

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS KINGSLEY TO INTERROGATORIES OF AMERICAN BANKERS'
ASSOCIATION AND NATIONAL ASSOCIATION OF PRESORT MAILERS
(ABA&NAPM/USPS-T39-9-18)

The United States Postal Service hereby provides the responses of witness Kingsley to the following interrogatories of American Bankers' Association and National Association of Presort Mailers: ABA&NAPM/USPS-T39-9-18, filed on December 10, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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ABA&NAPM/USPS-T39-9 For the purposes of this question, please assume (along with many economic studies which have so concluded) that the universal delivery system of the Postal Service is the “bottleneck” service insofar as postal services for the delivery of letter mail is concerned.

- a. Of the mail processing equipment currently fully or very widely deployed, would you agree that the CSBCS machinery and Delivery Point Sequencing (DPS) feature of DBCS equipment comes closest to being the bottleneck operation? (I. E., no large volume mailer could sort to delivery point for a carrier’s route without some further work using the DPS feature of DBCS equipment, because no single mailer submitting processed mail to the Service would be supplying all the letter mail for any USPS carrier.)
- b. Of the mail processing equipment currently deployed, would you agree that upstream operations from AFCS, MLOCRs and RBCS come least close to being a bottleneck operation? (I.E., large volume mailers can (and do) perform all of the above functions with equipment identical to or nearly identical to USPS equipment.)
- c. By combining the DBCS/OCR/ISS/OSS operation in one technology, namely the DIOSS retrofit, is the Postal Service attempting to leverage its economic bottleneck in delivery further back into mail processing so that it can become more competitive with private sector mail processing capacity?
- d. Has the USPS done cost studies to justify DIOSS retrofits and the elimination of corresponding OCR/ISS/OSS capacity as DIOSS comes on board? If so, please provide a copy of all such studies.
- e. Please provide all documentation as to the source of the DIOSS concept, when it was first conceived, where and when it has been tested, and all cost-benefit analyses done other than those referenced in (d.) above.
- f. Is the USPS adding DIOSS in advance of the physical life of the older equipment embodying OCR/ISS/OSS capabilities? Or, is it adding DIOSS only after MLOCRs etc. have been fully depreciated?
- g. In a DIOSS - based world of mail processing and near-delivery functions, how do you intend to define cost pools in a way that separates the CSBCS bottleneck operation from the cost pools for the mail processing operations that currently are the bread and butter of large volume private sector operations?
- h. In your view would the Postal Service’s extension of its bottleneck operations downstream in mail processing into more upstream operations constitute an effort to leverage its monopoly power in the bottleneck delivery function into mail processing?

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- i. Would you agree that one possible option for the private sector in response to DIOSS would be to perform the DIOSS functions and possibly the CSBCS sortations at "super" presort bureaus, for pick up by the Service's carriers?

Response:

- a. Yes.
- b. No, I am not aware of any large volume mailer that uses equipment identical to or nearly identical to an AFCS.
- c. I have never heard of this idea, nor does it make any sense to me. As I explained in my testimony (page 6), DIOSS is an enhancement of the DBCS constructed by adding OCR, ISS and OSS capabilities so the machine can run in DBCS/OSS mode or OCR/ISS mode. Savings from making a finer sort in OCR/ISS mode due to the additional stackers and thus reducing the volume needing a second handling on a BCS was the primary motive. Whether letters require a sequence of separate operations on distinct machines (e.g. MLOCR, DBCS, CSBCS), or an almost identical sequence of separate operations on DIOSS machines running in various modes, there is the same opportunity for mailers to perform work so that some operations can be bypassed and the savings shared. I do not see how the DIOSS would increase the "bottleneck" you refer to.
- d. Objection filed.
- e. Objection filed.
- f. I am not a costing witness and do not personally have any information responsive to this question.

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- g. I am not a costing witness and do not personally have any information responsive to this question. See my answer to subpart c above.
- h. – i. I am not an economic witness and do not personally have any information responsive to this question. See my answer to subpart c above.

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ABA&NAPM/USPS-T39-10 On page 7 of your testimony you discuss additional stackers for CSBCSs to “sort additional volume” (line 9) and “allow for the consolidation of additional routes within a sort plan” (line 10).

- a. Please confirm that the Postal service’s volume fell in PFY2000
- b. Please confirm that FCM letters subclass volumes are forecasted to fall in the current decade according to the GAO study introduced in R2000-1 as LR- 179?
- c. In light of your answers to a. and b. above, why would the Postal Service be engaged in capital spending for more volume? Please supply all volume projections data you have for the 357 sites at which you plan to install these stackers.
- d. Would the extra stackers be cost justified if “additional volume” were factored out of the equation, and only “additional routes” were factored in? Please supply all costs studies that were done to justify the purchase and deployment, planned or actual, of the additional stackers.
- e. What will be the cost savings for additional routes/addresses once these stackers are installed, e.g. extra 100 routes cost before and after installation?
- f. Will these stackers reduce delivery costs or any other carrier costs compared to present that develop when an additional route/address is added to a carrier’s work-load? Please cite any data the Postal Service has in support of your answer.

Response:

- a. Not confirmed.
- b. Confirmed in the sense that your question describes the scenarios presented in the GAO study. It is my understanding that according to the same GAO study, the scenario for Standard volumes are to increase in the next decade, and both must be sorted to delivery point.
- c. The sentence (page 7, line 9) cited in your question also notes that the additional CSBCS stackers will provide “capacity to sort to a greater number of delivery points.” I am not aware of any change in the continuing growth in delivery points. (An annual

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growth equivalent to another city of Chicago is the common illustration.) Equipment to accommodate this growth is required even if volume does not grow. I do not have volume projections by site.

- d. Objection filed December 20.
- e. I am not a cost witness and do not personally have information responsive to this question.
- f. I am not a cost witness and do not personally have information responsive to this question. It is my understanding that any cost savings in the test year would be reflected in the testimony of witness Patelunas (USPS-T-12).

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ABA&NAPM/USPS-T39-11 If, as you state on page 12, line 4, the Postal Service has been working to eliminate “the need for manual casing by a carrier” with its automation system, why are carriers earning higher step pay as a result of automation and spending less time on the street?

Response:

I am not a labor witness, economic witness, or cost witness and do not personally have information responsive to this question.

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ABA&NAPM/USPS-T39-12 What is the marginal cost for letter mail processing operations through to CSBCS from (a) an extra address; (b) an extra letter; (c) an extra route (for the same carrier)?

Response:

I am not a cost witness and do not personally have information responsive to this question.

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ABA&NAPM/USPS-T39-13 On page 13, lines 14-26, you again reference DIOSS deployment as a replacement for MLOCRs.

- a. How many MLOCRs do you intend to replace with DIOSS?
- b. In what time frame?
- c. What percentage of mail currently handled through manual processing do you expect to be handled by DIOSS? What are the unit cost savings and total cost savings expected?

Response:

- a. Plans for any reductions in MLOCRs have not yet been evaluated and determined.
- b. Not applicable.
- c. I would expect only a very limited volume of mail on the DIOSS to come from manual operations. It is my understanding that any cost savings in the test year would be reflected in the testimony of witness Patelunas (USPS-T-12).

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ABA&NAPM/USPS-T39-14 With respect to your discussion on page 25, under what cost pool(s) do robotic tray handling fall (each type), and tray management system (TMS) fall? Please provide the impact on these cost pools by unit cost from the deployment of each system in the plants in which each is currently used.

Response:

I am not a cost witness and do not have any personal knowledge of these issues.

However, I am told that the accrued costs for the cost pool "Opening Unit - Preferred Mail" listed in Table I-1 of USPS-LR-J-55 include those for the two Robotics operations associated with MODS numbers 358 and 359 shown in Table I-2B of LR-J-55. I am also told that TMS is treated as mail handling equipment that is used in various operations. It is not separately identified for costing any more than, say, a conveyor belt would be separately identified.

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ABA&NAPM/USPS-T39-15 With respect to your discussion about the "Commission's insistence" about using its own mail processing volume variability methodology, please answer the following questions.

- a. If the Commission were to adopt the USPS methodology, would the Postal Service be willing to attribute all mail processing labor costs that were allocated to classes and subclasses other than the FCM letters subclass under the Commission's methodology to those same classes and subclasses even if it altered cost coverages, *ceteris paribus*?
- b. Would your position on volume variability be different if various labor union agreements did not preclude you from reducing the number of personnel in mail processing as volumes fall?

Response:

I referred only to "the Commission's insistence that mail processing workhours vary in exact proportion with volume". I am not an economic witness and cannot comment on the USPS or PRC "volume variability" methodologies. I would, however, note that labor agreements do NOT preclude the USPS from "reducing the number of personnel in mail processing as volumes fall."

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ABA&NAPM/USPS-T39-16 Has the USPS stopped or curtailed expenditures for productivity enhancing and cost reducing mail processing equipment for the FCM letters subclass? Please cite any such slowdown or curtailment. Please compare it to what you have done in other subclasses, notably Standard A.

Response:

To my knowledge, the Postal Service has not stopped or curtailed expenditures for productivity enhancing and cost reducing mail processing equipment for letters, regardless of class or subclass.

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ABA&NAPM/USPS-T39-17 For any and all such curtailed expenditures noted in 16 above, including any decisions made since your rate filing, please provide the impact by mail processing cost pool for TY2003.

Response:

Not applicable.

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ABA&NAPM/USPS-T39-18 You state at page 4, line 22 of your testimony that MLOCRs have a staffing index of two clerks to feed and sweep, "its 60 stackers." Please state how many MLOCRs the Postal Service has in total, how many of these have more than 60 stackers, and how many of these have between 60-100 stackers, 101-150 stackers, 150-200 stackers, over 250 stackers. At what number of stackers being utilized will an MLOCR require more than two clerks to staff it for feeding and sweeping?

Response:

See my testimony, page 4, line 18 for the number of MLOCRs and page 5, line 7 for the number of low-cost MLOCRs. None of the MLOCRs have more than 60 stackers.

Therefore, a third clerk would never be required. Low-cost OCRs and DIOSS machines have more stackers since they are used primarily as DBCSs. The numbers of DBCSs and DIOSS may be found on page 6 of my testimony.

CERTIFICATE OF SERVICE

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

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