

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS CRUM TO INTERROGATORIES OF
NASHUA PHOTO INC., DISTRICT PHOTO INC., MYSTIC COLOR LAB, AND
SEATTLE FILMWORKS, INC.
(NDMS/USPS-T28-19-26)

The United States Postal Service hereby provides responses of witness Crum to the following interrogatories of Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc.: NDMS/USPS-T28-19-26, filed on September 17, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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September 30, 1997

**U.S. POSTAL SERVICE WITNESS CHARLES L. CRUM
RESPONSE TO INTERROGATORIES OF NDMS**

NDMS/USPS-T28-19

- a. In this docket, USPS witness Seckar (USPS-T-26) presents extensive detailed data, including but not limited to MODS data, on the cost of processing non-letter-shaped pieces of mail. In your study of the effect of shape on processing costs, did you utilize any of witness Seckar's data, or any similar data? If you did, please indicate all such data and explain what inferences you drew from such data.
- b. If you did not utilize any detailed "bottom-up" cost data of the type presented by witness Seckar (as well as witness Daniel), please explain why you did not consider the use of such data, and such bottom-up approach to costing issues, pertinent in this docket?
- c. Does the Postal Service have a cost model that is based on processing mail on the Small Parcel and Bundle Sorter (SPBS)? If so, please provide the unit cost for parcels sorted on an SPBS to (i) outgoing primary, (ii) outgoing secondary, (iii) incoming primary, and (iv) incoming secondary.

RESPONSE

- a. Witness Seckar actually presents "extensive detailed data" on the cost of processing flats, not nonletters. I did not base any of my testimony in this docket on data he presents.
- b. Witness Seckar develops piece distribution and bundle sorting models in order to estimate volume variable mail processing costs avoided by presorted and prebarcoded flat-shaped pieces. Such cost avoidances are not available from the standard MODS cost pool data, so they must be modeled. He then generally ties these modeled costs back to the available MODS cost pool/CRA data. Because the purpose of my analysis is to support a simple, conservative surcharge, I did not need to develop costs separately by presort level, and thus, could directly use these CRA type costs, where available. Because of this, I do not believe witness Seckar's (or witness Daniel's) approach is any more "bottom-up" than mine.

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c. I am not aware of any such cost model(s).

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NDMS/USPS-T28-20.

- a. Please describe in qualitative terms all critical respects in which manual processing of flats differs from manual processing of parcels.
- b. Explain how differences in the manual processing of parcels (vis-a-vis the manual processing of flats) result in cost differences between parcels and flats.

RESPONSE

- a. Redirected to witness Moden.
- b. I do not have data to say how differences in the manual processing of parcels as compared to flats might result in cost differences between parcels and flats.

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NDMS/USPS-T28-21.

- a. In your opinion, is machinability, including machine sortation to carrier route, an important characteristic in distinguishing between Standard A Regular non-automation pieces with a comparatively low unit cost and pieces with a somewhat higher unit cost?
- b. Excluding those characteristics that cause a piece of Standard A Regular non-automation mail to be non-machinable, please describe all other characteristics that cause a difference in mail processing costs. Please exclude those characteristics that are already designed into the current rate structure, such as presortation and destination entry.

RESPONSE

- a. In my opinion, DMM-defined machinability per se is not a very important characteristic in distinguishing between Standard Mail (A) parcels with a comparatively low total unit cost and pieces with a higher total unit cost. For Standard Mail (A) flats, my opinion is that machinability per se is of higher relative importance. For letters, my opinion is that machinability is of higher still relative importance.
- b. It is important to remember that 'mail processing' costs comprise far more than piece sortation, whether that be automated or manual (however they are separately defined). Cubic volume is one characteristic the Postal Service has identified as important in mail processing (and other) costs for parcels in particular. For example, see the direct testimony of witness Mayes (USPS-T-37, pages 12 through 14) for a discussion of the impact of cubic volume on parcel mail processing and transportation costs. While I am not prepared to fully comment on all shapes and all the other characteristics that may cause a difference in processing costs, address quality is certainly one that is important in parcels, flats, and letters.

**U.S. POSTAL SERVICE WITNESS CHARLES L. CRUM
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NDMS/USPS-T29-23.

For Base Year 1996 and Test Year 1998, what is the Postal Service's best estimate of the unit cost of sorting Standard A Regular parcels manually for (i) outgoing primary, (ii) outgoing secondary, (iii) incoming primary, and (iv) incoming secondary?

RESPONSE

I have not developed any such data nor do I believe they are available.

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NDMS/USPS-T28-24.

For Base Year 1996 and Test Year 1998, what is the Postal Service's best estimate of the unit cost of sorting Standard A Regular flats manually for (i) outgoing primary, (ii) outgoing secondary, (iii) incoming primary, and (iv) incoming secondary?

RESPONSE

To the best of my knowledge, the only data available to answer your question can be found in LR-H-134, Section 4, page 16 (for example).

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NDMS/USPS-T28-25.

FY 1996 billing determinants indicate the volume of Standard A Regular 'non-letters' entered at the Basic Presort Rate without a barcode discount was 759,071,234 piece-rated, and 712,657,625 pound-rated. Of this total (1,471,728,859 pieces), how many, or what percent, were nonmachinable and had to be sorted manually?

RESPONSE

First, a flat defined as 'nonmachinable' will not necessarily be sorted manually. The FSM 1000 is currently being deployed to help sort flats previously defined as nonmachinable. The most current data available estimate the proportion of nonmachinable Regular Standard Mail (A) non-automation flats to be 51.7 percent. The most current parcel data are described in my response to RIAA/USPS-T28-2.

**U.S. POSTAL SERVICE WITNESS CHARLES L. CRUM
RESPONSE TO INTERROGATORIES OF NDMS**

NDMS/USPS-T28-26.

- a. Why did you choose to abandon the use of carrier route (ECR) parcels as the proxy in calculating the cost differential between Standard A flats and parcels?
- b. Why did you prefer a cost differential that obviously does not control for differences in weight, and in fact reflects large differences in weight between flats and parcels?

RESPONSE

a.,b. I chose the methodology I use in this case because, as I state in my testimony, "My costs and volumes cover the same full range ... of pieces that witness Moeller's surcharge will impact." While I completely believe in both the logic and validity of the 'carrier route' approach used in Docket No. MC97-2, Enhanced Carrier Route and Nonprofit Enhanced Carrier Route combined now comprise 7.2 percent of Bulk Standard Mail (A) parcel volume (see Tables 1 and 2 of LR-H-108).

I have no data to show that weight per se has a significant impact on Standard Mail (A) parcel costs, particularly in the range of weights discussed. If you are interested in a weight-equivalent analysis similar to that presented in Docket No. MC97-2, you can refer to the CD/ROM version of LR-H-108. See my response to DMA/USPS-T28-9. Please note that the unadjusted Base Year cost difference between parcels and flats shown there for Enhanced Carrier Route is \$.391, or almost twice as high as that presented in Docket No. MC97-2, and almost four times the proposed surcharge.

DECLARATION

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

Charles L. Crum

Dated: 30 SEPTEMBER 1997

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.

A handwritten signature in black ink, appearing to read "Scott Reiter", written over a horizontal line.

Scott L. Reiter

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September 30, 1997