way more pieces paying the surcharge than actually did, then 20 that means I also projected too much revenue from that surcharge, meaning that there were other standard rates 21 22 should have been higher because they would have to make up that difference. 23

Q That was our main point, and you correctly say that we didn't, that you can't prove that from what you

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1 said.

I'm now asking you, you say two things could have happened. The numbers of non-letters not paying the surcharge could have increased, or the number of, nonletters not paying could have increased or the letters paying could have decreased and you get the same result is essentially what you're saying to me.

8 I'm asking you, do you know which of those two 9 things -- We know the percentage changed. You've offered 10 two explanations of why it could have changed and I'm asking 11 you do you know which one of the two things happened.

12 A No I haven't done the mathematics necessary to 13 discover that.

14 Q Do you have the numbers to which mathematics could 15 be applied?

16 A Well, these are two separate years, and there are 17 billing determinants underlying those numbers.

Q My problem was, I thought that too initially, and you correct me if I'm wrong, I don't think there are billing determinant numbers for the first year.

A The 5.9 percent is what I'm wondering about. I know during the last, during R2000-1.

23 Q Could I ask you to examine that question and if 24 the numbers do exist to provide them?

25

MR. MILES: Mr. Chairman, could you inquire of

1 counsel for the Postal Service whether that's a feasible 2 thing?

CHAIRMAN OMAS: Mr. Alverno?

MR. ALVERNO: Of course the Postal Service doesn't enjoy doing homework from hearings, but if the Chairman directs that we do so, we will certainly try to respond to the question.

8 MR. WIGGINS: Let me ask one more question before 9 I ask that question.

10

3

BY Mr. WIGGINS:

11 Q Is this a hard job, Mr. Moeller? I don't want to 12 put you to a whole bunch of work, but if it's a thing that's 13 kind of on the shelf --

I'm just wondering if the 5.9 percent, I was in 14 Ά mid-answer there. I think the 5.9 percent may come from the 15 16 hybrid year billing determinants that were done in the last 17 case which took two quarters from one year and two quarters 18 from the next year to get an annual figure. So that's not 19 really on an annual -- that's not a fiscal year basis in 20 terms of what the 4.683 is. So I would have to look at it 21 to see if there's a direct comparison.

22 MR. WIGGINS: Mr. Chairman, I withdraw my request 23 that you make the request to the Postal Service.

CHAIRMAN OMAS: Thank you, Mr. Wiggins.
BY Mr. WIGGINS:

Q In your answer, Mr. Moeller, to RIAA number three to you, we ask whether the 4.683 percent that we've just been talking about reflected an affect on volume after implementation of the increase, and you said no, the percentage itself does not but it is applied to a number that does.

7 You go on to explain why that doesn't mean that 8 the 4.683 estimation overstates volume in the test year. 9 And there's one piece of your answer here that I really need 10 your help with. The very last sentence of subpart two, using the fixed percentage implies -- the fixed percentage 11 12 is the 4.683. Using the fixed percentage implies that RSS 13 and non-RSS pieces were affected similarly by the rate 14increase.

We followed up on that and said is that what you think, that they were affected similarly? And you said no.

17 So I'm having trouble, now that I know you don't 18 think this is what happened, I'm having trouble 19 understanding what you mean by that.

A In question number three, that last sentence was just explaining the implication of that assumption. It wasn't advocating that as necessarily what happened, I was just explaining that when you use that fixed percentage you assume then that the volume, that sort of thing, for the two groupings of mail. The non-letters as a whole and the RSS

1 subset of that.

2 So then when you asked the follow-up question, I 3 explained that. Said I was just meaning that's the 4 implication of it. It was not intended to imply that indeed 5 RSS and non-RSS pieces were affected similarly by the rate 6 increase.

Q So you answered my question with an assumption for
which you have no defense. You can't defend that assumption
as accurate.

10 А I think when -- There's a volume forecast that I'm 11 presented with that comes from the volume forecast witnesses that has fine levels of detail on the volume forecasts, but 12 13 not nearly the detail that matches the rate schedule for 14 standard. For instance they don't forecast letters of drop ship, IBMC, FDDU, and we rely on the billing determinants 15 16 from the base year then to take the line items we do get from the volume forecasters and distribute to the various 17 18 rate categories in the proportion that was in the base year.

This is the same thing happening here. This is a routine way of trying to get an estimate of the volume of the subset of the figure that comes from the volume forecasters. So this is consistent with generally accepted ways of trying to project volumes of rate categories below the level of the volume forecast.

25

Q Do you have a sense whether, in general terms, an Heritage Reporting Corporation (202) 628-4888 increase in the rate that's going to apply to some category of mail will have an affect on the volume of that category of mail? Just in a general sense.

A Yes. I think if you look at our before rates volume forecast and our after rates volume forecast you see fewer pieces in the after rates because they have higher rates underlying that volume forecast.

Q Could you carry that general observation a step further and suggest to yourself, perhaps if I raise the parcel surcharge I'm going to see fewer pieces of mail that if present would be subject to the surcharge? You're increasing the cost, do you expect a volume effect?

13

Α

There are several levels to that question.

14 Using the fixed percentage, applying that to a 15 number that does go down because of the phenomenon you're describing, the non-letter grouping as a whole, that volume 16 does decrease. So when you apply the 4.683 you do get a 17 volume reaction for the RSS pieces in before versus after 18 19 rates. Whether one can say that within that grouping these 20 various pieces have different reactions, they're very 21 different products. One's a parcel which is probably 22 fulfilling an order that someone places, and another one is a catalog that might be going to a mailing list. 23 Those are very different types of pieces and it's reasonable to expect 24 25 that perhaps they have a different reaction.

1 It could be that the parcels are less price 2 sensitive because of their alternatives or whatever. 3 So I use the 4.683. I'm acknowledging that I'm 4 not trying to make any kind of distinction within that grouping of non-letters as to different volume effects to 5 6 the rate increases. 7 MR. WIGGINS: Thank you, Mr. Miller. 8 Mr. Chairman, I have no further questions. 9 CHAIRMAN OMAS: Is there anyone else who desires 10 to cross-examine Witness Moeller? 11 (No response) 12 CHAIRMAN OMAS: Are there any questions from the 13 bench? 14 (No response) Mr. Alverno, do you need some time 15 CHAIRMAN OMAS: 16 with your witness? MR. ALVERNO: I think we just need a few minutes, 17 Mr. Chairman. 18 19 CHAIRMAN OMAS: All right, fine. 20 (Brief recess taken) 21 CHAIRMAN OMAS: Mr. Alverno? 22 MR. ALVERNO: Thank you, Mr. Chairman. We have 23 nothing further. Thank you. 24 CHAIRMAN OMAS: 25 Mr. Moeller, that completes your testimony here Heritage Reporting Corporation (202) 628-4888

today. We appreciate your appearance and your contribution to our record. Thank you, and you are now excused. THE WITNESS: Thank you. (Witness excused) CHAIRMAN OMAS: This concludes the hearings today. We will reconvene on January 3rd at 9:30 a.m. when we will receive testimony from Postal Service witnesses Abdirahman, Koroma, Taufique, and Mayo. I'd like to wish you all a very happy holiday, and we'll see you in January. (Whereupon the hearing was concluded at 1:00 p.m., to continue at 9:30 a.m. on January 3, 2002.) Π

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1	REPORTER'S CERTIFICATE
2	
3	DOCKET NO.: R2001-1
4	CASE TITLE: Postal Rate and Fee Changes
5	HEARING DATE: December 19, 2001
6	LOCATION: Washington, D.C.
7	
8	I hereby certify that the proceedings and evidence are
9	contained fully and accurately on the tapes and notes
10	reported by me at the hearing in the above case before the
11	Postal Rate Commission.
12	
13	
14	Date: December 19, 2001
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