

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 SCHENK TO INTERROGATORIES OF
MAJOR MAILERS ASSOCIATION
(MMA/USPS-T43-23 A-E, G-J, 24-27, and 28 A, B and E)

The United States Postal Service hereby provides the responses of witness Schenk to the following interrogatories of Major Mailers Association: MMA/USPS-T43-23 A-E, G-J, 24-27, and 28 A, B and E. The following interrogatories have been redirected: MMA/USPS-T43-23F to the Postal Service, and MMA/USPS-T43-28C-D to witness Miller. Interrogatories MMA/USPS-T43-23-28 were filed on December 14, 2001.

The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
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MMA/USPS-T43-23 Please refer to your response to Interrogatory MMA/USPS-T43-11, where you confirm that letters delivered to a post office box is not a significant cost driver for the delivery costs that you derive in USPS-LR-J-117, worksheet "letters 93". You have also stated that you do not know the number of letters that were delivered to a post office box in FY 93 for either First-Class single piece or presorted letters, except to the extent that volume figures have been provided in response to Interrogatory MMA/USPS-3.

- A. Please refer to the derivation of your FY 93 unit non-DPS presorted letter processing cost of 2.11 cents as shown in worksheet "letters 93".
1. Please confirm that, at the time you prepared this estimate, you did not know how many First-Class presorted letters were delivered to a post office box, how many were delivered by city carriers, and how many were delivered by rural carriers. If you cannot confirm, please explain.
 2. Please confirm that, for the most part, the total non-DPS costs listed in column 3 of that worksheet refer to the non-DPS costs for sorting and processing letters that were delivered by city carriers. If you cannot confirm, please explain.
 3. Please confirm that at the time you prepared this estimate, you did not know the unit non-DPS cost per city carrier delivered letter. If you cannot confirm, please explain.
 4. Please confirm that the number of letters delivered by city carriers in FY 93 directly affects the total non-DPS costs to process those letters, as shown in column 3 of that worksheet. If you cannot confirm, please explain.
- B. Please confirm that, inherent in your derivation of non-DPS unit costs for presorted city carriers, is the assumption that the percentage of letters delivered on city delivery routes "remains constant." If you cannot confirm, please explain.
- C. Assuming you confirm part B, please provide the time period for which you assume that the percentage of letters delivered on city delivery routes remains constant.
- D. Please provide the time frame during which you determined that it would be necessary to conclude that the percentage of letters delivered on city delivery routes would remain constant between FY 93 and TY 03.
- E. Is it your assumption that percentage of letters delivered on city delivery routes would remain constant over time, constant between single piece and presorted (that is, the percentage would be the same for both single piece and presorted), or both? Please explain your answer.

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- F. Please provide, separately, the percentage of single piece and presorted letters that were delivered by city carriers for the past 10 USPS fiscal years. If the requested data are not available for the past ten USPS fiscal years please provide the data for as many years as such data are available. Be sure to include FY 93 and FY 00 as part of this analysis. Please be sure to also include the volume figures from which those percentages were computed.
- G. Please confirm that, compared to FY 93, the projected test year volume of single piece letters is expected to decrease by 14.7%, from 50,443,703,000 to 43,018,465,000 letters.
- H. Please confirm that, compared to FY 93, the projected test year volume of presorted letters is expected to increase by 71.7%, from 29,486,424,000 to 50,463,785,000 letters.
- I. Please explain the basis for your assumption that the percentage of letters delivered on city delivery routes will remain constant between FY 93 and TY 03.
- J. Why didn't you simply use in column [4], the volume delivered on city carrier routes in FY 93, so that you would not have to rely on an unsupported assumption that the percentage of letters delivered on city carrier routes would remain constant.

RESPONSE:

A.

- 1. Confirmed for FY93 volumes.
- 2. Not confirmed. The non-DPS costs in my analysis refer to city carrier costs associated with mail pieces that were not sorted or processed to delivery point sequence in mail processing, and therefore only include carrier costs, not all costs of sorting and processing this mail.
- 3. Confirmed.
- 4. Confirmed.

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B. Not confirmed. In estimating BY00 and TY03 non-DPS unit carrier costs for First-Class presort letters, I take the FY93 non-DPS unit carrier costs and adjust them for changes in labor rates. The assumption that the percentage of letters delivered by city carriers within or across any rate categories remains constant does not necessarily follow from this methodology. That is, one assumption that could follow from this methodology is that the percentage of pieces delivered by city carriers remains constant, but that is not necessarily the case.

C. Not applicable.

D. Not applicable.

E. See the response to part B above.

F. Redirected to the Postal Service.

G. Confirmed.

H. The volumes are confirmed. The resulting percentage increase is 71.1 percent, not 71.7 percent.

I. See the response to part B above.

J. Data on the volume of mail delivered on city carrier routes in FY93 were not available to me for this analysis in USPS-LR-J-117. See also the response to part B above.

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MMA/USPS-T43-24 Please refer to your response to Part D of Interrogatory MMA/USPS-T43-11, where you state that it is appropriate to compare your derived non-DPS unit delivery cost for single piece letters (2.13 cents) with the non-DPS unit delivery cost for presorted letters (2.08 cents). You conclude that it costs approximately .08 cents per piece less for presorted letters than for nonpresorted letters.

- A. In the derivation of these two unit costs, do you assume that the percentage of letters delivered on city delivery routes is the same for single piece letters as it is for presorted letters? If no, please explain.
- B. If you do not confirm Part A, please explain how you can conclude that the unit non-DPS unit costs that you have derived are comparable.
- C. If you do confirm Part A, please provide the support for your assumption that the percentage of letters delivered on city delivery routes is the same for single piece and presorted letters.
- D. Please confirm that in FY 93, 47% of First-Class single piece letters and 76% of presorted letters were delivered on city delivery routes. If you cannot confirm, please explain and provide the correct percentages.
- E. Please confirm that in BY 00, 45% of First-Class single piece letters and 64% of presorted letters were delivered on city delivery routes. If you cannot confirm, please explain and provide the correct percentages.

RESPONSE:

The FY93 non-DPS unit delivery cost (per RPW piece) for presorted letters calculated in USPS-LR-J-117 is 2.21 cents, not 2.08 cents as stated above in the preamble to this interrogatory.

- A. No. The FY93 non-DPS unit carrier cost calculations simply use FY93 costs and RPW volumes. See the response to MMA/USPS-T43-23B.
- B. One does not need to assume anything about the percentage of letters delivered on city delivery routes in order to compare the unit carrier costs per RPW piece. They represent the estimated FY93 average unit carrier costs for

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single piece and presort letters experienced for these mailstreams, not hypothetical costs developed assuming identical delivery characteristics.

- C. Not applicable.
- D. Confirmed, according to the city carrier volume data provided in the Postal Service's response to MMA/USPS-3.
- E. Confirmed.

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MMA/USPS-T43-25 Please refer to your response to Part D (4) of Interrogatory MMA/USPS-T43-11, where you state that you cannot tell if two derived unit costs are comparable without knowing the percentage of letters delivered on carrier routes in FY 93.

- A. Is the preface for this interrogatory a fair re-statement of your answer? If not, please restate your position.
- B. Please explain how you were able to answer Part D (1) of the referenced interrogatory, which asked you to compare your two derived non-DPS unit costs for single piece and presorted letters, when you do not know the percentage of letters delivered on carrier routes in FY 93.

RESPONSE:

- A. No. My response to MMA/USPS-T43-11 part D (4) referred to my response to part C (2) of that same interrogatory, where I provide an alternative calculation of FY93 unit carrier costs per CCS letter, as well as BY00 and TY03 unit carrier costs per RPW piece. I never state in that response that the costs are not comparable without knowing the percentage of letters delivered on carrier routes in FY 93. See my response to MMA/USPS-T43-24 B.
- B. See my response to MMA/USPS-T43-24 B.

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MMA/USPS-T43-26 Please refer to your response to Part D (5) of Interrogatory MMA/USPS-T43-11, where you were asked if it was more appropriate to derive the non-DPS unit cost per **carrier delivered** letter rather than the non-DPS cost per **originating** letter. You stated that you could not answer the question without additional information that you were attempting to obtain.

- A. Please confirm that you have been provided with specific assumptions about the number of delivered and originating letters, the costs and labor rates, as well as the exact computations that resulted in the two different answers. If you cannot confirm, please explain.
- B. Please explain precisely what additional information you need in order to answer Part D (5) of Interrogatory MMA/USPS-T43-11.
- C. Assume that during FY 93, 75.712% of presorted letters were delivered on city carrier routes and that 47.213% of the single piece letters were delivered on city carrier routes. Assume also, for purposes of this question, that the delivery cost for all letters delivered to a post office box and collection costs were very close to zero.
 - 1. Please confirm that your methodology computes the test year non-DPS unit costs as shown in the table below. If you cannot confirm, please explain.

**Computation of BY 00 Non-DPS Unit Delivery Costs
for Single Piece and Presorted Letters**

	(1)	(2)	(3)	(4)	(5)	(6)
First-Class Category	FY93 Originating Volume (000)	FY 93 Non-DPS Costs for City Delivery	FY93 Unit Cost per Originating Letter	FY93 Labor Rate	FY00 Labor Rate	Ratioed unit cost \$FY00 per Originating Letter
Single Piece	50,443,703	\$ 1,076,586	0.0213	23.188	27.7445	0.0255
Presorted	29,486,424	652,975	0.0221	23.188	27.7445	0.0265
Source:			(2) / (1)			(3)x(5)/(4)
USPS-LR-J-117 "letters 3"	Col 4	Col 3		Fn 8	Fn 9	

- 2. Please confirm that the percentage of letters that are delivered on city carrier routes is not a variable in your methodology. If you cannot confirm, please explain.

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3. Please explain why it would not be more appropriate to compute the ratioed BY 00 unit non-DPS costs as shown in the table below.

**Computation of BY 00 Non-DPS Unit Delivery Costs
for Single Piece and Presorted Letters**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
First-Class Category	FY93 Total Volume (000)	FY93 % Delivered by City Carriers	FY93 Total Volume Delivered (000)	Non-DPS Costs for City Delivery	FY93 Unit Cost per CC Delivered Letter	FY00 to FY 93 Labor Rate Ratio	Ratioed unit cost \$FY00 per CC Delivered Letter	Ratioed unit cost \$FY00 per CC Originating Letter
Single Piece	50,443,703	47.213%	23,815,756	\$1,076,586	\$0.0452	1.1966	\$0.0541	\$0.0255
Presorted	29,486,424	75.712%	22,324,833	652,975	\$0.0292	1.1966	\$0.0350	\$0.0265
Source:		Assumed	(1) x (3)		(4) / (3)		(5)x(6)	(3)x(7)/(1)
USPS-LR-J-117 Letter 93	Col 4			Col 3		Fn 9 /Fn 8		

4. Please confirm that under the assumptions provided in Part 3, the difference between the BY 00 non-DPS unit delivery cost for single piece letters (5.41 cents) and non-DPS unit delivery cost for presorted letters (3.49 cents) is 2.86 cents. If you cannot confirm, please explain.
5. Please confirm that the derived non-DPS unit costs for single piece and presorted letters, as well as the difference between the two figures as computed in Part 4, would change depending upon the assumed percentage of letters delivered on city carrier routes, as shown in column 2 of the table. If you cannot confirm, please explain.
6. Please confirm that, under your methodology, you would have concluded that the difference between the BY 00 non-DPS unit delivery cost for single piece letters (2.55 cents) and the non-DPS unit delivery cost for presorted letters (2.65 cents) is -0.10 cents. Please see your response to Part 4(D)(1) of Interrogatory MMA/USPS-T43-11 where you have already agreed to a comparable comparison for FY 93. If you cannot confirm, please explain
- D. Please indicate whether you would expect the non-DPS unit costs for single piece and presorted letters *per letter delivered on city carrier route* to be similar. If you do not expect that the unit costs would be similar, please explain.
- E. If your answer to Part D is that you do expect that non-DPS unit costs for single piece and presorted letters *per letter delivered on city carrier route* would be similar, please confirm that **your** derivation of non-DPS unit costs for single piece

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and presorted letters does not prove or disprove that contention. If you cannot confirm, please explain how your analysis shows that the non-DPS unit costs for single piece and presorted letters are similar, notwithstanding your computed .08-cent difference for FY 93 and your computed .1-cent difference for BY 00.

- F. Please confirm that for FY 93, the non-DPS unit costs for First-Class single piece and presorted letters per letter delivered on city carrier routes are 4.52 cents and 2.92 cents, respectively. If you do not confirm, please provide the correct unit cost figures.
- G. Please explain the reasons why in FY 93, presort letters cost 1.60 cents less than single piece letters for non-DPS processing.

RESPONSE:

- A. Confirmed, assuming you refer to the hypothetical presented in MMA/USPS-T43-11.
- B. See my supplemental response to MMA/USPS-T43-11 Part D5, filed on December 12, 2001.
- C.
 - 1. Confirmed.
 - 2. Confirmed, assuming that you refer to the methodology used to estimate non-DPS unit city carrier costs. Not confirmed otherwise. The percentage of letters delivered on city carrier routes is used in my analysis in USPS-LR-J-117 to develop the city load distribution key (see sheet 'city load' in LR-J-117_revised.xls). The city load distribution key is used to distribute First-Class Mail single-piece base year and test year cost segment 7.3 costs to shape (see cells H3:H5 in sheets 'summary BY' and 'summary TY' in LR-J-117_revised.xls).

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3. I do not agree with the analysis provided in the accompanying table, as it uses FY93 volume data to calculate “ratioed unit cost \$FY00 per CC Originating Letter” (i.e., column (8)) from “ratioed unit cost \$FY00 per CC Delivered Letter” (i.e., column (7)). I provide an alternative calculation of ratioed unit carrier cost per RPW piece for BY00 using FY93 unit cost per CCS letter in my supplemental response to MMA/USPS-T43-11C2. I would note, however, that the computation presented in the accompanying table reaches the same result as the comparable calculation in USPS-LR-J-117.
4. Not confirmed. The difference between 5.41 cents and 3.49 cents is 1.92 cents, not 2.86 cents.
5. Confirmed.
6. Confirmed.
- D. Not confirmed. See my response to MMA/USPS-T43-20J.
- E. Not applicable.
- F. Confirmed (see my supplemental response to MMA/USPS-T43-11C2).
- G. See my response to MMA/USPS-T43-20J.

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MMA/USPS-T43-27 Please refer to your response Interrogatory MMA/USPS-T43-12, where you did not confirm that you implicitly assumed that, for each presort category, 13% of the letters were addressed to and delivered to post office boxes.

- A. Please confirm that for each category within presorted First-Class letters, you implicitly assumed that the same percentage of letters would be delivered on city carrier delivery routes. If you cannot confirm, please explain.
- B. Assuming that you confirm Part A, please provide all facts and considerations that support your conclusion.

RESPONSE:

- A. Not confirmed. As discussed in my response to MMA/USPS-T43-12A, my calculations of carrier costs for detailed rate categories within presorted First-Class letters assume that the rate category within presorted First-Class letters does not affect carrier costs per RPW piece, other than the effect of DPS. See also my response to MMA/USPS-T43-23B.
- B. Not applicable.

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MMA/USPS-T43-28 Please refer to your response to Part B of Interrogatory MMA/USPS-T43-13, where you were asked to explain why metered letters cost almost 2 cents more than bulk metered letters. Your answer does not explain how it is possible that single piece metered letters can cost so much more than bulk metered letters, other than to say that they are not necessarily equivalent.

- A. Please confirm that USPS witness Miller utilizes single piece metered letters as a proxy for BMM mail processing costs. If you cannot confirm, please explain.
- B. Please confirm that you do not believe that single piece metered letters can be used as a proxy for BMM delivery costs. If you cannot confirm, please explain.
- C. Please explain all the differences between single piece metered letters and BMM letters, if you can, when each reaches the incoming secondary operation where the letters are sorted to carrier sequence prior to delivery.
- D. Please confirm that there were 25,512,201,000 metered letters mailed at First-Class single piece rates in BY 00, and that some unknown, probably very small percentage, consisted of BMM. If you cannot confirm, please explain.
- E. Please refer to USPS witness Miller's response to Part C of Interrogatory MMA/USPS-T43-19 where he notes that it is likely that more metered letters than BMM letters are addressed to post office boxes. Assume for purposes of the next two questions that Mr. Miller contention is correct, and that this also means that more BMM letters than single piece metered letters are delivered on city carrier routes.
 - 1. If all other cost-causing factors, including the number of pieces, were equal, wouldn't the total delivery cost for BMM be greater than the total delivery cost for metered mail letters not mailed in bulk? If no, please explain.
 - 2. If all other cost-causing factors were equal, wouldn't the unit delivery cost for BMM be greater than the unit delivery cost for metered mail letters not mailed in bulk? If no, please explain.

RESPONSE:

- A. Confirmed. See USPS-T-22, page 20, lines 6-7.
- B. I do not determine any proxies for BMM delivery costs in my analysis.
- C. Redirected to witness Miller.

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D. Redirected to witness Miller.

E. If one were to assume that all other cost-causing factors were equal, that BMM and other metered First-Class Mail single-piece letter volume were the same, and that it is more likely that metered letters are addressed to post office boxes than BMM letters, then the total carrier cost for BMM would be greater than the total carrier costs for metered mail letters not mailed in bulk, and the same would be true for unit carrier costs. However, it is my understanding, given the piece characteristics for BMM as described by witness Miller in USPS-T-22, that it is not true that all other cost-causing factors are equal. That is, it is my understanding that the cost-causing factors, including the number of pieces, address quality, and other piece characteristics, are not equal for BMM and for metered single piece letters in general (see my response to MMA/USPS-T43-1K).

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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January 4, 2002