

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
REDIRECTED FROM WITNESS ROBINSON
(ABA&NAPM/USPS-T29-7(a-c) 25 and 27)

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of American Bankers Association & National Association of Presort Mailers: ABA&NAPM/USPS-T29-7(a-c), 25 and 27, filed on December 10, 2001.

These interrogatories have been redirected from witness Robinson to witness Miller for response.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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December 26, 2001

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ABA&NAPM/USPS-T29-7

- a. Do you agree that in the history of worksharing discounts for FCM letters, there have been (at least) three distinct philosophies for what constitutes the benchmark you refer to starting at page 9, line 15 of your testimony? Namely, the Commission's "Appendix F" method based on cost differences between actual mailstreams, single piece and presort; the Postal Service's "identical piece" method based on comparisons between a hypothetical construct and an actual piece of mail, a mailpiece identical in every respect to a presort letter except for the presort versus a presorted letter; and finally the "most likely conversion" method based on comparisons between bulk and metered mail and prebarcoded/presorted letters.
- b. Would you agree that the Commission's Appendix F methodology generally provided a basis for larger discounts than the Postal Service's identical piece methodology?
- c. Would you agree that the Commission's 100% volume variability methodology generally provides a basis for larger discounts than the Postal Service's less-than-100% volume variability methodology, albeit using the same benchmark?

RESPONSE:

- (a) I agree, given the following clarification. A discussion of the three methodologies can be found in PRC Op. MC95-1 beginning at [4214]. These three methodologies include: the "clearly capturable cost avoidance" approach, the "full cost difference" approach, and the "hybrid" approach. As the Commission stated in PRC MC95-1 at [4220]:

...cost differentials based on engineering models tend to be underinclusive. CRA-based estimates generally include costs whether or not they are avoided by a worksharing operation. Therefore, cost differentials based on CRA estimates tend to be overinclusive.

Consequently, hybrid cost methodologies have been relied upon by the Commission when developing the worksharing related savings estimates for the First-Class Mail presort rate categories in both Docket Nos. R97-1 and R2000-1.

- (b) Yes. A hybrid approach generally results in larger savings estimates when compared to the clearly capturable cost avoidance approach.
- (c) In most instances, yes.

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ABA&NAPM/USPS-T29-25 In your response to MMA/USPS-T29-6, you refer to your response to MMA/USPS-T22-1(f) and (g). The response to these questions in the record, dated November 5th are by witness Miller and do not appear to have anything to do with MMA/USPS-T29-6. Please clarify.

RESPONSE:

It is assumed this interrogatory refers to the response to MMA/USPS-T29-6(c), which was redirected to me. Please see the response to ABA&NAPM/USPS-T22-32.

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ABA&NAPM/USPS-T29-27 In your table accompanying your response to MMA/USPS-T29-6, please confirm that one reason the Postal Service's measure of avoided costs has gone down across three rate cases is that USPS witnesses have used different methodologies in each case showing, ceteris paribus, more narrowly measured cost avoidance as a direct result of the changed methodology.

RESPONSE:

A hybrid cost methodology has been used in each of the past three cases. It can be confirmed that refinements have been made in both Docket No. R2000-1 and this docket in an attempt to more closely isolate the mail processing and delivery unit cost savings related to the prebarcoding and/or presorting of First-Class Mail presort letters and cards.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Michael T. Tidwell

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