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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DANIEL TO INTERROGATORIES OF
THE ALLIANCE OF NONPROFIT MAILERS
(ANM/USPS–T29—19–29)

The United States Postal Service hereby provides responses of witness Daniel to

the following interrogatories of the Alliance of Nonprofit Mailers: ANM/USPS–T29—
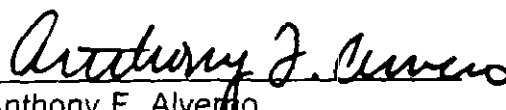
19–29, filed on September 3, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

ANM/USPS-T29-19

Please refer to Exhibit USPS-29A, p. 1. Please provide a complete and precise citation to the page, table number, column and row in LR-H-105 where each percentage shown in column [6], Model Weights, can be found. If the percentages shown in Column [6] of USPS-29A do not appear in LR-H-105, please compute the percentages showing all data used in the computations, and provide a complete source to each datum used.

RESPONSE:

As stated in footnote [6] in Exhibit USPS-29A, the "model weights are percent shares of each rate category based on TY Before Rates Volume Forecast" found on page A-30 of witness Tolley's tesimony (USPS-T-6). This forecast shows Regular letters by rate category to be:

	Volume	Percent
Regular Basic Letter	2,012.524	9.64%
Regular 3/5 Presort Letter	2,941.617	14.09%
Nonautomation Subtotal	*4,954.141*	*23.73%*
Automation Basic Letter	3,157.221	15.12%
Automation 3-Digit Letter	9,750.408	46.70%
Automation 5-Digit Letter	9,299.383	14.45%
Automation Subtotal	*15,924.181*	*76.27%*
Total	20,878.418	

Within the Nonautomation (Presort Rate) categories, the mail characteristics data presented on page 37 of my Appendix I are used to determine the percent of letters in UPGR Trays (15.9%), in NON-OCR Trays - Upgradable (38.1%), and in NON-OCR Trays - Non-upgradable (46.0%). It appears that the percentages of the categories presented in upgradable trays were calculated using the Nonautomation subtotal rather than the subtotal for each presort rate category. The model weights should accordingly be revised as indicated below:

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

Presort Basic (UPGR Trays)	**1.53%**
Presort Basic (NON-OCR Trays - Upgradable)	3.67%
Presort Basic (NON-OCR Trays - Non-upgradable)	4.43%
Regular Basic Letter	**9.64%**
Presort 3/5 (UPGR Trays)	**2.24%**
Presort 3/5 (NON-OCR Trays - Upgradable)	5.37%
Presort 3/5 (NON-OCR Trays - Non-upgradable)	6.48%
Regular 3/5 Presort Letter	**14.09%**

An erratum will be filed later.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

ANM/USPS-T29-20

Please refer to Exhibit USPS-29B, page 1. Please provide a complete and precise citation the page, table number, column and row in LR-H-195 where each percentage shown in column [6], Model Weights, can be found. If the percentages shown in Column [6] of USPS-29B do not appear in LR-H-105, please compute the percentages showing all data used in the computations, and provide a complete source to each datum used.

RESPONSE:

As stated in footnote [6] on Exhibit USPS-29B, the "model weights are percent shares of each rate category based on TY Before Rates Volume Forecast" found on page A-31 of witness Tolley's testimony (USPS-T-6). This forecast shows Nonprofit letters by rate category to be:

	Volume	Percent
Nonprofit Basic Letter	1,311.851	15.57%
Nonprofit 3/5 Presort Letter	1,892.724	22.47%
Nonautomation Subtotal	*3,204.575*	*38.05%*
Automation Basic Letter	1,218.997	14.47%
Automation 3-Digit Letter	2,669.375	31.69%
Automation 5-Digit Letter	1,330.087	15.79%
Automation Subtotal	*5,218.459*	*61.95%*
Total	8,423.034	

Within the Nonautomation (Presort Rate) categories, mail characteristic data presented on page 37 of my Appendix III are used to determine the percent of letters in UPGR Trays (14.0%), in NON-OCR Trays - Upgradable (25.2%), and in NON-OCR Trays - Non-upgradable (60.8%). It appears that the percentages of the categories presented in upgradable trays were calculated using the Nonautomation subtotal rather than the subtotal for each presort rate category. The model weights on page 1 of Exhibit USPS-29B should accordingly be revised as follows:

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INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

Presort Basic (UPGR Trays)	**2.17%**
Presort Basic (NON-OCR Trays - Upgradable)	3.93%
Presort Basic (NON-OCR Trays - Non-upgradable)	9.48%
Regular Basic Letter	**15.57%**
Presort 3/5 (UPGR Trays)	**3.13%**
Presort 3/5 (NON-OCR Trays - Upgradable)	5.66%
Presort 3/5 (NON-OCR Trays - Non-upgradable)	13.67%
Regular 3/5 Presort Letter	**22.47%**

An erratum containing these revisions will be filed later.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

ANN/USPS-T29-21

a. Please confirm that LR-H-145, G-3 shows the following data for FY 1996 billing determinants for the volume of nonprofit letters (in thousands).

Basic Nonprofit Letters	2,515,689
3/5 digit letters	<u>5,154,124</u>
Total	7,669,813

b. Please confirm that use of the model weights shown in Exhibit USPS-29B results in the following distribution for the volume of nonprofit letters (subject to rounding error since the model weights sum to 0.9999).

	Volume (000)	Model Weights
Automation Basic	1,109,822	.1447
Automation 3-D	2,430,564	.3169
Automation 5-D	1,211,063	.1579
Presort Basic	1,243,277	.1621
Presort 3/5-D	<u>1,674,320</u>	<u>.2183</u>
Total	7,669,046	.9999

c. According to the billing determinants in LR-H-145, G-3, the volume of nonprofit 3/5-digit presort letters entered at the 5D Barcode Discount Rate was 1,740,291 thousand, whereas your model weights (derived from LR-H-195) indicate that the volume of Automation 5- Digit letters was only 1,211,063 thousand. Please explain the apparent discrepancy between the billing determinant data in LR-H-145 and the survey data in LR-H-195.

RESPONSE:

a. Confirmed.

b. When the model weights are multiplied by the total volume of Standard (A) Nonprofit subclass volume, the resulting distribution is as presented above.

c. The source of the model weights for the rate categories presented in Exhibit USPS-29B page 1 is the before rates forecast presented in witness Tolley's (USPS-T-6) testimony, not billing determinants or USPS LR-H-195. Witness Tolley's forecast is

based on the quarter of billing determinants in which nonprofit classification reform

was been in effect (Q2 97), not the entire year.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

d. ANM/USPS-T29-22

Was any effort made by you, by anyone at Christensen Associates, or by anyone else on behalf of the Postal Service to check the results of the survey in LR-H-195 against the billings [sic] determinants in LR-H-145 to ascertain whether any gross disparities existed between these two library refernces [sic]?

a.   If so, explain what checks were made and provide the results of those checks; *i.e.,* were all results of the survey considered to be in general conformity or non-conformity?

b.   If not, please explain why it was considered unnecessary to check the survey results in LR-195 against the billing determinant data in LR-H-145.

RESPONSE:

First, it is important to keep in mind that my models use TY volume forecasts, not billing determinants, as model weights. That there is some variance in the levels of the mail characteristics results as compared to the billing determinants should not be unexpected, since the billing determinants for FY 96 are largely composed of shares that predate classification reform, whereas the mail characteristics study was conducted after classification reform was implemented, and therefore more closely resembles the test year environment. Witness Tolley's volume forecast provides detail for much of the volume data needed in the cost models. The mail characteristics study results are used to determine volumes on a more detailed level. As such, the mail characteristics survey results are implicitly used as distribution keys on aggregated volume data. The use of mail characteristics study shares is accordingly reasonable for the purposes of the cost modeling.

As described in LR-H-195, the FY96 volume control is distributed into six separated piece controls: letters and flats by carrier route, automation, and nonautomation based on FY97 PQ2 year-to-date data. This control accounts for the shift to flats from letters and a shift to automation from nonautomation and carrier route. Shares by rate category were not affected by this control. Thus, the shares by rate category may not match the RPW; however, the models use the TY volume forecasts of rate categories instead of shares from the mail characteristics survey.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

ANM/USPS-T29-23

In Docket No. MC96-2, the Postal Service estimated that 34.2 percent of all nonprofit letters remaining in 3/5-digit presort category would be a [sic] automation non-compatible. The 34.2 percent figure equated to what estimated volume of letters?

RESPONSE:

The forecasted volume of 3/5-Digit Presort letters, according to witness Tolley's MC96-2 testimony (USPS-T-8), was 3,814.601 million. Thus, 34.2 percent of 3,814.601 million is 1,304.594 million letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

ANM/USPS-T29-24

a. Did you prepare, or participate in any way in the preparation of, LR-H-195?

b. Unless your answer to proceeding part a is an unqualified negative, please describe your role in the preparation of LR-H-195.

c. With respect to LR-H-195, are you sponsoring that study?

d. Please indicate whether any other witness in this docket is sponsoring LR-H-195.

RESPONSE:

a. Yes.

b. I was the contracting offer technical representative. I personally supervised the planning and conduct of the survey. I managed, organized, and participated in the training and design of the survey. I observed the collection of data in the field.

c. It is my understanding that, for purposes of this proceeding, no Postal Service witness is "sponsoring" Library Reference 195 in the sense that the entire document is incorporated into testimony. I have, however, adopted the study's results, and am capable of answering questions about the mail characteristics studies for Standard (A).

d. N/A

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
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ANM/USPS-T29-25

In Docket No. MC96-2, the testimony of USPS witness Daniel treated 65.8
percent of Standard A Nonprofit Basic and 3/5-Digit Presort letter mail as automation
compatible. Was this percentage based on any empirical data? If so, please provide
all data that were used to derive those percentages.

RESPONSE:

The amount of automation compatible Standard A Nonprofit Basic and 3/5-Digit Presort

letters in Docket No. MC96-2 was based on the mail characteristics survey data

presented in witness Talmo's testimony (USPS-T-1) in that docket. I described the

adjustment to reconcile the differences in the barcoded volume presented in the Mail

Characteristics Study versus the PRC's R94-1 volume forecast in my Docket No.

MC96-2 testimony (USPS-T-5) at Appendix 1, page 4, footnote 2.

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ANMIUSPS-T29-26

According to USPS-29B, 62.6 percent of nonprofit Standard A letter mail entered at the Basic Presort rate, and 58.5 percent entered at the 3/5-Digit Presort Rate, is considered to be "non-ungradable" [sic] for processing on the Postal Service's automation equipment. Please describe all major reasons that precluded nonprofit bulk letter presort mail from being considered ungradable [sic] to automation compatible.

RESPONSE:

According to USPS LR-H-195,the major reasons that precluded nonprofit bulk letter presort mail from being considered upgradable, or automation compatible, include failing any of the following:
the length, height, thickness, weight, aspect ratio, and sealing requirements required to be machinable, and/or the absence of a clear OCR read area or barcode clear zone, the absence of a non-script font for the address or use of glossy paper.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
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ANNMSPS-T29-27

In Docket No. MC96-2, the total model costs for nonprofit Standard A presort and automation mail (*i.e.*, unit costs for each rate category times the volume in each respective rate category) were less than CRA costs. This result was understandable, since the various cost models did not purport to measure the cost of every conceivable activity associated with processing nonprofit bulk mail within P&DCs. In consequence thereof, the model costs had to be adjusted upward to conform to CRA costs. In this docket, however, the total model costs for Nonprofit Standard A presort and automation mail *exceed* CRA costs, even though the various cost models still do not purport to measure the cost of all activated within P&DCs. At the same time, this anomalous result *does not obtain for regular rate mail.*

a.   Your testimony at p. 10 describes various factors that differ as between the cost models for regular rate and nonprofit mail. In terms of those factors, please explain each significant reason why your cost models have resulted in total model costs exceeding CRA costs for nonprofit Standard A presort and automation mail.

b.   Please explain whether the underestimation of CRA costs for Standard A Regular Rate Mail, coupled with overestimation of CRA costs for Standard A Nonprofit Mail, indicates some significant inaccuracy in the cost model.

RESPONSE:

a.   We have not studied why cost models have resulted in total model costs exceeding CRA costs for nonprofit Standard (A) letters. I note, however, that many of the input parameters used in the mail flow models are averaged over different classes and subclasses of mail. These inputs, such as accept rates, downflow densities, and productivities, are not subclass-specific and may differ from the average in a direction that results in a higher estimation of modeled costs.

b.   First, I disagree with the characterization in the question that CRA costs for Standard A Regular Rate Mail are underestimated and that CRA costs for Standard A Nonprofit Mail are overestimated. Furthermore, one could argue that the relationship between the CRA adjustments for these subclasses would suggest the converse. As explained in subpart a, it is possible that inputs that are averaged across subclasses may affect the cost models. This does not represent an inaccuracy in the cost models, but rather is a consequence of using the best available data.

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ANM/USPS-T29-28

Please refer to LR-H-195, Table 5, p. 13.

a. The title states that the data in the table are for Standard A Nonprofit Rate Automation and Nonautomation-Ungradable [sic] Letters. Do the rows in Table 5 distinguish between (i) Automation and (ii) Nonautomation ungradable [sic] letters? If not, please explain the significance of each row.

b. What does the sum of the two rows represent?

RESPONSE:

a. Table 5 in USPS LR-H-195 does not distinguish between Automation and Nonautomation Upgradable letters. The rows distinguish between letters that are in AADC trays versus Mixed AADC trays.

b. The sum of the two rows represents the amount of Nonprofit Basic Rate Automation and Nonprofit Nonautomation Upgradable letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS

ANM/USPS-T29-29
Please refer to LR-H-195, Table 6, p. 14. This table purports to show Standard A Nonprofit Rate Nonautomation-Ungradable [sic] Letters.
a.   Please explain why the total of such letters shown in the last row of this table is not equal to either of the two rows in Table 5.
b.   To what extent (if any), are the data in Table 6 a subset of the data in Table 5?

RESPONSE:

a.   The total in Table 6 of USPS LR-H-195 is not equal to either of the two rows in Table 5 of USPS LR-H-195 because the total in Table 6 represents all Nonprofit Nonautomation Upgradable letters, both Basic and 3/5 Presort rate categories. Table 5, on the other hand, includes only Nonprofit Basic rate letters, both Automation and Nonautomation Upgradable.

b.   The Basic row in Table 6 is a subset of the total of Table 5.

DECLARATION

I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

[signature]

SHARON DANIEL

Dated: September 17, 1997