

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

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POSTAL RATE COMMISSION
WASHINGTON, D.C.

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MCGRANE TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-ST44-1-22)

The United States Postal Service hereby provides responses of witness McGrane to the following interrogatories of the Newspaper Association of America: NAA/USPS-ST44-1-22, filed on November 3, 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



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November 10, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-ST44-1. Does Exhibit 44A differ in any way from the document previously filed as Library Reference LR-H-109? If so, please identify and explain all differences.

RESPONSE:

No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-ST44-2. With respect to Exhibit 44A, previously filed as Library Reference LR-H-109, please confirm that $\frac{3}{4}$ of the data were collected prior to, and $\frac{1}{4}$ were collected after, the implementation of the mail reclassification changes resulting from Docket No. MC95-1. If you cannot confirm, please explain why not.

RESPONSE:

Not confirmed. The implementation of classification reform for commercial subclasses occurred on July 1, 1996, which was approximately in the middle of accounting period (AP) 11. Thus, $10\frac{1}{2}$ APs were pre-reclassification and $2\frac{1}{2}$ APs were post-reclassification.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-ST44-3. Please describe all changes in the preparation and entry requirements for carrier route letters and flats that went into effect on July 1, 1996, with the implementation of the mail reclassification changes resulting from Docket No. MC95-1. Please include any changes in endorsements, sequencing requirements, package preparation requirements, and tray, sack or pallet preparation requirements associated with entry at Enhanced Carrier Route subclass rates. Please indicate the changes for letters and flats separately.

RESPONSE:

The requested information can be found by comparing DMM-50 (July 1, 1996) to DMM-49 (September 1, 1995). The major changes of which I am aware include: the required endorsements were changed from "Carrier Route Presort" and "WS Carrier Route Presort" to "AUTOOCR", "ECRLOT", "ECRWSH", and "ECRWSS"; letter shaped mail was required to be presented in trays; pallet makeup was made optional at 250 pounds; and Basic ECR mail was required to be presented in line of travel order.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-ST44-4. Please provide a version of Exhibit 44A, Table 1 (at page 4) that presents separately the data collected prior to and after the July 1, 1996, implementation of the mail reclassification changes resulting from Docket No. MC95-1.

RESPONSE:

See the attached table for commercial ECR. Nonprofit mail was not affected by the changes resulting from Docket No. MC95-1.

Table 1

Development of Walk Sequence vs. Non-Walk Sequence Costs - Standard (A) Regular ECR Letters

LDC	Cost Pool	(1) Before July 1, 1996			(2) After June 30, 1996			(3) Grand Total			(10) Variable MP Costs	(11) Variable Costs Distributed to	
		Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total		Non-VWS	WVS
11	bca	3,876	63	3,939	979	63	1,042	4,854	127	4,981	16,985	16,553	432
18	Express	0	0	0	0	0	0	0	0	0	2	No Key	No Key
12	fsm	63	0	63	0	0	0	63	0	63	169	169	0
12	ism	1,492	133	1,625	280	0	280	1,772	133	1,906	6,487	6,033	454
14	manf	65	0	65	63	0	63	129	0	129	249	249	0
14	manf	5,768	213	5,981	1,273	72	1,345	7,041	285	7,327	11,718	11,262	456
14	manp	0	0	0	104	0	104	104	0	104	201	201	0
13	meoparc	0	0	0	0	0	0	0	0	0	32	No Key	No Key
11	ocr	1,287	0	1,287	271	235	506	1,558	235	1,793	4,838	4,203	634
14	Priority	50	0	50	0	0	0	50	0	50	132	132	0
13	spbs Oth	1,431	0	1,431	173	0	173	1,605	0	1,605	2,584	2,584	0
13	spbsPrio	54	0	54	117	0	117	171	0	171	574	574	0
18	BusReply	0	0	0	0	0	0	0	0	0	6	No Key	No Key
19	intl	63	0	63	0	0	0	63	0	63	136	136	0
15	ld15	63	0	63	145	0	145	208	0	208	8,281	8,281	0
41	LD41	0	108	108	52	0	52	52	108	160	468	153	315
42	LD42	0	0	0	0	0	0	0	0	0	3	No Key	No Key
43	LD43	5,334	155	5,490	900	0	900	6,235	155	6,390	14,417	14,086	351
44	LD44	341	0	341	51	0	51	392	0	392	699	699	0
48	LD48_Adm	100	48	148	51	0	51	152	48	200	0	0	0
48	LD48_Exp	0	0	0	0	0	0	0	0	0	7	No Key	No Key
48	LD48_Oth	366	0	366	51	67	118	417	67	484	496	427	69
48	LD48_SpS	59	0	59	0	0	0	59	0	59	40	40	0
49	LD49	545	0	545	187	0	187	732	0	732	1,679	1,679	0
79	LD79	579	123	702	58	0	58	637	123	759	5,018	4,208	810
16	Mailgram	0	0	0	0	0	0	0	0	0	0	0	0
16	Registry	0	0	0	0	0	0	0	0	0	1	No Key	No Key
16	Rewrap	0	0	0	0	0	0	0	0	0	5	No Key	No Key
17	1bulk pr	0	0	0	0	0	0	0	0	0	33	No Key	No Key
17	1canMPP	392	61	453	0	0	0	392	61	453	1,245	1,078	167
18	1EEqmt	0	0	0	0	0	0	0	0	0	834	No Key	No Key
18	1Misc	0	0	0	0	0	0	0	0	0	1,027	No Key	No Key
17	1OpBulk	3,114	129	3,243	332	0	332	3,446	129	3,576	13,769	13,271	498
17	1OpPref	2,407	0	2,407	349	0	349	2,756	0	2,756	10,915	10,915	0
17	1Platform	1,298	0	1,298	345	67	412	1,644	67	1,711	18,280	17,565	715
17	1Pouching	633	72	705	316	0	316	949	72	1,021	4,449	4,133	316
17	1SackS_h	249	0	249	193	0	193	442	0	442	2,382	2,382	0
13	1SackS_m	181	0	181	0	0	0	181	0	181	3,241	3,241	0
17	1scan	66	0	66	0	0	0	66	0	66	658	658	0
18	1Support	0	0	0	63	0	63	63	0	63	1,210	1,210	0
	BMC-NMO	0	0	0	0	0	0	0	0	0	13	No Key	No Key
	BMC-PSM	59	0	59	0	0	0	59	0	59	190	190	0
	BMC-SPB	285	0	285	0	0	0	285	0	285	978	978	0
	BMC-SSM	516	0	516	215	0	215	731	0	731	3,956	3,956	0
	BMC-Allied Ct	823	49	872	421	54	475	1,244	103	1,347	4,578	4,228	350
	BMC-Platform	721	53	774	161	0	161	882	53	936	4,708	4,440	268
	Non-MODS	18,961	906	19,867	3,338	358	3,696	22,290	1,264	23,553	48,687	44,183	2,504
Grand Total		51,242	2,115	53,358	10,492	916	11,408	61,734	3,031	64,765	192,382	182,080	8,336

Source

Analysis of IOCS tally file (LR-44-23)

USPS-ST-44 (10)*(7)/(9) (10)*(8)/(9)
Exhibit 44A
Table 1

Table 1

Development of Walk Sequence vs. Non-Walk Sequence Costs - Standard (A) Regular ECR Letters

LDC	Cost Pool	(13) Non-WS Costs		(15) WS Costs		(17) No Key	
		Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96		
11	bcs	13,215	3,338	216	216	n/a	
18	Express	No Key	No Key	No Key	No Key		2
12	lsm	169	0	0	0	n/a	
12	lsm	5,079	954	454	0	n/a	
14	manf	127	123	0	0	n/a	
14	manf	9,226	2,036	341	116	n/a	
14	manp	0	201	0	0	n/a	
13	meccarc	No Key	No Key	No Key	No Key		32
11	ocr	3,471	732	0	634	n/a	
14	Priority	132	0	0	0	n/a	
13	spbs Oth	2,305	279	0	0	n/a	
13	spbsPrio	181	393	0	0	n/a	
18	BusReply	No Key	No Key	No Key	No Key		6
19	inll	138	0	0	0	n/a	
15	ld15	1,914	4,367	0	0	n/a	
41	LD41	0	153	315	0	n/a	
42	LD42	No Key	No Key	No Key	No Key		3
43	LD43	12,036	2,031	351	0	n/a	
44	LD44	607	91	0	0	n/a	
48	LD48_Adm	0	0	0	0	n/a	
48	LD48_Exp	No Key	No Key	No Key	No Key		7
48	LD48_Oth	375	53	0	68	n/a	
48	LD48_SpS	40	0	0	0	n/a	
49	LD49	1,250	429	0	0	n/a	
79	LD79	3,826	382	810	0	n/a	
18	Mailgram	0	0	0	0		0
18	Registry	No Key	No Key	No Key	No Key		1
18	Rewrap	No Key	No Key	No Key	No Key		5
17	1bulk pr	No Key	No Key	No Key	No Key		33
17	1canolMPP	1,078	0	167	0	n/a	
18	1EEqnl	No Key	No Key	No Key	No Key		834
18	1Misc	No Key	No Key	No Key	No Key		1,027
17	1OpBulk	11,991	1,280	496	0	n/a	
17	1OpPret	9,531	1,364	0	0	n/a	
17	1Platform	13,875	3,690	0	715	n/a	
17	1Pouching	2,756	1,377	316	0	n/a	
17	1SackS_h	1,340	1,042	0	0	n/a	
13	1SackS_m	3,241	0	0	0	n/a	
17	1scan	659	0	0	0	n/a	
18	1Support	0	1,210	0	0	n/a	
	BMC-NMO	No Key	No Key	No Key	No Key		13
	BMC-PSM	190	0	0	0	n/a	
	BMC-SPB	978	0	0	0	n/a	
	BMC-SSM	2,793	1,163	0	0	n/a	
	BMC-Ailied OI	2,796	1,432	167	183	n/a	
	BMC-Platform	3,829	811	269	0	n/a	
	Non-MODS	37,569	6,614	1,795	709	n/a	
Grand Total		148,515	35,565	5,696	2,641	1,963	

Source (11)*(1)/(1)-(4 (11)*4)/(1)-(4 (12)*(2)/(2)-(5 (12)*(5)/(2)-(5 -(10) if No Key

Table 1

Development of Walk Sequence vs. Non-Walk Sequence Costs - Standard (A) Regular ECR Non-Letters

LDC	Cost Pool	(1) Before July 1, 1996			(2) After June 30, 1996			(3) Grand Total			(10) Variable MP Costs	(11) Variable Costs Distributed to	
		Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total		Non-WVS	WVS
11	bca	72	0	72	0	0	0	72	0	72	281	281	0
18	Express	0	0	0	0	0	0	0	0	0	12	No Key	No Key
12	lsm	4,188	327	4,515	974	0	974	5,162	327	5,490	13,443	12,641	802
12	lsm	105	0	105	0	0	0	105	0	105	394	394	0
14	manf	4,029	72	4,101	416	72	488	4,445	145	4,589	9,302	9,009	293
14	manf	507	70	577	136	0	136	642	70	712	1,207	1,088	118
14	manp	493	45	539	0	0	0	493	45	539	632	579	53
13	meccp/rc	133	0	133	0	0	0	133	0	133	355	355	0
11	ocr	0	0	0	0	0	0	0	0	0	14	No Key	No Key
14	Priority	133	0	133	0	0	0	133	0	133	261	261	0
13	spbs Oth	3,725	202	3,927	927	0	927	4,652	202	4,854	8,098	7,758	337
13	spbsPrio	133	0	133	72	0	72	205	0	205	656	656	0
18	BusReply	0	0	0	0	0	0	0	0	0	10	No Key	No Key
19	Inti	0	0	0	0	0	0	0	0	0	54	No Key	No Key
15	ld15	0	0	0	0	0	0	0	0	0	0	0	0
41	LD41	0	0	0	0	0	0	0	0	0	0	0	0
42	LD42	0	80	80	0	0	0	0	80	80	54	0	54
43	LD43	7,565	1,701	9,266	1,672	109	1,781	9,238	1,610	11,047	27,255	22,790	4,465
44	LD44	308	146	454	160	0	160	468	146	614	1,158	884	274
48	LD48_Adm	181	148	329	0	0	0	181	148	329	0	0	0
48	LD48_Exp	0	0	0	0	0	0	0	0	0	4	No Key	No Key
48	LD48_Oth	953	48	1,001	0	51	51	953	99	1,052	959	868	91
48	LD48_SpS	370	58	428	0	0	0	370	58	428	280	242	38
49	LD49	524	0	524	135	0	135	659	0	659	1,555	1,555	0
79	LD79	421	97	518	135	0	135	556	97	653	4,239	3,608	630
18	Mailgram	0	0	0	0	0	0	0	0	0	0	0	0
18	Registry	0	0	0	0	0	0	0	0	0	3	No Key	No Key
18	Rerwrap	0	0	0	0	0	0	0	0	0	14	No Key	No Key
17	1bulk pr	269	0	269	0	0	0	269	0	269	585	585	0
17	1cancMPP	107	0	107	0	0	0	107	0	107	337	337	0
18	1EEgmt	0	0	0	0	0	0	0	0	0	1,093	No Key	No Key
18	1Misc	137	0	137	0	0	0	137	0	137	1,322	1,322	0
17	1OpBulk	3,043	189	3,232	329	0	329	3,372	189	3,561	13,289	12,583	706
17	1OpPref	2,482	215	2,697	498	0	498	2,980	215	3,195	11,212	10,453	759
17	1Platform	2,120	117	2,238	268	0	268	2,388	117	2,505	21,933	20,905	1,028
17	1Pouching	566	70	636	191	0	191	756	70	827	3,581	3,276	304
17	1SackS_h	1,096	111	1,207	126	0	126	1,222	111	1,333	5,629	5,181	448
13	1SackS_m	158	0	158	0	0	0	158	0	158	1,826	1,826	0
17	1scan	2	0	2	0	0	0	2	0	2	94	94	0
18	1Support	0	0	0	83	0	83	83	0	83	1,255	1,255	0
	BMC-NMO	53	157	211	54	0	54	107	157	264	661	268	393
	BMC-PSM	287	0	287	116	0	116	402	0	402	1,163	1,163	0
	BMC-SPB	527	58	586	101	0	101	628	59	687	2,097	1,917	180
	BMC-SSM	415	0	415	0	0	0	415	0	415	2,422	2,422	0
	BMC-Allied OI	993	0	993	427	0	427	1,420	0	1,420	4,464	4,464	0
	BMC-Platform	799	107	906	295	0	295	1,094	107	1,201	6,085	5,542	542
	Non-MODS	21,485	3,444	24,929	3,272	1,438	4,710	24,756	4,882	29,639	66,409	55,469	10,940
Grand Total		58,360	7,484	65,824	10,387	1,871	12,058	68,747	9,135	77,882		192,014	22,475

Source

Analysis of IOCS tally file (LR-H-23)

USPS-ST-44 (10)*(7)/(9) (10)*(8)/(9)
Exhibit 44A
Table 1

Table 1

Development of Walk Sequence vs. Non-Walk Sequence Costs - Standard (A) Regular ECR Non-Letters

LDC	Cost Pool	(13) Non-WS Costs		(15) WS Costs		(17) No Key	
		Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96		
11	bcs	281	0	0	0	n/a	
18	Express	No Key	No Key	No Key	No Key		12
12	itm	10,256	2,365	802	0	n/a	
12	ism	394	0	0	0	n/a	
14	manf	8,166	843	147	147	n/a	
14	manf	858	230	118	0	n/a	
14	manp	579	0	53	0	n/a	
13	meccarc	355	0	0	0	n/a	
11	ocr	No Key	No Key	No Key	No Key		14
14	Priority	261	0	0	0	n/a	
13	spbs Oth	6,213	1,546	337	0	n/a	
13	spbsPrio	425	231	0	0	n/a	
18	BusReply	No Key	No Key	No Key	No Key		10
19	Intl	No Key	No Key	No Key	No Key		54
15	ld15	0	0	0	0	0	0
41	LD41	0	0	0	0	0	0
42	LD42	0	0	54	0	n/a	
43	LD43	18,864	4,125	4,196	269	n/a	
44	LD44	581	302	274	0	n/a	
46	LD46_Adm	0	0	0	0	n/a	
46	LD46_Exp	No Key	No Key	No Key	No Key		4
46	LD46_Oth	868	0	44	47	n/a	
46	LD46_SpS	242	0	38	0	n/a	
49	LD49	1,238	318	0	0	n/a	
79	LD79	2,734	874	630	0	n/a	
18	Mailgram	0	0	0	0	0	0
18	Registry	No Key	No Key	No Key	No Key		3
18	Rewrap	No Key	No Key	No Key	No Key		14
17	1bulk pr	585	0	0	0	n/a	
17	1cancMPP	337	0	0	0	n/a	
18	1EEqmt	No Key	No Key	No Key	No Key		1,083
18	1Misc	1,322	0	0	0	n/a	
17	1OpBulk	11,355	1,229	708	0	n/a	
17	1OpPref	8,694	1,759	759	0	n/a	
17	1Platform	18,562	2,343	1,028	0	n/a	
17	1Pouching	2,451	825	304	0	n/a	
17	1SackS_h	4,628	533	468	0	n/a	
13	1SackS_m	1,828	0	0	0	n/a	
17	1scan	94	0	0	0	n/a	
18	1Support	0	1,255	0	0	n/a	
	BMC-NMO	133	134	393	0	n/a	
	BMC-PSM	829	334	0	0	n/a	
	BMC-SPS	1,608	309	180	0	n/a	
	BMC-SSM	2,422	0	0	0	n/a	
	BMC-Alied Ot	3,121	1,344	0	0	n/a	
	BMC-Platform	4,046	1,498	542	0	n/a	
	Non-MOOS	48,138	7,331	7,717	3,223	n/a	
Grand Total		182,267	29,748	18,790	3,685		1,204

Source

$$(11)^*(1)/(11) + (4 (11)^*(4)/(11) + (4 (12)^*(2)/(12) + (5 (12)^*(5)/(12) + (5 = (10) \text{ if No Key}$$

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-ST44-5. Please provide a version of Exhibit 44A, Table 2 that presents separately the data collected prior to and after the July 1, 1996 implementation of the mail reclassification changes resulting from Docket No. MC95-1.

RESPONSE:

See the attached table for commercial ECR. Nonprofit mail was not affected by the changes resulting from Docket No. MC95-1.

Table 2

**Summary of Walk Sequence vs. Non-Walk Sequence Costs
Standard (A) Enhanced Carrier-Route Mail**

Commercial

With No Key Distributed

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	Not WS		WS		No	Not WS		WS		Source
	Endorsed		Endorsed		Key	Endorsed		Endorsed		
	Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96		Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96	
Letters	146,515	35,565	5,698	2,841	1,963	148,026	35,931	5,756	2,668	Table 1, pg 1
Non-Letters	162,267	29,748	18,790	3,685	1,204	163,178	29,915	18,895	3,706	Table 1, pg 2
Total						311,203	65,846	24,652	6,375	
Sources:	Table 1	Table 1	Table 1	Table 1	Table 1	(1) + (5)* (1)/(sum(1..4))	(2) + (5)* (2)/(sum(1..4))	(3) + (5)* (3)/(sum(1..4))	(4) + (5)* (4)/(sum(1..4))	

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-ST44-6. Please provide the corresponding volume data for the period covered by the data in Exhibit 44A, presenting separately the volumes prior to and after the July 1, 1996, implementation of the mail reclassification changes resulting from Docket No. MC95-1. Please provide the volumes separately for carrier route non-letters and non-letters, distributed among saturation, high-density (125-piece walk sequenced), and basic.

RESPONSE:

See the attached table for commercial ECR. Nonprofit mail was not affected by the changes resulting from Docket No. MC95-1.

Response to NAA/USPS-ST44-6.
FY96 ECR Mail Volumes Separated Into Pre and Post Reclassification

Commercial ECR (000)

Category	Letters		Non-Letters	
	Pre-Reclass	Post-Reclass	Pre-Reclass	Post-Reclass
Basic	8,702,253	1,016,870	6,572,299	1,747,561
High Density	35	127,898	541,141	202,801
Saturation	2,064,702	892,028	5,876,778	1,393,887

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NAA/USPS-ST44-7. Please refer to the response to NAA/USPS-19(d). That response states that "[t]he analysis contained in Library Reference H-109 assumes that distribution of walk-sequence and non walk-sequence mail for the ECR mail contained in unidentified items and in containers for a particular mail processing cost pool is the same as the distribution observed in the direct tallies in that cost pool."

- a. Please explain why you believe this to be a valid assumption.
- b. Please refer to page 1 of Table 1 in LR-H-109 (ECR Letters). Please confirm that the direct tally IOCS costs for platform operations (Group #34) represent less than 10 percent of the total variable mail processing costs. If you cannot confirm this figure, please explain.
- c. Please explain why it is valid to distribute the other 90 percent of the costs of platform operations on the basis of these direct tallies.

RESPONSE:

- a. ECR mail is generally contained in identical items, and thus IOCS observations of ECR mail will tend to result in direct tallies. The distribution of mail in an item *sampled within a costpool is likely to be the same as the distribution of mail in the same type of item residing in containers being handled in that costpool.* This is generally the same assumption as being made for distribution methodology presented in Witness Degen's testimony (USPS-T-12).
- b. Not confirmed. I calculate the percentage as 10.2 percent.
- c. Platform generally has low incidence of handling mail as single pieces and items, from which a direct tally would result. However, ECR mail, especially at saturation densities, is predominately handled on the platform as pallet, which is an item subject to the identical mail sampling rule. The methods used here are conservative, because to the extent that saturation and high density mail is presented on pallets more often than Basic ECR mail, saturation and high density costs will be overstated.

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NAA/USPS-ST44-8. Please confirm that the data in Exhibit 44A indicates that delivery costs comprise a majority of the total costs for ECR mail. If you cannot confirm, please explain why not.

RESPONSE:

Exhibit USPS-44A only shows the clerk and mail handler mail processing costs of ECR mail. No inference about delivery costs can be made from these data alone.

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NAA/USPS-ST44-9. Are the majority of costs derived from mail processing IOCS tallies and presented in Exhibit 44A from bulk handlings? If possible, please provide the proportion of such mail processing costs that are from bulk handlings.

RESPONSE:

There are two types of costs derived in whole or in part from IOCS tallies presented in Exhibit USPS-44A: the IOCS direct tally costs by presence of walk sequence endorsement (columns 1-3), and the variable mail processing costs (column 6). By "bulk handlings" I assume that this question refers to IOCS tallies in which the employee was observed handling an item or container as opposed to handling a single piece of mail. Using this definition, the majority of the IOCS direct tally costs by presence of walk sequence endorsement presented in Exhibit USPS-44A represent bulk handlings. Since the variable mail processing costs include distributed mixed-mail and not-handling-mail costs, they have a different percentage of costs associated with bulk handlings. Bulk handlings do not represent a majority of the variable mail processing costs in Exhibit USPS-44A.

The proportions of costs by handling category are presented in the table below.

Proportions of IOCS-derived costs in USPS-ST-44, Exhibit USPS-44A, by handling category

Cost type	Handling Single Piece	Handling Item or Container	Not Handling
IOCS direct tally costs by presence of walk sequence endorsement	42	58	n/a ¹
Variable mail processing costs	20%	39% ²	41%

Notes:

¹ Includes direct tallies only

² Includes mixed-mail.

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NAA/USPS-ST44-10. Please refer to the first and ninth rows of the first page of Exhibit 44A, Table 1 (Standard (A) Regular ECR Letters). Please confirm that non-walk-sequenced ECR letters incur \$4.854 million of costs related to barcode sorters and \$1.45 million of Costs related to optical character readers. If you cannot confirm, please provide the correct numbers.

- a. Please explain why these costs are incurred for ECR letter mail.
- b. Please refer to the following testimony of Postal Service Witness Moden (USPS-T-4) at page 16, lines 15-21:
"Our delivery units have worked closely with the plants to increase the amount of DPS mail. They have worked together to identify and capture bundles of non-barcode Enhanced Carrier Route (ECR) Basic letters in order to barcode them at the plant. By doing so, they have been able to incorporate these pieces into the carriers' DPS mail, thus eliminating the need for manual casing. As barcoding non-barcode ECR basic letters has become a common practice and as the number of DPS zones has increased, the value of ECR Basic letters has diminished."
Please confirm that identifying and capturing ECR basic letters in order to barcode them and incorporate them into the carriers' DPS mail will result in increased mail processing costs for these ECR basic letters. If you cannot confirm this statement, please explain why.
- c. Please confirm that in-office carrier costs are reduced as a result of incorporating ECR basic letters into the DPS mailstream? If yes, please explain where these costs are included in Exhibit 44A.
- d. Did your analysis in Exhibit 44A calculate the reduction in the in-office carrier costs resulting from incorporating ECR basic letters into the DPS mailstream? If yes, please explain where these costs are included in Exhibit 44A.
- e. Did any other Postal Service witness calculate the in-office cost savings associated with incorporating ECR basic letters into the DPS mailstream? If yes, please describe which witness did this calculation and provide a reference to the calculations.
- f. Assume that (1) you have included the increase in mail processing costs associated with the barcoding and sorting of ECR basic letters in the DPS mailstream and (2) no Postal Service witness has adjusted in-office costs to take into account the subsequent in-office carrier costs savings. Under that assumption, would the unit cost differences between the walk sequenced and "non-walk-sequenced" mail shown in Table 1 of Exhibit 44A be overstated? Please explain why or why not.

RESPONSE:

Not confirmed. The analysis in Exhibit USPS-44A calculates the variable mail

processing costs of non-walk-sequenced letters to be 16.553 million dollars for the BCS

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costpool, and 3.911 million dollars for the OCR costpool, as shown in column 7 of Table 1 of Exhibit USPS-44A.

- a. Because employees clocked into the OCR and BCS operations are observed handling ECR letter mail.
- b. I confirm that this would generally increase mail processing costs of the pieces that are processed on this equipment.
- c. My testimony only covers the mail processing costs of ECR mail. Witness Hume's testimony, USPS-T-18, presents estimates of carrier in-office cost savings due to the DPS program and that these generally reduce carrier in-office unit costs. However, my understanding is that witness Hume's analysis does not present estimates of carrier in-office cost savings due to delivery point sequencing of ECR basic letters. See Exhibit USPS-18B, page 6, and Exhibit USPS-18C, page 6.
- d. No, my testimony only covers the mail processing costs of ECR mail.
- e. I am not aware of any Postal Service witness whose testimony addresses city carrier in-office cost savings due to delivery point sequencing of ECR basic mail. Also see my response to subpart (c) of this question.
- f. No. First, unit costs are not presented in Table 1 of Exhibit USPS-44A. Second, Table 1 of Exhibit USPS-44A only concerns mail processing costs. Whether or not possible changes in city carrier in-office costs are modeled has no effect on the difference in mail processing costs.

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NAA/USPS-ST44-11. Does Exhibit 44B differ in any way from the document previously
filed as Library Reference LR-H-182? If so, please identify and explain all differences.

RESPONSE:

No.

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NAA/USPS-ST44-12. Please refer to Exhibit 44B, Table 3, page 9. Please confirm that this table presents volumes for Standard (A) Bulk Regular Carrier-Route letters at the following ounce increments, and explain how any letters at these weight increments could meet the definition of a letter:

- a. 4 ounces
- b. 5 ounces
- c. 6 ounces
- d. 7 ounces
- e. 8 ounces
- f. 9 ounces
- g. 10 ounces
- h. 11 ounces
- i. 12 ounces
- j. 13 ounces
- k. 14 ounces
- l. 15 ounces

RESPONSE:

a-l. Please see the Written Response of United States Postal Service Witness

Degen to Oral Questions of Alliance of Nonprofit Mailers (filed October 28, 1997), with respect to the questions posed at Tr. 12/6642 lines 4-6 and 8-11, and the responses to NAA/USPS-T36-31 and NAA/USPS-18.

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NAA/USPS-ST44-13. Please refer to Exhibit 44B, Tables 3 and 4. Please provide a breakdown of city carrier in-office costs presented in those tables by the following components, presenting the costs for flats and total pieces separately:

- a. The costs associated with direct tallies;
- b. The costs arising from the assignment of the mixed tallies;
- c. The overhead costs;
- d. The piggyback costs; and
- e. The premium pay adjustment.

RESPONSE:

a-e. See Attachment 1 to this interrogatory for costs for flat-shaped mail and Attachment 2 for costs for mail of all shapes. Please note the components listed in the question refer to stages in the development of mail processing costs under the old methodology. I have substituted the following components, which are applicable to the city carrier in-office cost development: 1) direct tally costs, 2) distributed mixed-mail costs, 3) costs arising from the application of the in-office support factor (analogous to overhead costs), and 4) costs arising from the application of the piggyback factor.

**Attachment 1 to Response to NAAUSPS-ST44-13.
Costs for Flat-Shaped Mail Only (thousands of dollars)**

City Carrier In-Office - Commercial ECR Mail

Component	Weight Increment (oz.)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	30,737	32,994	22,841	23,090	8,780	5,168	2,667	2,541	1,271	617	196	381	214	98	187	92
"Distributed Mixed Mail"	2,646	2,933	1,994	1,866	805	377	216	220	107	64	18	30	13	8	17	7
"Support Costs"	5,794	6,235	4,310	4,331	1,660	962	500	479	239	118	37	71	39	18	35	17
"Piggybacked Costs"	12,846	13,825	9,557	9,603	3,661	2,134	1,109	1,062	530	262	82	158	87	41	79	38

City Carrier In-Office - Standard (A) Regular

Component	Weight Increment (oz.)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	30,139	41,586	30,650	31,568	8,231	6,978	3,996	3,089	1,827	1,456	909	660	692	342	571	47
"Distributed Mixed Mail"	2,568	3,571	2,589	2,667	693	555	388	272	152	107	69	53	46	42	41	25
"Support Costs"	5,676	7,837	5,769	5,945	1,549	1,290	761	583	343	271	170	124	128	67	106	13
"Piggybacked Costs"	12,585	17,377	12,791	13,182	3,434	2,860	1,687	1,293	761	601	376	274	284	148	236	28

**Attachment 2 to Response to NAA/USPS-ST44-13.
Costs for All Shapes (thousands of dollars)**

City Carrier In-Office - Commercial ECR Mail

Component	1	2	3	4	5	6	7	Weight Increment (oz.)		10	11	12	13	14	15	16
								8	9							
Direct Costs	133,091	50,101	31,188	27,060	9,334	5,426	2,784	2,591	1,271	719	265	381	214	145	187	137
"Distributed Mixed Mail"	11,503	4,358	2,697	2,181	851	397	225	224	107	67	19	30	13	9	17	11
"Support Costs"	25,094	9,452	5,881	5,075	1,768	1,011	522	488	239	136	49	71	39	27	35	26
"Piggybacked Costs"	51,928	19,558	12,189	10,501	3,658	2,091	1,080	1,011	495	282	102	148	81	55	73	53

City Carrier In-Office - Standard (A) Regular

Component	1	2	3	4	5	6	7	Weight Increment (oz.)		10	11	12	13	14	15	16
								8	9							
Direct Costs	194,331	69,972	40,129	37,648	9,905	7,893	4,518	3,837	2,381	2,257	1,390	1,361	1,642	1,511	781	306
"Distributed Mixed Mail"	17,781	6,154	3,349	3,265	868	629	411	304	180	140	80	77	96	80	47	34
"Support Costs"	36,812	13,212	7,546	7,101	1,870	1,478	855	719	444	416	255	250	302	276	144	59
"Piggybacked Costs"	77,778	27,914	15,942	15,002	3,950	3,125	1,807	1,519	939	879	539	527	637	583	304	125

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NAA/USPS-ST44-14. Please refer to Exhibit 44B, Tables 3 and 4. Please provide a breakdown of mail processing costs presented in those tables by the following components, presenting the costs for carrier-route flats and total costs separately:

- a. The costs associated with direct tallies;
- b. The costs arising from the assignment of the mixed tallies;
- c. The overhead costs;
- d. The piggyback costs; and
- e. The premium pay adjustment.

RESPONSE:

a-e. See Attachment 1 to this interrogatory for costs for flat-shaped mail and Attachment 2 for costs for mail of all shapes. Please note that changes in the mail processing cost methodology made some of the requested components obsolete.

What I have provided is: 1) costs of direct tallies with piece weight information, 2) in the row labeled "mixed mail," the difference between the direct tally costs and the attributable mail processing cost pool amounts distributed to weight increment (this can be thought of sum of overhead and mixed-mail costs, although these terms are obsolete in the new methodology; see witness Degen's testimony for a complete discussion of the new mail processing methodology), 3) the change in cost due to the premium pay adjustment, and 4) the costs arising from the application of the piggyback factors.

**Attachment 1 to Response to NAAUSPS-ST44-14.
Costs for Flat-Shaped Mail Only (thousands of dollars)**

Mail Processing - Commercial ECR Mail

Component	Weight Increment (oz.)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	14,553	17,441	13,762	18,795	5,834	2,993	1,137	1,281	589	662	445	129	51	66	0	276
"Distributed Mixed Mail"	12,106	13,979	9,220	14,201	4,049	1,874	1,068	815	414	533	288	20	37	271	0	239
"Premium Pay"	-1,096	-1,291	-845	-1,358	-410	-200	-91	-88	-41	-49	-30	-6	-4	-14	0	-21
"Piggybacked Costs"	13,742	16,977	11,685	17,985	5,092	2,449	1,286	1,224	571	657	416	71	37	273	0	281

Mail Processing - Standard (A) Regular

Component	Weight Increment (oz.)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	63,862	102,295	75,181	90,078	30,068	18,716	8,438	10,818	5,152	3,575	3,198	3,454	1,728	2,370	1,314	1,604
"Distributed Mixed Mail"	40,839	66,886	43,790	59,466	18,380	16,109	4,813	7,318	3,154	3,476	2,052	2,157	1,720	1,617	735	1,358
"Premium Pay"	-4,414	-7,133	-5,016	-6,305	-2,043	-1,468	-559	-765	-350	-287	-221	-237	-145	-168	-86	-125
"Piggybacked Costs"	54,451	87,152	60,257	77,952	24,481	19,832	6,915	10,307	4,386	4,728	2,726	3,066	1,909	2,521	1,145	1,879

**Attachment 2 to Response to NAA/USPS-ST44-14.
Costs for All Shapes (thousands of dollars)**

Mail Processing - Commercial ECR Mail

Component	Weight increment (oz.)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	61,769	30,627	19,470	22,291	6,239	3,590	1,183	1,516	697	782	508	129	51	109	177	327
"Distributed Mixed Mail"	49,764	24,306	13,583	16,725	4,259	2,045	1,099	999	569	695	329	20	37	299	223	423
"Premium Pay"	-4,584	-2,258	-1,358	-1,604	-431	-232	-94	-103	-52	-61	-34	-6	-4	-17	-16	-31
"Piggybacked Costs"	64,235	31,329	17,823	21,546	5,453	2,820	1,361	1,490	928	831	518	71	37	342	250	379

Mail Processing - Standard (A) Regular

Component	Weight increment (oz.)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	363,528	174,662	109,090	115,394	37,413	26,422	12,017	17,609	8,181	7,621	7,112	9,691	5,999	7,073	5,614	4,971
"Distributed Mixed Mail"	252,057	123,882	70,652	78,242	25,672	25,702	7,569	13,176	5,836	7,075	4,441	6,819	5,200	5,039	3,608	4,160
"Premium Pay"	-25,953	-12,587	-7,578	-8,164	-2,660	-2,198	-826	-1,298	-591	-620	-487	-696	-472	-511	-389	-385
"Piggybacked Costs"	361,776	163,943	96,262	104,163	32,979	31,273	11,368	19,515	8,739	10,286	6,875	10,630	6,940	8,492	6,535	6,255

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NAA/USPS-ST44-15. Please refer to Exhibit 44B, Tables 3 and 4. Please provide a breakdown of window service costs presented in those tables by the following components, presenting the costs for carrier-route flats and total costs separately:

- a. The costs associated with direct tallies;
- b. The costs arising from the assignment of the mixed tallies;
- c. The overhead costs;
- d. The piggyback costs; and
- e. The premium pay adjustment.

RESPONSE:

a-e. See Attachment 1 to this interrogatory for costs for flat-shaped mail and Attachment 2 for costs for mail of all shapes. Please note the components listed in the question refer to stages in the development of mail processing costs under the previous methodology. I have substituted the following components, which are applicable to the development of window service costs: 1) direct tally costs, 2) distributed mixed-mail costs, and 3) costs arising from the application of the piggyback factor.

**Attachment 1 to Response to NAA/USPS-ST44-15.
Costs for Flat-Shaped Mail Only (thousands of dollars)**

Window Service - Commercial ECR Mail

Component	1	2	3	4	5	6	7	Weight Increment (oz.)		9	10	11	12	13	14	15	16
Direct Costs	220	0	0	0	49	0	0	0	0	0	0	0	0	0	0	0	0
"Distributed Mixed Mail"	0	0	0	0	4	0	0	0	0	0	0	0	0	0	0	0	0
"Piggybacked Costs"	93	0	0	0	22	0	0	0	0	0	0	0	0	0	0	0	0

Window Service - Standard (A) Regular

Component	1	2	3	4	5	6	7	Weight Increment (oz.)		9	10	11	12	13	14	15	16
Direct Costs	262	268	185	349	174	151	0	0	0	0	0	127	0	0	0	0	0
"Distributed Mixed Mail"	11	6	9	5	4	2	0	0	0	0	0	0	0	0	0	0	0
"Piggybacked Costs"	115	116	82	149	75	65	0	0	0	0	0	54	0	0	0	0	0

Attachment 2 to Response to NAAUSPS-ST44-15.
Costs for All Shapes (thousands of dollars)

Window Service - Commercial ECR Mail

Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	614	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
"Distributed Mixed Mail"	26	0	0	4	0	0	0	0	0	0	0	0	0	0	0	0
"Piggybacked Costs"	271	0	0	22	0	0	0	0	0	0	0	0	0	0	0	0

Window Service - Standard (A) Regular

Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	1,695	350	185	685	174	200	0	0	82	0	176	0	80	0	0	0
"Distributed Mixed Mail"	57	9	9	11	4	4	0	0	3	0	1	0	0	0	0	0
"Piggybacked Costs"	740	152	82	285	75	88	0	0	36	0	75	0	34	0	0	0

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NAA/USPS-ST44-16. What proportion of the total IOCS tallies were mixed mail tallies during the period that the data presented in Exhibit 44B were collected?

RESPONSE:

I will answer this question in three separate parts. For mail processing costs, the term "mixed mail" is obsolete under the new methodology presented in this case. Witness Degen has provided a breakdown of tally counts into categories appropriate under the new methods. This can be found at Tr. 12/6227-6228. For city carrier costs there were 287,962 tallies, of which 3,343 were mixed mail tallies, for a proportion of 1.1 percent. For window service clerks there were 23,229 tallies, of which 54 were mixed mail tallies, for a proportion of 0.2 percent.

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NAA/USPS-ST44-17. Please refer to the responses to ABA/USPS-1 and ADVO/USPS-28.

- a. Please provide a table similar to that provided in your response to ABA/USPS-1 showing mail processing costs only by weight increment for Standard (A) carrier-route mail, after adjustment for presort level and dropship characteristics.
- b. Please provide a table similar to that provided in your response to ABA/USPS-1 showing mail processing costs only by weight increment for Standard (A) carrier-route flats, after adjustment for presort level and dropship characteristics.

RESPONSE:

See attachment.

Attachment 1 to NAA/USPS-ST44-17

Summary of FY96 Mail Processing Unit Cost and Adjusted Unit Cost by Weight Increment for Enhanced Carrier Route Mail

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Enhanced Carrier Route																
Original Unit Cost	1.71	1.40	0.86	2.06	0.68	0.73	0.81	2.27	1.72	3.48	3.47	1.00	0.36	5.80	5.55	10.25
less:																
Presort Adjustment	(0.48)	(0.22)	(0.02)	0.98	0.59	0.68	1.01	1.24	1.39	1.43	1.41	1.37	1.53	1.51	1.52	1.55
Dropship Adjustment	0.02	0.01	(0.01)	0.02	(0.07)	(0.07)	(0.05)	0.00	0.02	0.05	0.05	0.14	0.05	0.29	0.13	0.15
Adjusted Unit Cost	2.17	1.61	0.89	1.07	0.16	0.11	(0.16)	1.03	0.31	2.01	2.00	(0.51)	(1.22)	4.00	3.90	8.55
	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Enhanced Carrier Route - Flats Only																
Original Unit Cost	2.25	1.44	0.82	1.99	0.64	0.63	0.77	1.65	1.13	2.81	2.88	1.01	0.36	4.60	-	7.25
less:																
Presort Adjustment	(0.01)	(0.31)	(0.29)	0.55	0.02	0.12	0.44	0.67	0.82	0.86	0.85	0.81	0.96	0.94	0.96	0.98
Dropship Adjustment	0.01	(0.00)	(0.01)	0.03	(0.04)	(0.03)	0.00	0.06	0.08	0.12	0.13	0.22	0.14	0.38	0.23	0.26
Adjusted Unit Cost	2.24	1.74	1.12	1.41	0.65	0.54	0.33	1.12	0.22	1.83	1.90	(0.02)	(0.74)	3.28	(1.19)	6.01

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NAA/USPS-ST44-18. Please refer to Tables 1 and 2 in Exhibit 44B and the response to NAA/USPS-T36-22(a).

- a. Do the smaller volumes at the higher weight increments result in less reliable unit cost estimates for these weight increments? If so, in your opinion, at what point do the data become unreliable due to the "thinner" sample?
- b. Aside from the amount of dropshipping, presortation, and the average haul of the non-dropshipped mail, what are the "other factors" that could cause variations in the unit cost by weight increment?

RESPONSE:

- a. If this question intends to use the concept of reliability as a proxy for standard error, then yes, smaller volumes in the higher weight increments will lead to larger standard errors. The point at which the standard errors become too large is largely a function of the use to which the estimates are put. As I understand witness Moeller's use of these data, no reliance is made on the point estimates at any single weight increment; therefore, his use of the data is appropriate given the level of standard error in the estimates.
- b. Other factors may include shape of the mail piece; mechanical aspects of the mail piece such as flexibility, surface characteristics, open edges, binding/envelope type, address placement, and address readability; packaging characteristics such as strength of packaging materials, placement and readability of package labels, strength of tray strapping materials, and fullness of tray or sack; preparation characteristics such as the use of sacks versus pallets; regional or seasonal productivity effects; and other factors too numerous to mention.

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NAA/USPS-ST44-19. Please refer to the response to NAA/USPS-T3-19. Do you have any opinion on the likely magnitude of the standard error of the estimates of the unit costs? If so, please provide your opinion and all evidence supporting this opinion.

RESPONSE:

A general impression of the standard errors of the mail processing cost estimates can be found by comparing the magnitude of the cost estimate in any weight increment cell and finding a subclass with a similar magnitude of cost in Table 6 of USPS-T-12.

Similarly, the same procedure can be used to compare the city carrier in-office costs to Table 3 of USPS-T-12. Since standard errors cannot be calculated for the mail volume estimates, I have no opinion as to the standard errors of the unit cost estimate.

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NAA/USPS-ST44-20. Please refer to the response to NAA/USPS-T3-17(a), which indicates that "it is believed that the majority of [city carrier street] costs are piece related." Did you arrive at this belief on your own, or was this belief given you by the Postal Service? If this was given to you by the Postal Service, please identify the person who conveyed that belief to you.

RESPONSE:

This is based upon my understanding of the city carrier street time methodology. It is important to distinguish between accrued costs and attributable costs to understand this reasoning. Accrued street time costs, aside from the elemental load cost component, are largely determined by non-volume factors such as route length, distance from carrier station, and number of stops. Attributable street time costs are determined econometrically, specifically from the variability of these costs with mail volumes. Elemental load costs have always been considered to be volume driven. Thus, attributable street time costs vary with piece volume and by shape. I understand that witness Nelson has presented an analysis that may use weight as the cost driver for the route and access costs, but I have not had the opportunity to fully explore his testimony.

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NAA/USPS-ST44-21. In Exhibit 44B, why are costs so much higher at the 4 ounce increment than at the 3 or 5 ounce increments?

RESPONSE:

I have not studied this particular relationship in detail, but I note that within the 4 ounce weight increment, the maximum weight for compatibility with automated letter sorting technology is reached. This may be a possible explanation for this spike.

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NAA/USPS-ST44-22. In Exhibit 44B, why are costs so much lower at the 13 ounce increment than at the 12 or 14 ounce increment?

RESPONSE:

The study does not offer an explanation for this relationship.

DECLARATION

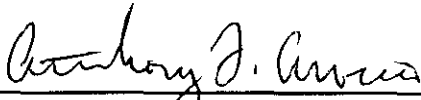
I, Michael R. McGrane, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

 11/10/97

Michael R. McGrane Date

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
November 10, 1997