

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 SMITH
TO INTERROGATORIES OF ABA&NAPM,
[ABA&NAPM/USPS-T13-1-2.b, 3-4, 7-10.b, 11.a, 12-13]
(June 28, 2005)

The United States Postal Service hereby provides the response of witness Smith to the above-listed interrogatories of American Bankers Association and National Association of Presort Mailers, filed on June 10, 2005. Questions 2.c-d, 10.c, and 14 were redirected to witness Abdirahman, questions 5-6, 11.b to witness Bozzo, and question 11.c to witness McCrery.

The interrogatories are stated verbatim and are followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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ABA&NAPM-USPS-T13-1

In ABA&NAPM/USPS-T21-38, which was re-directed to you from USPS witness Abdirahman, one issue we were seeking to address was the following. If the Postal Service is replacing MLOCR's with DIOSS and DIOSS-EC this year and next, what is the unit cost associated with DIOSS in test year TY2006? Your response states "I do not have unit operating costs for DIOSS".

- a. If DIOSS is going to be the main automation machinery in place, or a major operating part of what is in place, by the test year for this rate case, why do you not have unit mail processing costs for it?
- b. How reliable are your test year unit mail processing costs without the DIOSS unit costs?
- c. Since there are already several DIOSS and DIOSS-ES machines operating in the field, why were no unit mail processing costs by relevant cost pool developed for this rate case?

Response:

- a. Based on the projections made during the preparation of the case, DIOSS is not going to be the main automation machinery in place during the test year, nor will it be a major part of what is in place by the test year. The DIOSS-ECs and the DIOSS which are being deployed as replacements for MLOCRs have a projected deployment start of January, 2006. The mid-test year deployment is projected as 100 DIOSS-ECs/DIOSS out of the total deployment of 612. The number of MLOCRs projected to be removed by mid-test year is 96, so 779 MLOCRs of the currently deployed 875 MLOCRs are projected to be in use.

My testimony provides the piggyback factors by mail processing labor cost pool. In many cases cost pools include different types or models of equipment, and so the piggyback factors reflect the mix of equipment contained in the cost pool. I don't have the data to do

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- calculations for specific types of DBCSs. The calculation of the OCR piggyback factor is done using the combined projected costs for MLOCs and DIOSS-ECs/DIOSS for the test year.
- b. As indicated in response to part a, test year OCR piggyback factors include costs for the projected test year deployments of DIOSS-ECs and DIOSS, which are to be used in replacing MLOCs.
 - c. See response to a. There is no "DIOSS-ES" machine. If you mean DIOSS-EC, no DIOSS-ECs were deployed in FY2004.

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ABA&NAPM-USPS-T13-2

In your response to ABA&NAPM-USPS-T21-40 c., redirected from USPS witness Abdirahman, you note "Finally, this [the reduction in unit costs for MODS 15 LD 15] may also reflect mail piece improvements, such as better barcodes."

- a. Are you referring to mailer applied barcodes, presort bureau applied barcodes or USPS applied barcodes at an originating plant?
- b. What percentage of REC activity entails reading a bad quality barcode, as opposed for example to reading a hand written letter or a metered letter with a typed address and no barcode?
- c. If you agreed in a. that some of the "better barcodes" are mailer applied please answer the following. Do you agree that whatever portion of the MODS 15 LD 15 cost reduction from 0.13 to 0.06 cents is due to better barcodes applied by mailers represents an increase in avoided costs for the USPS?
- d. If you answered "yes" to c., please show in detail how worksharing mailers get credit for this increase in costs they avoid for USPS.

Response:

- a. I was referring to improvements in mailer and presort bureau applied barcodes.
- b. RBCS operations do not read barcodes, and therefore data is not collected on how many barcoded pieces are sent to RBCS.
- c.-d. Redirected to witness Abdirahman, USPS-T-21.

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ABA&NAPM-USPS-T13-3

In your response to ABA&NAPM-USPS-T21-41 a., redirected from USPS witness Abdirahman, you state "We do not have this information." Referring to a breakdown of how workshared FCLM is received at a dock.

- a. Would you agree that a mailer prepared pallet of FCLM that is shrinkwrapped to keep all trays stable and that is all going, e.g. to the Houston area, avoids more handling costs for the Postal Service than an equivalent number of trays dropped off on the same USPS dock on rolling stock with (i) the same destinations but not labeled; (ii) different destinations.
- b. For original question 41. a., if you have this information for Standard A mail or can construct it from information you do have, please provide the data.

Response:

- a. I am told the following. For the first comparison (i) a direct labeled Houston pallet versus a direct unlabeled Houston piece of rolling stock, there should not be much of a cost difference for two reasons. First, it would require very little time to identify the fact that the unlabeled rolling stock is a direct container. Second, the trays on the pallet and rolling stock may both require processing through a transportation assignment operation (e.g. SWYB), so both would have similar costs. The second comparison (ii) appears to be the Houston pallet versus mixed trays, some Houston, on rolling stock. Assuming they do not require processing through a transportation assignment operation as described above, the mixed trays on rolling stock would require a tray breakdown, while the pallet could be cross-docked, therefore, under these assumptions the direct pallet would be less costly. On the other hand, if the trays on the

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Houston pallet require airline assignment, it would not necessarily be less costly.

- b. We do not have this information either.

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ABA&NAPM-USPS-T13-4

In your response to ABA&NAPM-USPS-T21-42 a., redirected from USPS witness Abdirahman, you state with regard to MODS 17 1OPBULK and referring to USPS-T-11, p. 39, "Standard Mail accounts for about 68 percent of the labor costs in this cost pool and First-Class presort accounts for about 4 percent."

- a. Isn't it ALSO true that First Class single piece has far larger costs than First Class presort in this area, over 13% of the total compared to 4% for presort?
- b. In reference to your answer to T21-42. b., you state "some of this processing" for presort FCLM is included in this cost pool. What other cost pools include these activities for presort FCLM?
- c. Do these other cost pools also cover the same activities for single piece FCLM? If not why not? Why would the same activities be measured differently for single piece and presort when one of the major goals of cost finding systems is to estimate differences in these costs between rate categories within a subclass?

Response:

- a. It is true, as shown USPS-T-11, p. 39, that First Class single piece has over 13 percent of MODS 17 1OPBULK volume variable labor costs.

Please note that these comparisons include all shapes. The percentages for letters alone is about 7.5 percent for First-Class single piece and 3.2 percent for First-Class presort.
- b. MODS 17 1OPPREF.
- c. Yes, the MODS 17 1OPPREF cost pool includes the same activities for First-Class single piece letters.

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ABA&NAPM-USPS-T13-7

In your response to ABA&NAPM-USPS-T21-43, redirected from USPS witness Abdirahman, you state that your current list of 3 digit code operations for MODS 17 1OPPREF “differs from the list of operations contained in the question”. The list in the question is from R2000-1, the last litigated rate case. For all MODS 3 digit code operations, grouped by MODS or NONMODS category, please show side by side charts of the “old” MODS groupings and operations codes and corresponding “new” MODS groupings with changed, added, or deleted operations codes.

Response:

A discussion of the changes in mail processing cost pools from R2000-1 to R2005-1 can be found in witness Van-Ty-Smith’s testimonies for R2001-1, USPS-T-13, pages 3 to 5 and for this docket, USPS-T11, pages 4 to 7. Also, see the responses of witness Van-Ty-Smith, USPS-T-11 to Time Warner interrogatories TW/USPS-T11- 1, 5-9 and witness McCrery, USPS-T-29, responses to Time Warner interrogatories TW/USPS-T11- 5-9.

As discussed in witness Van-Ty-Smith’s response to TW/USPS-T11- 1, new cost pools were provided for ISCs and PMPCs, AFSM 100s, as well as the result of a realigning of allied operations and the combining of the MODS LDC 41-44, 48 cost pools with the non-MODS cost pools.

The nature of these changes is hard or, in some cases, impossible to depict in tables. Below I provide additional details on what has changed, which should be more useful.

In the realignment of allied operations there is no cross walk possible or at best an incomplete one, since, as indicated in my response to ABA&NAPM/USPS-T21-36, many of the new cost pools involve operations that

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didn't exist in base year 1998 or 1999 and the MODS operations themselves have been redefined. This can be seen by comparing the MODS operations in allied cost pools such as MODS 17 1OPPREF, MODS 17 1OPBULK, MODS 17 1POUCHNG for both dockets R2000-1 and R2005-1. (For Docket R2000-1, please refer to Table I-2B in Part I of LR-I-106 at pages I-12 to I-28 for the list of MODS 3-digit code operations by cost pool for BY 1998. For Docket R2005-1, please refer to Table I-2B in Part I of LR-K-55 at pages I-12 to I-20 for the list of MODS 3-digit code operations by cost pool for BY 2004.) The work hours are significantly lower for opening and pouching cost pools for FY 2004, due in part to the shift in work to the new cost pools of MODS 13 1TRAYSRT, MODS 17 1DSPATCH and MODS 17 1OPTRANS. MODS 13 1TRAYSRT and MODS 17 1DSPATCH both utilize equipment that was not available or at least as widely used. In addition, some of the work previously done in opening and pouching is now done in SPBS operations. There are no clean cross-walks from the old cost pools to the new.

Likewise, the combining of the MODS LDC 41-44, 48 cost pools with the non-MODS cost pools has no clean MODS code cross-walk, and one that is impossible to depict in a table. The old MODS LDC 41-44, 48 cost pools were MODS and LDC based. By that, I mean that MODS data are used to define the cost pools. In contrast the new cost pools for Post Offices, Stations and Branches (e.g. Allied, Automation/Mechanization, etc.) are defined by the use of IOCS. In our response to ABA&NAPM-USPS-T21-25, we did provide

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approximate cross-walked costs for test year 2006, which allows comparisons with the previous rate case costs.

Changes in sorting equipment also limit the usefulness of tabular comparisons. For instance, compare MODS 11 BCS cost pool of the R2000-1 with the R2005-1 barcode sorter cost pools, MODS 11 BCS and MODS 11 BCS/DBCS. The main or general idea is that the R2000-1 MODS 11 BCS cost pool covered all barcode sorters at plants (and other large processing facilities), while R2005-1 MODS 11 BCS includes only MPBCS operations, while the rest of the barcode sorter operations went into MODS 11 BCS/DBCS. Trying to do a more detailed cross walk quickly runs into difficulties, since there are a lot of new barcode sorter operations, particularly DBCS operations in FY 2004. DIOSS can be run in OCR, ISS, and OSS mode in FY 2004. There is DBCS EC and also CIOSS for PARS. These operations were not in the 1998 MODS.

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ABA&NAPM-USPS-T13-8

In your response to ABA&NAPM-USPS-T21-44 a., redirected from USPS witness Abdirahman, you state that wage increases in the 1PLATFRM activity for MODS 17 “have almost been offset by the declines in variabilities and piggyback factors.”

- a. Is this an accident or by design in rate case cost modeling?
- b. Is this an accident or by design in terms of management goals for keeping unit wage costs adjusted for productivity constant in order to keep costs stable and rates the same?
- c. If management goals are involved in your answer to b., why would management settle on keeping unit wage costs steady rather than lowering them, as happens when a piece of letter mail is processed by worksharing mailers rather than the Postal Service?

Response:

- a. There was no “design” or plan to have declines in variabilities and piggyback factors offset wage rate increases, for the 1PLATFORM cost pool or any other cost pool. The development of the wage projections, mail processing variabilities and mail processing cost pool piggyback factors are discussed in the testimony of witness Tayman, USPS-T-6, pages 29 to 31, the testimony of witness Bozzo, USPS-T-12, and my testimony, USPS-T-13, pages 52-57, respectively. Also see witness Bozzo’s response to question ABA&NAPM/USPS-T13-5.
- b.-c. See the response to part a.

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ABA&NAPM-USPS-T13-9

In your response to ABA&NAPM-USPS-T21-44 g., [and -50 h.] redirected from USPS witness Abdirahman, you state: "There is no costing of the time mail is staged on the dock waiting to be worked".

- a. If there is labor available to work mail that is staged on the dock, e.g. at 7 p.m. but it is not worked until a later time, say 8 p.m. please confirm that there is a true dollar cost, and an economic opportunity cost, associated with not moving that mail to the processing stations inside a USPS plant.
- b. Assume, hypothetically, the time example in a. with the further proviso that the 7 p.m. time is a locally mandated time for worksharing mailers to enter their presort automation mail at the USPS plant unloading dock. Assume further that if the mandated time of entry were moved from 7 to 8 p.m., more of that presort mail would have been presorted to 5 digits and less to 3 digits. Please confirm that moving the mandated entry time would avoid more costs for the Postal Service.
- c. Please confirm that in the example in b. there is a measurable social and private cost to the one hour that the presorted mail sits on the dock before being worked consisting of: (a) the avoided costs that were not avoided; (b) the wage bill for the available USPS employees that did not start working the staged mail on the dock.

Response:

- a. No, I cannot confirm this. If the mail was "worked" later in the tour, during a slow period, and the mail was processed and dispatched consistent with service standards, there may not be any "true dollar cost" or "opportunity cost" associated with not moving this mail into the plant until 8 p.m.
- b. Confirmed. It is my understanding that mailers are often allowed to enter mail later than the required entry time, in exchange for taking on more of the mail processing.
- c. No, I cannot confirm this. Based on my response to part a, there may not be any "true dollar cost" or "wage costs" consequence. In addition, from a

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social point of view, there is not any savings or costs associated with shifting workload between the presort bureau and the Postal Service.

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ABA&NAPM-USPS-T13-10

In your response to ABA&NAPM-USPS-T21-46 c., redirected from USPS witness Abdirahman, you state with respect to PostalOne! that “Customers provide the staff for the AAA and SWYB done on their sites and may purchase the equipment used in their mail production facilities as well.” You go on to state that these customer activities “should enable reductions [in] the 1SCAN cost pool”.

- a. Shouldn't these savings have been realized at least in past by TY2006 given the already wide distribution and operationalization of PostalOne! in 2004?
- b. Please confirm that the worksharing mailer staffing you refer to in the quote above entails for worksharing mailers labor costs but avoids costs for the Postal Service.
- c. Please state where these avoided costs should appear, or should have appeared, in your TY2006 cost models by MODS and operation code(s).

Response:

- a. The *Postal One!* Transportation Management systems program began in FY 2001. Thus, FY 2004 costs should reflect the savings obtained, and these savings would also apply for the test year.
- b. I am told that while some customers may provide additional staff to perform the AAA and SWYB done on their sites, others do not need to add staff. Either way this “should enable reductions [in] the 1SCAN cost pool.”
- c. Redirected to witness Abdirahman.

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ABA&NAPM-USPS-T13-11

In your response to ABA&NAPM-USPS-T21-46 c., redirected from USPS witness Abdirahman, you state with reference to MODS 79 LD 79 "The increase in the variability from .299 to .83 is the main factor in the higher unit costs."

- a. Can you explain, or direct this question to a witness who can explain what factors are actually at work in the real world of BMC's that would cause this variability to escalate so dramatically?
- b. Is this an indication of greater efficiency (greater variability, and consequently managerial ability to control in the absence of estimated volume) or less efficiency (higher unit cost).
- c. For mail processing labor that is redundant on a slow night, what cost reducing activities does management engage them in? If your answer is "none", what do they do during their shift?

Response:

- a. See the response of witness Bozzo to ABA&NAPM/USPS-T13-6. Please note that LDC 79 is for Bulk Mail Entry Units, not BMCs.
- b. Redirected to witness Bozzo.
- c. Redirected to witness McCrery.

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ABA&NAPM-USPS-T13-12

In your response to ABA&NAPM-USPS-T21-21, redirected from USPS witness Abdirahman, you state there is a “shift” going on within USPS from the older MPBCS machinery to the newer DBCS machinery.

- a. Are the unit costs, and the throughput productivity in pph, for labor and machinery per hour using DBCS higher or lower than for MPBCS?
- b. Is the reduction in unit costs noted in the interrogatory due solely to the mix shift between lower utilization of MPBCS and higher utilization of DBCS?
- c. Why would your cost measurement system show the per piece or unit cost of processing a letter on MPBCS going down solely as a result of putting more mail on DBCS machines and less on MPBCS? When you run an hour’s worth of mail through MPBCS, wouldn’t the unit cost be the same as in R2000-1 adjusted up for wage rate increases?

Response:

- a. The throughput and productivity for the DBCS is higher than for the MPBCS, as indicated in witness McCrery’s testimony, USPS-T-29. I don’t have the unit costs (per piece processed) for MPBCS and DBCS.
- b. Not solely, but the shift from the use of MPBCS to the use of DBCS is the primary reason for the decline in the MPBCS unit costs. Changes in wage rates and other factors will affect the amount of the decline.
- c. The decline in the MPBCS cost pool unit costs between R2001-1 and R2005-1 occurs because the unit costs shown in USPS-LR-K-53, spreadsheet shp06usps.xls, sheet “Letters (4)” and USPS-LR-J-53, spreadsheet shp03usps.xls, sheet “Letters (4)” are cost per RPW piece, not the cost per piece processed on MPBCS. MPBCS labor costs have declined as a share of the letter processing costs, so its unit cost per RPW piece is declining.

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ABA&NAPM-USPS-T13-13

In your response to ABA&NAPM-USPS-T21-34 redirected from USPS witness Abdirahman, you state that the bar code sorter unit costs have increased even more than indicated in the original interrogatory, from 2.10 cents to 2.42 cents.

- a. With this in mind, please be responsive to question a. Put differently, why is the USPS changing its mix of sorting equipment to “newer technology” barcode sorters if it is simply adding to unit costs rather than making the process more cost-efficient.
- b. In your answer you stated the newer BCS technology creates an “overall decline” in unit mail processing costs. Please be specific and show by cost pool or operation code within a MODS cost pool, exactly where DBCS is driving down unit mail processing costs and by how much.
- c. Is DBCS driving down unit mail processing costs for certain types of mail by more than it is for others, for single piece more than metered, for single piece more than automated presort, or vice versa?
- d. If your answer to c. is anything other than an unequivocal “no”, please explain or redirect this question to someone who can explain fully why USPS R&D and/or investment strategy would emphasize improving cost efficiencies for one type of mail over another.

Response:

- a. As noted in the response to ABA&NAPM/USPS-T13-12c, the unit costs referred to by the question are cost per RPW piece. The rise of the unit cost per RPW piece for the barcode sorters (all types at plants) between R2000-1 and R2005-1 is likely occurring in part because of a substitution of sorting by barcode sorters instead of manual sorting, and also due to a growth in the percentage of single-piece letters that are DPSed. This increase in unit costs is a good thing if the increased use of barcode sorters leads to larger savings per piece in other operations. This same type of question or issue was also addressed in the Docket No. R2001-1 testimony of witness Kingsley, USPS-T-39, pages 35 to 36.

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- b. I do not have any information on the specific impact of the increased use of DBCS. In my response to ABA&NAPM/USPS-T21-34, I indicated that the decline in First-Class single piece letter unit costs was due to the growth in automation between the test years of dockets R2000-1 and R2005-1. The increased use of the DBCS is one element of that growth in automation.

- c. DBCS and letter automation improvements in general may well be driving down unit costs more for certain types of letter mail than others. For instance, improvements in RBCS no doubt have a bigger impact on single-piece letter costs than for presort letters. These differences in the impact of automation across various types of mail have probably changed over time as different elements of automation were introduced. For instance, it is possible that cost savings were larger for presorted letters than for single-piece letters in the early automation efforts.

- d. The Postal Service pursues cost savings for all its products. However, technological advancements obtained by the Postal Service will sometimes or even most times have more applicability to certain products than others. The nature of the technological advances which the Postal Service is able to obtain will determine how these advances relate to all products and services.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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