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

POSTAL RATE AND FEE CHANGES, 2006	Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MICHAEL W. MILLER TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA, INC. AND ALLIANCE OF NONPROFIT MAILERS (MPA/USPS-T20-1-2)
(June 21, 2006)

The United States Postal Service hereby provides the responses of Postal Service witness Miller (USPS-T-20) to interrogatories MPA/USPS-T20-1-2, filed on June 7, 2006.

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 POSTAL SERVICE WITNESS MILLER TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA, INC., AND THE ALLIANCE OF NONPROFIT MAILERS

MPA/USPS-T20-1. Please refer to USPS-LR-L-43, PER OC FLATS.XLS, '5D AUTO COST,' '5D NONAUTO COST,' and 'COVERAGE FACTORS' and USPS-LR-J-61, PERIOD.XLS, '5D AUTO COST,' '5D NONAUTO COST,' and 'COVERAGE FACTORS.'

(a) Please confirm that USPS-LR-L-43 estimates that, in FY 2008, 1,587 out of every 10,000 5-Digit Automation Flats and 1,813 out of every 10,000 5-Digit Nonautomation Flats will receive a manual incoming secondary sort. If not confirmed, please provide the correct figure.

(b) Please confirm that USPS-LR-J-61 estimated that, in FY 2003, 5,717 of every 10,000 5-Digit Automation Flats and 7,170 out of every 10,000 5-Digit Nonautomation Flats received a manual incoming secondary sort. If not confirmed, please provide the correct figure.

(c) Please explain the meaning of the "Incoming Secondary Machinable Flats" coverage factors in USPS-LR-J-61 and how these factors are used in determining the percentage of flats that receive manual incoming secondary sorts.

(d) Please confirm that the source of the "Incoming Secondary Machinable Flats" coverage factors in USPS-LR-J-61 was "Operations estimate" and explain how Operations derived these estimates.

(e) Please confirm that USPS-LR-L-43 does not contain "Incoming Secondary Machinable Flats" coverage factors. If not confirmed, please provide a citation to the information. If confirmed, please explain why USPS-LR-L-43 does not contain these coverage factors.

(f) Please provide a version of USPS-LR-L-43 that includes the capability to analyze the effect of changes in "Incoming Secondary Machinable Flats" coverage factors on the flow of Periodicals Outside County flats and the resulting presort cost avoidances.

RESPONSE:

(a) It can be confirmed that 1,587 pieces and 1,813 pieces are "flowed" through the manual incoming secondary operation in the USPS-LR-L-43 Periodicals Outside County automation 5-digit cost model and nonautomation 5-digit cost model, respectively.

(b) It can be confirmed that 5,717 pieces and 7,170 pieces were "flowed" through the manual incoming secondary operation in the USPS-LR-J-61 Periodicals Outside County automation 5-digit cost model and nonautomation 5-digit cost model, respectively.

(c) Please see Docket No. R2001-1, USPS-T-24, page 9, lines 20-21. The AFSM100/FSM881 factor was used to determine the amount of machinable (i.e., AFSM100/FSM881 compatible) mail that was processed in automated/mechanized incoming secondary flats sorting operations. For machinable mail not processed through the AFSM100/FSM881 incoming secondary operations, it was assumed that the mail was processed manually. The manual factor was therefore 100 percent minus 65 percent, or 35 percent. These factors were applied to candidate machinable incoming secondary mail volume as a means to determine the amount of mail to be processed through each individual operation (AFSM100, FSM881, and manual).

(d) Confirmed. For an explanation of how those estimates were derived, please see Docket No. R2001-1, Tr. 9/2356-2358 (response of witness Kingsley to POSTCOM/USPS-T39-9).

(e) Confirmed. Between Docket Nos. R2001-1 and R2005-1, I re-evaluated the usage of these coverage factors and made the decision to remove them because, in my opinion: (1) we did not have sufficient data to support their usage, (2) they could not accurately be applied, (3) such factors were affected by issues unrelated to mailer prebarcoding and presorting efforts (e.g., whether or not a given ZIP Code was processed on automation/mechanization), and (4) they did not have a significant impact on the prebarcoding and/or presorting cost differences by rate category, which was the purpose for which my cost models were developed.

(f) I am unable to do so because I have not been able to determine how to apply such factors in a way that provides any meaningful results, for the reasons discussed in my answer to part (e) above. Furthermore, as they pertain to my testimony, the Periodicals Outside County rates are determined by whether or not a mailer chooses to prebarcode and/or presort their mail. My testimony and cost models have therefore been developed to estimate rate category costs and cost differences related to mailer prebarcoding and presorting activities. The manner in which incoming secondary operations are performed is not a determinant for Periodicals Outside County rates. If an analyst desired to conduct a cost analysis related to incoming secondary processing methods, I would suggest doing so at the operation level. For example, operation level model cost estimates for incoming secondary piece distribution operations can be found in USPS-LR-L-43, page 46, cells K66:K70.

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MPA/USPS-T20-2. Please refer to lines one through 8 on page 26 of USPS-T-42, where the following statement appears:

> "Bundle integrity can have a significant impact on the productivity of any bundle sorting operation. If and when a bundle breaks prematurely, the value of the bundle presort can be partially or completely lost, and the bundle may require distribution in a residual distribution operation. Also, productivity can suffer when, for example, a mailhandler attempts to capture and repair a ruptured bundle within the bundle sorting operation."

Please also refer to USPS-LR-L-43, PER OC FLATS.XLS, 'Bundle Data.'

(a) Does USPS-LR-L-43 explicitly model all of the impacts of bundle breakage on productivity described in the cited passage from witness McCrery's testimony? If not, please list which ones are reflected in your model, and which are not.

(b) Please confirm that the initial bundle breakage factor in USPS-LR-L-43 for sacked mail is 15.9 times as large as the initial breakage rate in USPS-LR-L-43 for palletized mail. If not confirmed, please explain fully.

(c) Please confirm that setting all of the initial bundle breakage factors in USPS-LR-L-43 to 17.5% (the initial bundle breakage factor for sacked mail) results in a weighted average modeled cost of 7.302 cents. If not confirmed, please provide the corrected figure.

(d) Please confirm that setting all of the initial bundle breakage factors in USPS-LR-L-43 to 1.1% (the initial bundle breakage factor for palletized mail) results in a weighted average modeled cost of 6.214 cents. If not confirmed, please provide the correct figure.

RESPONSE:

(a) The residual distribution issue does not affect the productivity values for bundle processing. This issue has been incorporated into the USPS-LR-L-43 cost models given that bundle breakage rates have been applied. Once a bundle breaks, the mail pieces are routed to piece distribution operations.

To the extent that mailhandlers' attempts to capture and repair bundles affect the productivity in a given operation, they should be imbedded within the average productivity values. I am not aware of any analysis that has been conducted to

determine what the productivities might have been had it not been necessary for mailhandlers to attempt to capture and repair bundles.

(b) In the USPS-LR-L-43 cost models, the initial bundle breakage rates for pallets and sacks are 1.10 percent and 17.50 percent, respectively. It can therefore be confirmed that the initial breakage rate for sacked mail is 15.9 times as large (17.5 / 1.10) as the initial breakage rate for palletized mail.

(c) I can confirm that when all initial breakage rates are set to 17.5 percent, regardless of whether the mail is entered in pallets or sacks, the total weighted model cost becomes 7.302 cents.

(d) I can confirm that when all initial breakage rates are set to 1.1 percent, regardless of whether the mail is entered in pallets or sacks, the total weighted model cost becomes 6.214 cents.