

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes,                    )  
2006    ) Docket No. R2006-1

**RESPONSES OF MPA/ANM WITNESS SANDER GLICK  
TO USPS INTERROGATORIES USPS/MPA/ANM-T2-1-7  
(October 6, 2006)**

The Magazine Publishers of America, Inc. (“MPA”) and Alliance of Nonprofit Mailers (“ANM”) submit the answers of MPA/ANM witness Sander Glick to USPS interrogatories USPS/MPA/ANM-T2-1 through 7. Each question is stated verbatim and then answered.

Respectfully submitted,

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**USPS/MPA/ANM-T2-1** In your testimony on page 17 you discuss Postal Service witness McCrery's response to MPA/USPS-T42-1(a) in which he estimated that 44.7 percent of incoming secondary flat sorts in FY 2005 were processed manually.

(a) Have you evaluated the empirical basis for that estimate? If you have, please discuss your understanding of the empirical basis for the estimate.

(b) Please confirm that the estimate represents some non-carrier-route flats mail types, such as First-Class Mail single-piece flats and Periodicals In-County flats, which are not modeled in USPS-LR-L-43. If you do not confirm, please explain.

### RESPONSE

(a) I have not performed an independent evaluation of McCrery's estimate, but Witness McCrery confirmed in response to MPA/USPS-T42-20 that 44.7% represents the percentage of FY 2005 incoming secondary flat sorts performed by the Postal Service that were manual sorts.

(b) Confirmed. Note, however, that there were only 158 million Periodicals Within-County non-carrier route flats (USPS-LR-L-126, R2006-1 Within County.xls, Worksheet 'FY2005\_BD') and 3.57 billion First-Class Mail Single Piece Flats (USPS-LR-L-87, Shape GFY 2005rV.xls, Worksheet '2-Page Flats'). Together, non-carrier route flats in these subclasses comprise less than 13% of the "29,501,658,000 total incoming secondary flats volumes" identified by Witness McCrery in response to MPA/USPS-T42-1(a). Furthermore, it seems likely that many First-Class Mail flats will be sorted on flat sorting machines.

**USPS/MPA/ANM-T2-2** In your testimony on page 17, lines 17 to 20, you state, "Previous versions (through Docket No. R2001-1) of the model used to estimate flats cost avoidances reflected this operational reality through the use of 'Incoming Secondary Machinable Flats' coverage factors." Please confirm that the only versions of flats cost models that included such factors were those found in Docket No. R2001-1, USPS-LR-J-61. If you do not confirm, please provide citations for the cost models from all dockets that included such factors.

### RESPONSE

Not confirmed. In addition to Docket No. R2001-1, USPS-LR-J-61, these factors were also included in Docket No. R2000-1, USPS-LR-I-90. In that case, the factors are in R2000\_1\_Flats Cost Model\_Final USPS.xls, Worksheet 'Data', Items (12)-(14). An incoming secondary coverage factor was also used in Docket No. R97-1, USPS-LR-H-134. This factor can be found in 2CREG.xls, Worksheet 'inputs', cell E27.

**USPS/MPA/ANM-T2-3** In your testimony on page 18, lines 4 to 5, you state, "Between Docket No. R2001-1 and Docket No. R2005-1, however, USPS witness Miller decided to remove [the 'Incoming Secondary Machinable Flats' coverage] factors."

(a) Please confirm that witness Miller discussed the removal of those factors in his responses to MPA/USPS-T20-1(e) and MPA/USPS-T20-5. If you do not confirm, please explain.

(b) Did you make an attempt to analyze whether the reasons provided by witness Miller in his responses to the interrogatories mentioned in part (a) were valid or invalid? If so, please provide that analysis and discuss your conclusions. If not, why not?

## RESPONSE

(a) Confirmed.

(b) Yes, and I determined that my approach yielded more accurate cost estimates than Witness Miller's approach. I discuss each of Mr. Miller's reasons in turn:

***Miller's First Reason: "We did not have sufficient data to support their usage."*** In response to MPA/ANM interrogatories (MPA/USPS-T42-1(a), -9, and -20), Witness McCrery indicated that 44.7% of incoming secondary flat sorts were performed manually, and that periodicals "could likely have a higher percentage than the system average of flats processed manually." In his testimony, Witness McCrery also explained operationally why some machineable flats receive manual incoming secondary sorts (USPS-T-42 at 19). Thus, a broad downward adjustment to the percentage of flats receiving incoming secondary sorts on machines in a manner consistent with past USPS and Postal Rate Commission practice would be more

accurate and realistic than simply assuming that all flats that USPS-LR-L-43 flows to a machine for incoming secondary sortation are in fact sorted on the machine. The latter assumption appears to significantly overstate the percentage of flats that receive incoming secondary sorts on machines.

***Miller's Second Reason: "They could not accurately be applied."***

According to USPS-LR-L-43, the costs of incoming secondary sortation on the AFSM100 and the UFSM1000 are similar, and both are much less than the cost of manual sortation. Thus, the critical determinant of the cost of incoming secondary sorting is the percentage of flats that are sorted manually. As explained in Section III.2.a of my testimony, I believe that my approach is more accurate than assuming that all flats that USPS-LR-L-43 flows to a machine for incoming secondary sortation will be sorted by that machine.

***Miller's Third Reason: "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)."*** This does not appear to be a valid concern. As Witness Miller confirmed in response to MPA/USPS-T20-6, other coverage factors in the model are unrelated to prebarcoding and presorting; rather, they are related to the presence of absence of a specific kind of equipment or technology at a particular a facility. These circumstances, while unrelated to mailer prebarcoding and presorting efforts, do impact prebarcoding and presorting cost differences. Thus, it is appropriate to include them in the model.

***Miller's Fourth Reason: "They did not have a significant impact on a prebarcoding and/or presorting cost differences by rate category, which was the purpose for which my cost models were developed."*** Witness Miller is mistaken. MPA/ANM-LR-2, which sets the incoming secondary factors to 80% machine and 20% manual, shows a cost difference between 5-digit automation flats and carrier route flats of 7.066 cents. If the incoming secondary factors were changed to 100% machine and 0% manual, this cost difference would drop to 6.320 cents. This is a significant difference.

**USPS/MPA/ANM-T2-4** In your testimony on page 19, lines 2 to 3, you state, "I have set the Incoming Secondary factors to 80 % machine and 20 % manual."

(a) Please provide the empirical basis for these estimates. If none exists, please explain why you set the factors at those levels.

(b) Please confirm i) that these figures represent machinable mail only and ii) that witness McCrery's response to MPA/USPS-T42-1(a) represents all non-carrier route machinable and nonmachinable mail. If you do not confirm, please explain.

(c) Are you aware of any postal data collection system(s) which could be used to estimate the percentage of machinable mail that is finalized on flat sorting equipment or in manual operations? If so, please describe it.

## RESPONSE

(a) MPA/ANM-LR-2 estimates that approximately 36% of incoming secondary sorts of Periodicals Outside County flats will be manual. Compared with the estimate produced by USPS-LR-L-43, the 36% value is much more consistent with Witness McCrery's estimate that 44.7% of all incoming secondary flat sortations are manual and his assessment that the manual percentage may be even higher for periodicals.

(b)(i) Not confirmed. The incoming secondary factors are applied to all flats that USPS-LR-L-43 flows to an AFSM100 or FSM1000 for incoming secondary sortation. My understanding is that some of the flats that flow to the FSM1000 are referred to in USPS-LR-L-43 as non-machineable.

(b)(ii) Partially confirmed. Although I agree that the manual percentage that Witness McCrery provided in response to MPA/USPS-T42-1(a) includes all non-

carrier route machineable and non-machineable flats, my understanding is that the percentage also includes a small portion of carrier route flats, e.g., when bundles break, that receive incoming secondary sorts.

(c) No.

**USPS/MPA/ANM-T2-5** In your testimony on page 19, lines 8 to 11, you state, "This allows for the likelihood that USPS efforts will reduce the volume of Periodicals Outside County flats that are sorted manually by the Test Year, but by a more reasonable magnitude than implicitly assumed by the Postal Service." Please confirm that the sole reason you conclude that your model is more reasonable than witness Miller's with respect to the percentage of manual incoming secondary sorts is because your model result is closer to witness McCrery's 44.7 percent figure than is witness Miller's model result. If you do not confirm, please provide all other reasons behind your conclusion that your result is more reasonable, including any analyses you may have performed.

### RESPONSE

Not confirmed. While this is certainly a major reason for regarding my model as more reasonable than Witness Miller's, there is also an operational explanation for why the manual percentage is higher than estimated by Witness Miller: "small volumes of flats for a particular destination are processed manually when the volume is insufficient to justify the fixed costs of setting up and sweeping a scheme for such a small volume" (USPS-T-42 at 19). Further, Mr. McCrery indicated that, for service reasons, the manual percentage for periodicals may be even higher than the system-wide average of 44.7%. Response to MPA/USPS-T42-9.

**USPS/MPA/ANM-T2-6** In your testimony on page 14, lines 13 to 15, you state, "Thus, my rate design uses 5-Digit Automation flats as the benchmark from which to measure the Carrier Route cost avoidance." In your testimony on page 17, lines 15 to 19, you state, "According to USPS witness McCrery, the primary operational reason why nearly fifty percent of incoming secondary sorts are manual is that 'small volumes of flats for a particular destination are processed manually when the volume is insufficient to justify the fixed costs of setting-up and sweeping a scheme for such a small volume.'" In your testimony on pages 22 and 23, you describe an adjustment you made to the 1FLATPRP cost pool, in which you attributed half of those costs only to non-carrier route mail.

(a) Please confirm that 33.33% of the Periodicals Outside County flats volumes shown in USPS-LR-L-43, page 1, are contained in the nonautomation and automation 5-digit presort flats rate categories. If you do not confirm, please indicate what you believe to be the correct figure.

(b) Please confirm that some of the 5-digit presort mail will be destined for ZIP Codes that are not sorted to the carrier route level on flats sorting machines and would therefore not incur any 035 flats prep costs. If you do not confirm, please explain.

(c) Did you make an adjustment to the costs estimates for the 5-digit presort rate categories to reflect the fact that some of that mail will not incur 035 flats prep costs? If not, why not?

(d) Had you made an adjustment like that described above in part (c), please describe how this adjustment would likely affect the cost avoidance you measure between an automation 5-digit presort flat and a nonautomation carrier route presort flat.

## RESPONSE

(a) Confirmed.

(b) I can confirm that some 5-digit presort flats will destinate in ZIP Codes that are not sorted to the carrier route level on flat sorting machines. McCrery's response to TW/USPS-T42-30 suggests that these pieces would not incur any 035 flats prep costs.

(c) No. As discussed in my response to USPS/MPA/ANM-T2-7(a), I took a conservative approach to distributing 035 costs to rate category (i.e., I erred towards distributing too large a share of 035 costs to carrier route flats). Given this approach, I did not feel that such an adjustment was necessary.

(d) If this were the only adjustment to my model, it would lower the estimated 035 cost difference between 5-digit automation flats and non-automation carrier route flats. However, I understand that Witness Stralberg (TW-T-2) distributed 035 costs only to flats that are processed on flat sorting machines (i.e., the approach your interrogatory seems to suggest). His approach results in an 035 cost difference of 1.635 cents per piece between 5-digit automation flats and non-automation carrier route flats and a 1.199 cents per piece cost difference between 5-digit non-automation flats and non-automation carrier route flats.

My approach, on the other hand, results in a cost difference of 1.004 cents per piece between 5-digit flats and carrier route flats. This leads me to believe that, taken in its entirety, my approach may have understated the 035 cost difference between 5-digit flats and carrier route flats.

**USPS/MPA/ANM-T2-7** In your testimony on pages 22 and 23, you discuss an adjustment to the 1FLATPRP cost pool in which you "attribute half of these costs only to non-carrier mail."

(a) Please explain your quantitative basis for using the 50-percent figure. If none exists, please indicate so.

(b) Please refer to witness McCrery's testimony, USPS-T-42, page 16, lines 28-31, where he makes the following statement concerning the Automation Induction (AI) modification to the AFSM 100: "Thus, it is anticipated that a total of 351 operational AFSM 100s will be retrofitted with the AI system. Deployment of Phase 2 is anticipated to begin in January 2007 and end in August 2007." Please also refer to his testimony on page 15, lines 8 to 9, where he states in reference to the AFSM 100, "Currently, there are 534 machines in use." Please confirm that by TY 2008, 66 percent of the AFSM 100s (351/534) will have been retrofitted with the AI system. If you do not confirm, please explain.

(c) Please refer to Docket No. R2005-1, USPS-LR-K-45, pages 11 to 16, which describe the AI system. Please also refer to witness Miller's testimony in Docket No. R2005-1, USPS-T-19, page 5, lines 12 to 14, where he states, "The AI system involves the relocation of the flats mail prep operation (operation 035) to an area directly adjacent to the AFSM100. Flat mail will be unbundled and loaded into containers that will be placed on conveyors, which will route the mail to one of three feed modules. The AI system will not impact the AFSM100 staffing requirement, but will result in reductions in clerk work hours, as all employees will be mail handlers. Furthermore, reductions in operation 035 work hours are expected." Did you attempt to make any adjustment to the 1FLATPRP cost pool to reflect 035 work hour reductions due to AI modifications? If not, why not?

(d) From page 22, line 23, to page 23, line 1, of your testimony you describe tasks associated with operation 035.

(i) Please confirm that some of the "prep" tasks you described for non-carrier route mail would be performed for carrier route mail by carriers at delivery units. If not confirmed, please explain.

(ii) Please confirm that the test year "other mail processing" wage rate for clerks/mailhandlers is lower than the test year aggregate carrier wage rate. If you do not confirm, please explain.

## RESPONSE

(a) I used 50% as a first step towards reflecting the fact that 035 costs will be significantly lower for carrier route flats than for other flats. My goal was to move in the right direction, but to err on the side of understating the 035 cost difference between 5-digit and carrier route flats. Specifically, as shown in MPA/ANM-LR-2, less than 10 percent of non-automation carrier route flats receive incoming secondary sorts as compared to all other flats. Using the 50% figure may have overstated 035 costs for carrier route flats because I distribute a much larger amount of these costs to carrier route flats than does the more detailed approach used by Witness Stralberg.

(b) Confirmed, if deployment occurs as anticipated in Witness McCrery's testimony.

(c) No. I accepted as accurate the Postal Service's estimates of the unit costs of Periodicals Outside County nonletters by cost pool.

Please note that the Base Year cost for the 035 cost pool is approximately \$300 million. USPS-T-11 at 32. Applying the Test Year operation-specific piggyback factor, 1.301 (USPS-T-13, Attachment 10), produces a piggybacked cost of nearly \$400 million. On the other hand, AI cost reduction programs are estimated to save the Postal Service a total of \$88 million. So even if the entire cost savings from these programs were in the 035 operation, flat preparation costs would still be significant. This, however, is quite unlikely because one component of the AI system is an automatic

feeder, which (according to the DAR) reduces AFSM 100, not 035, costs. Docket No. R2005-1, USPS-LR-K-45 at 15.

(d)(i) Confirmed.

(d)(ii) Not confirmed. According to USPS-LR-L-43, the Other Mail Processing Wage Rate for clerks/mailhandlers is \$37.992. Calculated by dividing 2008 average salary and benefits by workhours per workyear from USPS-LR-L-49, Attachment N, the average wage rate for City Carriers is \$39.34 and the average wage rate for Rural Carriers is \$32.17.