

DOCKET SECTION

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

RECEIVED

OCT 1 4 49 PM '97

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DANIEL TO INTERROGATORIES OF
THE NATIONAL FEDERATION OF NONPROFITS
(NFN/USPS-T29-1-4)

The United States Postal Service hereby provides responses of witness Daniel to the following interrogatories of the National Federation of Nonprofits: NFN/USPS-T29-1-4, 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.
Chief Counsel, Ratemaking


Anthony F. Alverri

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -5402
October 1, 1997

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF NATIONAL FEDERATION OF NONPROFITS**

NFN/USPS-T29-1

What were the amounts and proportions of modelled and non-modelled costs for
a. bulk rate commercial carrier route (and ECR after MC95-1), and
b. the "other" rate category in Standard A commercial (BRR) and for both nonprofit carrier route and "nonprofit other" in the following periods or cases (rate regimes):

- (i) MC95-1 for commercial third class Before Rates and Standard (A) After Rates (BRR); substitute ECR for CR after MC95-1
- (ii) MC96-2 for nonprofit; and
- (iii) in R97-1 the proportional and fixed parts of non-modelled costs for these four rate categories (commercial CR and other and nonprofit CR and other, all within Standard (A)).

RESPONSE:

a. The costs for bulk rate commercial carrier route (and ECR after Docket No. MC95-1) rate categories were not developed using modelled and non-modelled costs in any of the above mentioned dockets. BRR Carrier Route was, and ECR is, developed using a strictly CRA based analysis.

b. I assume that "non-modelled" costs refers to the difference in the Standard A letter mail processing modeled cost and the Standard Mail A letter mail processing CRA costs, to which I as the CRA adjustment in my testimony in this docket.

In Docket Nos. MC95-1 and MC96-2, a "non-modelled cost factor," or the ratio of modeled Standard A letter mail processing costs to total CRA Standard A letter mail processing costs for non-carrier route categories, was applied 100 percent proportionately to modeled costs. Data did not exist in a way to allow the identification of "modeled" CRA costs, i.e., those that are expected to vary with worksharing, and "nonmodeled" CRA costs, i.e., those that are not expected to vary with worksharing.

The term "non-modelled" costs may be a bit misleading in this docket, since a reconciliation factor is used to adjust the costs from the mailflow models to comparable pools of "modeled" CRA costs. CRA cost pools that were not modeled and are not expected to vary with worksharing are distributed to the modeled costs as a fixed constant.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF NATIONAL FEDERATION OF NONPROFITS**

With this in mind,

- (i) Standard A commercial (BRR): The modeled costs were 63 percent of the total CRA mail processing costs in Docket No. MC95-1. All of the remaining 37 percent “non-modeled” costs were distributed in proportion to modeled costs in Docket No. MC95-1.
- (ii) Standard A Nonprofit: The modeled costs were 90 percent of the total CRA mail processing costs in Docket No. MC96-2. All of the remaining 10 percent “non-modeled” costs were distributed in proportion to model costs in Docket No. MC96-2.
- (iii) Standard A Regular: The modeled cost are 80 percent of the total CRA mail processing cost for Standard A Regular letters in Docket No. R97-1. The ratio of mailflow modeled costs (4.2564 cents) to comparable CRA costs which are expected to vary with work sharing (4.5376 cents) is 94 percent. The remaining 0.7737 cent, or 17 percent of the total CRA costs, which was not modelled and is not expected to vary with worksharing, is distributed to the modeled costs in constant, or fixed, amounts.

Standard A Nonprofit: The modeled cost are 107 percent of the total CRA mail processing cost for Standard A Nonprofit letters in R97-1. The ratio of mailflow modeled costs (4.9715 cents) to comparable CRA costs that are expected to vary with work sharing (4.0356 cents) is 81 percent. The remaining 0.5854 cent, or 13 percent of the total CRA costs, which was not modelled and is not expected to vary with worksharing, is distributed to the modeled costs in constant, or fixed, amounts.

“Modelled” and “nonmodelled” costs do not apply to Standard A ECR and Nonprofit ECR. See response to NFN/USPS-T29-1(a).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF NATIONAL FEDERATION OF NONPROFITS**

NFN/USPS-T29-2

- a. Please confirm that in your Mail Processing Proportional and Fixed Analysis, USPS-29B, p.2 of 2, you use the following figures: .748, .002, .013, .041 (see part (b)).
- b. Also confirm that in Lib. Reference H-106 worksheet "Lett.pgbf" in the column labelled "Third Class Nonprofit Other," you use the figures: .734, .002, .013, .040. The entire 46 element vectors for USPS 29B and LR H-106 lett.pgbg are given as Attachment 1 to this question.
- c. Which set of figures is correct?
- d. Where in your workpapers or Library Reference is the exact source of the proportional and fixed figures in used [sic] in USPS-29B?

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. USPS LR-H-106 is correct. An error was made in Exhibit USPS-29B and a correction to that exhibit will be filed in conjunction with other changes.
- d. The citation in subpart b is correct.

Attachment 1 to NFN/USPS-T-29-2

Cost Pool		L.R.H-106 Third-class Nonprofit Lett.pgbf	Daniel, USPS T-29B, p.2 of 2 Total unit cost
mods	bcs/	0.734	0.748
mods	express	0.002	0.002
mods	fsm/	0.013	0.013
mods	ism/	0.040	0.041
mods	manf	0.015	0.015
mods	mani	0.997	0.996
mods	manp	0.001	0.001
mods	mecparc	0.005	0.005
mods	ocr/	0.150	0.151
mods	priority	0.000	0
mods	spbs Oth	0.093	0.093
mods	spbsPrio	0.001	0.001
mods	BusReply	0.002	0.002
mods	INTL	0.006	0.006
mods	LD15	0.170	0.156
mods	LD41	0.009	0.009
mods	LD42	0.000	0
mods	LD43	0.136	0.135
mods	LD44	0.025	0.025
mods	LD48 Exp	0.000	0
mods	LD48 Oth	0.005	0.005
mods	LD48_Ssv	0.000	0
mods	LD49	0.015	0.015
mods	LD79	0.271	0.266
mods	MAILGRAM	0.000	0
mods	Registry	0.000	0
mods	REWRAP	0.000	0
mods	1Bulk pr	0.008	0.008
mods	1CancMPP	0.022	0.022
mods	1EEQMT	0.021	0.02
mods	1MISC	0.051	0.05
mods	1OPbulk	0.237	0.237
mods	1OPpref	0.238	0.237
mods	1Platfrm	0.254	0.253
mods	1POUCHNG	0.106	0.106
mods	1SackS_h	0.021	0.021
mods	1SackS_m	0.019	0.019
mods	1SCAN	0.001	0.001
mods	1SUPPORT	0.043	0.042
BMCs	nmo	0.007	0.007
BMCs	psm	0.000	0
BMCs	spb	0.052	0.052
BMCs	ssm	0.039	0.04

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF NATIONAL FEDERATION OF NONPROFITS**

NFN/USPS-T29-3

- a. Please confirm that your analysis extending the work of witnesses Smith and Takis in MC95-1 attempts to obtain more realistic results on the analysis of "nonmodelled costs."
- b. Please confirm that you posit that part of nonmodelled cost is directly proportional to modelled costs and that you use witness Degen's analysis of MODS-based cost pools to estimate this.
- c. Please also confirm that the final part of non modelled cost is simply a per piece charge (or cost) not proportional to modelled cost.
- d. Please confirm that some of the costs not related to worksharing or otherwise arguable proportional to modelled cost are cost incurred in moving containers in BMC's.

RESPONSE:

- a. The separation of nonmodelled costs into proportional and fixed components better reflects costs avoided due to worksharing-related activities.
- b. I apply the ratio of modeled cost to a subset of witness Degen's MODS cost pools proportionately to modeled cost.
- c. Cost pools that are not expected to vary with prebarcoding or presorting and are therefore not modeled are added as a fixed per piece cost to the modeled cost.
- d. Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO
INTERROGATORIES OF NATIONAL FEDERATION OF NONPROFITS**

NFN/USPS-T29-4

Please consider the following hypothetical.

On one day a subclass of mail is transported across the workroom floor in a BMC in an Eastern Regional Mail Container (ERMC) as part of a total 3000 pieces.

On another day another piece of this subclass is transported for the 15 minutes required in the same ERMC but there is more mail that day, 60,000 pieces.

Please confirm that postal workers cost the USPS \$24.445 per hour in the Test Year (USPS-T-29, Appendix III, p.3 of 434).

Please confirm that the calculated cost per piece under the wage rate and volumes mentioned approximate 2 mills in the first case and 0.1 mill per piece in the second case.

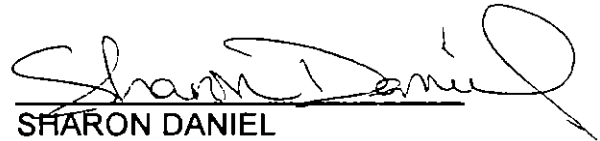
Would you say that these pieces impose roughly a constant charge or cost per piece on the USPS?

RESPONSE:

The average wage rate of \$24.445 per hour in the Test Year is confirmed. The calculated cost per piece under the wage rate and volumes mentioned and assuming 15 minutes in both cases is confirmed. Since it costs more per piece to move a container with only 3,000 pieces than 60,000 pieces, all else equal, I would not agree that the pieces in this example impose a constant, or equal, cost per piece on the USPS. This example illustrates that it is appropriate to designate the MODS cost pools associated with container handlings at BMCs as fixed since it has nothing to do with the worksharing categories of prebarcoding or presorting in my models.

DECLARATION

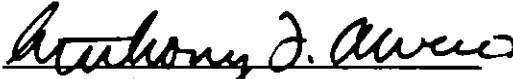
I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


SHARON DANIEL

Dated: October 1, 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.


Anthony F. Alverno

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