

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF TIME WARNER INC.
(TW/USPS-T19-1-6)
(May 20, 2005)

The United States Postal Service hereby files the responses of witness Miller to TW/USPS-T19-1-6, submitted on May 6, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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TW/USPS-T19-1. Please refer to the Periodicals flats model described in your testimony and included in library reference LR-K-43. The version with PRC costing is in LR-K-102. Please respond to parts a-e below and explain any disagreement.

- a. Please confirm that the model estimates unit mail processing costs for Outside County Periodicals flats by rate category, as shown in Table 1 of your testimony.
- b. Please confirm that your model does not address any delivery related costs.
- c. Please confirm that your estimates of unit mail processing costs by rate category are adjusted so that their volume weighted average over all rate categories will equal the projected average mail processing unit cost for Outside County Periodicals flats in the test year.
- d. Please confirm that the transformation from your modeled costs to CRA adjusted unit costs for each rate category is carried out in Excel spreadsheet PERIODICALS FLATS.xls in cells A29:G48 on worksheet 'CRA ADJ UNIT COSTS', and in the case of the presort adjusted costs that you develop for the automation categories, in cells A5:G24 on worksheet "PRESORT LEVELS HELD CONSTANT".
- e. Please confirm that you proceed from modeled to fully CRA adjusted unit costs with the following steps:
 - (1) The modeled unit costs are multiplied by a CRA proportional adjustment factor which is calculated as the ratio between (a) the sum of test year Outside County flats CRA unit costs at the modeled mail processing cost pools and (2) the volume weighted average of the modeled unit costs over all rate categories;
 - (2) CRA test year unit costs at certain cost pools that you deem worksharing related but have not modeled are added to your unit cost estimate for each rate category;
 - (3) CRA test year unit costs at certain cost pools that you deem to be not worksharing related and have not modeled are added to your unit cost estimate for each rate category.

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

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(a) It is confirmed that the Postal Service version of the total mail processing unit cost estimates for the Outside Country Periodicals rate categories is contained in USPS-T-

19, Table 1.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e)(1) Confirmed.

(e)(2) Confirmed.

(e)(3) Confirmed.

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TW/USPS-T19-2. Please explain any disagreement when responding to the following.

- a. Please confirm that in the table on worksheet "CRA Flats" in Excel spreadsheet PERIODICALS FLATS.xls, the cost pools you consider worksharing related but have not included in your model are those with a nonzero entry in Column J.
- b. Please confirm that the cost pool named '1FLATPRP', or Flats Preparation, is one of the pools that you have not modeled but defined as worksharing related.
- c. Please confirm that the Flats Preparation cost pool is also identified with MODS number 035, and that it consists of manually breaking bundles of flats that will be processed on flats sorting machines or manual flats cases, removing strapping and banding material, separating, facing and loading flats into mail transport equipment that will be sent to flat sorting machines or manual flat cases and securing the flats mail carts before they are sent to the flats distribution operations.
- d. Please confirm that the flats preparation work comes after the sorting of bundles, which you do model, and before the sorting of pieces, which you also do model.
- e. Please confirm that the projected test year CRA unit cost for Outside County Periodicals in the flats preparation cost pool is 0.81 cents and that you add this cost, along with the unit costs at other worksharing related but not modeled pools, to your modeled unit costs for each rate category. Please confirm also that the corresponding amount under PRC costing is 0.85 cents.

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

(a) Confirmed.

(b) Confirmed.

(c) It is confirmed that the costs for operation 035 are mapped to the "1FLATPRP" cost pool and that the tasks described in your question are generally performed in that operation.

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(d) In general, this can be confirmed. However, there are also other points at which mail is prepped into Flat Mail Carts (FMCs). For example, broken bundles that are culled from the Small Parcel and Bundle Sorter (SPBS) feeding mechanisms are, on occasion, prepped directly into FMCs in an area next to that machine, even though those employees may not be clocked into operation 035.

(e) Confirmed.

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TW/USPS-T19-3.

- a. In today's mail processing facilities, will flats in mailer prepared non-carrier route bundles normally be routed to an 035 type flats preparation operation before being piece sorted? Please explain any negative answer and describe the circumstances under which flats in non-carrier route bundles will not undergo this type of operation.
- b. In today's mail processing facilities, will flats in carrier route bundles be routed to an 035 type flats preparation operation before the bundles are sent to the carriers? Please explain any affirmative answer.
- c. Please confirm that your methodology for transforming modeled unit costs to estimates of total unit mail processing costs effectively attributes exactly the same amount of flats preparation (035) costs to carrier route presorted flats as to other flats. Explain any disagreement.

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

(a) As stated in the response to TW/USPS-T19-2(d), this is generally true. However, that "035 type flats preparation operation" may take place in a different area and the employees may not actually be clocked into operation 035. In addition to the SPBS example cited in the response to TW/USPS-T19-2(d), I have seen loose flats being prepped into Flats Mail Carts (FMCs) at Bulk Mailer Centers (BMCs). That prepped mail was then transported to the nearest Processing and Distribution Center (P&DC). I am not aware of any studies that have involved an analysis of FMC preparation costs.

(b) In general, carrier route bundles should not be prepped into FMCs at the plant. Instead, those bundles should be dispatched directly to the appropriate Delivery Unit, where they would be open and prepped.

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(c) I think a better way to describe the models is to state that FMC preparation costs are not included in the mail flow model. Therefore, any mail preparation cost distinctions that might exist between rate categories are not reflected in the results.

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TW/USPS-T19-4. Please confirm, or if not confirmed explain any disagreement with each of the following.

- a. Based on the Outside County billing determinants that you are using, 47.494 % of Outside County flats are presorted by mailers to carrier route, while the remaining 52.506 % are not presorted to carrier route.
- b. If the costs attributed to Outside County in the flats preparation (035) cost pool, rather than being distributed equally over all Outside County flats, were distributed only to the non-carrier route flats, then the flats preparation cost for each non-carrier route flat would be 1.535 cents, instead of 0.81 cents.

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

(a) Confirmed.

(b) The following calculation can be confirmed for the Postal Service version of the Outside County Periodicals cost model (USPS-LR-K-43):

$$\frac{(0.806 \text{ cents / piece}) * (8,266,904,286 \text{ pieces})}{(8,266,904,286 \text{ pieces} - 3,926,284,943 \text{ pieces})} = 1.535 \text{ cents per piece}$$

This modification, however, only addresses mail processing costs. This change would have to be offset by the inclusion of any in-office delivery cost differences that may exist between carrier route presort mail and non-carrier route presort mail. As stated in the response to TW/USPS-T19-1(b), delivery cost estimates have not been included in the model. At least some of the "035 type" tasks described in USPS-T19-2(c) would have to be performed by clerks or carriers in the delivery unit. I am not aware of any studies that were conducted to evaluate the cost differences between opening / prepping non carrier route bundles in plants and opening / prepping carrier route bundles in delivery units.

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TW/USPS-T19-5. Please confirm that if instead of distributing the costs of the flats preparation pool equally over all rate categories, you had distributed them only to the non-carrier route rate categories, which are the rate categories that normally use this pool, then the costs would be as shown in the last two columns of the attached table TW/USPS-T19-5. For comparison, the costs from Table 1 in your testimony are shown in the first two columns. Please explain any disagreement.

Table TW/USPS-T19-5: Alternative Estimates of Outside County Periodicals Presort Related Mail Processing Costs (cents per piece)				
Rate Category	From Table 1 in USPS-T-19		Modified By Attributing Flats Preparation Costs to Non-Carrier Route Flats Only	
	Actual	Presort Adjusted	Actual	Presort Adjusted
Nonautomation Basic	23.837	23.837	24.567	24.567
Nonautomation 3-digit	17.663	17.663	18.392	18.392
Nonautomation 5-digit	13.233	13.233	13.962	13.962
Carrier Route	8.669	8.669	7.863	7.863
Automation Basic	24.785	22.442	25.514	23.171
Automation 3-digit	19.080	16.965	19.809	17.694
Automation 5-digit	12.593	12.687	13.322	13.416

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

It can be confirmed that the calculations are correct. However, as stated in the response to TW/USPS-T19-4(b):

"This modification, however, only addresses mail processing costs. This change would have to be offset by the inclusion of any in-office delivery cost differences that may exist between carrier route presort mail and non-carrier route presort mail. As stated in the response to TW/USPS-T21-1(b), delivery cost estimates have not been included in the model. At least some of the "035 type" tasks described in USPS-T19-2(c) would have to be performed by clerks or carriers in the delivery unit. I am not aware of

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any studies that were conducted to evaluate the cost differences between opening / prepping non carrier route bundles in plants and opening / prepping carrier route bundles in delivery units."

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TW/USPS-T19-6. Please refer to the attached table TW/USPS-T19-6, which is similar to table TW/USPS-T19-5 except that it refers to PRC costing. Please confirm that if instead of distributing the (PRC) costs of the flats preparation pool equally over all rate categories, you had distributed them only to the non-carrier route rate categories, which are the rate categories that normally use this pool, then the costs would be as shown in the last two columns of the table. For comparison, the costs from Table 2 in your testimony are shown in the first two columns. Please explain any disagreement.

Table TW/USPS-T19-6: Alternative Estimates of Outside County Periodicals Presort Related Mail Processing Costs (cents per piece - PRC Costing)				
Rate Category	From Table 2 in USPS-T-19		Modified By Attributing Flats Preparation Costs to Non-Carrier Route Flats Only	
	Actual	Presort Adjusted	Actual	Presort Adjusted
Nonautomation Basic	28.070	28.070	28.840	28.840
Nonautomation 3-digit	20.183	20.183	20.953	20.953
Nonautomation 5-digit	14.438	14.438	15.208	15.208
Carrier Route	9.131	9.131	8.279	8.279
Automation Basic	28.715	26.289	29.485	27.060
Automation 3-digit	21.647	19.345	22.417	20.115
Automation 5-digit	13.763	13.878	14.534	14.648

RESPONSE:

It should be noted that the Periodicals Outside County mail processing unit cost estimates by rate category do not support rate design nor are they relied upon to calculate final adjustments.

It can be confirmed that the calculations are correct. However, as stated in the response to TW/USPS-T19-4(b):

"This modification, however, only addresses mail processing costs. This change would have to be offset by the inclusion of any in-office delivery cost differences that may exist between carrier route presort mail and non-carrier route presort mail. As stated in the response to TW/USPS-T21-1(b), delivery cost estimates have not been included in the model. At least

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some of the "035 type" tasks described in USPS-T19-2(c) would have to be performed by clerks or carriers in the delivery unit. I am not aware of any studies that were conducted to evaluate the cost differences between opening / prepping non carrier route bundles in plants and opening / prepping carrier route bundles in delivery units."