

DOCKET SECTION

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

RECEIVED

OCT 1 4 41 PM '97

POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA
(MPA/USPS-T27-1 - 8)**

The United States Postal Service hereby files the responses of Leslie Schenk to the following interrogatories of Magazine Publishers of America, filed September 17, 1997: MPA/USPS-T27-1 through 8.

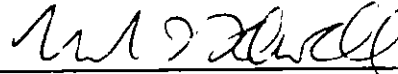
The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 1, 1997

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

MPA/USPS-T27-1. Please refer to Page 13 of your testimony where you state, “[I]f there is migration of BRMAS-qualified volumes to PRM, the BRMAS coverage factor would change, which would affect the cost of BRMAS-qualified BRM. According to witness Fronk’s testimony, 66 percent of BRMAS-qualified volume is projected to migrate to PRM. Multiplying the volume of BRMAS-qualified mail counted and rated in the BRMAS operation by 34 percent, determining the percentage of all BRMAS qualified mail, and weighting across strata by total BRMAS-qualified volume (after 66 percent has migrated to PRM), the resulting BRMAS coverage factor after this migration is 5.87 percent.”

- a. Please provide all underlying data and calculations used to derive the “resulting BRMAS coverage factor after this migration is 5.87 percent.” If you use a spreadsheet in the calculations, please also provide the data and calculations in electronic form.
- b. Please confirm, *ceteris parabis [sic]*, that if (1) 66 percent of BRMAS- qualified BRM that is counted and rated in the BRMAS operation migrates to PRM, and (2) 66 percent of BRMAS-qualified BRM that is not counted and rated in the BRMAS operation migrates to PRM, then the BRMAS coverage factor will remain at 14.24 percent.

RESPONSE:

- a. The following process was used to estimate the BRMAS coverage factor after migration to PRM was accounted for. By strata, the volume of BRMAS-rated mail counted and rated in the BRMAS operation was multiplied by 34 percent, and then divided by the volume of BRMAS-rated for which the method of counting and rating was known (after 66 percent has migrated to PRM). A weighted average of these strata BRMAS coverage factors was then taken, with the result that the BRMAS coverage factor after this migration is 5.87 percent. The following table shows this calculation.
- b. Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA
MPA/USPS-T27-1a**

**Estimated BRMAS Coverage Factor After Migration to PRM
(All volumes given are average daily volumes; from the BRM Practices Survey)**

	[1]	[2]	[3]	[4]	[6]	[7]	[8]		
	BRMAS Volume	BRMAS- rated volume for which method to count and rate are known	BRMAS-rated volume counted and rated in BRMAS operation	Percent of BRMAS-rated pieces counted and rated in a BRMAS operation	BRMAS- rated volume for which method to count and rate are known	BRMAS-rated volume counted and rated in BRMAS operation	Percent of BRMAS-rated pieces counted and rated in a BRMAS operation		
1	341,154	341,154	69	0.02%	341,108	23	0.01%		
2	0	0	0	0.00%	0	0	0.00%	69	23.46
3	221,229	221,229	0	0.00%	221,229	0	0.00%	0	0
4	131,123	131,123	13,287	10.13%	122,354	4,518	3.69%	0	0
5	321,150	321,144	27,285	8.50%	303,136	9,277	3.05%	13287	4517.6
11	677,542	677,148	200,172	29.56%	545,034	68,058	12.49%	27286	9276.9
	1,692,198	1,691,798	240,813	14.24%	1,532,861	81,876	4.84%	200288	68058
				[5]			[9]		

Explanation of data used or calculation made:

- [1] BRM Practice Survey, controlled to 1996 RPW totals
- [2] BRM Practice Survey, controlled to 1996 RPW totals
- [3] BRM Practice Survey, controlled to 1996 RPW totals
- [4] [3] / [2]
- [5] Weighted average of strata percentages, using [1] as weights
- [6] [2] - [3] * 0.66
- [7] [3] * 0.34
- [8] [7] / [6]
- [9] Weighted average of strata percentages, using [1] as weights

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

MPA/USPS-T27-2. Please refer to Exhibit USPS-27A and Exhibit USPS-27C.

- a. Please confirm that Exhibit USPS-27A shows that after the incoming primary sort, there are three alternative sorting options for BRMAS mail: (1) BRMAS Operation, (2) Other Barcode Sorter, and (3) Manual Sort.
- b. Please confirm that the weighted cost per piece of \$.0785 shown in Exhibit USPS-27C is a weighted average of (1) the cost for BRMAS mail sorted in the BRMAS operation and (2) the cost of manually sorted BRMAS mail.
- c. If subpart b is confirmed, please explain why the weight cost per piece is not a weighted average of (1) the cost for BRMAS mail sorted in the BRMAS operation, (2) the cost for manually sorted BRMAS mail, and (3) the cost for BRMAS mail sorted on another Barcode Sorter.
- d. If subpart b is confirmed, please explain fully why you assumed that all BRMAS mail that is not counted and rated in the BRMAS operation is manually sorted.
- e. Please confirm that the Weighted Cost Per Piece [14] on Exhibit USPS-27C is actually equal to $([1]*([11]+[12])) + ([13]*(1-[1]))$, not $([1]*([11]+[12])) + ([13]*(1-[2]))$ as is stated on Exhibit USPS-27C.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The unit cost model was developed when it was assumed that a new BRMAS program would be in place during the test year. With an improved BRMAS program, it was assumed that automatable BRM would be processed in the BRMAS operation, so the cost of processing BMR in a non-BRMAS barcode sorter operation was not studied. Given that it is now known that a new BRMAS program will not be in place in the test year, it would be appropriate to include the cost of processing BRM in a barcode sorter operation, if costs could be developed. However, I do not know of any special studies done to obtain this information, and the only study of pre-barcode single piece First-Class mailpiece unit costs I am aware of is that addressed in witness Miller's testimony (USPS-T-23), and the scope of that analysis is limited to the cost avoidance for PRM compared to a handwritten reply mail piece. Therefore, the data are not available to include sortation of BRM in a barcode sorter operation in my model.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

- d. See my response to part c. above. It should be noted that even though BRM can be sorted to mail recipient or account in a non-BRMAS barcode sorter operation, those pieces must still be rated and billed (accounted for) manually in the Postage Due Unit.
- e. Confirmed.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

MPA/USPS-T27-3. Please refer to Table LR-H-179, Table 13 and Exhibit USPS-27A.

- a. Please confirm that Table 13 shows that 19.3 percent of "2 cent" volume was counted using "EOR counts from Barcode Sorter."
- b. If subpart a is confirmed, does this imply that 19.3 percent of "2 cent" pieces were sorted on "Other Barcode Sorter Operations." If not confirmed, please explain fully.
- c. What is the direct and indirect cost of a "2 cent" piece that is sorted on an "Other Barcode Sorter Operation"?
- d. Are all "2 cent" pieces, which were counted by "Weighing of identical piece," "Special Counting Machines," and "Bulk Weighing," sorted manually? Please explain.
- e. If subpart d is not confirmed, what percentage of "2 cent" pieces that are counted by "Weighing of identical piece," "Bulk Weighing," and "Special Counting Machines" are sorted manually? What percent are sorted in automated operations?

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. See my response to MPA/USPS-T27-2c and d.
- d. "2 cent" pieces which are counted by these three methods can be sorted manually or in automation operations. These are methods to count and rate BRM, not to sort BRM to mail recipient or account. In general, we would expect pieces counted by these methods to be manually sorted, since if they were sorted in an automation operation then machine counts would be available, and so these alternative methods of counting BRM would not be needed. In addition, one of these methods, "Bulk Weighing," is generally used to count and rate nonletter-size BRM, which is not automatable.
- e. The data needed to address this question are not available.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

MPA/USPS-T27-4. Please refer to Exhibit USPS-27C.

- a. Please confirm that the marginal processing and Postage Due Unit cost per piece for BRMAS-qualified BRM that is counted and rated in the BRMAS operation is 1.04 cents.
- b. Please confirm that BRMAS-qualified BRM that is counted and rated in the BRMAS operation avoids the 2.31 cent cost for an incoming secondary sort for automation compatible First-Class Mail pieces.
- c. Please confirm that the marginal cost for BRMAS-qualified BRM that is counted and rated in the BRMAS operation is less than the cost for Prepaid Reply Mail that does not avoid the incoming secondary sort. If not confirmed, please explain fully.
- d. Please confirm that when a piece of BRMAS-qualified BRM that is counted and rated in the BRMAS operation migrates to PRM, the cost to the Postal Service increases. If not confirmed, please explain fully.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. As stated in witness Miller's testimony, the cost avoidance for both QBRM (currently, BRMAS-qualified BRM) and PRM is "calculated as the difference in mail processing costs between a prebarcoded First-Class reply mail piece and a handwritten First-Class reply mail piece." Even though a BRMAS-qualified BRM piece avoids the incoming secondary sort, this does not mean that its "marginal cost" is less than the cost for Prepaid Reply Mail that does not avoid the incoming secondary sort. The BRMAS operation is a sortation operation that in a sense acts as a "secondary sort," i.e., BRMAS-qualified BRM is not finalized in the incoming primary operation. The BRMAS fee is designed to cover the costs of this "secondary sort," as well as any additional workload associated with counting and rating BRMAS-qualified BRM done in the Postage Due Unit. The cost avoidance for the incoming secondary sort is included in my cost model for BRMAS-qualified BRM so that the cost of sortation of these

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

pieces beyond the incoming primary sortation are not included twice. In the case of PRM, the cost model developed by witness Miller did not explicitly analyze incoming secondary costs because he was not developing the full cost of PRM, but rather the cost avoidance that results because prebarcoded reply mail pieces are not processed through RBCS.

- d. Not confirmed. The costs to the Postal Service would decrease when a piece migrates from being processed on the BRMAS operation, to PRM, since the Postal Service would not have to incur the costs

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

MPA/USPS-T27-5. Please refer to Page 13, Lines 4 through 14.

- a. Please confirm that the "PRM service would be advantageous for some high-volume BRM recipients."
- b. Please confirm that the BRMAS coverage factor is higher for "high volume BRM recipients" than for low volume BRM recipients.
- c. Please confirm that a higher percentage of BRMAS-qualified BRM that is counted and rated in the BRMAS operation than of BRMAS-qualified mail that is not counted and rated in the BRMAS operation will migrate to PRM.
- d. What percentage of BRMAS-qualified mail that the Postal Service estimates will migrate to PRM was counted and rated on a BRMAS operation?
- e. Ceteris parabis [sic], do you think that the BRMAS coverage factor would decrease if the volume of BRMAS-qualified BRM decreases? If no, please explain fully.
- f. Please confirm that charging a 6 cent fee for BRMAS-qualified BRM will drive low-cost BRM that is counted and rated in the BRMAS operation to more expensive PRM.
- g. Please explain why the Postal Service is proposing a 200 percent increase in the BRMAS-qualified BRM fee in light of the fact that BRMAS-qualified BRM that is counted in the BRMAS operation is very low cost mail.

RESPONSE:

- a. Confirmed. As witness Fronk says on page 42 in his testimony: "PRM will come from two sources...Second, certain high-volume Business Reply Mail users who prebarcode their pieces and currently qualify for the 2-cent per-piece BRM fee may qualify for PRM." Also, on page 7 of his testimony, he states
- b. This is likely to be the case.
- c. Not confirmed. As witness Fronk states on page 7 of his testimony, "Whether an organization is interested in QBRM or PRM will depend on a number of factors, including its willingness to prepay postage and whether it finds a monthly fee or a per-piece fee more advantageous financially."
- d. It was assumed that 100 percent of the BRMAS-qualified volume that migrates to PRM was counted and rated in a BRMAS operation in the base year.
- e. The BRMAS coverage factor might change from its current level if the volume of BRMAS-qualified BRM decreases, depending on how this decline is achieved.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA**

Without further information on what caused this decline, and which volumes were affected, it is impossible to know the exact effect on the BRMAS coverage factor.

- f. Not confirmed. See my response to MPA/USPS-T27-4c.
- g. Redirected to USPS witness Needham.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA**

MPA/USPS-T27-6. Please refer to Page 12, Line 15 to Page 13, Line 1. Please explain in as much detail as possible why only 14 percent of BRMAS-qualified BRM is counted and rated in the BRMAS operation.

RESPONSE:

See the response of the USPS to NDMS/USPS-T27-4(b), filed 9/30/97.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

MPA/USPS-T27-7. Please refer to Page 4, Lines 14 and 15 where it states, "[t]hese pieces [BRMAS-Qualified BRM Pieces] avoid the Incoming Secondary distribution that other FCM pieces receive."

- a. Please confirm that BRMAS-qualified BRM pieces which receive caller service, avoid delivery costs as well as the cost for an incoming secondary sort?
- b. What percentage of BRMAS-qualified BRM pieces receive caller service?
- c. What is the unit attributable cost for caller service?
- d. What is the unit attributable cost for First-Class Mail city delivery?
- e. What is the unit attributable cost for First-Class Mail rural delivery?

RESPONSE:

- a. Confirmed.
- b. As shown in LR-H-179, Table 4, 75 percent of all BRM volume is delivered to mail recipient in the box section or through caller service. No data were collected in the survey on which that library reference is based that show the percentage of BRMAS-qualified BRM that receives caller service.
- c. See USPS-LR-H-107, page 11.
- d. and e. The test year unit costs of city carrier and rural carrier delivery functions by shape and rate category are provided in witness Hume's testimony (USPS-T-18).

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS SCHENK
TO THE INTERROGATORIES OF MPA

MPA/USPS-T27-8. Please refer to LR-H-179, Table 13 which shows the source of final BRM piece counts for "two cent mail."

- a. Please confirm that the data collected in the BRM Counting/Billing survey in LR-H-179 were used to derive Table 13.
- b. Please confirm that the survey used to derive Table 13 collects the percentage breakdown of counts by source (e.g., BRMAS operation, EOR counts).
- c. Please confirm that the survey used to derive Table 13 does not collect volume information.
- d. Please explain fully how you derived Table 13 from the survey information and show all calculations.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed.
- d. The process by which the survey results were rolled up to obtain the estimates given in the tables in LR-H-179 are described in that document, pages 10-11.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1145
October 1, 1997