

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

EXPERIMENTAL RATE AND SERVICE CHANGES  
TO IMPLEMENT NEGOTIATED SERVICE AGREEMENT  
WITH CAPITAL ONE SERVICES, INC.

Docket No. MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO  
INTERROGATORIES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO  
(APWU/USPS-T3-1, 2(d) –(f), 3-8)

The United States Postal Service hereby provides the response of Witness Crum to the following interrogatories of American Postal Workers Union, AFL-CIO: APWU/USPS-T3- 1, 2(d) –(f), 3-8, filed on October 31, 2002. Interrogatory 2(a)-(c) was redirected to witness Wilson.

Each interrogatory is stated verbatim, although for clarity's sake, question part designations have been added to a few interrogatories. Each interrogatory is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

Nan K. McKenzie

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-3089 Fax –5402  
November 12, 2002

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**APWU/USPS-T3-1:** Please confirm that the basic methodology for determining the cost of returned mail pieces is based on a study conducted for the USPS and published in September 1999 entitled "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail". If you do not confirm this, please detail your methodology for determining the cost of returned mail pieces and the source or sources for that methodology, and provide or identify the data used.

- (a) Did you analyze differences in the processes the USPS now uses to physically return mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail"? If so, what changes in the processes did you determine had taken place and how were your cost estimates adjusted to reflect those changes? If you did not analyze the differences in the processes the USPS now uses to physically return mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail", why not? Have there been changes in how the Postal Service physically returns mail pieces since 1998? If so, please detail all such changes.
- (b) Did you analyze the differences in the processes the USPS now uses to forward mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail"? If so, what changes in the processes did you determine had taken place? Did you make cost estimates for forwarding mail? If so, please provide your cost estimates and explain how your cost estimates were adjusted to reflect changes in the processes the USPS uses to forward mail pieces. If you did not analyze the differences in the processes the USPS now uses to forward mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail", why not? Have there been changes in how the Postal Service forwards mail pieces since 1998? If so, please detail all such changes.

**RESPONSE:**

Yes, that is my understanding. More specifically, I reference USPS-LR-J-69.

- (a) I am aware of no major differences in Postal Service processing of returned or forwarded mail pieces between when this study was conducted and now. Please also refer to witness Wilson's response to APWU/USPS-T4-1.

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- (b) Please see my response to (a). Based on USPS-LR-J-69, Table 5.1.1, the costs of forwarding UAA mail is just over 30 cents per piece. I do not include any savings from avoided forwarding costs in my testimony.

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**APWU/USPS-T3-2:** (a) What changes in the processes for handling of Undeliverable As Addressed (UAA) mail is the USPS currently testing or studying? (b) Are there changes in how the Postal Service will physically return pieces that are currently under consideration or in the process of being implemented? If so, please detail all such changes. (c) Are there changes in how the Postal Service will forward pieces that are currently under consideration or in the process of being implemented? If so, please detail all such changes. (d) What adjustments did you make to your cost estimates to account for these changes? (e) Will PARS affect the processing method and/or cost of returning UAA mail? If so, please describe PARS, provide as much detail on the implementation schedule as is now available and explain how PARS will affect the processing method and/or cost of returning UAA mail. (f) Will PARS affect the processing method and/or cost of forwarding UAA mail? If so, please describe PARS, provide as much detail on the implementation schedule as is now available and explain how PARS will affect the processing method and/or cost of forwarding UAA mail.

**RESPONSE:**

(a) – (c) Redirected to witness Wilson.

(d) I made no adjustments to my cost estimates.

(e) I expect PARS will have no impact on the cost of returning UAA mail in the test year.

(f) I expect PARS will have no impact on the cost of forwarding UAA mail in the test year.

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**APWU/USPS-T3-3:** (a) Does the PERMIT system that provides the distribution of Capital One's FY 2001 volume for Attachment A, pages 1 and 2 of your testimony, provide the information necessary to determine the number of additional ounces, nonmachinable pieces, pieces eligible for the heavy piece deduction for Capital One mail or were these determined based on more general Postal Service data? (b) Please describe the PERMIT system, including how, when and in what detail it collects data. (c) Is the comparable data for Capital One's FY 2002 volume now available? If so, please provide the FY 2002 information at the same level of detail. If not, when will it be available? Please provide it when it is available.

RESPONSE:

- (a) Yes, with the following exception. For Capital One, the number of additional ounces, pieces eligible for the heavy piece discount, and nonstandard pieces can be determined from FY 2001 PERMIT system data. However, the nonmachinable surcharge implemented on June 30, 2002 is an extension of the nonstandard surcharge applicable in FY 2001. See Docket No. R2001-1, PRC Op. and Rec. Dec. at 80, para. [3087-3089]. As a result, the number of "nonmachinable pieces" in Attachment A, page 1 was derived from the number of nonstandard pieces for Capital One from the PERMIT system data and the assumption that none of Capital One's presorted First-Class Mail would be nonmachinable under the criteria of DMM 57 C050.2.2 Please also see Attachment A, page 1 note a.
- (b) It is my understanding that the PERMIT system collects data from postage statements. In the case of First-Class Mail, this is from Form 3600. The mailer submits the postage statement to the postal clerk. The postal clerk verifies that the statement is consistent with the associated physical mail and then enters the information from the postage statement

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into the PERMIT system. The PERMIT system collects data based on the information provided in the postage statement. This includes all information related to rate paid as well as other information such as shape and weight that may or may not impact the rate paid depending on the class or subclass of mail. For more information, please refer to the PERMIT system user guide presented in Docket No. R2001-1 as USPS-LR-USPS-J-24.

- (c) The 2002 information is being prepared and will be provided when it is available.

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**APWU/USPS-T3-4:** (a) Please confirm that the purpose of the “returns adjustment unit cost” (columns 20 and 22) of Attachment A page 2, is to add in the cost differences associated with any difference in return rates between Capital One mail and the overall mix of First Class presort mail letters. (b) In which column are the unit costs associated with the average amount of returned mail tabulated? (c) Is any adjustment to unit costs made for differences in the rate of mail forwarded for Capital One compared to the average? (d) If you are assuming that Capital One's mail is not forwarded at a rate other than the average, please explain the basis for your assumption. (e) What is the average rate of mail forwarded for First Class mailers? (f) What is the average rate of mail forwarded for single-piece First Class mailers? (g) What is the average rate of mail forwarded for First Class mailers paying discounted rates? (h) What is the average rate of mail forwarded for Capital One?

**RESPONSE:**

- (a) Confirmed.
- (b) Column 17.
- (c) No.
- (d) I am assuming that Capital One's First-Class Mail is forwarded at or below the average rate, but I include no savings from avoided forwarding costs in my testimony. Please refer to Witness Wilson's response to APWU/USPS-T2-8.
- (e) Based on Docket No. R2001-1, USPS-LR-J-69, the average forwarding rate for all First-Class Mail is 1.96 percent. This can be found by taking the First-Class Mail UAA percentage from Table 4.2 and allocating that by the proportion of First-Class forwarded mail in Table 4.3.3.
- (f) I do not believe there is information available that breaks out single-piece.
- (g) I do not believe this information is available.

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- (h) I do not know this information, but at least the portion processed through CFS sites will become available with the implementation of CSR, Option 2 and the NSA.



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**APWU/USPS-T3-5:** You identify two reasons to explain the differences between the volume identified by the PERMIT system, 1,151,030,386 pieces of First Class mail in FY2001, and the volume identified in Mr. Elliott's testimony (as you do in OCA/USPS-T3-10), the difference between the Postal Fiscal Year and the Government Fiscal Year totals and the fact that some of Capital One's mail was sent by lettershops, not using a Capital One permit.

- (a) Please identify the exact dates for which the PERMIT system data used in your testimony pertains. You indicate that for purposes of the proposed Negotiated Services Agreement, volumes will be counted via the Postal Fiscal Year until such time as monthly reporting becomes available on October 1, 2003. How will volume between the end of the PFY 2002 (sic) and the beginning of monthly reporting on October 1, 2003 be accounted for?
- (b) In analyzing the discrepancies between the two mail volume figures, did you determine any reasons that would impact the revenue (or cost) per piece estimates you have presented in your testimony? For example is there reason to think that the commingled mail sent via mail shops without Capital One specific permit account numbers would have different revenue or cost characteristics than the Capital One mail that could be identified?

**RESPONSE:**

(a) Postal Fiscal Year 2001 ran from September 9, 2000 through September 7, 2001. This technical issue, related to the Postal Service's transition to monthly reporting, has not been discussed at this point for Capital One. For the Postal Service overall, the specifics of how the 25-day transition period will be implemented are still being analyzed by the Monthly Reporting office. At this point, I am unable to speculate on how the Capital One volume during the transition will be treated.

(b) No. I am unaware of any differences in revenue or cost characteristics for commingled mail sent via mail shops without Capital One specific PERMIT account numbers as compared to the Capital One mail that could be readily identified.

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**APWU/USPS-T3-6:** (a) In your calculation of increased contribution from Capital One's "new" mail volume, please confirm that "new" mail volume does not include any mail volume that shifted from Standard solicitation mail to First Class solicitation mail and that you are assuming that no shift of mail volume from Standard solicitation mail to First Class solicitation mail takes place. If you cannot confirm both statements, please identify how much mail volume would be expected to shift from Standard mail to First Class mail. Would that mail be part of the "new" mail volume or in addition to it? (b) If the assumption made here is that there will be no impact on Capital One's Standard mail volume when there is a change in the workshared First Class rate paid by Capital One, consistent with the assumptions that the Postal Service normally makes in rate cases about these two types of mail? (c) If there was a shift of current Capital One Standard mail to First Class mail, how would that impact your calculations?

**RESPONSE:**

- (a) Confirmed.
- (b) In recent omnibus rate cases, the Postal Service's demand analysis witnesses have estimated a small volume response by Standard mailers to changes in First-Class workshare rates. In other words, some Standard mailers may shift some volume from Standard mail to First-Class Mail in response to a decrease in First-Class Mail workshare rates, but the effect is not large. The Postal Service's demand research, however, makes no attempt to identify which Standard mailers have historically contributed to

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the observed price response, and which have not. Consequently, in preparing this case, we relied on information obtained directly from Capital One regarding its specific mailing behavior.

- (c) If unrelated to the estimate of new First-Class Mail volume predicted by Capital One, some of their Standard mail moved to First-Class, on average, there would be a net benefit in contribution to the Postal Service. Please also see my response to OCA/USPS-T3-12(b).

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**APWU/USPS-T3-7:** Have the costs of changing the USPS software to accommodate this proposed Negotiated Services Agreement been factored into the cost calculations for this proposed Negotiated Services Agreement? What are those costs and how have they been factored in? Have the costs for reprogramming the software to accommodate CSR Option 2 been factored into the costs of this Negotiated Services Agreement? What are those costs and how have they been factored in? If either of these costs has not been factored in, please explain why not.

**RESPONSE:**

No. It is my understanding that any minor software changes would be made as part of a larger change unrelated to this NSA and any additional costs would likely be extremely small and not readily identifiable. Please also refer to witness Wilson's response to APWU/USPS-T4-5 which explains that CSR, Option 2 was not created as a result of this NSA. For additional information regarding how these costs are treated, please see the Postal Service response to APWU/USPS-T2-9.

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**APWU/USPS-T3-8:** Have you done any revenue and cost analyses related to Section III, F of the proposed Negotiated Services Agreement between Capital One and the USPS? If you have, what assumptions did you use and what were the results of those analyses?

**RESPONSE:**

No.

## 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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Nan K. McKenzie

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
November 12, 2002