

Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

DEC 29 22 AM '97
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 14

DATE: Monday, December 1, 1997

PLACE: Washington, D.C.

PAGES: 7344 - 7579

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P R O C E E D I N G S

[9:36 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we resume hearings on Docket R97-1, the Postal Service request for changes in rates and fees. This round of hearings has been scheduled to receive supplemental direct testimony from Postal Service witnesses sponsoring materials initially filed as library references. Postal Service Witnesses Daniel and Smith are scheduled to appear today.

The schedule for the appearances of witnesses was posted on the Commission's Web page last Tuesday morning. Copies of that schedule are available in the front of the hearing room.

As has been our practice in the past, we will maintain a telephone message to inform everyone of scheduling changes and the status of hearings. The message number is (202) 789-6874, and it will be updated during the day so that you can learn how cross examination is proceeding.

The schedule has been set to balance the expected cross examination of participants filing notices of intent to conduct oral cross examination. Several parties have indicated that they may have extensive cross examination. I indicated earlier that to the extent possible, counsel with lengthy cross examination should allow other participants to

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1 go first. Hopefully all participants will be able to obtain
2 responses to their questions promptly; however, the
3 Commission is prepared to remain -- or at least I am --
4 prepared to remain into the evening if necessary in order to
5 assure that all participants have had a full opportunity for
6 cross examination.

7 I want to draw everyone's attention to the fact
8 that an additional day of hearing has been scheduled for
9 December the 10th. On that day, Postal Service Witness
10 Seckar -- Seckar --

11 MR. KOETTING: Seckar.

12 CHAIRMAN GLEIMAN: Seckar -- thank you, Mr.
13 Koetting -- will appear. Additionally on that date, the
14 Postal Service will present one or more witnesses to respond
15 to questions concerning library references H-220 and H-236
16 and the operation of the MODS system generally.

17 Presiding Officer's Ruling Number 71 established a
18 new date for designated responses for written cross
19 examination provided by the Postal Service as an
20 institution. Participants wishing to include institutional
21 responses into the record are to file designations by
22 December the 5th. Those designations will be incorporated
23 in the transcript on December the 10th.

24 A number of designations of institutional
25 responses have been submitted over the past several weeks.

1 Those designations are still valid. The Commission staff
2 will attempt to identify designated institutional responses
3 which have not been subsequently sponsored by a specific
4 witness and include them in the packet of designated
5 materials to be admitted on December the 10th; however, as
6 you know, a number of institutional responses have
7 subsequently been sponsored by specific witnesses. In order
8 to avoid duplication in the transcript, participants are
9 urged to arrive early enough to carefully review the packet
10 on the 10th prior to its incorporation into the transcript.

11 I might add that if possible, we will make a
12 preliminary list of designated institutional responses
13 available before the 10th on our Web page. That will depend
14 on the workload around here, of course.

15 Following our normal practice, transcript
16 corrections related to this set of hearings will be due on
17 December 17th, one week after the completion of hearings.
18 Parties are urged to carefully review the portions of the
19 transcript incorporating the designated written cross
20 examination of witnesses and submit any necessary transcript
21 corrections promptly.

22 Does anyone have a procedural matter to raise at
23 this point?

24 Mr. Koetting.

25 MR. KOETTING: Mr. Chairman, unfortunately it

1 falls upon me to bring to your attention the fact that of
2 the two witnesses that the latest scheduling order set for
3 appearance on December 10th from the Postal Service in
4 addition to Witness Seckar, Witness Degen and a
5 yet-to-be-named witness with regard to the MODS system,
6 someone from Operations, what has happened is that
7 individual will not be available on the 10th. Witness Degen
8 will be. Unfortunately, that other individual is currently
9 scheduled to appear as a witness in an entirely different
10 type of Postal proceeding on the 10th.

11 So we have several options. He would be available
12 on the afternoon of the 11th. He would also be available as
13 well on the 12th. I would point out, however, that the
14 Postal Service offered this witness as a -- as I think you
15 used the term -- sort of a background on MODS. He will not
16 have particular familiarity with either the inspection
17 service audit reports or the Postal Service's costing
18 methodology, and it's possible that Witness Degen might be
19 able to answer all the kinds of questions people have.

20 So I thought this should be noted for the record,
21 and we can figure out where to go from here, perhaps
22 depending on what types of interest the Commission and the
23 parties have in these witnesses.

24 CHAIRMAN GLEIMAN: Thank you, Mr. Koetting.
25 You're lucky we aren't shooting messengers this month. So

1 we will work this out.

2 Of course, you have piqued my curiosity about what
3 these other proceedings are that this witness is going to be
4 involved in that are of a Postal Service nature that are
5 more important than pursuing this rate case, but I won't
6 press you on that for the record.

7 Does anyone else have a matter that they would
8 like to raise at this point?

9 Mr. Volner.

10 MR. VOLNER: Mr. Chairman, I have a procedural
11 matter related to the institutional responses.

12 On November 14, we filed an interrogatory,
13 institutional interrogatory to the Postal Service which
14 Witness Daniel responded to, and we therefore duly
15 designated it in the packet for today.

16 Counsel for the Postal Service points out that at
17 least by subject matter, although not in terms, the
18 interrogatory relates to her earlier testimony, T-29, not
19 the ST-43 that is now the subject of examination.

20 In the circumstances, I propose to forego any oral
21 cross examination of the witness, but I would like the
22 interrogatory designated for the record, and because of some
23 ambiguities in the answer, I will undertake with Postal
24 Service counsel to try to work out an acceptable
25 arrangement. If it turns out that the interrogatory is

1 already in the packet, I obviously will not redesignate it
2 by December 5.

3 I just wanted to make it clear for the record that
4 one way or the other, what was originally AMMA-USPS-1 will
5 be a part of the record, and I release my request for oral
6 cross of the witness.

7 CHAIRMAN GLEIMAN: Well, before I accept your
8 release, let me ask, and since you couched it in terms of
9 trying to work out some ambiguities in the response with the
10 Postal Service, in the event that you are unable to work out
11 those ambiguities, is it your intention to ask for cross
12 examination later on or to submit follow up interrogatories?
13 Because if that is the case, then perhaps you may want to
14 withdraw your release and let the Postal Service decide
15 whether they're willing to object to your undertaking some
16 cross examination with respect to T-29 and that particular
17 interrogatory at this point.

18 MR. VOLNER: The short answer is that I would
19 prefer to avoid a procedural wrangle with the Postal Service
20 as to whether this opens up T-29 to other lines of
21 questioning. The line of questioning would be relatively
22 brief. But I think that through a follow-up interrogatory
23 to the Postal Service as an institution, I can get the
24 answer that I want, or if there is no answer, we will have a
25 field day in our case in chief.

1 Thank you.

2 CHAIRMAN GLEIMAN: Well, in that case, I'll accept
3 your waiver of your right to cross on that matter today.

4 MR. VOLNER: Thank you, Mr. Chairman.

5 CHAIRMAN GLEIMAN: Thank you.

6 Our first witness -- is there anyone else?

7 MR. TIDWELL: Is the Postal Service correct in
8 understanding, then, that there would -- if there is no
9 objection to this interrogatory response remaining in the
10 designation package today, there will be no cross by any
11 party on that response since it relates solely to T-29?

12 MR. VOLNER: Well, there certainly won't be any
13 cross by me.

14 CHAIRMAN GLEIMAN: I don't think that Mr. Volner
15 is in a position to speak for other parties who may or may
16 not be in the room right now, and I suspect that if someone
17 does show up and decide that they want to cross on that,
18 that you will have an opportunity to raise whatever
19 objections you might raise in that regard.

20 MR. TIDWELL: Which is why we would presently
21 object to inclusion of this response in the designation
22 package related to ST-43 and would ask that counsel for AMMA
23 be permitted, if he believes it's an appropriate course to
24 follow, to designate this in conjunction with the
25 institutional responses that will be designated at the close

1 of hearings.

2 MR. VOLNER: Mr. Chairman, I will accede to
3 counsel's request. Let me formally state that we withdraw
4 the response of United States Postal Service Witness Daniel
5 to interrogatory of AMMA that was or may have been included
6 in the packet for today, and we will resubmit it and
7 redesignate it on or before December 5.

8 CHAIRMAN GLEIMAN: Thank you for your cooperation,
9 Mr. Volner. It's appreciated.

10 Anyone else?

11 Our first witness today is Sharon Daniel, who has
12 already appeared for cross examination concerning testimony
13 identified as USPS-T-29. Today, she is presenting
14 USPS-ST-43 and cross examination will generally be limited
15 to matters related to that testimony.

16 Ms. Daniel is already under oath. Mr. Tidwell,
17 would you offer her supplemental direct testimony, including
18 any necessary corrections?

19 Whereupon,

20 SHARON DANIEL,
21 a witness, was called for examination by counsel for the
22 United States Postal Service and, having been previously
23 duly sworn, was examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. TIDWELL:

1 Q Ms. Daniel, do you have before you two copies of a
2 document entitled Supplemental Testimony of Sharon Daniel on
3 Behalf of the United States Postal Service?

4 A Yes, I do.

5 Q It has been designated as USPS-ST-43 for purposes
6 of this proceeding.

7 Have you had an opportunity to examine the two
8 copies before you?

9 A Yes, I have.

10 Q If you were to provide that testimony orally
11 today, would it be the same?

12 A Yes, with two minor exceptions. The two minor
13 exceptions reflect errata that Witness Smith filed to
14 Library Reference 106. I indicated the impact of that
15 errata in my response to NDMS-USPS-ST-43 Number 18, but I
16 have revised Exhibits A and C to reflect those changes.

17 If you would turn to Exhibit A, the numbers that
18 changed were the cost input for presort flats. It changed
19 from .2087 to .2074. And the cost for presort parcels
20 changed from .2196 to .3789. This had the impact of
21 changing the results in Exhibit A from .1079 to .1120. The
22 same change was made in Exhibit C for the inputs and it
23 changed the result from .1459 to .1516.

24 These changes have been included in this
25 testimony.

1 MR. TIDWELL: With those changes, Mr. Chairman,
2 the Postal Service would move into evidence the supplemental
3 testimony of Witness Daniel, USPS-ST-43.

4 CHAIRMAN GLEIMAN: Are there any objections?

5 MR. OLSON: Mr. Chairman, I would just ask if
6 counsel has provided copies today or has copies available
7 today of those changes?

8 MR. TIDWELL: They will be filed today. They are
9 in production now.

10 MR. OLSON: I didn't get all those changes, but I
11 guess I can get that through cross.

12 CHAIRMAN GLEIMAN: Well, if you would like, we can
13 have them read over again.

14 Ms. Daniel, if you would please accommodate us on
15 that? And while that is going on, having heard no
16 objections, Ms. Daniel's testimony and exhibits are received
17 into evidence, and I direct that they be accepted into
18 evidence. It's our practice they will not be transcribed.

19 Mr. Tidwell, if you could please provide them to
20 the reporter.

21 [Supplemental Testimony of Sharon
22 Daniel, USPS-ST-43, was marked for
23 identification and received into
24 evidence.]

25 CHAIRMAN GLEIMAN: Ms. Daniel, if you could please

1 read the corrections over again for the benefit of Mr. Olson
2 and others, I would appreciate it.

3 THE WITNESS: Sure. Exhibit C would follow
4 exactly as I answer the question for 18. You provided the
5 inputs for Exhibit C and I confirmed them with a few
6 changes. Do you have that? Or I can read it again.

7 CHAIRMAN GLEIMAN: Wait. We'll just --

8 THE WITNESS: Okay.

9 CHAIRMAN GLEIMAN: -- show them to Mr. Olson at
10 this point.

11 THE WITNESS: Also on Exhibit C, just to
12 reiterate, the input for presort flats cost also changed
13 from .2087 to .2074 and the input for presort parcel cost
14 changed from .2196 to .3789.

15 CHAIRMAN GLEIMAN: Mr. Olson, are you comfortable
16 at this point?

17 MR. OLSON: Yes, I understand --

18 CHAIRMAN GLEIMAN: Less uncomfortable?

19 MR. OLSON: No, I understand the changes now.
20 Thank you.

21 CHAIRMAN GLEIMAN: Okay.

22 Ms. Daniel, have you had an opportunity to examine
23 the packet of designated cross examination that was made
24 available to you earlier this morning?

25 THE WITNESS: Yes, sir.

1 CHAIRMAN GLEIMAN: I understand that we are going
2 to remove the response AMMA/USPS-1 that was redirected, and
3 that it will be resubmitted later as an institutional
4 response.

5 MR. TIDWELL: That's correct.

6 CHAIRMAN GLEIMAN: If the other questions in the
7 package were asked of you today, would your answers be the
8 same as those you previously provided in writing?

9 THE WITNESS: Yes, sir.

10 CHAIRMAN GLEIMAN: Mr. Tidwell?

11 MR. TIDWELL: I would note just for the record,
12 Mr. Chairman, that there were also in the package some
13 Postal Service responses to Nashua interrogatories ST-43-2E,
14 parts 2 through -- well, Roman II through Roman VIII, IIF,
15 IIG, Roman I through Roman III, IIIA, Roman II through Roman
16 VI and XVI, which were responded to by the Postal Service
17 which are institutional responses and which have also been
18 removed from the package.

19 CHAIRMAN GLEIMAN: Okay.

20 Are we okay with that, Mr. Olson?

21 MR. OLSON: Yes, Mr. Chairman. We just designated
22 it that way because we weren't aware of the December 5th
23 deadline and wanted to make sure we didn't miss the window.

24 CHAIRMAN GLEIMAN: I understand. I just want to
25 make sure that we're not doing something that's going to

1 cause you or anyone else any heartburn later on.

2 Two copies of the corrected designated written
3 cross examination of Witness Daniel will be given to the
4 reporter, and I direct that they be accepted into evidence
5 and transcribed into the record at this point.

6 [Designation of Written
7 Cross-Examination of Sharon Daniel
8 was received into evidence and
9 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS SHARON DANIEL
(USPS-ST43)

Party

Interrogatories

Advertising Mail Marketing Association

~~AMMA/USPS-1 redirected to ST43~~

Nashua Photo Inc., District Photo Inc.,
Mystic Color Lab, and Seattle
Filmworks, Inc.

NDMS/USPS-1-2

NDMS/USPS-ST43-1, 2a-d, 2e.i, 2g.iv-v,
2h.i-ii, 3a.i, 3b, 4-15, 17-20

~~NDMS/USPS-ST43-2e.ii-viii, 2f, 2g.i-iii, 3a.ii-vi, 16
redirected to USPS~~

NDMS/USPS-T32-2e, 9-11, 15, 17, 18c-18e, 19-20,
24, 29a-b, 30, 49, 51 redirected to USPS,

*adopted by
witness Daniel*

Office of the Consumer Advocate

~~AMMA/USPS-1 redirected to ST43~~

NDMS/USPS-ST43-1, 2a-d, 2e.i, 2g.iv-v
2h.i-ii, 3a.i, 3b, 4-15, 17-20

Respectfully submitted,



Margaret P. Crenshaw
Secretary

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NDMS/USPS-1. Please refer to your response to NDMS/USPS-T32-24, redirected from witness Fronk.

- a. Please furnish a copy of the July 13, 1972 entitled JITCO, "A Special Analysis of Nonstandard Physical Attributes, by Weight Increment, for First-Class and Airmail Letters and Cards" as a library reference.
- b. NDMS/USPS-T32-24(b) requested "the time period from which the raw data underlying these percentages [which LR-H-112 relied upon] were compiled or derived." Your response provided the date of the report which published the data. Please respond to the question, which asked for the time period from which the raw data were compiled or derived.

RESPONSE

- a. The report was filed as Library Reference-3 in Docket No. R78-1.
- b. It is unclear from the report exactly when the raw data were compiled or derived. Presumably, the data are from FY71 or FY72.

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NDMS/USPS-2.

Please refer to your responses to NDMS/USPS-T32-29(a), and NDMS/USPS-T32-8(e), both redirected from witness Fronk.

- In your response to NDMS/USPS-T32-29(a), you appear to state that **24.9 million** First-Class single piece parcels weigh 1 ounce or less.
 - In your response to NDMS/USPS-T32-8(e), you state that, of the total volume of First-Class single piece parcels that were used to estimate an average cost of \$0.7457, **0.8 percent were one ounce or less**. Assuming the cross-section of parcels selected to estimate the average cost for the nonstandard surcharge to be representative of the distribution of single piece parcels in First-Class, approximately 0.8 percent of all First-Class single piece parcels should be one ounce or less.
 - Base Year volumes for First-Class single piece parcels were not found. However, LR-H-129, at page II-3, estimates total FY1998 (with reclassification reform) First-Class single piece parcel volume to be 451,446,000. Assuming this estimate is accurate, and approximately 0.8 percent of all First-Class single piece parcels are one ounce or less, then approximately **3.6 million** First-Class single piece parcels would be one ounce or less during Fy1998.
- a. Does the "1996 Nonstandard Volume" which you provided in response to NDMS/USPS-T32-29(a)-(b) include First-Class single piece mailpieces weighing more than one ounce?
 - b. If so, are such mailpieces considered to be subject to the nonstandard surcharge? Please explain any affirmative answer.
 - c. If not, please confirm that there were 24.9 million First-Class single piece parcels weighing one ounce or less during 1996, and provide the source of this estimate.
 - d. If confirmed, please reconcile the total 1996 volume of single piece parcels weighing one ounce or less (24.9 million) with the identified percentage of single piece parcels weighing one ounce or less (0.8 percent) selected to calculate per piece parcel cost used to calculate the First-Class single piece nonstandard surcharge.
 - e. Please provide the numerator and the denominator used to determine that 0.8 percent of all single piece First-Class parcels are one ounce or less.

RESPONSE

- a. No.
- b. N/A
- c. As shown in NDMS/USPS-T32-29b, there are 24.9 million First-Class single piece nonstandard parcels. Note that part e below indicates that the 1996 volume of single-piece parcels weighing one ounce or less was 36.0 million pieces. Since one-ounce parcels are nonstandard by definition one would expect these two numbers to be

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about the same. This difference may be due to postal personnel not recognizing a piece as nonstandard during acceptance or data collection.

d. The 0.8 percent figure is an error. It was the percentage of total weight accounted for by the first ounce category, not the percentage of total volume accounted for by the first ounce category as requested. The correct figure is 8.0 percent. A correction to the response to NDMS/USPS-T32-8(e) will be filed.

e. 15.6 million/1,924.2 million for the 0.8 percent figure
36.0 million/449.5 million for the corrected 8.0 percent figure.

NDMS/USPS-T32-1.

In his revised reply to NDMS/USPS-T32-1, witness Fronk describes you as "the analyst with principal responsibility for the library reference [H-112]." In response to NDMS/USPS-T29-1, you were asked "[d]id you prepare, or participate in any way in the preparation of, LR-H-112," and you responded "[y]es, among others."

- a. Were you the "analyst with principal responsibility" for Library Reference USPS LR-H-112? If not, please describe your role.
- b. Who were the "others" to whom you refer?
- c. At any time prior to completion of the study in LR-H-112, did you ever communicate to your superiors any doubt about the costing methodology employed in USPS LR-H-112?
- d. Did you at any time decline to sponsor USPS LR-H-112, or decline to testify concerning USPS LR-H-112?
- e. Prior to or at the time when you "arranged for copies of the library reference to be . . . included in the filing" (NDMS/USPS-T29-1) did you have any reservations about the data, methodology, or text of the library reference? If so, please identify all such reservations.
- f. Did you write the narrative contained at pages 1-2 of USPS LR-H-112?
- g. At the time you prepared LR-H-112, were you aware that the volume data which were used to weight the cost data were from 1972?
- h. Did you read the Commission's *Opinion and Recommended Decision* in Docket No. R78-1 prior to the date the library reference was filed, July 10, 1997?
- i. Please identify all reasons why you did not simply sponsor USPS LR-H-112, but rather chose to submit supplemental testimony which differs from that library reference as originally filed and as revised by interrogatory responses to NDMS/USPS-T32-2e?

RESPONSE:

- a. Yes.
- b. "Others" referred to other library references not other people.
- c. No.
- d. No.
- e. No.
- f. It was written under my supervision.
- g. No.
- h. No.

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i. Had these new data been known to me when I prepared LR-H-112, they would have been incorporated into it. Accordingly, it made sense to incorporate known changes to LR-H-112 data into USPS-ST-43, otherwise I would have been in the odd position of adopting as my testimony data I knew to be superseded.

NDMS/USPS-ST43-2.

Please refer to Exhibit USPS-43C (Nonstandard Surcharge Costs Using New Volume Shares). The source of the new data identifying volume and percent of nonstandard pieces by shape is stated to be "witness Fronk in response to NDMS/USPS-T32-29 (September 9, 1997)." See USPS-ST-43, p. 1, n. 1.

- a. Do you believe that these new data are accurate?
- b. If you have questions about their accuracy, do you plan any update to your testimony with accurate (or more accurate) data?
- c. Please confirm that your adopted response to NDMS/USPS-T32-29 (September 9, 1997) states that there were **24.9 million First-Class nonstandard single piece parcels**, and **27.2 million total First-Class nonstandard parcels** in Base Year 1996, and that these data were based on domestic RPW data.
- d.
 - (i) Please confirm that the Postal Service's response to NDMS/USPS-T32-45 (September 26, 1997) states that there were **41.4 million total First-Class nonstandard parcels** during Base Year 1996, based on domestic RPW data.
 - (ii) Please explain why you did not adopt the Postal Service's response to NDMS/USPS-T32-45 when you adopted other related responses (September 30, 1997).
 - (iii) Will you adopt the Postal Service's response to NDMS/USPS-T32-45 at this time? If not, will any other witness in this case explain the basis of, and vouch for the accuracy of, the response to NDMS/USPS-T32-45?
- e. The Postal Service's response to NDMS/USPS-T32-45 (September 26, 1997) attempts to explain the difference between the volumes of First-Class nonstandard one-ounce parcels which you utilized in your testimony, and those which it then reported to NDMS by saying that "the difference may be due to postal personnel not recognizing a piece as nonstandard during acceptance or data collection. The response said that it may also be due to a shape misclassification on a mailing statement that is not caught during acceptance. Since the First-Class parcel data are relatively 'thin,' the impact of any possible misclassification is magnified in the data."
 - (i) Do you agree with this rationale for the difference?
 - (ii) What Postal Service statistical data collection systems are employed in collecting the data reported in the two volume estimates?
 - (iii) How many First-Class single-piece parcels would you expect to be entered on, or in conjunction with, a mailing statement? What other single-piece First-Class Mail is entered on a mailing statement?
 - (iv) Which estimate is more accurate? Please explain your answer.
 - (v) How does the inability of postal personnel to identify a piece properly as nonstandard during acceptance or data collection affect each of the two volume figures?
 - (vi) If errors by trained postal personnel can create a 45 percent swing in volume data, how much confidence is it appropriate to have in the data? Please explain your answer.

- (vii) Please provide instructions or definitions identifying which mail pieces are to be reported on the Domestic RPW data as single-piece First-Class nonstandard pieces. Have these instructions/definitions changed since the data were first collected?
- (viii) How could minor errors be magnified by thinness of the data?
- f. Your adopted response to NDMS/USPS-2 states that the 1996 volume First-Class single-piece nonstandard parcels was **36.0** million. Please reconcile this estimate with other estimates of 41.4 million (provided by the Postal Service) and 27.2 million (which you adopted).
- g. The Postal Service's response to NDMS/USPS-T32-44 states that the First-Class nonstandard parcel volumes for 1994 and 1995 were **14.3** million and **17.0** million, respectively.
 - (i) Do these data refer to single piece volume or both single piece, presort, and carrier route volume?
 - (ii) Please explain the jump in volume of First-Class nonstandard parcels from 1994/1995 to base year 1996.
 - (iii) Does this increase lead you to question the accuracy or reliability of your data?
 - (iv) Please explain why you did not adopt the Postal Service's response to NDMS/USPS-T32-44 when you adopted other related responses (September 30, 1997).
 - (v) Will you adopt the Postal Service's response to NDMS/USPS-T32-44 at this time? If not, will any other witness in this case explain the basis of, or vouch for the accuracy of, the response to NDMS/USPS-T32-44?
- h. (i) Please explain why you did not adopt the Postal Service's response to NDMS/USPS-T32-47 when you adopted other related responses (September 30, 1997).
- (ii) Will you adopt the Postal Service's response to NDMS/USPS-T32-47 at this time? If not, will any other witness in this case explain the basis of, or vouch for the accuracy of, the response to NDMS/USPS-T32-44?

RESPONSE:

- a. Yes. These are the data that we have. As the response indicates, the shape distribution is approximate. There is, however, a misstatement of the source in the testimony. The Postal Service, not witness Fronk, originally provided the answer.
- b. N/A.
- c. Confirmed as to the bolded numbers. Not confirmed as to the source. Presort and carrier route data are from the mailing statement data; single-piece is from domestic RPW.

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- d. (i) Not confirmed. The response states that domestic RPW was used for single-piece. Mailing statement data was used for presort.
- (ii) I do not have first hand knowledge of volume estimates.
- (iii) No. The Postal Service will continue to provide institutional responses.
- e. (i) I have no basis for disagreeing.
- e.(ii)-g.(iii) Redirected to the Postal Service.
- g. (iv) I do not have first hand knowledge of volume estimates.
- (v) No. The Postal Service will continue to provide institutional responses.
- h. (i) I do not have first hand knowledge of volume estimates.
- (ii) No. The Postal Service will continue to provide institutional responses.

NDMS/USPS-ST43-3.

- a. Exhibit USPS-43C (Nonstandard Surcharge Costs Using New Volume Shares) identifies the 1996 volume of First-Class flats weighing one ounce or less as 282.4 million. The Postal Service's response to NDMS/USPS-T32-47 stated that the 1996 volume of First-Class nonstandard flats was 358.3 million. The explanation for the discrepancy was the same explanation given in response to NDMS/USPS-T32-45.
- (i) Do you agree with this rationale for the difference?
 - (ii) What Postal Service statistical data collection systems are employed in collecting the data reported in the two volume estimates?
 - (iii) How many First-Class single-piece flats would you expect to be entered on, or in conjunction with, a mailing statement?
 - (iv) Which estimate is more accurate? Please explain your answer.
 - (v) How does the inability of postal personnel to identify a piece properly as nonstandard during acceptance or data collection affect each of the two volume figures?
 - (vi) If errors by trained postal personnel can create a 27 percent swing in volume data, how much confidence is it appropriate to have in the data? Please explain your answer.
- b. Why did you change the average mail processing unit costs which you report in your testimony (from the average mail processing unit costs reported in LR-H-112 when the case was filed in July) but not the volume and percent of nonstandard pieces by shape (to reflect your response to NDMS/USPS-2)?

RESPONSE:

- a.(i) I have no basis for disagreeing.
- a.(ii)-(vi) Redirected to the Postal Service.
- b. The mail processing unit cost error was detected as a result of NDMS/USPS-T32-2e filed on August 1, 1997 and the library reference was revised on August 18, 1997. The error corrected in NDMS/USPS-2 on September 26 had to do with the percent of parcels weighing one ounce or less. This figure is not directly used in the nonstandard surcharge cost analysis. When my supplemental testimony was filed on September 29, it did contain an analysis using the new percent shares of nonstandard volume by shape in Exhibit USPS-ST43C.

NDMS/USPS-ST43-4.

On page 3 of your testimony (USPS-ST-43) you cite language from the Commission's *Opinion & Recommended Decision* in Docket No. R90-1 expressing satisfaction with the data provided in LR-F-160. Based on your research of prior dockets' treatment of the nonstandard surcharge, please respond to the following questions:

- a. Did any intervenors challenge the proposed nonstandard surcharge in Docket No. R90-1?
- b. Did any intervenors conduct discovery regarding the proposed nonstandard surcharge in Docket No. R90-1?
- c. Did the methodology followed in LR-F-160 differ from the methodology employed by the Postal Service in its filing for Docket No. R78-1? If so, please identify all differences.
- d. Please explain how the methodology followed in LR-F-160 addressed concerns expressed by the Commission in Docket No. R78-1 that the Postal Service had failed to:
 - (i) calculate the effect of productivity changes (since 1973) in determining the cost differential between standard and nonstandard letters;
 - (ii) determine whether the importance of the aged data or the likelihood that the reliability of the data will be improved warrants incurring the additional expense of updating the original data;
 - (iii) provide in its initial filing persuasive analyses justifying its determination not to update the otherwise hoary data; and
 - (iv) exclude costs pertaining to First-Class Mail over one ounce which is not being subjected to a surcharge.
- e. Please explain how and to what extent the methodology utilized in your testimony addresses the concerns expressed by the Commission in Docket No. R78-1 that the Postal Service had failed to:
 - (i) calculate the effect of productivity changes (since 1973) in determining the cost differential between standard and nonstandard letters;
 - (ii) assess whether the importance of the aged data or the likelihood that the reliability of the data will be improved warrants incurring the additional expense of updating the original data;
 - (iii) provide in its initial filing persuasive analyses justifying its determination not to update the otherwise hoary data; and
 - (iv) exclude costs pertaining to First-Class Mail over one ounce which is not being subjected to a surcharge.

RESPONSE:

- a. I am not aware of any alternate intervenor proposals. According to the

PRC R90-1 Opinion at page V-15 [5035],

"The Service's [nonstandard surcharge] proposal is uncontroverted on the record."

- b. I am not certain. I am informed that none of the designated interrogatory responses of witness Lyon's relate to the nonstandard surcharge.
- c. Docket No. R78-1, the Postal Service used LIOCATT data for costs by shape and examined more cost segments than just mail processing. In Docket No. R90-1, the Postal Service examined mail processing differences and admitted that looking at delivery costs would widen the difference. In Docket No. R90-1, we used MODS data for productivities and estimates of average number of handlings instead of LIOCATT. We also assumed the cost of handling parcels and IPPs to be the same as handling flats manually, though we admitted this was a conservative approach. In Docket No. R90-1, we used operation specific piggyback factors and made peak load adjustments. It is my understanding that in Docket No. R78-1, we didn't make peak load adjustments and looked at indirect costs on a cost segment by cost segment basis using R77-1 distribution keys.
- d.
 - (i) Productivities were updated in R90-1.
 - (ii)-(iii) The importance of the age of the volume shares or a justification for not updating the market research data was not discussed to the best of my knowledge. All other data were updated to the best of my knowledge.
 - (iv) Excluding costs pertaining to First-Class mail over one ounce which is not subject to a surcharge was not addressed in the Docket No. Library Reference LR-F-160.
- e.
 - (i) Productivities were updated in R97-1.
 - (ii)-(iii) More recent volume shares were provided in Exhibit USPS-43C. It should be noted that these shares more closely match the After Rates

volume shares forecasted by the Commission in R78-1 and used in Docket No. R84-1 Library Reference E-8. The likelihood that the reliability of the data would be improved by using more recent RPW data uncovered during discovery prompted its inclusion in the supplemental testimony and discussed on page 2.

(iv) The difficulty in excluding costs pertaining to First-Class mail over one ounce which is not subject to a surcharge was addressed in supplemental testimony USPS-ST-43 at pages 2 through 3.

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NDMS/USPS-ST43-5.

In Docket Nos. MC73-1 and R78-1, the Commission gave the following explanation for its decision to impose a nonstandard surcharge on letter mail with certain aspect ratios or thickness above 0.25":

The essence of our determination to classify poor aspect ratio letters as nonstandard in Docket No. MC73-1 was not founded upon the fact that poor aspect ratio letters are manually processed - as the Postal Service predicates its analysis upon - but instead because poor aspect ratio letters cause excessive mail processing. [PRC Op. MC73-1, p. 28.] It is these additional mail processing costs upon which the Postal Service should primarily have focused in order to develop the unit cost differential between standard and nonstandard letters. The difference in unit costs between manual and mechanical processing letters would then serve as an upper limit of the additional unit cost of processing nonstandard letters. This is because when the additional unit costs incurred as a result of mechanical mail processing of nonstandard letters exceed the unit cost differential between mechanical and manual processing, the Postal Service would stop processing nonstandard letters mechanically and process them manually. [Op. & Rec. Dec., Docket No. R78-1, p. 35.]

Why does your testimony utilize the unit mail processing cost differential between manually processed First-Class letters and average First-Class letters to calculate the additional costs of handling nonstandard letters, in light of the Commission's rationale for imposing the surcharge on nonstandard letters as articulated in Docket No. R78-1?

RESPONSE:

I updated the way it was done in Docket No. R90-1; which provided the results recommended by the Commission.

NDMS/USPS-ST43-6.

In Docket No. R78-1, the Postal Service defined the mail pieces to be subject to the nonstandard surcharge as follows: Flats were defined as mail pieces which "were not machineable [sic] on mechanized letter processing equipment" and were of a dimension larger than 11.5" x 6.25", but smaller than 24.5" x 13.3". It was noted that flats are processed in manual flat distribution cases. SPRs were defined as mail pieces which were "not machineable [sic] on mechanized letter processing equipment and of a size and shape which is too unwieldy to distribute on manual letter or flat cases. SPRs are normally processed over a pouch rack directly into sacks and pouches." Docket No. R78-1, USPS-T-1, pp. 4-5.

- a. Are all nonstandard First-Class flats manually processed?
- b. Are all nonstandard First-Class parcels manually processed? Can any nonstandard First-Class parcels fit in letter or flat cases?
- c. Please explain how changes in the Postal Service's processing and delivery of mail since 1978 have affected the assumptions underlying the First-Class nonstandard surcharge.
- d. Are the terms parcels and SPRs interchangeable? Please explain any difference.

RESPONSE:

- a. Not all nonstandard First-Class flats are manually processed. According to the response to NDMS/USPS-T32-18, some flats weighing less than 1 ounce may be processed on the FSMs if they meet all other machinability requirements such as rigidity.
- b. All nonstandard First-Class parcels (weighing less than one ounce) should be processed manually since the minimum weight for the SPBS is 4 ounces. Some nonstandard First-Class parcels may fit in letter or flat cases.
- c. The first of the FSMs, the FSM 775, was deployed in 1982. The FSM 881 was deployed in the late 1980's and the SPBS was deployed in early 1990. LSMs are currently being phased out. Thus, for machinable nonstandard flats, processing may have become slightly more mechanized. Nonstandard letters are becoming completely manually sorted, but standard letters are virtually completely automated with much lower costs thus widening the differential. Nonstandard parcels are still manually sorted. The move to mechanization of flats was reflected in LR-F-160 and the phasing out of LSMs and increase in automated processing of standard letters is reflected in the

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current analysis. I assume no significant changes have been made in the delivery of nonstandard pieces, but currently additional costs due to nonstandard pieces are not included in the surcharge cost analysis.

d. SPR stands for small parcels and rolls. Basically the term is used to describe small parcels and is not necessarily interchangeable with parcels. A big parcel is a parcel but not an SPR.

NDMS/USPS-ST43-7.

Your testimony states that the mail processing cost of the average First-Class single-piece manually processed letter, which you use as a proxy for First-Class nonstandard letters, is 20.54 cents. (Exhibit USPS-43C.)

- a. Please confirm that, without application of a First-Class nonstandard surcharge, the average First-Class single-piece manually processed letter currently generates revenue of 32 cents. If you do not confirm, please explain.
- b. Please confirm that the average First-Class single-piece manually processed letter generates substantially more revenue than costs. If you do not confirm, please explain.

RESPONSE

- a. Not confirmed. The average manually processed First-Class single-piece letter does not necessarily always weigh less than an ounce. Some proportion may pay the additional ounce rate.
- b. Not confirmed. 20.54 is mail processing cost only. These letters also incur delivery, transportation, and other costs. The total of which may be higher than 32 cents.

NDMS/USPS-ST43-8.

Your testimony states that the mail processing cost of the average First-Class single-piece flat is 32.43 cents. (Exhibit USPS-43C.)

- a. Please confirm that the average First-Class single-piece flat weighs 3.3 ounces. If you do not confirm, please explain.
- b. Please confirm that, without application of a First-Class nonstandard surcharge, a First-Class single-piece flat that weighs 3.3 ounces currently generates revenue of \$1.01. If you do not confirm, please explain.
- c. Please confirm that a First-Class single-piece flat that weighs 3.3 ounces generates substantially more revenue than costs. If you do not confirm, please explain.
- d. Please confirm that there is no evidence that the attributable costs of the average under-one-ounce First-Class single-piece flat are more than 32 cents. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. 32.43 is mail processing cost only of an average First-Class single piece flat. These flats also incur delivery, transportation, and other costs. We would expect revenue to exceed volume variable costs, but we can't quantify by how much or to characterize what is considered substantial.
- d. Although there is no evidence to prove that the volume variable costs of the average under-one-ounce First-Class single-piece flat are more than 32 cents, there is also no evidence that it is less than 32 cents. Light weight flats may be more expensive to process than heavier flats as explained in the response to NDMS/USPS-T32-51. Costs by ounce increment are not available, but the total attributable costs will be higher than mail processing costs alone.

NDMS/USPS-ST43-9.

Your testimony states that the mail processing cost of the average First-Class single-piece parcel is 74.08 cents. (Exhibit USPS-43C.)

- a. Please confirm that the average First-Class single-piece parcel weighs 4.3 ounces. If you do not confirm, please explain.
- b. Please confirm that, without application of a First-Class nonstandard surcharge, a First-Class single-piece parcel that weighs 4.3 ounces currently generates revenue of \$1.24. If you do not confirm, please explain.
- c. Please confirm that a First-Class single-piece parcel that weighs 4.3 ounces generates substantially more revenue than costs. If you do not confirm, please explain.
- d. Please confirm that there is no evidence that the attributable costs of the average under-one-ounce First-Class single-piece parcel are more than 32 cents. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. 74.08 is mail processing cost only of an average First-Class single piece parcel. These parcels also incur delivery, transportation, and other costs. We would expect revenue to exceed volume variable costs, but we can't quantify by how much or to characterize what is considered substantial.
- d. Although there is no evidence to prove that the volume variable costs of the average under-one-ounce First-Class single-piece parcel are more than 32 cents, there is also no evidence that it is less than 32 cents. Weight itself is not necessarily an important cost driver for parcels weighing less than one pound as explained by witness Crum in his response to PSA/USPS-T28-5¹ and generally in his oral cross examination by NDMS (transcript Volume 5 page 2369-2370.) Costs by ounce increment are not available, but the total attributable costs will be higher than mail processing costs alone.

¹ Although witness Crum's responses pertains to Standard (A) parcels weighing less than 16 ounces, the same argument applies to First-Class parcels weighing less than 11 ounces. The transcript cite is in the context of machinability, but the interplay of weight and machinability is also discussed.

NDMS/USPS-ST43-10.

Exhibit USPS-43A cites LR-F-160, Docket No. R90-1 as the source for the percentage of nonstandard pieces by shape. Exhibit USPS-43C provides "new volume shares" drawn from the response to NDMS/USPS-T32-29. What factors explain the following changes in the mix of nonstandard mail:

- a. First-Class nonstandard letters dropped from 58 percent (USPS-43A) to 19.3 percent (USPS-43C);
- b. First-Class flats rose from 39 percent (USPS-43A) to 73.1 percent (USPS-43C);
- c. First-Class parcels rose from 3 percent (USPS-43A) to 7.6 percent (USPS-43C)?

RESPONSE:

- a-c. The percent shares in Docket No. R90-1 came from a special study conducted in 1972 which was presumably designed to capture a snapshot of the mail mix at the time. The new volume shares are from an on-going, year round, statistical data system. The differences may reflect the change in data collection methodology or it may be solely a reflection in a change in mail mix practices since 1972.

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NDMS/USPS-ST43-11.

- a. Please explain the statement in your testimony, at page 3, that "using the methodology presented in USPS-LR-H-106, it is not possible to determine the cost of processing a one-ounce letter-shaped nonstandard piece."
- b. What is the average weight of a manually-processed First-Class letter with an average cost of \$0.2054?
- c. Does a three-ounce First-Class letter cost more to process than a one-ounce First-Class letter? Please explain your answer.
- d. Does a three-ounce First-Class flat cost more to process than a one-ounce First-Class flat? Please explain your answer.
- e. Does a three-ounce First-Class parcel cost more to process than a one-ounce First-Class parcel? Please explain your answer.

RESPONSE:

- a. It may be possible to determine the processing cost of an average letter-shaped piece weighing one ounce or less using the methodology presented in USPS LR-H-106, but because IOCS does not record whether the piece is standard or nonstandard, it would not be possible to determine the cost of just nonstandard letter-shaped pieces.
- b. It is the same as the average weight of a First-Class single piece letter, 0.5 ounce.
- c. Probably. Please see response to MMA/USPS-T23-2.
- d. Not necessarily. Please see response to NDMS/USPS-T32-51.
- e. Not necessarily. Both parcels would be processed manually. The impact of weight between one and three ounces could be relatively small. In contrast, the cube of the parcel is more likely to be a large driver of processing costs. See response to NDMS/USPS-ST43-9.

NDMS/USPS-ST43-12.

You state at page 3 of your testimony that calculation of "mail processing costs by ounce increment and shape for First-Class Mail has not been conducted using the methodology presented in USPS-LR-H-106 and the reliability of those individual estimates has not been determined."

- a. Would calculation of mail processing costs for a one-ounce First-Class flat, using the methodology presented in USPS-LR-H-106, be likely to result in a more accurate estimate of the actual costs incurred by the Postal Service in handling a nonstandard First-Class flat than the calculation of the mail processing costs incurred by an average, 3.3 ounce First-Class flat which you use in your testimony? Please explain your answer.
- b. Would calculation of mail processing costs for a one-ounce First-Class parcel, using the methodology presented in USPS-LR-H-106, be likely to result in a more accurate estimate of the actual costs incurred by the Postal Service in handling a nonstandard First-Class flat than the calculation of the mail processing costs incurred by an average, 4.3 ounce First-Class parcel which you use in your testimony? Please explain your answer.

RESPONSE:

- a-b. Using the methodology presented in USPS LR-H-106 for the calculation of mail processing costs for a one-ounce First-Class parcel and flat to estimate costs incurred by the Postal Service in handling a nonstandard First-Class parcel or flat is a possibly valid approach, but I haven't studied its virtues or limitations.

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NDMS/USPS-ST43-13.

How much does it cost for the Postal Service to administer, enforce, and collect the First-Class nonstandard surcharge, including the following: (i) advertise the First-Class nonstandard surcharge to the mailing public; (ii) monitor nonstandard First-Class mail pieces and identify such mail pieces for insufficient postage; (iii) collect underpaid postage from addressees; (iv) develop the volumes and percentages of one-ounce First-Class mail pieces by shape; (v) develop studies and testimony in support of the First-Class nonstandard surcharge; and (vi) any other costs associated with the First-Class nonstandard surcharge?

RESPONSE:

It is my understanding that information is not available at this level of detail.

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NDMS/USPS-ST43-14.

- a. At page 2 of your supplemental testimony, lines 6-7, you state that "all flats and parcels are assumed to be nonstandard." Would it be equally correct, or perhaps more correct, to say that "all flats and parcels are assumed to be nonstandard, even though less than 10 percent of all flats and all parcels weigh less than one ounce?" If you disagree, please explain why.
- b. At p. 2 of your supplemental testimony, line 6, you state that manual letters are assumed to be nonstandard. Witness Modem [sic], in his response to NDMS/USPS-T32-21 (redirected from Witness Fronk) stated that letters which would routinely receive manual processing include nonmachinable letters, remote barcoding system rejects, letters destined for zones with fewer than five carriers and letters that originate and/or destinate in the same nonautomated facility.
 - (i) Do you believe that all, most, many, or some manually processed letters are nonstandard? Please explain your answer.
 - (ii) Does the Postal Service have data on the volume of letters processed manually during Base Year 1996? If so, please provide.

RESPONSE:

- a. It would be correct to say that all one ounce flats and parcels are nonstandard.
- b.
 - (i) At least some, but not all, manually processed letter are nonstandard. All nonstandard letters, however, are processed manually.
 - (ii) No.

NDMS/USPS-ST43-15.

- a. When you undertook the cost study in LR-H-112, now incorporated in USPS-ST-43, how much consideration did you give to the possibility of a new study, using a different methodology, to ascertain the cost of nonstandard First-Class pieces?
- b. Since the methodology that underlies the study in LR-H-112 does not purport to measure the cost of handling letters, flats or parcels that weigh less than 1 ounce, what kind of study could be undertaken? In your response, please discuss the possibility of using any methodology of which you are aware (including the use of any existing data or the collection of new data), including but not limited to mail flow models, statistical studies (including the data in LR-H-106), computer simulation studies, time and motion studies, etc.

RESPONSE:

- a. None.
- b. Controlling for the effects of weight in mail processing is difficult in any kind of study. As mentioned in USPS-ST-43 supplemental testimony, using the LR-H-106 methodology is a possibility, but I haven't studied all of its virtues or limitations.

NDMS/USPS-ST43-17.

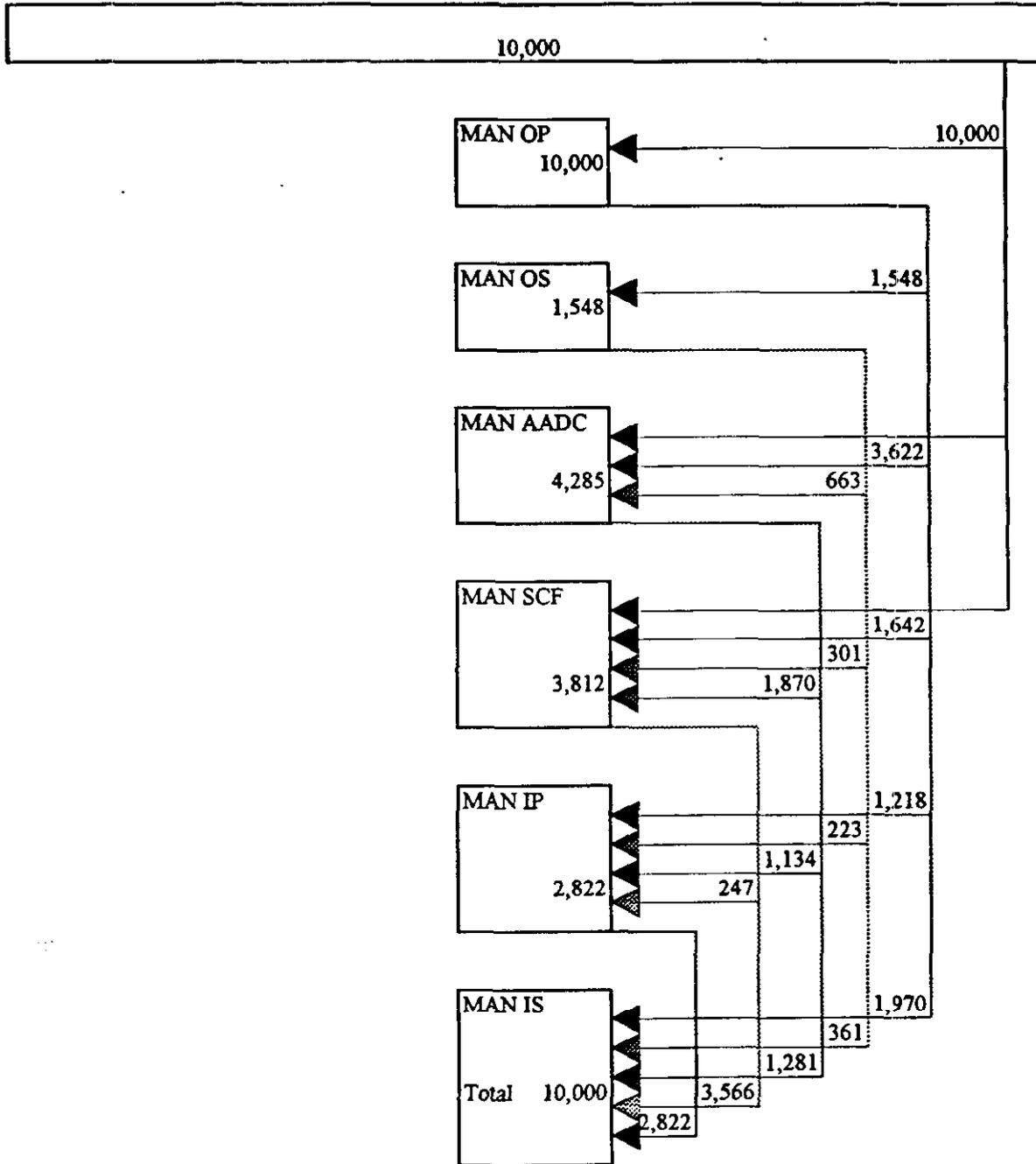
- a. What per piece weight do you assume for (i) single piece and (ii) presort "manual letter mail" for which you develop processing costs in Exhibit USPS-43B.
- b. Exhibit USPS-43B is titled "Development of First Class Mail Processing Unit Costs; First-Class Non-Automation Presort Non-Machinable Mail." Does this exhibit develop the unit mail processing costs for (i) all First-Class letter mail which is manually handled, (ii) First-Class letter mail which is nonstandard in size, or (iii) something else. Please explain.
- c. Please explain in narrative terms the graphical portrayals at pages 3-5 and pages 8-10 of Exhibit USPS-43B. Please provide full scale versions of these graphics as a library reference.
- d. Please explain any changes between the methodology employed to develop manual letter processing costs in Docket No. R90-1 and that used in your testimony.

RESPONSE:

- a. An average weight is implicit in the models. See response to NDMS/USPS-ST43-16a.
- b. First-Class letter mail that is manually handled.
- c. The graphical portrayals are identical to the diagrams in witness Hatfield's testimony; however, the amount of mail on each flow path except for manual processing has been set to zero. All 10,000 single-piece nonstandard letters enter at manual outgoing primary and presort enters manual operations at the same sort level as presort letters in USPS-T-25 Appendix I page 31 of 37. The letters then flow to subsequent manual operations using the manual downflow density data found in USPS-T-25 Appendix I page 34 of 37. Thus the graphical portrayals, and cost summary pages, can be simplified as shown in the attachment.
- d. The methodology employed in R90-1 assumed 3.0749 manual handlings and R97-1 assumes 3.2467 manual handlings. R90-1 used an average manual sorting productivity from AP 1-4 of FY90 MODS data and R97-1 uses annual FY96 MODS productivities at each sort level divided by an average manual sorting volume variability. R90-1 used piggyback factors and premium pay factors, and made peak

load adjustments. R97-1 uses piggyback factors and premium pay factors, does not make peak load adjustments, but does tie model cost to the CRA using fixed and proportional CRA adjustments.

First-Class Single Piece Nonstandard Letter Mail Flow



Manual IS at non-auto sites 930
 Manual IS at auto sites 9070

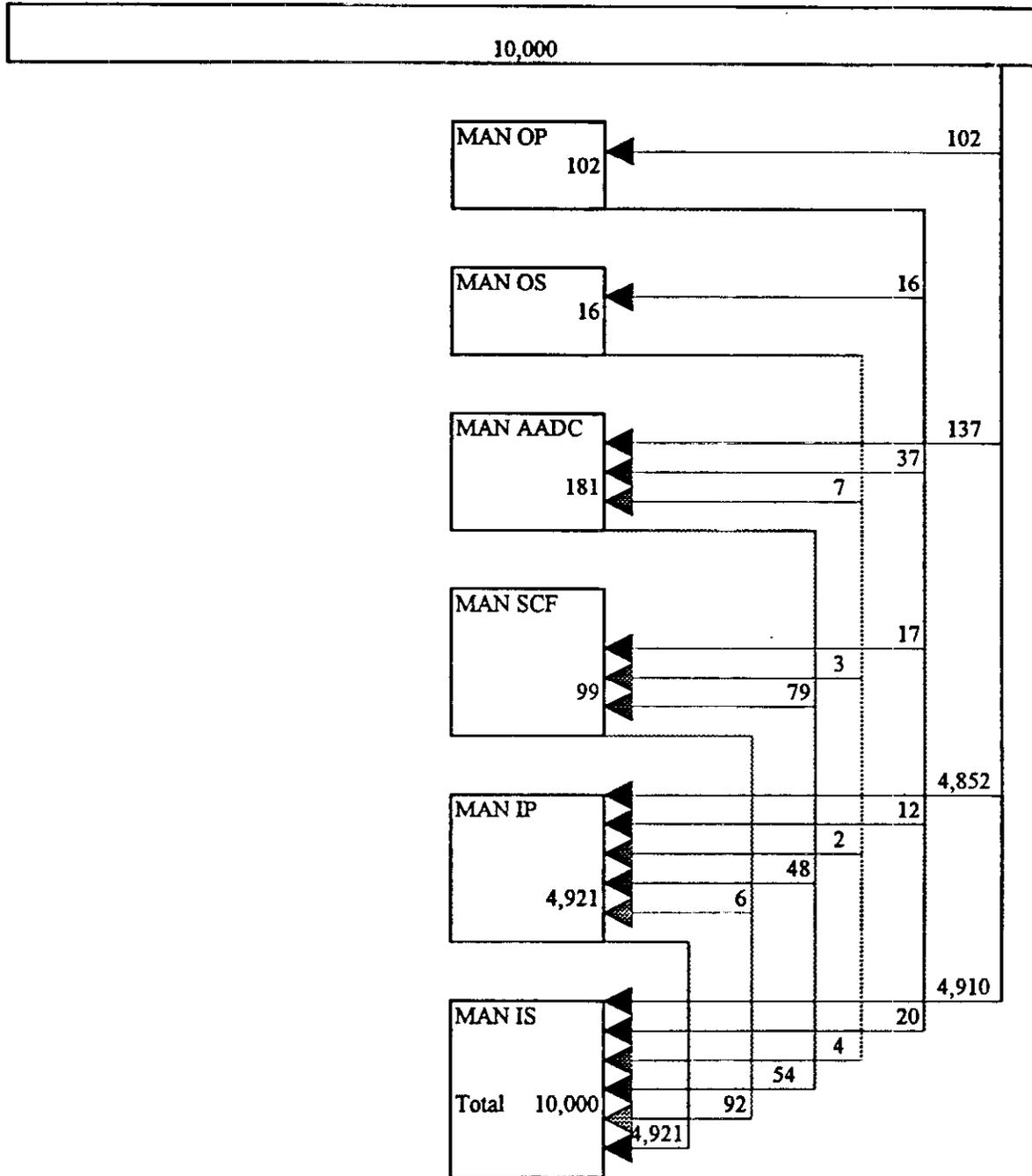
Simplified First-Class Single-Piece Nonstandard Letter Mail Processing Unit Cost Summary

	[1] TPF	[2] Pieces per Hour	[3] Wage Rate	[4] Cents per Piece	[5] Piggyback Factor	[6] Premium Pay Adjustment	[7] Cents per Piece	[8] Weighted Cost	
Outgoing Primary									
Manual	10,000	662	\$25.45	3.8437	1.3720	0.0423	5.3158	5.3158	
Outgoing Secondary									
Manual	1,548	691	\$25.45	3.6823	1.3720	0.0405	5.0927	0.7884	
ADC/AADC Distribution									
Manual	4,285	759	\$25.45	3.3524	1.3720	0.0369	4.6364	1.9868	
SCF Operations									
Manual	3,812	896	\$25.45	2.8398	1.3720	0.0312	3.9275	1.4973	
Incoming Primary									
Manual	2,822	562	\$25.45	4.5276	1.3720	0.0498	6.2616	1.7671	
Incoming Secondary									
Manual/Non-Auto Sites	930	1,143	\$25.45	2.2261	1.3720	0.0245	3.0787	0.2863	
Manual/Auto Sites	9,070	646	\$25.45	3.9389	1.3720	0.0433	5.4474	4.9408	
Per									
Mail Prep/Cancellation	10,000						0.5698	0.5698	1/
Sort to P. O. Boxes:									
DPS and SS	0	2,341	\$25.45	1.0868	1.3660	0.0120	1.4965	0.0000	
Non-DPS or SS	890	1,171	\$25.45	2.1735	1.3660	0.0239	2.9929	0.2664	
% DPS	0.00%	2/							

MODEL COST	17.4188	3/
Proportional Adj	1.1586	
Fixed Adj	0.3573	
TOTAL COST	20.54	

Row 1/: Appendix V, page 1 of 2, LDC 79 unit cost (business mail entry).
Row 2/: DPS percentage from flow model (CSBCS and DBCS accepted volumes as a percent of total pieces).
Row 3/: Total model cost (sum of column 8).
Row 4/: Appendix III, page 4 of 5, row 1.
Column [1]: Pieces processed in each operation from flow model.
Column [2]: Volume variable mail processing productivities by operation (Appendix I, page 32 of 37).
Column [3]: Test year clerk and mail handler wage rates (Library Reference H-146).
Column [4]: (Column 3 * 100) / Column 2.
Column [5]: Mail processing piggyback factors by operation (Library Reference H-77).
Column [6]: Column 4 * (First-Class presort premium pay adjustment - 1). See LR-H-77.
Column [7]: Column 4 * column 5 + column 6.
Column [8]: Column 1 * column 7.

First-Class Presort Nonstandard Letter Mail Flow



Manual IS at non-auto sites 930
 Manual IS at auto sites 9070

Simplified First-Class Presort Nonstandard Letter Mail Processing Unit Cost Summary

	[1] TPF	[2] Pieces per Hour	[3] Wage Rate	[4] Cents per Piece	[5] Piggyback Factor	[6] Premium Pay Adjustment	[7] Cents per Piece	[8] Weighted Cost	
<u>Outgoing Primary</u>									
Manual	102	662	\$25.45	3.8437	1.3720	0.0423	5.3158	0.0541	
<u>Outgoing Secondary</u>									
Manual	16	691	\$25.45	3.6823	1.3720	0.0405	5.0927	0.0080	
<u>ADC/AADC Distribution</u>									
Manual	181	759	\$25.45	3.3524	1.3720	0.0369	4.6364	0.0837	
<u>SCF Operations</u>									
Manual	99	896	\$25.45	2.8398	1.3720	0.0312	3.9275	0.0387	
<u>Incoming Primary</u>									
Manual	4,921	562	\$25.45	4.5276	1.3720	0.0498	6.2616	3.0811	
<u>Incoming Secondary</u>									
Manual/Non-Auto Sites	939	1,143	\$25.45	2.2261	1.3720	0.0245	3.0787	0.2892	
Manual/Auto Sites	9,061	646	\$25.45	3.9389	1.3720	0.0433	5.4474	4.9357	
<u>Other</u>									
cept./Verification	10,000						0.0699	0.0699	1/
ort to P. O. Boxes:									
JPS and SS	0	2,341	\$25.45	1.0868	1.3660	0.0120	1.4965	0.0000	
Non-DPS or SS	890	1,171	\$25.45	2.1735	1.3660	0.0239	2.9929	0.2664	
Bundle Sorting	10,000						0.7386	0.7386	4/
% DPS	0.00%	2/							

MODEL COST	9.5655	3/
Proportional Adj	1.1586	
Fixed Adj	0.3573	
TOTAL COST	11.44	

Row 1/ : Appendix V, page 1 of 2, LDC 79 unit cost (business mail entry).
Row 2/ : DPS percentage from flow model (CSBCS and DBCS accepted volumes as a percent of total pieces).
Row 3/ : Total model cost (sum of column 8).
Row 4/ : Appendix III, page 4 of 5, row 1.
Column [1]: Pieces processed in each operation from flow model.
Column [2]: Volume variable mail processing productivities by operation (Appendix I, page 32 of 37).
Column [3]: Test year clerk and mail handler wage rates (Library Reference H-146).
Column [4]: (Column 3 * 100) / Column 2.
Column [5]: Mail processing piggyback factors by operation (Library Reference H-77).
Column [6]: Column 4 * (First-Class presort premium pay adjustment - 1). See LR-H-77.
Column [7]: Column 4 * column 5 + column 6.
Column [8]: Column 1 * column 7.

NDMS/USPS-ST43-18.

Using your formula, set out under "B. Results" of Exhibit USPS-43C, please confirm the following constitutes the calculation for single piece and presort.

Single Piece

(1)	Manual Letters	\$0.2054	
	Average Letters	<u>\$0.1174</u>	
		\$0.0880	
	X proportion of letters	<u>19.3%</u>	\$0.0170
(2)	Flats	\$0.3243	
	Average Letters	<u>\$0.1174</u>	
		\$0.2069	
	X proportion of flats	<u>73.1%</u>	\$0.1512
(3)	Parcels	\$0.7408	
	Average Letter	<u>\$0.1174</u>	
		\$0.6234	
	X proportion of parcels	<u>7.6%</u>	\$0.0474
(4)	Total		\$0.2156

Presort

(1)	Manual Letters	\$0.1144	
	Average Letters	<u>\$0.0460</u>	
		\$0.0684	
	X proportion of letters	<u>18.3%</u>	\$0.0125
(2)	Flats	\$0.2087	
	Average Letters	<u>\$0.0460</u>	
		\$0.1627	
	X proportion of flats	<u>77.4%</u>	\$0.1259

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(3)	Parcels	\$0.2196	
	Average Letter	<u>\$0.0460</u>	
		\$0.1736	
	X proportion of parcels	<u>4.2%</u>	\$0.0073
(4)	Total		\$0.1457

RESPONSE:

Confirmed as to the volume inputs and the original cost inputs. The calculations differ slightly due to rounding. An errata in USPS LR-H-106 changes the cost inputs of presort flats from \$0.2087 to \$0.2074 and presort parcels from \$0.2196 to \$0.3789.

The new cost inputs and cost calculations are as follows:

Single Piece

(1)	Manual Letters	\$0.2054	
	Average Letters	<u>\$0.1174</u>	
		\$0.0880	
	X proportion of letters	<u>19.3%</u>	\$0.0169
(2)	Flats	\$0.3243	
	Average Letters	<u>\$0.1174</u>	
		\$0.2069	
	X proportion of flats	<u>73.1%</u>	\$0.1512
(3)	Parcels	\$0.7408	
	Average Letter	<u>\$0.1174</u>	
		\$0.6234	
	X proportion of parcels	<u>7.6%</u>	\$0.0477
(4)	Total		\$0.2159

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Presort

(1)	Manual Letters	\$0.1144	
	Average Letters	<u>\$0.0460</u>	
		\$0.0684	
	X proportion of letters	<u>18.3%</u>	\$0.0125
(2)	Flats	\$0.2074	
	Average Letters	<u>\$0.0460</u>	
		\$0.1614	
	X proportion of flats	<u>77.4%</u>	\$0.1250
(3)	Parcels	\$0.3789	
	Average Letter	<u>\$0.0460</u>	
		\$0.3329	
	X proportion of parcels	<u>4.2%</u>	\$0.0141
(4)	Total	\$0.1516	

NDMS/USPS-ST43-19.

During cross-examination, witness Fronk was asked how the cost of handling an average weight parcel of 4.3 ounces was representative of a parcel that weighs under one ounce. He stated "In and of itself I don't know that this particular number would be representative of a one-ounce parcel, but I believe there's a subtraction that takes place from a manual piece that more implicitly gets out a one-ounce parcel."

- a. Do you agree with his observation? Please explain how a subtraction of the manual letter mail processing costs causes the use of the cost of processing a 4.3 ounce parcel to be more representative of the cost of processing an under 1.0 ounce parcel.
- b. Do you believe the average mail processing unit cost of a 3.3 ounce flat is more than the average mail processing unit cost of an under 1.0 ounce flat? If so, how much more? Whether you agree or not, please explain the reasons for your conclusion.
- c. Do you believe the average mail processing unit cost of a 4.3 ounce parcel is more than the average mail processing unit cost of an under 1.0 ounce parcel? If so, how much more? Whether you agree or not, please explain the reasons for your conclusion.

RESPONSE:

- a. A better way to explain it might be that the average cost of a letter which is subtracted from the cost of nonstandard pieces (manual letters, flats and parcels) also includes the cost of letters over one ounce; however, the majority of letters are under one ounce so this is not likely to have a significant impact. In actuality, there is no evidence that a 4.3 ounce parcel would necessarily cost more than a one ounce parcel.
- b. Not necessarily. Please see response to NDMS/USPS-T32-51.
- c. Not necessarily. In fact, the mail processing cost is potentially less since a 4.3 ounce parcel is machinable on an SPBS but a parcel under 1.0 ounce is not. Please see responses to NDMS/USPS-ST43-6b and 9.

NDMS/USPS-ST43-20.

- a. Please confirm that, in LR-F-160, the average cost of a First-Class standard letter was 5.32 cents. If you do not confirm, please provide the correct number and the supporting calculations.
- b. Please confirm that, in LR-F-160, the average cost of a First-Class manually processed letter was 16.54 cents. If you do not confirm, please provide the correct number and the supporting calculations.
- c. Please confirm that, in LR-F-160, the cost of an average-weight First-Class flat was 15.79 cents. If you do not confirm, please provide the correct number and the supporting calculations.
- d. Please confirm that, in LR-F-160, the cost of an average-weight parcel was 19.21 cents. If you do not confirm, please provide the correct number and the supporting calculations.
- e. Please explain why the calculated mail processing cost of a flat that you use in your testimony is more than twice the corresponding cost developed in LR-F-160.
- f. Please explain why the calculated mail processing cost of a parcel that you use in your testimony is almost four times the corresponding cost developed in LR-F-160.

RESPONSE:

- a-d. These are the average modeled mail processing costs contained in LR-F-160.
- e-f. The mail processing costs of letters and flats are both at least twice the cost developed in LR-F-160 partially because the current methodology reflect the entire CRA mail processing costs and not just "modeled" costs. An increase in wage rates would also tend to increase mail processing costs. These reasons would also help explain the increase in parcel costs.

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NDMS/USPS-T32-2e. LR-H-112 states that "we now have Test Year Unit Cost by shape information available from library Reference H-106 and have used it." pp.1-2.

- e. LR-H-106 is an extensive document containing a large number of tables. Please provide specific references and cross references to all data in LR-H-106 that were used as input to the study in LR-H-112; i.e., cite the specific places in LR-H-112 where reliance is made on input from LR-H-106, and provide specific citations to the tables and data in LR-H-106.

RESPONSE

The reference for CRA units costs for letters, flats and parcels in LR-H-106 would be pages II-5, III-5 and IV-5 in LR-H-112, respectively. However it appears that LR-H-112 references an old file of LR-H-106. The correct numbers are listed in the table below.

An errata has been filed.

Letters	CRA Unit Cost
Single Piece	11.74
Presort	4.60
Flats	
Single Piece	32.43
Presort	20.87
IPPs	
Single Piece	74.08
Presort	21.96

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NDMS/USPS-T32-9. For the study contained in ER-R-112, please explain all efforts that were made to isolate and study the unit cost of pieces of nonstandard First-Class Mail that weighted one ounce or less.

RESPONSE

We were unable to isolate and study the unit cost of pieces of nonstandard First-Class Mail that weighed one ounce or less. Cost data are not easily available by weight increment. Both the benchmark average letter cost and the value that it subtracts from are based on average weight pieces. The PRC has accepted the rates based on this methodology in the past.

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NDMS/USPS-T32-10. Please refer to LR-H-112, Exhibit A. Explain how the formula shown under "B. Results" takes account of (or corrects for) extra mail processing cost caused by the additional weight of flats, parcels and letters that weigh more than one ounce.

RESPONSE

The formula shown under "B. Results" does not explicitly take account of the potential extra mail processing cost caused by the additional weight of flats, parcels and letters that weigh more than one ounce. It is important to note that the average letter cost subtracted from parcels, flats, and manual letters also is not adjusted for any impact related to weight.

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NDMS/USPS-T32-11. Is it your assumption that the unit cost data in LR-H-112, Exhibit A, isolate the extra cost of processing nonstandard First-Class Mail that weighs less than one ounce or less and does not conform to the size restrictions? If so please explain how you controlled for the effect of heavier weight pieces.

RESPONSE

The Library Reference implicitly assumes that the data is representative for pieces that weigh less than one ounce.

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NDMS/USPS-T32-15. Please explain all reasons why the cost of processing pieces that weigh between 2 and 11 ounces should influence the unit cost and surcharge that are applicable only to pieces that weigh on ounce or less.

RESPONSE

The data are not readily available to account for the cost of processing pieces that weigh between 2 and 11 ounces. We have data to show the mail processing cost of the average single piece and the average presort letter.

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NDMS/USPS-T32-17. Please refer to LR-H-112, Exhibit A.

- a. Are the unit costs shown in Exhibit A for Base Year 1996, or Test Year 1998?
- b. The Average Mail Processing Unit Costs at the top of Exhibit A are referenced to LR-H-106. Please provide a specific citation to the table and/or page in LR-H-106 where each of the unit costs shown in Exhibit A can be found; e.g., exactly where do (i) the unit cost for single piece letters, \$0.1172, (ii) the unit cost for single piece flats, \$0.3266, and (iii) the unit cost for single piece parcels, \$0.7457 appear in LR-H-106?

RESPONSE

- a. Test Year 1998.
- b. Please see response to NDMS/USPS-T32-2e. and repeated below.

The reference for CRA units costs for letters, flats and parcels in LR-H-106 would be pages II-5, III-5 and IV-5 in LR-H-112, respectively. However it appears that LR-H-112 references an old file of LR-H-106. The correct numbers are listed in the table below. An errata correcting LR-H-112 has been filed.

Letters	CRA Unit Cost
Single Piece	11.74
Presort	4.60
Flats	
Single Piece	32.43
Presort	20.87
IPPs	
Single Piece	74.08
Presort	21.96

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NDMS/USPS-T32-18c-e

- c. Is the average mail processing cost single-piece flats shown in LR-H-112, Exhibit A, (i.e., \$0.3266) for (i) all First-Class flats, (ii) all automatable flats only, (iii) nonstandard flats under one ounce only, or (iv) some other set of flats?
- d. Please specify the set or subset of flats that have an average cost of \$0.3266? That is, please specify the numerator and the denominator that resulted in an average cost of \$0.3266 for flats.
- e. When one ounce flats are processed on FSMs along with two-ounce flats, what is the additional mail processing cost for a two-ounce flat, as opposed to a one-ounce flat?

RESPONSE

- c. It is for (i) all First-Class flats.
- d. See LR-H-106.
- e. The additional mail processing cost for a two-ounce flat is unknown.

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MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS)**

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NDMS/USPS-T32-19. Please refer to LR-H-112; Exhibit B, pp. 1 and 6. The headings at the top of each page are identical; i.e., First-Class Nonautomation Presort Non-Machinable Mail. (i) Please explain how you determine which page is for presort and which page pertains to single piece nonpresort mail, and (ii) provide a library copy which correctly distinguishes between the two and identifies the latter.

RESPONSE

(i) The first cost summary page is for Presort and the second is for single piece.

Presort has a lower cost.

(ii) Corrected pages have been filed as errata today.

**RESPONSE OF UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS)**

7414

Revised 9/30/97

NDMS/USPS-T32-24. Please refer to LR-H-112, Exhibit A, "Nonstandard Surcharge Costs," at "Percent of Nonstandard Pieces by Shape," which shows that the share of First-Class nonstandard letters, flats, and parcels is, respectively, 58, 39, and 3 percent.

- a. Please provide the raw data from which these percentages are computed.
- b. Please identify the time period from which the raw data underlying these percentages were compiled or derived.
- c. The reference provided with the above percentages is to Docket No. R90-1, LR-F-160. Please confirm that where these percentages appear in LR-F-160, Docket No. R90-1, no raw data were provided for the Base Year in that case, but instead there is only a reference to Docket No. R78-1, USPS-T-2. If you do not confirm, please provide the raw data underlying the percentages in LR-F-160, Docket No. R90-1, and indicate the year to which they apply.
- d. On how many occasions since Docket No. R78-1 has the Postal Service updated the data which underlie the percentages applicable to nonstandard First-Class letters, flats, and parcels?

RESPONSE

- a. The raw data is presented in the Testimony of Charles R. Gingrich, USPS T-1, Exhibit USPS-2, from Docket No. R78-1 and is attached.
- b. The source of these data is a report dated July 13, 1972 entitled JITCO, "A Special Analysis of Nonstandard Physical Attributes, by Weight Increment, for First-Class and Airmail Letters and Cards."
- c. Confirmed.
- d. The Postal Service has not updated the report, "A Special Analysis of Nonstandard Physical Attributes, by Weight Increment, for First-Class and Airmail Letters and Cards," for the percentages applicable to nonstandard First-Class letters, flats, and parcels since Docket No. R78-1. Domestic RPW started collecting the shape of single-piece nonstandard pieces in 1994.

RESPONSE OF U.S. POSTAL SERVICE TO INTERROGATORIES OF NDMS
REDIRECTED FROM WITNESS FRONK

7415

NDMS/USPS-T32-29.

a. Your response to NDMS/USPS-T32-13 provides the data shown below for nonstandard First-Class letters. Please provide corresponding data for flats and parcels.

1996 Nonstandard Volume (millions)

	<u>Letters</u>	<u>Flats</u>	<u>Parcels</u>
Single Piece	325.6		
Presort	49.6		
Carrier Route	<u>8.0</u>		
Total	383.2		

- b. Please provide the source of the data for the volume of nonstandard letters, flats and parcels (e.g., ODIS).
- c. Please indicate how letters and flats are determined to be nonstandard when the raw data are collected. (i) Do data collectors only count as nonstandard those pieces that have postage for the nonstandard surcharge affixed? If not, (ii) are letters measured and the aspect ratio computed? (iii) Are flats weighed?
- d. Of the total volume of single-piece nonstandard First-Class mail which the Postal Service delivered in Base Year 1996, what percentage is estimated to have actually paid the nonstandard surcharge?

RESPONSE:

(a)-(b) The counts provided by witness Fronk in response to NDMS/USPS-T32 were total pieces (that is letters, flats, and parcels combined). These pieces were from the 1996 Billing Determinants (USPS LR H-145). The distribution of pieces by shape below is approximate and is based on 1996 mailing statement data, except for single-piece which is based on domestic RPW data.

1996 Nonstandard Volume (millions)

	<u>All</u>	<u>Letters</u>	<u>Flats</u>	<u>Parcels</u>
Single Piece	325.6	62.7	238.0	24.9
Presort	49.6	9.1	38.4	2.1
Carrier Route	<u>8.0</u>	<u>1.8</u>	<u>6.0</u>	<u>0.2</u>
Total	383.2	73.6	282.4	27.2

**RESPONSE OF UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS)**

NDMS/USPS-T32-30. The response to NDMS/USPS-T32-10 states that: [i]t is important to note that the average letter cost subtracted from parcels, flats, and manual letters also is not adjusted for any impact related to weight.

- a. What is the average weight of letters used to compute the average letter cost that is subtracted from parcels, flats and manual letters.
- b. For Base Year 1996 please provide the volume and distribution by one-ounce increments of (i) First-Class single-piece letters and (ii) First-Class presort letters.

RESPONSE

- a. The average weight of letters used to compute the average letter cost in LR-H-112 is equivalent to the average weight of single-piece letters and presort letters. Please see the response to NDMS/USPS-T32-8 (redirected to the Postal Service).
- b. Please see the response to MMA/USPS-T32-1.

RESPONSE OF U.S. POSTAL SERVICE TO INTERROGATORIES OF
NDMS REDIRECTED FROM WITNESS FRONK

NDMS/USPS-T32-49.

- a. Aside from the IOCS data, does the Postal Service have any other source data (e.g., MODS data, mail flow models, etc.) that could be used to study the cost of processing nonstandard pieces of First-Class Mail weigh less than one ounce?
- b. Unless your answer is an unqualified negative, please furnish a listing of all available data sources for conducting a study that focused on the cost of processing nonstandard pieces under one ounce.
- c. Indicate how each such data source might serve as the basis for or contribute to such a study.
- d. Assess the feasibility of conducting a study that focused on the cost of processing nonstandard pieces under one ounce from the theoretical and statistical point of view.

RESPONSE:

(a) No.

(b)-(c) N/A

(d) Please see USPS-ST-43, page 2 line 28 through page 3 line 8.

RESPONSE OF U.S. POSTAL SERVICE TO INTERROGATORIES OF
NDMS REDIRECTED FROM WITNESS FRONK

NDMS/USPS-T32-51. Please explain qualitatively how, in your view, shape affects the cost of handling First-Class Mail vis-a-vis the effect that weight has on the cost of handling it (all other things equal, of course).

RESPONSE:

The impact of shape on mail processing costs can differ for different weight increments. That is, the cost difference between letters and flats for pieces less than one ounce could be different than the cost difference between letters and flats which are 5 to 6 ounces as the following example illustrates. While higher weight generally leads to greater costs, the costs associated with especially light flats, which are flimsy, can be high, as indicated in witness Moden's response to NDMS/USPS-T32-18. To the degree flats which are less than one ounce have a tendency to be flimsy, and therefore non-machinable, the cost difference between letters and flats of this weight may be high. However, for letters and flats between 5 to 6 ounces, the differences may be less since letter mail of that weight is not automatable. Consequently, while the cost difference could generally increase with weight, it may conversely be highest for pieces that are less than one ounce. For detailed descriptions of the different processing streams and the costs associated with processing different shapes of First-Class mail, please see the testimonies of witnesses Hatfield (USPS-T-25, for letters) and Seckar (USPS-T-26, for flats).

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional designated written cross examination for the
3 witness?

4 [No response.]

5 CHAIRMAN GLEIMAN: If there is none, then we will
6 proceed with oral cross examination. The only party
7 remaining who has indicated an interest in cross examining
8 is Nashua District Mystic, Seattle. Does any other
9 participant have oral cross examination for the witness?

10 [No response.]

11 CHAIRMAN GLEIMAN: There doesn't appear to be
12 anyone else. If that is, in fact, the case, then Mr. Olson,
13 you may proceed when you're ready.

14 MR. OLSON: Yes, Mr. Chairman.

15 CROSS EXAMINATION

16 BY MR. OLSON:

17 Q Ms. Daniel, my name is Bill Olson representing
18 ^{Nashua,} ~~National~~ District, Mystic, ^{and} ~~in~~ Seattle, and welcome back.

19 I want to begin by asking you if you can help me
20 understand how the Postal Service's case with respect to the
21 first class non-standard surcharge has developed in this
22 case, and I just want to go back and review some of the
23 dates and events, because as I understand it, you were
24 involved in this Library Reference 112 from the beginning,
25 correct?

1 A Yes, sir.

2 Q Okay. The library reference was filed with the
3 case in chief on July 10, was it not?

4 A Yes, sir.

5 Q Okay. And it was referenced in a paragraph of
6 Witness Fronk's testimony, who was the first class rate
7 design witness, correct?

8 A I assume so, subject to check.

9 Q Okay.

10 A I didn't read his testimony.

11 Q Could you speak up, please?

12 Did you not provide input to Witness Fronk in his
13 preparation of his recommended first class non-standard
14 surcharge?

15 A Yes, sir.

16 Q But you didn't read what he wrote about the input
17 you provided him?

18 A No, sir.

19 Q Okay. Do you know if Witness Fronk was a cost
20 witness or a rate witness?

21 A He was a rate witness.

22 Q Okay. And do you know if any other Postal Service
23 witness, cost witness, provided -- or utilized Library
24 Reference 112?

25 A Not to my knowledge.

1 Q Okay. On August 18th -- and it's my understanding
2 Library Reference 112 was revised in two respects. Were you
3 involved with those revisions?

4 A Yes, sir.

5 Q Okay. And can you tell us what they were? I can
6 refresh your recollection on the -- I did look this up. So
7 the first had to do with apparently using an old file from
8 Library Reference 106, I believe?

9 A Right. I'm familiar with that.

10 Q And that caused some slight changes in the costs?

11 A Yes, sir.

12 Q Okay. And then there was a mislabelled table,
13 correct?

14 A Right. Yes, sir.

15 Q So that both tables reflected presort instead of
16 one being single piece and one being presort.

17 A That's correct.

18 Q Okay. Then -- I'm not going to ask you about the
19 legal issues here, but NDMS then asked a series of
20 interrogatories to Witness Fronk having to do with whether
21 he was sponsoring the library references, and eventually
22 that led to some motions practice and a Presiding Officer
23 ruling of September 17th giving the Postal Service a week to
24 provide a sponsor for Library Reference 112.

25 Does that sound familiar?

1 A Yes, sir.

2 Q Okay. The -- I'm sorry, I believe I misspoke. It
3 was Presiding Officer Ruling 20 on September 17th.

4 Okay. Then eight days later, on December 25th,
5 Mr. Tidwell filed a notice that you would be the sponsor of
6 Library Reference -- or the material in Library Reference
7 112, I believe he said, correct?

8 A Yes, sir.

9 Q Okay. And then on September 29, twelve days after
10 the Presiding Officer ruling giving seven days to file a
11 sponsor for Library Reference 112, you filed ST-43, correct?

12 A I don't remember the date, but yes, sir.

13 Q Okay. Why did you not just adopt Library
14 Reference 112 like some of the other witnesses did rather
15 than filing a new piece of testimony?

16 A Well, through the course of discovery, some more
17 information got put on the table, plus a lot of issues were
18 being raised about why we didn't control for one-ounce
19 parcel -- pieces that just weighed one ounce or less. So I
20 thought I could try to clarify that on the record in
21 testimony.

22 Q So your testimony ST-43 is significantly expanded
23 and changed from Library Reference 112, correct?

24 A I wouldn't say significantly expanded. It's --
25 all of 112 is in my testimony, plus Exhibit C and maybe

1 Section B or a section where I talk about the methodology.

2 Q Well, there was less than two pages of narrative
3 in Library Reference 112 and over four and a half pages in
4 your testimony, so I assume it's significantly expanded,
5 wouldn't you say?

6 A I added Section 2B, which was new data and data
7 limitations, to explain how the testimony had changed from
8 112.

9 Q Right. So there were -- is it fair to say there
10 were two kinds of changes, that first of all, you explained
11 the changes that were required through discovery, and
12 secondly you went into depth about the limitations on the
13 methodology for the first time?

14 A I wrote about a paragraph. That's still not in
15 depth.

16 Q Okay. But you explained the limitations of the
17 methodology for the first time, correct?

18 A I'm not sure if that was the first time. I know
19 that you had been asking questions about the methodology. I
20 may have gotten into the limitations during discovery.

21 Q Right. I don't mean discovery; I mean with
22 respect to comparing Library Reference 112 and your
23 testimony, none of the discussion of limitations was in
24 Library Reference 112, correct? That was new in your
25 testimony.

1 A Yes, sir.

2 Q Okay. In fact, in your testimony, on page 1,
3 lines 5 and 6, you say, however -- describing your testimony
4 -- it includes a discussion of limited cost data for
5 exclusively one-ounce pieces, and then has new language on
6 page 2 that says, lines 28 and 29, that says, one limitation
7 of the analysis presented here is our inability to determine
8 the cost differences of just one-ounce non-standard pieces.

9 Both of those are new, correct?

10 A Yes, sir.

11 Q Okay. On September 30, Mr. Tidwell filed a notice
12 that you were adopting certain institutional responses that
13 had been filed in response to NDMS discovery. I believe we
14 directed that to Mr. Fronk and the Postal Service filed
15 institutional responses and then you adopted some of them,
16 correct?

17 A Yes, sir.

18 Q Okay. And also on September 30, three of those
19 were revised, 2E, 17 and 24. They were revised the same day
20 that you adopted them. Do you recall those revisions?

21 A Can you repeat which ones were revised?

22 Q Sure, 2-E, 17, and 24.

23 A Okay. And the question was?

24 Q Is it not true that all of those were revised on
25 September 30 before you adopted them or contemporaneously

1 with you adopting them?

2 A Yes, sir.

3 Q Okay. On October 8 I cross-examined Witness
4 Fronk. Were you here in the room that day?

5 A No, sir.

6 Q Okay. Did you have a chance to read that cross-
7 examination?

8 A Yes, sir.

9 Q Okay. And then on October 23 you were originally
10 going to testify but then you and Witness McGrane were moved
11 over to this week; correct?

12 A Right.

13 Q Okay. After the presiding officer permitted the
14 filing of library references on discovery regarding the new
15 library references we filed a number of interrogatories, I
16 believe it was one set on November 5, Interrogatories 1
17 through 20 with the responses due on the 12th, and then on
18 the 14th you responded to most of those; correct?

19 A Yes, sir.

20 Q And then on the 20th, eight days late, you
21 responded to certain other ones; correct?

22 A Yes, sir.

23 Q And on the 20th also the Postal Service responded
24 to some others; correct?

25 A Yes, sir.

1 Q And then today there are some more changes in your
2 testimony that you described.

3 A Yes, sir.

4 Q Okay. Let's just take a look at those real quick,
5 because I'm not sure I understood where they were from. You
6 said -- did you say they were -- they arose out of an NDMS
7 interrogatory?

8 A No, sir; they arose from an errata Witness Smith
9 filed to what was formerly Library Reference 106. I believe
10 he filed his errata on November 21.

11 Q And what was the substance of that errata? You
12 have to forgive me, I totally missed it.

13 A Presort flats and presort parcels, the cost by
14 shape changed slightly.

15 Q Okay. Well, would you take a look at the number
16 that you just read off a few moments ago on page 1 of 1 on
17 Exhibit A? Didn't parcels change from 21 cents to 37 cents?

18 A Yes, sir; that would be more than slightly.

19 Q That would be more than slightly. Do you know the
20 reason for those changes?

21 A You could ask him, but I believe he was using an
22 older file for Library Reference 126. ^{It probably said} ~~Probably set it in~~
23 the filing.

24 Q An older file on Library Reference 126 did you
25 say?

1 A Yes, that's what I said. I would have to look at
2 the filing. Maybe I have it here.

3 MR. TIDWELL: There is an explanation of the basis
4 for the change to 106 provided in conjunction with that
5 change filed either November 20 or 21. If there are
6 questions about the nature of the change, it would seem more
7 appropriate to direct those questions to the witness whose
8 library reference and testimony reflect those changes.

9 BY MR. OLSON:

10 Q Was it 126 you referred to, Ms. Daniel?

11 A No, I referred to 106. I just think I remember
12 that the reason for the change in 106 had to do with linking
13 or using numbers from 126.

14 Q Okay. And the bottom line of those revisions
15 originating with Witness Smith was that the presort cost
16 that emanates out of this library reference went up from
17 14-1/2 cents to something over 15 cents; correct?

18 A That was the result on the nonstandard surcharge
19 using the volumes in Exhibit C.

20 Q Well, using the changes that Witness Smith
21 recommended and -- or made and your methodology, it resulted
22 in a half-a-cent increase in the cost of presort
23 nonstandard; correct?

24 A Yes, sir.

25 Q Okay. Let me just go back to the change on August

1 18th for a moment, where you made the two revisions to
2 Library Reference 112.

3 The first one had to do with using an old file
4 also, correct?

5 A Yes, sir.

6 Q And that came out because some questions had been
7 asked to you -- or to Witness Fronk that revealed the use of
8 the old file?

9 A Right.

10 Q Okay, and as a matter of fact, isn't the question
11 that resulted from that coming out, the fact that we could
12 not identify the source of the numbers, in other words there
13 was no page reference in Library Reference 106, just a
14 reference to the Library Reference, and we couldn't find
15 those numbers at all and the response gave us the reference
16 but then told us the numbers were wrong, correct?

17 A Yes, sir.

18 Q In your testimony on page 1 and footnote 1, you
19 talk about the change that you made on September 29 when you
20 filed your testimony with respect to the mix of mail, and
21 you say, "New data regarding the percent shares of
22 nonstandard letters, flats and parcels were provided by
23 Witness Fronk in response to NDMS/USPS-T-32-29.

24 Isn't it correct that that was not a response from
25 Witness Fronk but rather from the Postal Service, just for

1 accuracy?

2 A Yes. Yes, sir, that's correct. It was a Fronk
3 question that got redirected to the Postal Service.

4 Q So with that change it is more understandable
5 then, your response, because I looked up 29 and hadn't
6 designated it for Fronk and couldn't figure it out why, but
7 it was a Postal Service response so we did request it be
8 designated there.

9 Would you consider those revisions significant,
10 the revisions in the mix?

11 A Yes, sir.

12 Q With respect to single piece, single piece
13 letters, can you tell me how the mix changed?

14 A The mix I used originally in Library Reference 112
15 in Exhibit A assumed that 58 percent of nonstandard pieces
16 were letters and Exhibit C, using the new data from RPW, the
17 percents of nonstandard pieces that were letters, single
18 pieces, 19 percent.

19 Q So it went from 58 to 19 percent. Okay, you just
20 used the word -- you said you assumed that it was 58
21 percent.

22 Do you mean you just assumed it?

23 A The numbers~~s~~ that I used from previous dockets was
24 58 percent.

25 Q Well, you say you assumed it, which leads me to

1 believe there is no source for the information. I mean was
2 there not a source for that information, for that 58 percent
3 figure?

4 A No. There is a source.

5 Q And what is that source?

6 A The most recent source was Library Reference
7 ~~LR~~-160, and then that referred you back to docket R-78.

8 Q Okay, and where did the numbers come from that
9 were used in R-78?

10 A A special study that was done by JITCO in 1972.

11 Q Okay -- which may have antedated the creation of
12 the Postal Service.

13 A Well, not when the report was done. I'm not sure
14 when they were actually collecting the data.

15 Q When did it come to your attention that the data
16 were that stale?

17 A After you asked to go get the actual source of the
18 data. I knew they came from R-78 but I didn't know that the
19 source in R-78 was a special study done in 1972.

20 Q Okay. Well, you knew it was pre-'78, correct?

21 A Yes, sir.

22 Q And that didn't cause you to want to update that
23 particular mix or to think about updating it?

24 A If I had known of a way, if I had know that RPW
25 was collecting that information or that we had a current

1 source, I would have -- and later tried to update those
2 numbers, I didn't know of a way to do a special study.

3 Q Were you the only person working on the Library
4 Reference 112?

5 A No.

6 Q Did you work with people who were your
7 subordinates or your superiors on that project or both?

8 A Just peers.

9 Q Peers. Okay. When you were working on the study,
10 did you discuss with your peers the fact that this was old
11 data and you wish you had better data to work with and
12 looked around for better data and asked the right questions
13 as to whether it existed?

14 A I obviously didn't ask the right questions of the
15 right people, but --

16 Q But you did ask? You said this is stale data --
17 we shouldn't be using it -- and I wish we had better data,
18 but no one you spoke with knew of the better data? Is that
19 your testimony?

20 A I noted that in R-90 they used data from R-78 and
21 I noted that I guess I would have to use it again this time,
22 because I knew of no other data.

23 Q Did you actually discuss that with other people in
24 the Postal Service?

25 A I don't remember exact conversations that I had

1 with people.

2 Q Was the fact that the data were from 1972 revealed
3 in Library Reference 112?

4 A No, I cited R-90.

5 Q So, you knew there was a problem with stale data
6 but didn't put it expressly into the library reference, your
7 concern.

8 A I knew I was using the data that they used in
9 R-90.

10 Q And you knew that data came from '78.

11 A Yes, sir.

12 Q Okay. And eventually, you found out it originated
13 in a study from 1972.

14 A Yes, sir.

15 Q But I guess I'm just asking why you didn't put
16 that down as a bit of useful information for someone who
17 would be reading the library reference.

18 A I don't -- I just -- I documented where I found
19 the number from.

20 Q When you were given Library Reference 112 to work
21 on, you did update the manual letter proxy cost that's used
22 in that study, correct?

23 A Yes, sir.

24 Q Let me ask you, when the project was given to you
25 to work on Library Reference 112, what were you asked to do?

1 A To update the non-standard surcharge library
2 reference.

3 Q With respect to anything that needed updating? Is
4 that what you mean? Just to update it generally.

5 A Yes, sir.

6 Q Okay. In other words, you weren't asked to just
7 update the manual letter cost.

8 A No, sir.

9 Q Okay.

10 Let's talk about those changes to library
11 references -- I'm sorry -- to the institutional responses to
12 2E, 17, and 24 that were made the same day you adopted them.
13 2E, as I recall, had to do with just mislabeling the library
14 references that you were citing, but -- isn't that correct?

15 A Yes, sir.

16 Q Okay. What were 17 and 24? What were the
17 changes? Do you recall?

18 A 17, I just repeated the answer for 2E, and so, the
19 same change that I made just in the language of 2E was made
20 in 17, and 24, I added the sentence that domestic RPW had
21 started collecting the shape data of single piece,
22 non-standard pieces ⁱⁿ ~~and~~ 1994.

23 Q Had you -- I believe you reported in your response
24 to our interrogatory the shape mix of the mail in fiscal
25 '96. Isn't that what you base your library reference on,

1 fiscal '96 data?

2 A That's the data that I used for Exhibit C. It
3 wasn't in the original library reference.

4 Q Right. Did you have occasion to look at the data
5 from fiscal '94 or '95 in terms of the mix?

6 A No. I believe Witness Fronk or the Postal
7 Service, when it got directed to him, was asked to go back
8 and look at some previous years, and he provided that
9 information, or the Postal Service provided that
10 information.

11 Q Other than 1976. Is that what you're saying,
12 years other than 1976?

13 MR. TIDWELL: '76 or '96?

14 MR. OLSON: I'm sorry, 1996. Thank you for the
15 correction.

16 THE WITNESS: Right. I believe he was asked to
17 provide the volume by shape for '94 and '95.

18 BY MR. OLSON:

19 Q Have you had occasion to review those, the mix in
20 those other years?

21 A I glanced at it.

22 Q Do you recall where that response is?

23 A I'll find out for you. NDMS-USPS-T-32-44.

24 Q While I try to find that, can you tell me, does
25 that report, then, on the mix in fiscal '94 and '95?

1 A Yes, sir.

2 Q Okay. Well, I'll have to find that later. I have
3 the Postal Service responses separated out.

4 Let's go to the issue of what the first class
5 non-standard surcharge applies to, and can you give me,
6 again, a quick summary of what it applies to, maybe without
7 looking? The reason is this is a very complex matter, and
8 I'm going to get into a reason as to why that's significant.
9 Do you recall off the top of your head?

10 A The non-standard surcharge applies to both single
11 piece and pre-sort -- there's a separate rate for each one
12 -- pieces that are not defined as a standard letter, so that
13 would be pieces that are letter-shaped but have a poor
14 aspect ratio, flats and parcels that are all one ounce or
15 less.

16 Q Okay. What is a poor aspect ratio?

17 A It doesn't fall within the -- it's too square or
18 maybe too long, but there's 1.3 to 2.5 -- 1 to 1.3 and 1 to
19 2.5 -- I'm not confident of the numbers without looking, but
20 it's just that the -- I know too square would be a problem.

21 Q Do you recall the dimensions that it cannot exceed
22 in terms of length and height and thickness for a letter?

23 A Not off the top of my head.

24 Q Let me ask you, how do you think a postal customer
25 would know which letters are subject to the surcharge,

1 especially if you can't think of it off the top of your
2 head?

3 A I guess, you know, if you're mailing a flat size
4 piece or a parcel and it's light-weight, that it's going to
5 require extra postage. Also, some of the greeting cards
6 will even have on the greeting card, this will require extra
7 postage.

8 So, I guess if I was suspicious that it might be
9 odd size, I would just take it to the Postal Service, to the
10 window, and ask.

11 Q Do you know how they determine it?

12 A They probably know the DMM a little better than I
13 do.

14 Q Do you know if the Postal Service has studied the
15 extent to which customers know about the non-standard
16 surcharge?

17 A I don't know.

18 Q You say in your testimony that you have had
19 occasion -- let's see if I can just read the sentence.

20 It says, I have spent considerable time observing
21 mail processing in processing and distribution centers, ~~both~~ *bulk*
22 mail centers and carrier stations. I have also consulted
23 extensively with postal headquarters and field operations
24 and cost personnel on various operational and cost matters.

25 In your observing mail processing at processing

1 and distribution centers and ^{BMCs}~~DMCs~~ and carrier stations, how
2 do clerks and mail handlers and carriers or anyone -- how do
3 they distinguish standard from non-standard letters and
4 flats and parcels?

5 A Well, I've seen the advanced facer canceller
6 machine cull out the pieces that weren't letter shapes.
7 I've seen it cull out the flat-shaped pieces or parcels.

8 I haven't -- I don't remember seeing a
9 non-standard piece or talking to the carriers or whomever
10 about how they deal with non-standard pieces, but I believe
11 -- maybe you asked Pafford, and he might have talked about
12 how the data collectors dealt with it, or Moden -- I've read
13 some interrogatory responses where Witness Moden talks about
14 how they would deal with --

15 Q No, I'm not talking about data collection. I'm
16 talking about just operations, day to day, that you've
17 observed for considerable time, as your testimony says, and
18 I just wondered how clerks and carriers would know whether a
19 letter was non-standard, subject to the first-class
20 non-standard surcharge.

21 A Well, I'm not sure a mail processing clerk on the
22 work room floor would know or care. They would be working
23 it manually. It wouldn't fit -- they might pull it out so
24 it didn't jam the automated equipment.

25 Q Okay. Let's talk about that. Where is it -- I'm

1 asking you for your observations now, because you say you
2 have considerable time observing this. Where do you observe
3 clerks culling out all first-class non-standard mail?

4 A Like I said, it would be culled out at the
5 advanced facer canceller.

6 Q Okay. That's mechanically by the machine, are you
7 saying?

8 A Yes, sir.

9 Q How does that work? That's new with the advanced
10 facer canceller?

11 A No. This culling system has been around for a
12 while. It's the big wheel that spins, and you have to be
13 thin enough to fit under it, so that would kick out the
14 parcels or thicker pieces.

15 I'm not really sure, engineering-wise, how it
16 kicks out the flats, but it knows to kick out flats.

17 Q In other words, it will kick out a flat that's
18 9/10ths of an ounce and leave in a flat that's 1.1 ounces.

19 A No, it would kick out all flats, which would
20 include the non-standard one-ounce-or-less pieces.

21 Q Okay. So, how would non-standard flats be
22 processed differently than standard flats?

23 A Well, it would depend on their machinability,
24 their ability to meet the rigidity standards.

25 Q But with respect to the advanced facer canceller,

1 they would be treated the same.

2 A Right.

3 Q Okay. And then where -- okay. You're telling me
4 the advanced facer canceller pushes out all the flats into
5 one area, correct?

6 A All the flats, all the parcels.

7 Q Okay. And then are the flats gathered up and
8 processed as flats and the parcels gathered up and processed
9 as parcels? Help me explain -- help me understand how this
10 works.

11 A Yes, I assume so. In the time that I have spent
12 in the field, my concentration has been more on parcel post
13 and standard A letters, the subject of my T-29 work. I
14 haven't spent a whole lot of time observing single piece
15 flats all the way through the system. I have seen it, and I
16 have seen them checking and cancelling by hand for the
17 flats. But I am ^{not} sure at what point they make the
18 determination that a flat would be machineable or not
19 machineable and choose how to process that.

20 Q How many times have you seen flats hand-cancelled,
21 actually seen it?

22 A Several. When we are at the cancelling station,
23 they have had the -- some of the culled mail. Sometimes it
24 is letters, sometimes it is flats, but I have seen them
25 marking it up or whatever, cancelling it.

1 Q So you are saying, it is your testimony that you
2 have seen clerks take flats and separate them between --
3 between ones that weigh under an ounce and ones that weigh
4 over an ounce?

5 A Oh, no, sir.

6 Q You have not seen that?

7 A No, sir.

8 Q Okay. How about parcels, have you seen them
9 separate parcels that are under one ounce and over one
10 ounce?

11 A No, sir.

12 Q Okay. I actually found something that might be
13 useful. I don't know if you have seen these, but somewhere
14 along the way, someone gave me a plastic guide that is used
15 somewhere. I have only seen -- the only one I have ever
16 seen is the one that I was given, but it is a guide for
17 determining whether a piece of mail meets certain standards.
18 Have you ever seen this plastic guide?

19 A Yes, sir.

20 Q Okay. Do you have one?

21 A Oh, not with me.

22 Q No. Do you have one at your office?

23 A Yes, sir.

24 Q Okay. And can you describe them for us?

25 A Well, a long -- not a long time ago, but when they

1 first did the mail characteristics study, the one that we
2 used in reclass, there -- a guide came with that for
3 training material, and I had a copy of it at that ~~type~~^{time}, at
4 that point, and it was about the size of a piece of paper,
5 maybe a little bit bigger, and it was completely clear and
6 it had some markings in it.

7 I asked for a new one that -- to consider using
8 with our new mail characteristics study, and it had some
9 yellow in the corner to mark off where the aspect ratio
10 would be poor. So I have seen two different kinds.

11 Q Have you ever seen a clerk use one of those on the
12 floor?

13 A No, sir.

14 Q Okay. Have you ever seen anyone use it other than
15 people at Headquarters?

16 A No, sir.

17 Q Okay. Let me show you the one I have and see if
18 it^{is} like the one you have. I'll bring it over to you. I
19 also want to give you a couple of envelopes. I went back to
20 take a look at this issue of the aspect ratio and what was
21 within and without spec, and I went back to -- to the two
22 times that I have moved my law firm and the announcements
23 that we put out, and I found two envelopes. And I wonder if
24 you might take this and see if you can help us determine
25 whether these are standard or non-standard cards.

1 MR. TIDWELL: Mr. Chairman, the Postal Service is
2 going to object to this. They don't see what purpose it is
3 going to serve. We have got something that is not going to
4 be evident to the record. The witness is being asked to
5 hold up an envelope and indicate whether or not it is
6 non-standard. She is not a -- a classification specialist.
7 She doesn't work with this template every day.

8 We have had operations witnesses who have been
9 over here to testify who are more familiar with how these
10 matters are handled out in the field, and I don't know what
11 purpose it serves by having this witness take envelopes that
12 come out of Mr. Olson's practice and determine whether they
13 are non-standard.

14 CHAIRMAN GLEIMAN: I think that he objected on the
15 grounds of relevance. So tell us, Mr. Olson, how this is
16 relevant?

17 MR. OLSON: Ms. Daniel would like to ask the
18 Commission to believe that the -- there is a very
19 substantial cost difference of handling a standard and
20 non-standard piece, standard and non-standard letter. And
21 this is an illustration of two different envelopes, which I
22 happen to have found last night, as to whether they will be
23 subject to the non-standard surcharge.

24 And I would like to then ask her from her
25 experience, and her considerable time observing mail

1 processing, how these pieces are handled, and whether they
2 are handled differently.

3 MR. TIDWELL: Well, I think she has given an
4 expose on her -- on her, the limits of her experience in
5 observing the processing of non-standard pieces. She has
6 done a cost study which speaks to those costs in a general
7 fashion. I don't know that she could illuminate, offer much
8 illumination on the handling of these two envelopes.

9 CHAIRMAN GLEIMAN: Thank you, Mr. Tidwell. I am
10 going to overrule the objection, and to the extent that you
11 find it useful for purposes of the record, Mr. Tidwell, we
12 will have Mr. Olson identify more clearly what the template
13 is that he is using. Usually there is some type of marking
14 on the bottom corner or something like that.

15 And, also, to the extent that there is a question
16 about the envelopes, I am going to ask one of the staff who
17 might be in the audience to go get us a ruler so that we can
18 measure those envelopes, and then the measurements will be a
19 matter of record, too, and we will be able to have -- make
20 some sense out of this bit of cross-examination.

21 Mr. Olson, if you could identify the template to
22 the extent that there is some identifiable marking on there?

23 MR. OLSON: Yes. The template across the top says
24 "Letter Size Mail Dimensional Standards Template" and you're
25 right, in the bottom right-hand corner it says "Notice

1 3A/August 1988."

2 CHAIRMAN GLEIMAN: Well, if you would proceed
3 then, and we'll obtain a ruler in the meantime and we'll
4 have the dimensions of the envelopes that you have in your
5 hand read into the record.

6 MR. TIDWELL: Do we know that this is the most
7 up-to-date template? It's an August '88 template.

8 MR. OLSON: I am making no representations that
9 this is a current template. I have no idea.

10 THE WITNESS: There is a more current template and
11 I haven't used -- never seen this one before, but --

12 BY MR. OLSON:

13 Q Is that substantially similar to the current
14 template?

15 A It is similar. The one I am used to dealing with
16 ~~this~~ is clear where you can see through it and --

17 Q Thank you. Okay. What I would like you to do is
18 describe for us how the aspect ratio issue is determined.

19 Can you describe basically what it says there
20 you're supposed to put the letter onto the form in a
21 particular way, onto the template in a particular way?

22 A Yes. It's my understanding that you place the
23 letter in the lower left corner where there is a dark green
24 line and then if the upper right falls in the shaded area,
25 then it would be a standard size.

1 Q Okay. There are two envelopes there and with
2 respect to either one, could you just hold one up and give
3 us your best quick judgment, knowing you are not a -- don't
4 work with the RCSC and such, but your best guess as to
5 whether either one of them is standard or nonstandard?

6 A Well, it appears they are quite borderline but the
7 light white one appears to fall in the shaded area, which
8 would make it standard, and the more creamy-colored one -- I
9 think it is falling about on the line, maybe just outside
10 the shaded area.

11 Q That is what I got. One looked like it was just
12 inside and one looked like it was just outside.

13 CHAIRMAN GLEIMAN: Before we go any further, could
14 you please take the lighter color and creamier color
15 envelopes and identify them by size? Could you just give
16 us --

17 THE WITNESS: Okay. The lighter one now has an
18 "A" on it.

19 CHAIRMAN GLEIMAN: Okay.

20 THE WITNESS: It appears to be about 5 3/4ths
21 inches long, about 4 3/8ths inches high.

22 CHAIRMAN GLEIMAN: Okay, and could you tell us
23 about envelope Number B?

24 THE WITNESS: It also appears to be about 5 3/4ths
25 inches long, 4 and call it 7/16ths high, 4 7/15ths high and

1 I guess I can be just a little more precise.

2 The length would be -- should probably call it
3 11/16ths -- 5 and 11/16ths long and 4 7/16th high.

4 CHAIRMAN GLEIMAN: That was B?

5 THE WITNESS: That was B.

6 A was falling -- A is close enough to 5 3/4ths.

7 CHAIRMAN GLEIMAN: Thank you. Fortunately, Mr.
8 Olson has only moved his law practice twice.

9 [Laughter.]

10 MR. OLSON: Well, it is a sufficient number of
11 times to demonstrate the point, fortunately.

12 BY MR. OLSON:

13 Q But let me ask you from your observations in
14 observing mail processing, would you have a sense that one
15 of those letters would be handled mechanically and one would
16 be handled manually?

17 A Well, actually, they probably are not going to be
18 handled mechanically because we are phasing out the LSMs, so
19 the choice would be between automation and manual.

20 Q Do you have an opinion as to -- from your
21 observations as to whether those would be handled on
22 automation or handled manually?

23 A From what I have read, the closer that pieces get
24 to being more square they do tend to cause more problems
25 with the automated equipment, so though they may try to run

1 both of these pieces, it is possible that one may have a
2 greater tendency to cause problems, jams or whatnot.

3 Q Okay. Let's talk about culling.

4 Would you have reason to believe that the one that
5 doesn't, the nonstandard example there would be culled out
6 manually from the system?

7 A No. What I suspect would happen is that the
8 advanced facer ~~culler~~^{canceller} that I was talking about I doubt would
9 cull either of these pieces out. It mainly tends to cull
10 out the larger pieces.

11 This would be up to a mail clerk to decided based
12 on his experience, which would be considerably more than
13 mine, whether pieces of this size tend to cause jams or not
14 and since these are both so borderline, both may go through
15 or he pull both of them, but somebody who deals with this
16 more often would have a better feel for whether this could
17 be successfully sorted in automation.

18 Q Okay, now you raise an interesting point because
19 you talk about the malprocessing that might occur of the
20 particular letter, and yet your testimony does not base the
21 surcharge on the amount of malprocessing that could occur of
22 a nonstandard shaped piece, correct?

23 A Correct.

24 Q In fact, doesn't it assume that all nonstandard
25 letters are manually handled?

1 A Yes, sir.

2 Q And when was the assumption that or that
3 particular method adopted by the Postal Service to support
4 the nonstandard surcharge?

5 A Well, I know that the formula that subtracts the
6 cost of a manual ~~flat~~^{letter} from an average ~~flat~~^{letter} was used in R-90
7 and I believe you can trace it back a little further.

8 I don't remember exactly but even in R-78 I
9 believe that that was the assumption that the Postal Service
10 made for its cost study was to compare the cost of manual
11 processing to that of more of an average letter.

12 Q To your knowledge, have you or anyone else in the
13 Postal Service re-examined the capabilities of Postal
14 Service mechanization or automation to handle nonstandard
15 pieces as it might have changed since the '70s?

16 A No. It was my understanding that the definitions
17 in the DMM apply to the machinability of the piece and that
18 the machines were designed to handle pieces ~~to find a~~ ^{designed as}
19 standard and not designed to handle the nonstandard size
20 pieces.

21 Q So it was your understanding that in perhaps 20
22 years there had been no operational change in the dimensions
23 of what would be considered a nonstandard piece?

24 A Exactly. It's my understanding that the
25 definition has been constant and they designed the machines

1 around that specification.

2 Q Have you ever studied that assumption? Have you
3 ever undertaken to study the capabilities of letter, flat,
4 or parcel mechanization or automation to see whether it
5 could routinely handle pieces that are described by you as
6 nonstandard?

7 A No. I spoke with the operations folks and asked
8 if this was still the definition of machinability, and was
9 told that it was.

10 Q Did you ask about capability of particular more
11 modern equipment in terms of whether it could handle
12 nonstandard pieces?

13 Did you discuss, for example, for flats the
14 FSM-881 or the FSM-1000?

15 A Well, it is my understanding that what we are
16 talking about is machinability by letter automation
17 equipment.

18 To the extent that the 881 or the FSM-1000 could
19 process one ounce flats, then that would be included in the
20 cost in 106.

21 To the extent that flats do enjoy -- the one ounce
22 standard flats do enjoy some form of mechanical processing,
23 that cost would be included in the cost of the average flat.

24 Q Right, but I am not talking about the cost of
25 processing.

1 I am talking about the determination as to what is
2 standard and what is nonstandard.

3 A Right.

4 Q And I am asking if you have re-examined whether
5 the definition might have changed in the last 20 years as to
6 what should be considered nonstandard in the wake of a whole
7 revolution of mechanization and automation equipment?

8 A Yes, sir. I did talk to Operations to confirm
9 that the definition of a standard or machineable letter has
10 not changed so though it may be a machineable flat, it still
11 cannot be processed by the letter automation equipment.

12 Q Okay, so you did not make an inquiry as to flats
13 and parcels but rather as to letters, is that what you are
14 saying?

15 A I confirmed what was considered a standard
16 machineable letter.

17 Q Is it fair to say that Library Reference 112
18 neither isolates nor studies the unit cost of pieces of
19 nonstandard First Class mail?

20 A Library Reference 112 uses the formula and the
21 methodology used and approved in R-90 which approximates the
22 additional cost of processing nonstandard pieces.

23 Q Okay. So it is effort to approximate it by the
24 use of proxies, is it not, rather than an effort to study
25 the actual costs of handling nonstandard First Class mail?

1 A That's correct.

2 Q Okay. Had it occurred to you that it might be
3 possible to do a cost study of the cost of handling
4 under-one-ounce letters, flats, and parcels?

5 A No, sir, because it would be -- I would imagine it
6 would be difficult to get -- to isolate it to find them in
7 the mail stream and to get a really good understanding of
8 the total costs that would be involved with processing
9 nonstandard one-ounce pieces, and that the approach used in
10 the past was a valid approach.

11 Q And you believe it to be a valid approach?

12 A I believe it to be reasonable; yes, sir.

13 Q Is there a distinction between reasonable and
14 valid?

15 A No, sir.

16 Q Okay. So you -- in other words you thought that
17 another -- that to study the cost of an under-one-ounce
18 nonstandard piece directly would be too difficult to do, and
19 therefore since there was a valid approximation of that cost
20 that there was no reason to do it. Is it there was no
21 reason to do it, or that it was too difficult to do?

22 A I'm not sure I could really make that distinction.
23 I believe that it would be too difficult and not needed
24 because the approach that we have that we've been using is
25 reasonable.

1 Q Are you aware of the fact that the Commission has
2 criticized that approach?

3 A I am now.

4 Q Okay. And when did the Commission criticize that
5 approach?

6 A R-78~~7~~.

7 Q And when you say you are now, you mean you weren't
8 aware of it when you filed the -- when you worked on Library
9 Reference 112 or when you worked on your testimony or both?

10 A I wasn't aware until you put the language in an
11 interrogatory question. I had just gone back to R-90 and
12 saw that they deemed it reasonable then.

13 Q Let me ask you to refer to your response to
14 NDMS/USPS-ST-43-5. And there is where we quote from the
15 opinion-recommended decision of the Commission in Docket No.
16 R-78-1 at page 35 in their critique of -- part of the
17 critique of the methodology that had been used by the Postal
18 Service. Do you see that?

19 A Yes, sir.

20 Q Okay. And there -- and this gets to what we were
21 discussing before about what you measure, and let me first
22 say that -- were you aware of the fact that this
23 interrogatory response misstates the interrogatory and
24 misstates the opinion-recommended decision?

25 A I believe when I was reading that last night that

1 I thought the word should have been "malprocessing" instead
2 of mail processing, but at the time when I read it, I
3 thought there was a typo -- the first time I read the
4 Commission decision I thought that the typo was in the
5 Commission decision and that this was right, but then when I
6 read the Commission decision again I realized that they did
7 mean to say malprocessing.

8 Q I thought this was probably one of the things a
9 spell checker does automatically, but would it -- could we
10 not confirm that in your -- that the -- and perhaps you may
11 want to do this during a break to make a pen-and-ink change
12 in the packet of discovery to indicate that in the first,
13 second, third, fourth, fifth, sixth lines and 13th line that
14 the term "malprocessing" was erroneously typed as mail
15 processing? Is that correct?

16 A I can pull the decision ^{and} check it.

17 MR. TIDWELL: If the designation packages have
18 already gone out it is something -- and they're going to
19 appear in the transcript that arrives tomorrow, this is
20 something the Postal Service can take care of through
21 transcript corrections.

22 CHAIRMAN GLEIMAN: I think Mr. Tidwell's approach
23 is the one that's more generally accepted.

24 MR. OLSON: I have never done a transcript
25 correction of a response to an interrogatory, but there's no

1 reason we couldn't do that.

2 CHAIRMAN GLEIMAN: Well, in point of fact, the
3 substances of the changes -- the change will already be a
4 matter of record as a consequence of your cross-examination,
5 so there really doesn't need to be a change, I don't
6 believe, in the interrogatory response per se. That's what
7 oral is, in a sense, the followup on the written cross. So
8 at least in this little case it's served its purpose.

9 THE WITNESS: I'm having a hard time finding it in
10 my copy.

11 MR. TIDWELL: The witness might be willing to
12 accept it subject to check.

13 THE WITNESS: Sure. I'll accept these, that the
14 three places you have marked where it says mail processing
15 should be malprocessing and I'll check it later.

16 BY MR. OLSON:

17 Q Okay. Okay. With that change, let's just go over
18 what the Commission said and ask you if you can comment on
19 it. It says, "The essence of our determination to classify
20 poor aspect ratio letters as non-standard in Docket No. MC
21 -- MC73-1 was not founded upon the fact that the poor aspect
22 ratio letters are manually processed, as the Postal Service
23 predicates its analysis upon, but, instead, because poor
24 aspect ratio letters cause excessive malprocessing." Do you
25 see that?

1 A Yes, sir.

2 Q Okay. Do you see -- strike that. Let me ask you
3 this. Is it not true that the Postal Service continues to
4 predicate its analysis upon the assumption that all poor
5 aspect ratio letters are manually processed?

6 A Yes, sir. Because I have checked with operations
7 and they have defined this as non-machineable. So we don't
8 have mechanization that it could fall back to, because we
9 are eliminating the LSMs, so the choices would be automation
10 or manual.

11 Q Let me get to the heart of this. The criticism,
12 the essence of the criticism is that the Commission says
13 that they will agree that poor aspect ratio letters could be
14 non-standard because they were malprocessed on existing
15 letter sorting machines, presumably. This is back in the
16 '70s, correct?

17 A Yes, sir.

18 Q Okay. And they criticized the Postal Service for
19 not having studied the degree to which those letters are
20 malprocessed, correct?

21 A I'm sorry, can you repeat that?

22 Q Yes. They criticized the Postal Service for not
23 having studied the degree to which those poor aspect ratio
24 letters are malprocessed, correct?

25 A Or they criticized that we ^{haven't} ~~have~~ quantified the

1 cost associated with that malprocessing?

2 Q Yes.

3 A Okay.

4 Q Yes. Is that criticism still valid today, of your
5 methodology?

6 A Well, probably we should be talking to Witness
7 Moden about -- about the malprocessing and whether they are
8 running these borderline pieces on the automation equipment,
9 or whether they are trying, as best they can, to pull the
10 non-standard pieces and work them manually, because of the
11 chance that it would jam the equipment and just slow
12 everything down.

13 Q Which are they doing?

14 A It is my understanding that they would be
15 considering these non-machineable pieces and pulling them
16 and working them manually.

17 Q You are assuming, in fact, are you not, that 100
18 percent of them are culled and manually processed?

19 A Yes, sir.

20 Q Okay. If that assumption is wrong, then it would
21 overstate the cost of handling those letters, would it not?
22 In other words, if half of the poor aspect ratio letters
23 that come in are handled routinely over automation and just
24 like any other letters, then you overstate the costs of
25 handling poor aspect ratio letters, do you not?

1 A It may tend to overstate the mail processing cost,
2 but it --

3 Q That's all I am asking.

4 A We still haven't considering the delivery cost.

5 Q Well, your study doesn't consider the delivery
6 cost, does it?

7 A Right. So it is conservative in that sense. I
8 have under -- understated the non-standard surcharge.

9 Q But without falling back on the fact that there
10 may be some other savings that I didn't -- or some other
11 costs that I didn't study, I mean just with respect to
12 malprocessing costs, if half -- let me just ask you assume
13 for a second, that half of the letters that are poor aspect
14 ratio letters that come in are, in fact, handled on
15 automation, routinely, just as other letters, does not your
16 study overstate the cost of handling those poor aspect ratio
17 letters?

18 A Well, I can't assume that half of them may be
19 processed on automation.

20 Q I just asking -- it's for assumption, it's an
21 assumption. It's a hypothetical.

22 A It is not a valid hypothetical, in my opinion,
23 because they are defined as non-machineable, so I am sure,
24 to the extent that operations can, they have defined it as
25 non-machineable because it doesn't work very well on the

1 automation equipment, and they would pull it and work it
2 manually.

3 Q Okay. Well, you are assuming 100 percent are
4 pulled and worked manually, correct?

5 A Because the definition is these would be
6 non-machineable.

7 Q Okay. Let's go back to the rest of the
8 Commission's criticism, where we left off. "If these
9 additional malprocessing costs, upon which the Postal
10 Service should primarily have focused, in order to develop
11 the unit cost differential between standard and non-standard
12 letters," -- I am sorry, I misread it at the beginning.

13 "It is these additional malprocessing costs."
14 Then it goes on to say, "The difference in unit costs
15 between manual and mechanical processing letters would then
16 serve as a upper limit of the additional unit cost of
17 processing non-standard letters. This is because when the
18 additional unit cost incurred as a result of mechanical
19 malprocessing of non-standard letters exceed the unit cost
20 differential between mechanical and manual processing, the
21 Postal Service would stop processing non-standard letters
22 mechanically and process them manually."

23 Do you agree with that analysis? That it is --
24 that the cost of manual processing is an upper limit?

25 A I agree that that would be an upper limit. But I

1 feel that this decision to stop processing the letters
2 mechanically and start processing manually has been made.
3 That was my ^{understanding} ~~understand~~ that these --

4 Q That 100 percent are handled manually.

5 A That that is the intention.

6 Q Okay.

7 CHAIRMAN GLEIMAN: Mr. Olson.

8 MR. OLSON: Yes.

9 CHAIRMAN GLEIMAN: I assume you have a bit more.

10 MR. OLSON: Yes, Mr. Chairman.

11 CHAIRMAN GLEIMAN: If that is the case, I think
12 now would be a good time to take a break. The witness has
13 been up there under fire for a while.

14 Let's come back at ten minutes after the hour.

15 [Recess.]

16 CHAIRMAN GLEIMAN: Mr. Olson?

17 MR. OLSON: Okay.

18 BY MR. OLSON:

19 Q Ms. Daniel, let me refer you to your testimony at
20 page three where you quote from the Postal Rate Commission
21 in Docket No. R-90-1, and your statement is, is it not, that
22 the commission was satisfied with the testimony presented in
23 R-90-1 in support of the first-class non-standard surcharge.

24 A Yes, sir, they characterized it as solid
25 information on the comparative cost of standard and

1 non-standard first-class pieces.

2 Q What changed from R-78-1, where we just read the
3 commission's criticisms, to R-90-1, where they used the
4 phrase "solid information"?

5 A Well, I believe you asked me that in an
6 interrogatory. In number four, in 1978, they were using
7 LIOCATT data.

8 Q I'm sorry. What year?

9 A Excuse me?

10 Q What year did you say?

11 A In R-78. And in R-90, they used the number of
12 handlings and the productivities instead of using LIOCATT.

13 So, the formula and the methodology was basically
14 the same in both cases in that they compared the cost of an
15 average letter to manually processed letters to the cost of
16 processing flats and parcels.

17 So, just the way they went about doing it was
18 slightly different, but I really wouldn't characterize it as
19 fundamentally different.

20 Q Do you know why the -- strike that. In Docket No.
21 R-90-1, was the first-class non-standard surcharge litigated
22 by any party?

23 A We were not able to find interrogatories from
24 other intervenors, and the decision said it was
25 uncontroverted on the record. So, potentially, it was not

1 litigated.

2 Q Okay. I couldn't find anything either.

3 In view of the fact that none of the Postal
4 Service's approaches were challenged, can you -- and in view
5 of your earlier statement that there were only minor changes
6 in the approach, can you account for the different analysis
7 from the commission from R-78 to R-90?

8 A No, sir.

9 Q Okay. Let me ask you to again go back to
10 September 30, when the Postal Service filed a notice saying
11 that you were adopting certain institutional interrogatory
12 responses but not others, and you adopted NDMS-USPS-2, if
13 you can turn to that.

14 I'm trying to -- oh, here it is.
15 NDMS-USPS-T-32-29 -- could you keep a hand in both of those?
16 In both of those responses, I believe you provide volume
17 estimates by shape for non-standard first-class mail,
18 correct?

19 A Not in 2.

20 Q I believe that's right, not in 2 but in 29.

21 A Yes, sir.

22 Q Okay. And did you review the Postal Service's
23 response to 44, 45, and 47, which you did not adopt?

24 I'm trying to get at why it was you adopted some
25 of these and not others, whether that might indicate you

1 disagreed with some of them or simply they were beyond the
2 scope of your knowledge.

3 Do you have 44, 45, and 47 there?

4 A I have 45 and 47, but I didn't seem to bring a
5 copy of 44.

6 Q Well, let's just work with the two you have.

7 What is it about -- was there a particular reason
8 why those were not -- why you did not adopt those
9 interrogatory responses?

10 A Yes, sir. I believe -- oh, 2 -- the ST-43 No. 2
11 or the T-32?

12 Q T-32.

13 A T-32 No. 2?

14 Q Do you have those with you?

15 A I have T-32 No. 2. Is that the one we're talking
16 about? I adopted that one.

17 Q No, T-32-44, 45, and 47.

18 A Okay. So, we're not talking about No. 2.

19 Q No.

20 A Okay. In ST-43, No. 2, you were asking me why I
21 didn't, and I've stated that I don't have firsthand
22 knowledge of the volume estimates. I adopted 29 because I
23 ended up using that data in my Exhibit C. So, I thought it
24 was appropriate that I adopt that one.

25 But in general, I wouldn't be adopting responses

1 that had to do with estimates that came from the volume
2 people.

3 Q Did you have firsthand knowledge of the
4 information in 29 that you adopted?

5 A No, I became familiar with it when I used it for
6 the Exhibit C numbers.

7 Q And you could have, I take it, become familiar
8 with the responses to 44, 45, and 47 and adopted those, too,
9 correct?

10 A I probably wouldn't be the most knowledgeable or
11 the best person to be speaking to the details of those.

12 Q Okay.

13 I guess all I'm asking or I'm trying to get at is
14 that there are some different numbers in these, and when we
15 asked the question different ways, we got different volume
16 estimates from the Postal Service, and you adopted one set
17 of them and not the other set, and my question was whether I
18 should take from that that the ones you adopted are correct
19 and the ones you didn't adopt are incorrect.

20 A No, sir. I would say that all the numbers are
21 correct in the way that they're asked and answered. I
22 adopted the 29 numbers because those were the ones that I
23 used in my testimony.

24 Q And why did you consider those to be superior to
25 the numbers in the Postal Service's response in 44, 45, and

1 47?

2 A Well, as we've said in an interrogatory response,
3 there's no way to determine which letters less than one
4 ounce are non-standard just based on the weight alone, like
5 would have been the case with flats and parcels.

6 So, we use the numbers where the data collectors
7 recorded the piece as non-standard for letters, flats, and
8 parcels, and those were the numbers that I adopted.

9 The other numbers that were generated is that the
10 pieces recorded as non-standard for flats and parcels tended
11 to be less than one ounce flats and parcels, which are also
12 non-standard, they just weren't recorded as non-standard.

13 So, we used the set of numbers that -- a
14 consistent set of numbers that just -- of the pieces that
15 were recorded as non-standard. That was the only way we
16 could get at the non-standard letter-shaped pieces.

17 Q Okay. Maybe you can walk me through that one more
18 time, because I really didn't understand it.

19 Let's start with your response to ST-43-3, where
20 we get into this difference in estimates, and in that
21 question, we talk about how your Exhibit 43-C identifies the
22 1996 volume of first-class flats weighing one ounce or less
23 as 282.4 million.

24 On the other hand, the Postal Service's response
25 to T-32-47, which you did not adopt, states that the '96

1 volume of the same first-class non-standard flats was 358.3
2 million, and that's a significant difference, would you not
3 agree?

4 A I would hesitate on calling it significant,
5 because the way the numbers were used ^{was} ~~as~~ not as absolute
6 numbers but as their relative shares, and that 358.3 number
7 is -- the numbers in that interrogatory response are also
8 higher for parcels, and their relative shares are relatively
9 stable.

10 So, even though the absolute number changed, the
11 shares, which is what I'm using, is not significantly or
12 very different.

13 Q Okay. Let's take the ones that you decided to
14 use, the 282.4 million for flats. Tell me again how that
15 number was developed, please. Did they both come from RPW,
16 or do they both come from mailing statements, or one come
17 from each?

18 A I'll need to check. The single piece comes from
19 RPW, and the total would come from RPW and mailing
20 statements. So, I would need to check whether these numbers
21 are total or just single piece.

22 These appear to be totals.

23 Q Total meaning single piece and presort?

24 A Right, and carrier route. So the 358.3 million is
25 the number of flats that were one ounce or less, so by

1 definition they're nonstandard, but for some reason they
2 weren't recorded by the data collector as nonstandard.

3 Q All of them were not recorded?

4 A 282.4 million were, but the differences between
5 them apparently were not recorded as nonstandard.

6 Q So you think it's a matter of Postal Service
7 personnel not recognizing a piece as nonstandard during
8 acceptance or data collection; is that correct?

9 A Yes, sir.

10 Q And that would indicate that the first number, the
11 282 million, might be low, because the data collectors did
12 not identify these pieces as nonstandard.

13 A Yes, sir.

14 Q On the other hand, the other number might be wrong
15 too, the 358 million might be wrong too, that came from
16 mailing statements. Right? Oh, it did not?

17 A It still came from RPW^{and} mailing statements. They're
18 both coming from the same sources.

19 Q And they're both for the same time period?

20 A Yes, sir.

21 Q And as your testimony says, one would expect these
22 two numbers to be about the same.

23 A Yes, sir.

24 Q But they're at least 25-percent different. Just
25 one more time, try to explain to me why they're different,

1 and then I'll let it go.

2 A Okay. For some reason data collectors when they
3 see a flat or parcel that's one ounce or less are not
4 checking the bullet or whatever it is and checking off that
5 it's nonstandard. So that lower number is taking all the
6 pieces that were tallied as nonstandard and giving me their
7 volumes.

8 If data collectors aren't recognizing letter
9 pieces as nonstandard, I have no way of knowing that. So I
10 have used just the percent shares of pieces that were
11 designated as nonstandard. We can kind of see that there
12 must be a discrepancy, the difference between these as far
13 as I know should be tallied as nonstandard, but they
14 weren't. And so we know what that difference is in flats
15 and we know what the difference is in parcels, but we don't
16 know what that difference would be in letters, because
17 there's no way to assume that a letter was nonstandard as we
18 have here because it was one ounce or less. So I've
19 consistently used all the pieces that were tallied as
20 nonstandard.

21 But what we notice is it was about the same kind
22 of discrepancy in flats and parcels, which is actually
23 somewhat reassuring, because those relative proportions are
24 about the same. So --

25 Q So that would indicate that Postal Service

1 personnel are not recognizing a piece as nonstandard as
2 frequently for flats as they are for parcels.

3 A Can you say that again?

4 Q Yeah. Your response to that interrogatory says it
5 may also -- I'm sorry, page 2. The response further states
6 that this difference may be due to postal personnel not
7 recognizing a piece is nonstandard during acceptance or data
8 collection. And we talked about that a moment ago, and you
9 said yes, people may look at it, the data collectors may
10 look at the piece and not realize that it is a nonstandard
11 piece; correct?

12 A That's correct.

13 Q And you say you take comfort from the fact that
14 the percentages are about the same for flats and parcels,
15 and I said does that lead one to believe that they're
16 failing to recognize a nonstandard flat at about the same
17 rate they're failing to recognize a nonstandard parcel.

18 A Yeah, I'm noticing that the relative shares are
19 about the same.

20 Q Which would lead you to believe that they're
21 failing to recognize a nonstandard flat at about the same
22 rate as they're failing to recognize a nonstandard parcel;
23 correct?

24 A Okay.

25 Q I'm sorry?

1 A Yes, sir.

2 Q Do you know how many total letters are processed
3 manually?

4 A No, sir.

5 Q Could you look at your response to 43-14(b)?

6 There you say, "At page 2" -- I'm sorry, this is
7 the question we asked you: "At page 2 of your supplemental
8 testimony, line 6, you state that manual letters are assumed
9 to be nonstandard." Then we ask you -- it goes on, but then
10 we you in roman I, "Do you believe that all, most, many, or
11 some manually processed letters are nonstandard?" and you
12 say "At least some, but not all manually processed letters
13 are nonstandard. All nonstandard letters, however, are
14 processed manually."

15 Let me look at the first part of that response.
16 "At least some but not all manually processed letters are
17 nonstandard."

18 You do realize there are reasons that letters are
19 processed manually other than because they are nonstandard,
20 do you not?

21 A Yes, sir.

22 Q Okay. Do you recall what some of those reasons
23 are?

24 A If they are at sites that don't have automation or
25 if they are automation rejects.

1 Q Okay. There are actually some others that we gave
2 you that were given to us in an interrogatory, but those are
3 at least -- so certainly some manually processed letters are
4 processed because they are nonstandard. Some are processed
5 because of other reasons, is that not your view?

6 A Yes, sir.

7 Q Okay -- and then you say all standard letters,
8 however, are processed manually, and that is your opinion,
9 correct, and your conclusion, and your representation and
10 your assumption in your testimony, is it not?

11 A Yes, sir.

12 Q Okay. Then would you take a look at your response
13 to 43-6, specifically with respect to C, and asked you there
14 a question similar to what I talked to you before, as to how
15 changes in Postal Service processing and delivery may have
16 changed since '78, but it is your response that I want to
17 focus on.

18 You say this: "The first of the FSMs, the FSM-775
19 was deployed in 1982. The FSM-881 was developed in the late
20 1980s, and the SPBS was deployed in early 1990. LSMs are
21 currently being phased out. Thus, for machineable,
22 nonstandard flats, processing may have become slightly more
23 mechanized."

24 And then this is the next sentence: "Nonstandard
25 letters are becoming completely manually sorted."

1 Is that what you meant to say, nonstandard letters
2 are becoming completely manually sorted?

3 A Yes, sir. In the test year we should have phased
4 out LSMs, so they would be all manually sorted.

5 Q And your -- so your testimony is that up until the
6 test year that some nonstandard letters were handled on LSMs
7 but that will cease to be the case in the future? Well, of
8 course, they'll cease to be handled on LSMs, but is it your
9 testimony that they will not be handled on letter automation
10 equipment in the future?

11 A Yes, sir. I wouldn't think that nonstandard
12 letters would be handled on automation in the future. To
13 the extent that some get through, and it jams the machine,
14 it would be even more expensive than manual processing.

15 Q Okay. But what I am trying to get at is that you
16 seem to be indicating that up until now nonstandard letters
17 have not been manually sorted but now they will become that
18 way.

19 Is that what your testimony is?

20 A The way I wrote that sentence, that's what it
21 would lead you to believe, but it is my understanding that
22 it would have always have been manually sorted.

23 I don't know the extent to which they may have
24 tried it on an LSM.

25 Q So would you like to revise that sentence?

1 A If the word "becoming" is that misleading, we
2 could revise the sentence, but the point is still that they
3 are manually sorted.

4 Q And it is your understanding that modern letter
5 automation equipment is less capable of handling a
6 nonstandard letter than LSMs?

7 A It was actually my understanding that neither
8 piece, neither the automation equipment nor the LSMs were
9 designed to handle nonstandard letters and that it would
10 cause malprocessing if tried and the cost of that if it
11 caused a jam could be tremendous.

12 Q Well, I guess I am trying to get at this
13 "becoming" because it seems like the Postal Service made a
14 conscious decision to have more manual processing of
15 letters.

16 It seems like that is what you are saying and I am
17 asking you as to whether that is true or whether in fact it
18 is your testimony that it has always been this way, that all
19 of these letters have been manually handled.

20 A I think the Postal Service wanted more automated
21 letters and wanted more automated processing of letters and
22 to the extent that you can't get in automated mailstream,
23 they felt that manual processing -- they were going to phase
24 out the LSMs, the mechanical processing, and Witness Moden
25 probably discussed that, how it was hard to keep staff

1 trained on it and whatever, but right now the two
2 mailstreams are going to be automated or manual and
3 nonstandard letters would be on the manual processing side.

4 Q Okay, but just one final question. I believe it
5 is your testimony that in the past as well as in the future
6 all nonstandard letters are handled manually?

7 A Yes, sir.

8 Q Okay. Let me ask you to look at your response to
9 ST-43-8, and we talk there about one of the proxies that is
10 used in your testimony, and let's go through for just a
11 second the formula that you use in your testimony, which
12 originated back in R-78-1, and ask you to explain how you
13 handle -- we'll deal with letters in a minute -- but how you
14 handle flats and parcels.

15 Would you explain that for us -- how your
16 methodology approximates the cost, as you put it before, of
17 handling an under one ounce flat or an under one ounce
18 parcel.

19 A I have used the average mail processing cost of
20 flats and parcels as found in the former Library Reference
21 106.

22 Q Okay -- and the average mail processing cost of a
23 flat was based on a flat that weighed how much?

24 A About 3.3 ounces.

25 Q And the average mail processing cost of a parcel

1 was based on a parcel that weighed how much?

2 A 4.3 ounces.

3 Q Is it your assumption that the average cost of
4 handling a flat is equal to -- the cost of handling a flat
5 which is 4.3 ounces is equal to the cost of handling a flat
6 which is under one ounce?

7 A Well, Library Reference 106 is the average cost of
8 handling all flats, which is 3.3 ounces, not 4.3 ounces, and
9 I feel that that is reasonable to use to approximate the
10 cost of a one ounce flat that is under one ounce because
11 flats under one ounce tend to be nonmachineable. They are
12 considered flimsy and so those pieces would have to be
13 processed manually whereas many average flats can be
14 processed mechanically.

15 Q Is it not your assumption that 100 percent on
16 nonstandard flats would be processed manually then?

17 A No, sir. I am just using the cost of processing
18 an average flat, some of which may be processed
19 mechanically.

20 Q Okay. Let's take that average flat just for a
21 moment and talk about what it pays in postage. We will get
22 back to the under one ounce pieces, but an average flat that
23 weighs 3.3 ounces pays \$1.01, is that not correct?

24 A Yes, sir.

25 Q And then we asked you about the cost of handling

1 that average First Class flat, and you in your testimony
2 used what number as the average cost?

3 A 32.43 cents for a single piece flat.

4 Q So the Postal Service is making a fair amount of
5 money on the average flat, is it not?

6 A Well, I don't know what the total cost of that
7 flat is.

8 Q Well, I understand. We are only dealing with mail
9 processing costs at the moment, but it would give you some
10 confidence that the Postal Service is making some money on
11 handling a 3.3 ounce flat -- or if you don't have an
12 opinion, that's fine.

13 A Well, as I have stated here, we would expect
14 revenue to exceed the volume variable cost but I can't
15 quantify exactly how much it costs for a 3.3 ounce flat. I
16 know how we know how much it costs to process an average
17 flat which happens to weigh 3.3 ounces.

18 Q Okay. If you know how much it costs to process an
19 average flat which weighs 3.3 ounces, tell me all the bases
20 for your assumption that that is a good proxy for the cost
21 of handling an under one ounce flat.

22 A It's a good assumption because costs by ounce
23 increments aren't available or if they were available we
24 don't know how reliable they would be, so considering that
25 the average flat is often processed mechanically and we know

1 that one ounce flats are often flimsy and have to be
2 processed manually, it -- it is a good proxy.

3 It's data that we have available and it seems
4 reasonable that -- to use the cost for an average flat for
5 pieces that are under one ounce that may be nonmachineable.

6 Q Let me ask you the same question for a parcel.

7 You don't know the cost of an under-one ounce
8 parcel, but you do know the average mail processing cost of
9 a 4.3 ounce parcel. Why is that a good proxy?

10 A Well, because one ounce parcels or parcels that
11 are under one ounce are also nonmachineable. It is too
12 lightweight for the small parcel and bundle sorter.

13 Also, we are just not really sure what the effect
14 of weight is in parcels if weight is really the cost driver
15 in parcels, so we just use the average parcel to approximate
16 the cost for an under one ounce parcel.

17 Q Okay. Let's go back to flats then. What is the
18 weight-cost relationship in flats? Do you have an opinion
19 there -- in other words, can you represent that weight does
20 not have an important cost driving effect for flats between
21 one and four ounces, let's say?

22 A Well in that range it would be tricky because we
23 know that lighter weight parcel -- flats tend to be
24 non-machineable. They are flimsy. And that could drive up
25 the cost of lighter weight flats. Whereas, the heavier

1 flats are machineable, so there might not be a clear
2 relationship there between one and four ounces in flats.

3 Q Okay. Well, let me ask you, as between something
4 that is one ounce, which is not a flimsy, and four -- and a
5 3.3 ounce flat, is there a cost difference?

6 A I don't really know. We haven't been able to
7 study cost, the impact of weight on cost by ounce increment.

8 Q But the Postal Service does charge more for the
9 3.3 ounce flat than it does the one ounce flat, does it not?

10 A Yes, sir.

11 Q Okay. So you are willing to tolerate a
12 circumstance where you charge more for products that have
13 the same cost, correct? You charge more for some products
14 that have the same cost and less for other products that
15 have the same cost?

16 A Actually determining the rate that something pays
17 is outside -- I don't determine that.

18 Q Let's go back to parcels. With respect to a one
19 ounce parcel and 4.3 ounce parcel, as a cost witness, is it
20 your opinion that weight does not affect cost in that range?

21 A It is my opinion, especially when talking about
22 parcels, that there are other cost drivers, such as cube. I
23 wouldn't think fatigue would start to be a factor in that
24 low of a range. So I am not sure that weight would be the
25 most important cost driver. There could be other things

1 such as cube.

2 Q From time to time weight is used as a proxy for
3 cube, is it not, in the Postal Service?

4 A Yes, sir, in parcel post.

5 Q Okay. We don't have an easy way to measure cube
6 of a parcel, do we?

7 A No, sir.

8 Q Okay. So let's just deal with weight for a
9 moment, and I am asking you whether it is your opinion, as a
10 cost witness, that a one ounce parcel costs the same to
11 handle as a 4.3 ounce parcel?

12 A Again, at that wage (sic), at this wage (sic) --
13 weight range, one ounce parcels are non-machineable. But a
14 4.3 ounce parcel would be machineable, so that -- that
15 complicates issues and may lead me to think that --

16 Q Okay. Let me change the assumption then to get
17 around that complication. Let's deal with a three ounce
18 parcel, a one ounce versus a three ounce parcel. Is it then
19 your testimony, as a cost expert, that -- that weight does
20 not affect cost in that range?

21 MR. TIDWELL: Are we talking just mail processing
22 costs or beyond?

23 MR. OLSON: Mail processing costs.

24 THE WITNESS: It would be unclear. I would say
25 that we haven't -- that we don't know for sure the impact

1 that weight itself is playing on those costs.

2 BY MR. OLSON:

3 Q In other words, you don't know?

4 A I don't know.

5 Q And the same is true for flats? Between the range
6 of one and three ounces, let's say, you don't know the
7 effect that weight is playing on cost, right?

8 A Well, in that range for flats, we do know that
9 one is potentially machineable and one potentially is less
10 machineable. So --

11 Q Well, which is -- which is -- is a one ounce flat
12 not machineable?

13 A It often fails to meet the rigidity standard.

14 Q And what is your citation for that proposition?

15 A Just one second.

16 Witness Moden's response to NDMS USPS T-32 No.
17 18(b).

18 Q And he says?

19 A "However, it is my understanding that many -- many
20 of the flats that are under one ounce have difficulty
21 meeting the other machinability requirements such as
22 rigidity."

23 Q Okay. That's about pieces that are under one
24 ounce. My question had to do with pieces that were one
25 ounce.

1 A Okay. I don't know if becoming magically one
2 ounce makes a difference, if that is where the line is
3 drawn. We just know that lighter weight pieces have trouble
4 meeting -- meeting the rigidity requirement.

5 Q So, in other words, it may be that the
6 non-standard surcharge should apply to two ounce flats?

7 A Well, that would be a rate design, so --

8 Q Well, that the -- let me put it this way. That
9 two ounce flats cause the same problems that under one ounce
10 flats do, especially --

11 A It's possible.

12 Q But you don't know?

13 A No, sir.

14 Q You say that -- in your response to ST-43(12) --
15 that it might be possible to use the methodology presented
16 in Library Reference 106 to calculate mail processing costs
17 for first-class parcels anyway. Do you recall that?

18 A Yes, sir.

19 Q Did you endeavor to try to do that?

20 A No, sir.

21 Q Do you know if anyone in the Postal Service tried
22 to do that?

23 A Not that I know of.

24 Q Could you turn to your response to ST-43(18)? I'm
25 sorry. Hold on to that, but I do want to ask you one

1 question before that.

2 If you could look at your testimony, Exhibit B,
3 page two, in the box at the right there, you state the model
4 cost and then you have two adjustments. Can you explain the
5 one that is labeled "proportional adjustment"?

6 A Yes. That is the proportional adjustment that
7 Witness Hatfield used in his first-class letter models.

8 Q Okay. Can you explain that to me, please?

9 A That would be the ratio of his total model cost to
10 the CRA cost that we assumed would vary with work-sharing.
11 Does that help?

12 Q In other words, you tried to bring your estimate
13 up to CRA costs?

14 A Yes, sir.

15 Q And that's the same adjustment used also on page
16 two of Library Reference -- I'm sorry -- of Exhibit B,
17 correct?

18 A It's used on page two and page seven.

19 Q Okay. And what is the fixed adjustment?

20 A It's the sum of the cost pools that we didn't
21 expect would vary with work-sharing.

22 Q Is that subtracted out then?

23 A No, it's added in. That is also needed to bring
24 it up to the total CRA level. The model cost is multiplied
25 by the proportional adjustment, and then the fixed

1 adjustment is added to get the total cost.

2 Q So, if you were to -- where does it say that one
3 is multiplied and one is added?

4 A I don't see that it says that on here.

5 Q So, could you explain one more time what it is
6 that you do in making those two adjustments? Let's take
7 page seven for single piece. You take the model cost of
8 17.4188 and you do what to that number?

9 A You multiply it by 1.1586 and then you add --

10 Q And then you get a number. Now, does that number
11 appear here somewhere?

12 A No, sir.

13 Q Then what do you do with the fixed adjustment?

14 A You add that to the product of 17.4 times 1.1586.

15 Q Well, I understand the proportional adjustment, I
16 guess, better if you're bringing it up to CRA cost, but the
17 fixed adjustment, I do not understand why you add that in
18 then. Can you explain that one more time?

19 A Yes, sir. Because in calculating the proportional
20 adjustment, we did not ratio the model cost to the total CRA
21 cost, we just ratioed it to the sum of the cost pools that
22 we deemed would be proportional or vary with work-sharing.
23 That left over -- the cost pools that weren't proportional
24 were then deemed as fixed.

25 So, to get up to the total CRA level, you would

1 have to add in the fixed cost, because the proportional
2 unlike re-class was not the ratio of model cost to total
3 CRA, it was just a ratio to a subset of CRA cost.

4 Q Where do you draw that number from?

5 A Which number?

6 Q Fixed adjustment, 0.3573.

7 A ~~Should~~ ^{It should} be in Witness Hatfield's testimony.

8 Q Do you have a reference?

9 A It's Witness No. 25.

10 Q Is there a reference anywhere in your library
11 reference -- I'm sorry, anywhere in your testimony?

12 A There doesn't appear to be.

13 Q If you take a look at column 8 in that same table,
14 weighted cost, the footnote says that column 8 is column 1
15 times column 7; is that correct?

16 A Yes, sir.

17 Q Are you sure?

18 A That's what the footnote says.

19 Q Well, if I take column 1, 930, and multiply it by
20 column 7, 3, I come up with 2,800 and something.

21 A The foot should also say divided by 10,000, I
22 suspect.

23 Q I'm sorry, can you explain what additional
24 calculation is made then that isn't reflected on the -- in
25 your testimony?

1 A Right. We unitized the cost in column 8, so to
2 unitize it you need to divide by 10,000, and the footnote
3 fails to note that.

4 Q So column 8 ought to be modified to reflect that
5 it's column 1 times column 7 divided by 10,000?

6 A The quantity divided by 10,000; yes, sir.

7 Q So also on page 2?

8 A Yes, sir.

9 Q Could you take a look at page 1, and there the
10 title is "Development of First Class Mail Processing Unit
11 Costs First Class Nonautomation Presort Nonmachineable
12 Mail."

13 So I take it this is all nonmachineable mail;
14 correct?

15 A This is actually the cost of processing pieces
16 manually, so --

17 Q All pieces.

18 A Yes, sir.

19 Q Letters, flats, and parcels.

20 A No, sir; letter-shaped pieces.

21 Q Okay. Where does it say that?

22 A It doesn't. By nonmachineable it means that it's
23 not processed on machines, so it would be processed
24 manually.

25 Q So it's not all, as I said before -- I said was it

1 all nonmachineable mail and I think you said it was, but
2 it's not, it's just letter-shaped?

3 A The manual productivities are not just
4 productivities for sorting nonmachineable mail. It's just
5 the productivity for sorting letter-shaped mail manually.

6 Q No, but what I'm trying to get at is that if we're
7 say trying to come up with a title that's more reflective of
8 what the table is, we should say First Class nonautomation
9 presort nonmachineable letter-shaped mail?

10 A Well --

11 Q Or letter mail?

12 A In response to NDMS/USPS-ST-43 No. 17, I tried to
13 simplify these diagrams for you a little bit, and there I
14 titled it "Simplified First Class Single-Piece Nonstandard
15 Letter Mail Processing Unit Cost Summary."

16 Q So it's letter mail.

17 A Yes, sir.

18 Q Okay. You have in column 2 of that chart at page
19 1 a pieces-per-hour figure. Where is the source of that
20 number identified? Or can you tell me the source of that
21 number?

22 A Yes, sir; the footnote cites back to Witness --
23 well, it says Appendix 1. That would be USPS-T-25, Appendix
24 1, page 32 of 37.

25 Q I'm sorry, what footnote are you looking at?

1 A The column 2 footnote on page 2.

2 Q Okay. The column 2 footnote says volume variable
3 mail processing productivities by operation, Appendix 1,
4 page 32 of 37. And now you're saying it's Appendix 1 of
5 what?

6 A Witness Hatfield's USPS-T-25.

7 Q Is that stated anywhere?

8 A No, sir.

9 Q Okay. Did you calculate that number, or was that
10 drawn directly from Witness Hatfield?

11 A It would have been drawn directly from Witness
12 Hatfield.

13 Q Okay. I want to go back to this issue of your
14 experience in observing mail processing, which you've
15 described before, and I want to assume that you take a
16 non-standard letter and you put it in a collection box and
17 it's swept and brought in and it's dumped on an opening
18 belt.

19 What have you observed that causes that piece of
20 non-standard mail to be culled out?

21 A I don't suspect that that piece of mail, a letter
22 this size, would be culled out in the culling operation.

23 I suspect that where it would be identified is if
24 it makes its way to the automation equipment, that the clerk
25 there would recognize it as a piece that would potentially

1 jam the machine and would then cull it out.

2 Q Okay. So, with respect to the opening belt, it
3 would not be culled out.

4 A I don't think so.

5 Q Okay. It would then go to the facer canceller
6 from there?

7 A Yes, sir.

8 Q Would the facer canceller cull it out somehow?

9 A Not to my knowledge.

10 Q It would just face it and cancel it, correct?

11 A Yes, sir.

12 Q Okay. And then, if it were a letter like that,
13 the question would become, would it be -- could it be run
14 over an OCR? Let's assume we have a letter that has a typed
15 address. Is it your observation that that piece would be
16 pulled because of its shape?

17 A Yes, sir.

18 Q A hundred percent of the time.

19 A I'm sure that some slip through, but if they did
20 slip through, it could cause jams.

21 Q And you know that. You know that anything that
22 doesn't wind up with its tip in the shaded area will jam an
23 OCR. Is that your testimony?

24 A No, sir, just that there's a greater likelihood
25 that it would.

1 Q And what's your authority for that proposition?

2 A The fact that it was deemed non-machinable.

3 Q Defined as non-machinable.

4 A Yes, sir.

5 Q Anything else?

6 A ~~Gets~~ ^{It gets} back to the malprocessing we discussed here.

7 Q Okay. But you haven't studied the malprocessing,
8 right? Do you know the malprocessing rates of non-standard
9 pieces?

10 A No, sir, I don't know how often they get through
11 and get processed on the machine. I'm assuming that they
12 don't, so that it doesn't cause jams.

13 Q Right. But if it were to be run over the
14 machines, you don't know the malprocessing rate, correct,
15 errors, misfeeds, jams?

16 A No, sir.

17 Q Okay.

18 Let me finish up by walking through this formula
19 and ask you to turn to your response to T-43(18), and there
20 what we did, as you know, is make express what was implicit
21 in your testimony in showing the calculations for the three
22 different components of how you develop the non-standard
23 surcharge, correct?

24 A Yes, sir.

25 Q Okay.

1 Now, I believe you might have corrected a number
2 for rounding or something, but basically, this is
3 sufficiently accurate, we can use it today for some
4 questions, correct?

5 A Yes, sir.

6 Q Okay.

7 In the first -- well, let's just take parcels for
8 a second. There you say that the -- you take 74 cents as
9 the average cost of a parcel which happens to weight 4.3
10 ounces, correct?

11 A The average cost of a first-class single piece
12 parcel.

13 Q Right. And you subtract from that the average
14 letter mail processing costs of 11.74 cents, correct?

15 A Yes, sir.

16 Q Okay. And you use that as a proxy for the
17 additional costs of handling a first-class non-standard
18 parcel, correct?

19 A Yes, sir.

20 Q Okay.

21 Let me ask you to assume something with me. First
22 of all, as an economist, what is a proxy?

23 A A proxy is a number you've used to approximate
24 something else.

25 Q Okay. Let's go with that definition. It's a

1 number you know perhaps to approximate something you cannot
2 directly calculate.

3 A Okay.

4 Q Okay. If you take a look at the parcel cost of 74
5 cents, that's reflective of the mix of parcels at the time
6 that this particular survey was made, or these numbers were
7 derived, correct? In other words, it was based on a 4.3
8 ounce average parcel, correct?

9 A It is based on the parcels sampled by IOCS during
10 fiscal year '96.

11 Q As it existed at that moment in time, or at that
12 -- in that year?

13 A Throughout '96, right.

14 Q Okay. And if the parcel cost were to vary by a
15 change in that mix, in other words, let's assume, just for
16 fun, that the average -- that the weight of an average
17 parcel were to increase to the point where that cost would
18 go up to a dollar. Okay. I am not asking you to assume the
19 -- or to do anything more than assume this for purposes of
20 illustration. But I am just saying, let's assume you were
21 to do a measurement in '97, and all of a sudden there were
22 lots of heavyweight first class parcels in the system, and
23 the cost of handling it was a dollar. Can you assume that
24 with me?

25 A Okay.

1 Q Then, how would that affect calculation 3 in your
2 response to 18?

3 A The formula, I would still be using the cost, the
4 average cost of parcels in the mail stream, first class,
5 single piece parcels.

6 Q Right. And how would it change the results?

7 A The difference would be 88 cents instead of 62
8 cents.

9 Q Okay. So it would go -- it would increase by
10 almost two cents, correct?

11 A Right. When you ~~multiple~~^{multiply} it by the percent of
12 parcels that are non-standard, the 7.6 percent, instead of
13 getting .047, you would get .067.

14 Q And that means that your total would increase from
15 21 and a half cents to about 23 and a half cents, correct?

16 A Yes, sir.

17 Q Okay. So now that -- now that we have gone
18 through this and demonstrated that a change in the mix of
19 parcels can have a change in the proxy that you are using,
20 how good a proxy do you believe this to be?

21 A I believe it is the best one available.

22 Q Apart from that relative comment as to the fact
23 that it may be the only one available, in which case I might
24 concede it is the best one available, can you make a
25 statement as to whether you consider it to be a good proxy,

1 as an economist?

2 A Can you repeat the question?

3 Q Sure. Do you -- I mean realizing -- a proxy, we
4 just discussed, is something that is a number we know and we
5 assume it represents a number we don't know, to approximate
6 it. And I am showing you how a change in the cost of
7 handling parcels, quite apart from the cost of handling
8 under one ounce parcels, can change your proxy. And I am
9 asking you, if that can occur, is this a good proxy?

10 A Well, I took in your hypothetical that there was a
11 change in the mix which -- which raised the cost, and you
12 said that they became heavier. It may not be that that was
13 what was going on. We --

14 Q It could be a thousand things?

15 A Right.

16 Q But any -- all I am asking you to do is assume
17 that the cost of handling parcels in a given year is higher.
18 And I am also asking you to -- to tell me -- and we are
19 dealing with, and I am asking you to -- to assume it is
20 because of a change in the mix and pieces getting heavier,
21 because I don't want to -- I want you also to postulate that
22 the price of a under one ounce parcel stays the same. I am
23 trying to --

24 A Right. Right. That's the problem, is that we
25 don't also know that the change in non-standard parcels

1 weren't also changing. Maybe they stayed under one ounce,
2 but became a lot bigger, which I feel would tend to raise
3 its cost, so --

4 Q Well, that -- that's a change I am not asking you
5 to make.

6 A -- we don't -- right. Well, I can't --

7 Q I mean ~~ceterus parabus~~ *ceteris paribus*.

8 A -- assume in isolation that, because the average
9 cost of a parcel increased, it was due just to the non- --
10 to the not non-standard parcels or to the standard parcels,
11 or the parcels over one ounce.

12 What also could be changing is the mix and the
13 characteristics of the non-standard parcels.

14 Q Okay. But I mean you deal with assumptions, you
15 are an economist, correct? And you have --

16 A Well, I have got a title of an operations research
17 analyst, not an economist, but --

18 Q Well, in your -- well, it says economist, I think,
19 in your bio. And -- and I am asking you, I mean you know
20 the ~~ceterus parabus~~ *ceteris paribus*, right? We have used it at the
21 Commission long enough. You hold everything else constant.
22 I am just asking you to assume that there is a change in the
23 average weight of parcels causing an increase in the average
24 cost of handling parcels.

25 I am also asking you to assume that all the things

1 that are true about under one ounce parcels stay the same,
2 those costs are not affected. And I am -- so I am showing
3 you how your proxy varies by virtue of external events not
4 relating to the cost of processing an under one ounce
5 parcel. Doesn't it? It does vary by -- based on these
6 external factors, correct?

7 A It could vary, yes.

8 Q Okay. Then I am asking you how good a proxy it is
9 for what it is used for, which is determining the cost of
10 handling an under one ounce parcel?

11 A Again, I would say it is the best available.

12 Q Okay. Beyond that, are there any other available
13 proxies?

14 A In R90 they use the cost of handling a flat
15 manually as a proxy for handling a one ounce parcel
16 manually. I don't think that is as good of a proxy,
17 actually.

18 Q Why not?

19 A I think parcel handling is different from flat
20 handling, and it is potentially more expensive. Witness
21 ~~Crum~~ ^{Crum} has got a whole testimony on that.

22 Q Okay. So you have said that it is the best
23 available proxy, correct?

24 A Yes, sir.

25 Q It is a good proxy?

1 A I think so.

2 Q Okay. Let's talk about flats. Let's assume that
3 the average weight of flats increases so that it just goes
4 up, let's say, from 32 cents to 35 cents, 32.43 cents to 35
5 cents. And I did the math, so I will just ask you to assume
6 this. That would result in an increase of about two and a
7 half cents for your proxy, and when you -- when you multiple
8 it by the proportion of flats, you get about 1.8 cents -- or
9 1.9 cents.

10 A Yes, sir.

11 Q Here again we have demonstrated that you can alter
12 the proxy that you chose to use by virtue of changes which
13 bear no relationship to the cost of processing an
14 under-one-ounce flat, and I'm asking you if your proxy is a
15 good proxy.

16 A Again, I think so.

17 Q Best available.

18 A Yes, sir.

19 Q And if the Postal Service were to find that both
20 of those happened in a given year, that the average weight
21 of flats increase, therefore the average processing costs
22 increase, and the average weight of parcels increase and,
23 therefore, the average processing cost of parcels, then
24 you're dealing with four cents extra, correct,
25 approximately.

1 A Okay.

2 Q Okay. And right now, you're assuming 21.56 being
3 the -- 21.56 cents being the extra cost of handling
4 first-class non-standard pieces, correct?

5 A Yes, sir.

6 Q That would drive it up to 25.56 cents.

7 A Yes, sir.

8 Q That would be more than 23 cents, which is the
9 second-ounce differential. In other words, it would wind up
10 that, if you pass through 100 percent of these costs, that
11 you'd wind up with a cost basis for a rate which would be
12 greater than the second-ounce differential. Any thoughts
13 about that result as a cost witness?

14 A Just that second-ounce pieces also -- the shape of
15 the -- the second-ounce pieces may also be non-standard, so
16 they would incur these costs, also. How the second-ounce
17 rate price is chosen is not what I do. In doing the rate
18 design, it is not what I do. That would be up to someone in
19 pricing.

20 Q No, not the rate design but, rather, the costs,
21 and basically, you can provide no support, I take it, for
22 there being additional cost of handling a second ounce,
23 whether it be letter, flat, or parcel. Isn't that correct?

24 A I have not attempted to do that here or elsewhere.

25 Q But even if, as a result of these changed external

1 circumstances, not bearing in any way on the cost of
2 processing an under-one-ounce piece, the cost of handling
3 first-class non-standard pieces were to go up to 23 1/2
4 cents, you would still consider your formula to be good and
5 your methodology to be good, correct?

6 A Yes, sir, especially in the absence of including
7 delivery cost. This would be conservative. There are more
8 costs associated with delivering non-standard pieces that we
9 haven't included.

10 Q Have you measured them?

11 A You can approximate --

12 Q Have you measured them in your testimony? Is it
13 on the record?

14 A No, the delivery cost witness -- well, yes, some
15 delivery costs by shape are on the record from Witness Hume.

16 Q Okay. Have you put them into your formula?

17 A No, sir.

18 Q Okay.

19 If you were to learn that half of the letters that
20 are non-standard are, in fact, processed on automation just
21 as if they were one-and-a-half-ounce letters or exactly
22 one-ounce letters and they went through fine, did not jam,
23 did not have malprocessing, half were perfectly -- were
24 mechanically processed just the way that other letters were,
25 or mechanically is not what you use anymore, right, it's

1 automation, but how would you change your formula?

2 A I doubt that I would. I might would recommend
3 that they change the definition of non-standard if they
4 found that they were, in fact, machinable and did not cause
5 excessive jamming or jamming. So, I think the formula is
6 fine.

7 If these letters are, in fact, quite machinable
8 and impose no threat to the machine, then the definition --I
9 would -- but it's not up to me.

10 Q Well, assume -- again, assume the definition stays
11 the same. What modification would you make in your formula
12 if you found out that half of the letters were being
13 processed routinely over automation and only half were
14 receiving manual processing? Would you make any change?

15 A Yes. I would average -- I would try to model the
16 mail processing flow of non-standard letters. If that
17 included automated processing, I would try to reflect that
18 in the cost of non-standard letters which now I've said is
19 manual letters. I would model a non-standard letter mail
20 flow.

21 MR. OLSON: Thank you, Mr. Chairman.

22 CHAIRMAN GLEIMAN: Is there any follow-up?

23 [No response.]

24 CHAIRMAN GLEIMAN: I don't believe there are any
25 questions from the bench. That brings us to redirect.

1 Mr. Tidwell, would you like some time?

2 MR. TIDWELL: Could we have till 12:25?

3 CHAIRMAN GLEIMAN: You've got until 12:25 and
4 maybe even a little bit more if you need it.

5 When we come back and finish up with redirect and
6 recross, we'll break for lunch, and that way we'll start
7 with Witness Smith this afternoon after lunch.

8 [Recess.]

9 CHAIRMAN GLEIMAN: Back on the record.

10 Mr. Tidwell?

11 MR. TIDWELL: There will be no redirect.

12 CHAIRMAN GLEIMAN: There is no recross, then, and
13 that means that --

14 I want to thank you, Ms. Daniel. We appreciate
15 your appearance here today and your contributions to the
16 record, and if there's nothing further, you are excused.

17 [Witness excused.]

18 CHAIRMAN GLEIMAN: And as promised, we will break
19 for lunch, and I think I'd like to come back at 1:30 if no
20 one screams too loud, so that we can get done at a
21 reasonable hour today. So, we'll see you all at 1:30.

22 [Whereupon, at 12:29 p.m., the hearing was
23 recessed, to reconvene at 1:30 p.m., this same day.]

24

25

AFTERNOON SESSION

[1:30 p.m.]

CHAIRMAN GLEIMAN: Our next witness is sponsoring two pieces of supplementary testimony -- ST-45 and ST-46.

As I understand it, no participant has requested oral cross examination on ST-46.

Is there anyone in the room who wishes to cross examine on that testimony? You do wish to cross examine on that testimony, okay -- I don't know whether we got our records crossed or wires crossed on this or what.

If that is the case, and I was going to --

MR. THOMAS: I am going to ask about 45 and 46.

CHAIRMAN GLEIMAN: Inasmuch as we seem to have more parties, none of whom are here except for the Alliance, I think, who want to cross examine on 45, I think we'll take up 45 first. Hopefully these other parties who wanted to cross examine will get in here and then they can do their cross examination also.

We will come back to 46. Sorry for the change in plans here.

Mr. Tidwell, if you could identify your witness.

MR. TIDWELL: The Postal Service calls Marc Smith to the stand.

CHAIRMAN GLEIMAN: Mr. Smith, could you please stand and raise your right hand.

1 Whereupon,

2 MARC A. SMITH,

3 a witness, was called for examination by counsel for the
4 United States Postal Service and, having been first duly
5 sworn, was examined and testified as follows:

6 CHAIRMAN GLEIMAN: We are on USPS-ST-45.

7 DIRECT EXAMINATION

8 BY MR. TIDWELL:

9 Q Mr. Smith, I have just handed you two copies of a
10 document which has been designated for purposes of this
11 proceeding as USPS-ST-45, entitled "Direct Testimony of Marc
12 A. Smith on behalf of the United States Postal Service."

13 Have you had a chance to examine both copies of
14 that document?

15 A Yes, I have.

16 Q If you were to provide the testimony in the
17 document orally today, would it be the same?

18 A Yes, it is.

19 Q And just for the record, that document
20 incorporates by reference which Library References?

21 A It incorporates Library Reference 77, 106, 128,
22 and 129.

23 Q On the table in front of you are also two copies
24 of each of those Library References which are incorporated
25 by reference. If you were to provide that as the

1 incorporated testimony today orally, would it be the same?

2 A Yes, although I do have two errata.

3 Q Could you clarify what they are for the record?

4 A Okay, yes. For Library Reference 106, page roman
5 numeral VI-2, at the bottom of footnote 1 -- at the bottom
6 of column 1, I'm sorry, there is a reference there that it's
7 in [a] -- bracketed -- and then it says page 194, and then
8 it's C-4, which is column four.

9 That should be changed. Instead of column 4 it
10 should be column 6.

11 Then for Library Reference 129, on page roman
12 numeral I-5, on line 6, the source of line 6 is listed as
13 L-1 plus L-2. Instead, it should be L-2 plus L-3.

14 Q And those corrections have been noted in the hard
15 copy as well as the diskette versions of each Library
16 Reference there?

17 A Yes.

18 MR. TIDWELL: With those changes, Mr. Chairman,
19 the Postal Service would move USPS-ST-45 with the
20 accompanying incorporated Library References into the
21 record.

22 CHAIRMAN GLEIMAN: Are there any objections?

23 [No response.]

24 CHAIRMAN GLEIMAN: Hearing none, Mr. Smith's
25 testimony and exhibits including the Library References are

1 received into evidence, and I direct that they be accepted
2 into evidence.

3 As is our practice, they will not be transcribed
4 into the record.

5 [Direct Testimony and Exhibits of
6 Marc A. Smith, Exhibit No.
7 USPS-ST-45, was marked for
8 identification and received into
9 evidence.]

10 CHAIRMAN GLEIMAN: Mr. Smith, have you had an
11 opportunity to examine the packet of designated written
12 cross examination that was made available to you earlier
13 today?

14 THE WITNESS: Yes, I have.

15 CHAIRMAN GLEIMAN: If these questions were asked
16 of you today, would your answers be the same as those you
17 previously provided in writing?

18 THE WITNESS: Yes.

19 CHAIRMAN GLEIMAN: That being the case, Mr.
20 Tidwell, if you could please provide two copies to the
21 Reporter. I will direct that the designated written cross
22 examination of Witness Smith be given to the Reporter and
23 direct that they be accepted into evidence and transcribed
24 into the record at this point.

25 [Designation of Written

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Cross-Examination of Marc A. Smith
was received into evidence and
transcribed into the record.]

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MARC A. SMITH
(USPS-ST45)

Party

Advertising Mail Marketing Association

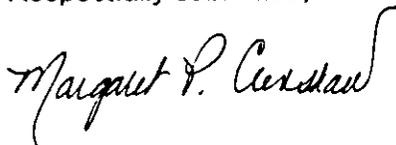
Interrogatories

AMMA/USPS-ST45-1-2

Office of the Consumer Advocate

ABA,EEI&NAPM/USPS-ST45-1-4
AMMA/USPS-ST45-1-3
POIR No. 5, question 19

Respectfully submitted,



Margaret P. Crenshaw
Secretary

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
INTERROGATORIES OF ABA, EEI AND NAPM

ABA&EEI&NAPM/USPS-ST45-1. (a) Describe your responsibilities with respect to the preparation of, including the data collection for, LR-H-106.

(b) When was LR-H-106 prepared?

Response:

a. I prepared LR-H-106. There was no data collection associated with LR-H-106.

The sources for the data used are indicated in LR-H-106.

b. It was prepared during March to July of this year. Much of the methodology or procedures for the calculations were developed in the Fall of 1996.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
INTERROGATORIES OF ABA, EEI AND NAPM

ABA&EEI&NAPM/USPS-ST45-2. Re LR-H-106 page II-5. Identify the MODS operations 010 to 028 for MODS cost pool "ICancMMP" which reflect the (a) culling, (b) facing, (c) cancelling, and (d) trayng costs for the following first-class letter mail: (i) stamped , (ii) permit imprint, and (iii) metered. As reflected in LR-H-106, provide the unit costs for each of the foregoing operations for each of the foregoing first-class letter mail.

Response:

MODS operations 010 to 028 are defined in LR-H-147, Appendix A, pages 2 and 3.

Unit costs are not available for each of these operations. An analysis would be required to determine to what extent and if this cost pool can be disaggregated into the operations you list above. Since MODS operations are not divided according to the operations and indicia you list, this is probably not feasible. The unit costs associated with this cost pool are .392 and .683 cents per piece for metered and non-metered First-Class single-piece letters as indicated in my response to Presiding Officer's Information Request No. 5, Question 19.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
INTERROGATORIES OF ABA, EEI AND NAPM

ABA&EEI&NAPM/USPS-ST45-3. Describe each of the MODS operations which are included in the following MODS cost pools:

- (a) "bcs"
- (b) "manl"
- (b) "LD15"
- (c) "LD49"
- (d) "LD79"

Response:

The MODS operations associated with each of these cost pools is shown in LR-H-146, pages I-12 to I-26. These operations are listed in the exhibit USPS-T-14A of witness Bradley, USPS-T-14.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
INTERROGATORIES OF ABA, EEI AND NAPM

ABA&EEI&NAPM/USPS-ST45-4. Re LR-H-106 page II-5. Under the heading "cost pool" there is a line for "Non MODS". With respect to this line, (a) please explain in detail what Non MODS represents, identify all operations encompassed;

(b) identify the source(s) used to collect this data; and

(c) provide all workpapers and other supporting documentation.

Response:

a. Non-Mods represents all mail processing operations at facilities that are not MODS facilities and are not BMCs. See witness Degen discussion of MODS and non-MODS facilities at TR12/6469.

b. The costs shown on page II-5 are calculated as indicated in pages II-1 to II-6 of LR-H-106. See also the summary in pages I-1 and I-2. The source of the data on page II-1 is described in part III of LR-H-146.

c. See LR-H-146, part III.

RESPONSE OF POSTAL SERVICE WITNESS SMITH TO INTERROGATORIES OF AMMA

AMMA/USPS-T-45-1

The following questions refer to LR-H-128, page II-2 (Bates No.21).

- a. Please confirm that the 80% DBCS share on line 14 of page II-2 is derived by the method shown in the table below:

<u>Equipment Type</u> (1)	<u>Number^{1'} of Units</u> (2)	<u>Relative^{1'} Productivity</u> (3)	<u>Capacity [Col (2) * Col (3)]</u> (4)	<u>Share [Line of Col. (3) % Line 3 of Col (3)]</u> (5)
1.DBCS	4,723	3	14,169	79.18%
2.CSBCS	<u>3,726</u>	<u>1</u>	<u>3,726</u>	<u>20.82%</u>
3.Total	xxx	xxx	17,895	100.00%

1' LR-H-128 Page II-2 Footnote 2.

- b. If you cannot confirm part a, please show the derivation of the 80% DBCS share.
- c. USPS Witness Daniel (USPS-T-29 Appendix I page 43 of 43 revised 10/01/97) presents the productivities shown in Column 2 of the following table:

<u>Equipment Type</u> (1)	<u>Productivity (pieces/hour)</u> (2)	<u>Relative^{1'} Productivity</u> (3)
1. DBCS	7,467	0.436
2. CSBCS	17,124	1

1' Relative to CSBCS (Column (2) %0 17,124).

Please explain why the relative productivity in the above table is 0.436 unit of DBCS to one unit of CSBCS and that Footnote 2 of page II-2 of LR-H-128 assumes a relative productivity of a DBCS is 3.0 to one unit of productivity of CSBCS.

- d. Please explain in words and diagrams the meaning of line 4 of page II-2 (% MPBCS/DBCS DESTINATING) and how it is computed. (Please define any acronyms used.)
- e. Please explain in words and diagrams the meaning of line 8 of page II-2 (% DPSGIVEN BCS 3D DESTINATION) and how it is computed. (Please define any acronyms used.)
- f. Please confirm that line 13 of page II-2 is derived by the multiplication of lines

RESPONSE OF POSTAL SERVICE WITNESS SMITH TO
INTERROGATORIES OF AMMA

- 4, 8 and 14 of page II-2.
- g. If you cannot confirm part f, please explain the derivation of line 13.
 - h. Please explain the logic of the computation that produces line 13 (% NON-ELIGIBLE AUTO CAR.ROUTE DESTINATING) and explain the meaning of the result.
 - i. Please provide the standard errors of the estimates shown under column headings STANDARD REG.NON-CRT, PR and STANDARD, REG CARRIER ROUTE.
 - j. Please explain the difference between line 13 (% NON-ELIGIBLE AUTO CAR.ROUTE DESTINATING) and line 20 (% CURRENT NON-ELIGIBLE AUTO.CAR.ROUTE DEST.).

Response:

- a. Not confirmed.
- b. The calculation is correct as you've provided in subpart "a" with the exception that the title of the third column should be changed from "Relative Productivity" to "Relative Capacity." In the engineering studies of CSBCS requirements, it was estimated that three CSBCS would provide the same amount of DPS capacity as one DBCS. In another words, one DBCS will provide three times the daily amount of DPS letters as compared to a CSBCS. I am told this is based on the slightly higher throughput of the DBCS and that 3 passes are needed on a CSBCS versus one pass on a DBCS (the second pass) during the critical processing window. In addition, while the critical processing window for the CSBCS is estimated to be somewhat longer than for the DBCS, this was offset by the need to deploy a minimum of two CSBCS to a delivery unit, to assure reliability.
- c. As indicated above in subpart "b," relative labor productivities are not used in LR-H-128

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to determine the share of DPS associated with DBCS and CSBCS.

- d. **% MPBCS/DBCS DESTINATING** is the percentage of letters destinating (or addressed) to 3-digit ZIP Codes in the SCF service area of plants with at least one Mail Processing Barcode Sorter (MPBCS) or Delivery Barcode Sorter (DBCS) (for each respective category indicated in each column of page 21). As indicated at page 21 of LR-H-128, this is the ratio of "LC9" to "LC7." These variables are defined at page 5 of LR-H-128. LC7 is total destinating volumes (of letters and cards), excluding volumes destinating at the following 3-digit ZIPs which are APOs and FPOs: 90-98, 340, and 962-966, and excluding volumes destinating at the 5-digit ZIP Codes which receive only firm directs. (An APO is Army & Air Force post office located outside the continental United States. An FPO is a Fleet post office for Navy and Marine personnel.) LC9 is the volumes destinating at 3-digit ZIP Codes at MPBCS/DBCS sites, excluding the five digit ZIP Codes receiving only firm directs. LC9 is a subset of LC7.
- e. **% DPS GIVEN BCS 3D DESTINATION** is applicable to plants with one or more MPBCS or DBCS. For these plants, this is essentially the percentage of their destinating mail which goes to the 5-digit ZIP Codes that are targeted for DPS (those 5-digit ZIP codes with 10 or more carrier routes) in the test year (for each respective category indicated in each column of page 21). The formula for its calculation is $LC13/(LC9-LC11)$ as provided in LR-H-128, page 21. Each of these variables is defined at pages 5-6 of LR-H-128. LC9 is discussed above in subpart "d." LC11 and LC13 are subsets of LC9. LC11 is the volumes destinating at 5-digit ZIP Codes which receive only P. O. Box mail,

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for 3-digit ZIP Codes served by plants with MPBCS or DBCS. LC13 is the volumes destinating at ZIP Codes with 10 or more carrier routes, for 3-digit ZIP Codes served by plants with MPBCS or DBCS. LC11 is deducted from LC9 in the denominator since we are unable to say how much of the letter mail going to the 5 -digit ZIP Codes containing only post office boxes is DPS. Not deducting LC11 would implicitly take the percentage of DPS for this mail to be zero. An alternative approach was used in Docket No. MC95-1 as discussed at TR6/1903-1904, though this probably was an understatement of the amount of DPS since non-"City" 5-digit ZIP Codes dedicated to post office boxes receive DPS as well.

- f. Confirmed. This is indicated at page 21 or II-2 in line 13 of LR-H-128 and shown on sheet B of the spreadsheet COVRAG98.XLS.
- g. Not applicable.
- h. The meaning of % NON-ELIGIBLE AUTO CAR.ROUTE DESTINATING is the percentage of total destinating letter mail which destinate in 5-digit ZIP Codes that are targeted for DPS on DBCS in the test year (for each respective category indicated in each column of page 21). Letter mail is not eligible for the automation carrier route rate if it is going to a 5-digit ZIP Code (or zone) whose carriers receive DPS letters from DBCSs, thus this is the percentage of letters not eligible for the automation carrier route presort rate. The logic of calculating this using the product of Lines 4, 8 and 14 is as follows. The product of line 4 and line 8 of page 21 of LR-H-128 (which are described in subparts "d" and "e" above) provides the percentage of total destinating letter mail

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which destinate in 5-digit ZIP Codes that are targeted for DPS in the test year (for each respective category indicated in each column of page 21). Line 14, as discussed above in subparts a-c is the share of DPS to be done by DBCS in the test year.

Multiplying Line 14 times the product of lines 4 and 8 provides the percentage of letter mail (for each respective category indicated in each column of page 21) which destinate in 5-digit ZIP Codes which are targeted for DPS via DBCS in the test year and therefore ineligible for the automation carrier route presort rate.

- i. The standard errors for the line 13 of page 21 of LR-H-128 are not available. I am told there is no straight forward formula that applies, consequently an analysis would need to be done to develop this.
- j. Line 13 (% NON-ELIGIBLE AUTO CAR.ROUTE DESTINATING) and line 20 (% CURRENT NON-ELIGIBLE AUTO.CAR.ROUTE DEST.) are both the percentage of letter mail which is non-eligible for automation carrier route presort rate. Line 13 is the test year forecast, while line 20 is the actual percentage non-eligible in early 1997 based on Address Management System data. As DPS on DBCS is extended to more 5-digit ZIP Codes the line 20 percentage should rise to the line 13 percentage. The calculation of line 20 is the ratio of LC14 to LC7. LC7 is discussed above in subpart "d." LC14 is a subset of LC7. It is the ODIS volumes destinating in the list of 5-digit ZIP Codes which are were designated as non-eligible for automation carrier route presort rate by the Postal Service in early 1997. This list is contained in the diskette in LR-H-128, in the file "DNOACRZ.DAT." This is from the Postal Service's National Customer

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Support Center, Address Management System, Vol. 2, February, 1997, file "ctystate.zip"
of 12/1596, which is provided to mailers in making up their mailings.

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AMMAIUSPS-T45-2

Please provide the standard errors for each estimate shown on page II-1 (Bates No.20).

Response:

Pages 395 to 409 of LR-H-128 contain the volumes shown on page 20 (under the heading "Total Volume") and the relative margin of error for each volume estimate. I am told the standard error (SE) can be computed from the relative margin of error using the following formulas. First, note that the relative margin of error (RE) is:

$$1.96 * SE / \text{Total Volume}$$

The formula for the SE is therefore:

$$RE * \text{Total Volume} / 1.96$$

AMMA/USPS-ST-45-3

The following questions refer to the responses to AMMA/USPS-T-45-1b and 1c.

- a. Please define capacity and productivity and distinguish between the two as used in your responses.
- b. Please explain why the productivities of DBCS and CSBCS presented USPS-T-29 Appendix I page 43 of 43, appear to have the opposite ordering than the capacity ordering in LR-H-128 page II-2 footnote 2. (i.e., DBCS Productivity < CSBCS Productivity by one to 2.3 while DBCS Capacity > CSBCS Capacity by 3 to one)?

Response:

- a. Capacity for DBCS and CSBCS as discussed previously in my response which you cite, refers to the maximum feasible volume of letters which can be delivery point sequenced in a day. In the engineering studies of CSBCS requirements, the maximum feasible daily volume of delivery point sequenced letters of a DBCS was determined to be three times that of a CSBCS for the reasons described in my previous response.

Labor Productivity for the DBCS and CSBCS is the average volume of pieces sorted per labor hour.

- b. The opposite ordering for capacity and labor productivity occurs due to the differences in these measures as indicated in part a. One of the differences is that volumes are measured differently. Labor productivity is based on the volume of pieces sorted, while capacity is based on the volume of delivery point sequenced pieces. These two can differ since

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delivery point sequencing requires more than one sortation on both the DBCS and CSBCS. Another difference is that capacity is measured in "volumes" per day, while productivity is measured in volumes per labor hour.

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19. Please refer to LR H-106, page II-10.
- a. Does the calculation of the bulk metered mail benchmark assume that bulk metered mail and non-metered mail follow the same processing path? Please explain.
 - b. What is the purpose of, and rationale for, the 'rescaler'?
 - c. Please explain what column 2, 'Tallies for all Indicia,' represents.
 - d. Are these tallies representative of First-Class as a whole? Please explain.
 - e. What characteristics of bulk metered mail make it more expensive to process in mods pool ocr (.678 cents) than non-metered mail (.484 cents)?
 - f. What characteristics of bulk metered mail make it more expensive to process in mods pool bcs (1.766 cents) than non-metered mail (1.708 cents)?
 - g. In general, is it logical that bulk metered mail, which is presumably 'clean' mail, is only 1.16 cents cheaper to process than non-metered mail which presumably includes handwritten addressed mail? Please discuss.

Response:

- a. No. The bulk metered benchmark is based on the cost for metered First-Class single-piece letters. The processing costs and presumably the processing path differs between metered and non-metered letters. The attached table compares the unit costs for First-Class single-piece metered and non-metered letters, see columns 2 to 5. The calculation of the bulk metered benchmark does assume that the processing path is the same for bulk metered letters and metered letters, with the exception of the costs for mail preparation and business reply as shown in LR-H-106, page II-10, columns 5 and 6.

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b. The "rescaler," shown in the cell H62 of the spreadsheet CSTSHAPE.XLS, on the sheet METER is the ratio of the total letter volumes (TV) to metered letters volumes (MV) for test year First-Class single-piece. This is the ratio shown as "TV/MV" in the "Sources" shown on page II-10 in column 5. The "rescaler" or "TV/MV" is 49,065,223/19,065,223. (Note: the cell H62 is "hidden", along with other rows and columns in an apparently unsuccessful attempt, to better present the calculation. The description in the "Source" row for column 5 was intended to explain this calculation.)

The purpose or rationale for the "rescaler" is to put the costs in terms of cost per metered letter as opposed to cost per letter (in total or for all indicia). Consider the following steps which are accomplished by the "rescaler" and the other calculations in column 5. Column 1 of page II-10 is the unit cost by cost pool for total First-Class single-piece letters costs. Multiplying the contents of column 1 by 49,065,223 (which is the total volume of First-Class single-piece letters) provides total costs instead of unit costs. If we multiply this result times column 4 (which is the percentage of total letter costs that is associated with metered letters) we obtain the total costs for metered letters. If we divide this by the metered letter volume of 19,063,454, we then obtain the unit costs for metered letters.

c-d. Page II-10 shows column 2 to be "Tallies for Meter Mail," while column 3 is "Tallies for All Indicia." Column 3 is the direct tally cost for First-Class single-piece

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letters of all indicia. Column 2 is the direct tally cost for metered First-Class single-piece letters. The tallies in columns 2 and 3 are only representative of the metered letters and all single-piece letters respectively. These columns are used to calculate the percentage of costs associated with metered letters as done in column 4.

e. My suspicion is that metered mail (and bulk metered mail) would likely be run on MLOCRs more often than would non-metered letters, due to the higher percentage of handwritten addressed pieces in non-metered letters, at least at non-RBCS sites. Non-metered letters, as a consequence, receive more manual processing as shown in the attached table in columns 2 to 5, row labeled "manl." This disparity will likely decline as RBCS deployment is completed, though the disparity in remote encoding center costs "LD15" would then likely grow. Another explanation is that non-metered letters contains a significant volume of FIM letters, which are generally prebarcoded. See the response to OCA/USPS-103. Such mail would not receive MLOCR processing.

f. The higher cost for metered letters for barcode sorter processing is consistent with less automated processing for non-metered letters, as indicated in the response to part e.

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g. The unit cost difference between all First-Class single-piece letters (11.74 cents) and bulk metered letters (10.58 cents) of 1.16 cents and the unit cost difference between First-Class single-piece non-metered letters (12.23 cents) and bulk metered letters (10.58 cents) of 1.65 cents have likely been narrowed by the FIM letters that are a significant part of non-metered letters. The low cost of FIM letters likely offsets the cost of handwritten addressed letters.

Attachment to Response to POIR No. 5, Question 19

First-Class Single Piece Letter Unit Costs -in Total, Metered, Non-Metered and Bulk Entered Metered

COST POOL		(1) 1st Class Single Piece Letters (Cents/Piece)	(2) Unit Costs for Metered Letters (Cents/Piece)	(3) Unit Costs for Non-Metered Letters (Cents/Piece)	(4) Difference in Metered and Non-Metered Unit Cost (Cents/Piece)	(5) Percentage of Total Difference for Each Cost Pool	(6) Unit Costs for Bulk Entered Metered Letters (Cents/Piece)
mods	bca/	1.731	1.766	1.708	0.058	-4.67%	1.766
mods	express	0.004	0.002	0.005	-0.002	0.17%	0.002
mods	fam/	0.047	0.056	0.041	0.014	-1.15%	0.056
mods	fam/	0.251	0.219	0.272	-0.052	4.21%	0.219
mods	manf	0.036	0.031	0.040	-0.009	0.71%	0.031
mods	manl	1.829	1.846	1.846	-0.300	24.08%	1.846
mods	manp	0.005	0.003	0.006	-0.003	0.28%	0.003
mods	macparc	0.003	0.003	0.002	0.001	-0.05%	0.003
mods	ocr/	0.559	0.678	0.484	0.194	-15.56%	0.678
mods	priority	0.009	0.005	0.011	-0.006	0.49%	0.005
mods	spbs Oth	0.012	0.014	0.011	0.003	-0.23%	0.014
mods	spbsPrio	0.002	0.004	0.000	0.004	-0.32%	0.004
mods	BusReply	0.018	0.007	0.025	-0.017	1.40%	0.007
mods	INTL	0.026	0.014	0.033	-0.019	1.49%	0.014
mods	LD15	1.817	1.722	1.878	-0.156	12.53%	1.722
mods	LD41	0.038	0.057	0.026	0.030	-2.44%	0.057
mods	LD42	0.002	0.002	0.002	0.000	-0.01%	0.002
mods	LD43	0.390	0.426	0.368	0.057	-4.61%	0.426
mods	LD44	0.145	0.163	0.133	0.030	-2.44%	0.163
mods	LD48 Exp	0.000	0.001	0.000	0.001	-0.07%	0.001
mods	LD48 Oth	0.018	0.020	0.017	0.002	-0.19%	0.020
mods	LD48_SSv	0.011	0.011	0.011	0.000	0.01%	0.011
mods	LD49	0.209	0.224	0.200	0.023	-1.86%	0.224
mods	LD79	0.018	0.011	0.023	-0.012	0.97%	0.011
mods	MAILGRAM	-	0.000	0.000	0.000	0.00%	0.000
mods	Registry	0.004	0.003	0.004	-0.001	0.12%	0.003
mods	REWRAP	0.019	0.015	0.021	-0.006	0.46%	0.015
mods	1Bulk pr	0.004	0.004	0.004	0.000	0.03%	0.004
mods	1CancMPP	0.570	0.392	0.683	-0.292	23.39%	0.392
mods	1EEQMT	0.037	0.026	0.044	-0.017	1.40%	0.026
mods	1MISC	0.118	0.069	0.148	-0.079	6.34%	0.069
mods	1OPbulk	0.099	0.083	0.109	-0.026	2.05%	0.083
mods	1OPpref	0.489	0.431	0.527	-0.096	7.69%	0.431
mods	1Platfrm	0.573	0.465	0.641	-0.176	14.16%	0.465
mods	1POUCHNG	0.402	0.394	0.407	-0.013	1.01%	0.394
mods	1SackS_h	0.048	0.042	0.052	-0.010	0.83%	0.042
mods	1SackS_m	0.024	0.011	0.033	-0.022	1.75%	0.011
mods	1SCAN	0.049	0.051	0.048	0.002	-0.20%	0.051
mods	1SUPPORT	0.115	0.094	0.128	-0.035	2.78%	0.094
mods	NMO	0.000	0.000	0.000	0.000	0.00%	0.000
mods	PSM	-	0.000	0.000	0.000	0.00%	0.000
mods	SPB	0.001	0.001	0.001	0.000	0.00%	0.001
BMCs	ssm	0.001	0.001	0.000	0.001	-0.12%	0.001
BMCs	Othr	0.003	0.002	0.004	-0.002	0.14%	0.002
BMCs	Pia	0.001	0.002	0.000	0.002	-0.13%	0.002
Non Mods		2.006	1.811	2.130	-0.318	25.55%	1.811
Unit Cost		11.742	10.980	12.227	-1.247	100.00%	10.581
FY 98 Volumes (in millions)		49,065	19,063	30,002			

Sources: LR-H-106 Page II-10 LR-H-106 Page II-10 LR-H-106 Spreadsheet CSTSHAPE.xls sheet "METER" row I C2-C3 Ratio of C4 row difference to C4 total difference LR-H-106 Page II-10

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross examination for Witness Smith?

3 [No response.]

4 CHAIRMAN GLEIMAN: Four participants have
5 requested oral cross examination of Witness Smith with
6 respect to -- I'm forgetting which number we are on now --
7 with respect to 46 -- excuse me -- with respect to 45.
8 Can't teach an old dog new tricks -- not on the spur of the
9 moment, anyway.

10 We have had four parties indicate that they wanted
11 to cross examine on ST-45: The Advertising Mail Marketing
12 Association, The Alliance of Nonprofit Mailers, American
13 Bankers Association, Edison Electric Institute, and National
14 Association of Presort Mailers -- which is operating as a
15 party for this purpose -- and the Parcel Shippers
16 Association.

17 Does any other participant have oral cross
18 examination for the witness?

19 I don't see Mr. Volner in the room right now, so
20 Mr. Levy -- neither do I see anyone else.

21 MR. HOLLIES: That's not David Levy.

22 CHAIRMAN GLEIMAN: I assume you didn't make any
23 arrangements with anyone else to let them go before you?

24 I'm sorry. Don't mind me. Mr. Thomas? Ah -- Mr.
25 Volner, you have arrived in the nick of time. Do you still

1 wish to cross examine on ST-45?

2 MR. VOLNER: On ST-45 and not 46.

3 CHAIRMAN GLEIMAN: Well, we are doing 45 right
4 now, so if you wish to cross examine on 45, you're it.
5 Proceed when you are ready.

6 MR. VOLNER: Thank you, Mr. Chairman.

7 CROSS-EXAMINATION

8 BY MR. VOLNER:

9 Q Mr. Smith, my name is Ian Volner, and I will be
10 examining you very briefly on your answers to certain
11 interrogatories that we have propounded to you.

12 I must say that your answers that were designated
13 for the record were very helpful and has made this a lot
14 less painful than it would otherwise be.

15 What I want to talk to you about for a few minutes
16 is the distinction between capacity on machines and labor
17 productivity as you have used them in your testimony.

18 If you could turn to AMMA/USPS-45-3, I think we
19 can deal with it there.

20 Let me just make sure that I understand your
21 answer correctly. Capacity is an engineering study, whereas
22 productivity is the actual processing of mail on the
23 machine, is that correct?

24 A The capacity -- well, capacity is, as I have
25 defined in the response -- in my previous response I had

1 indicated the relative capacity for CSBCS and DBCS. Those
2 were provided by engineering.

3 Q And those were based on the maximum feasible daily
4 volume of the delivery point sequencing of mail?

5 A Right.

6 Q And productivity, on the other hand, is based on,
7 as I understand your answer, volumes per labor hour?

8 A That's right.

9 Q Now, is it correct that the -- well, certainly,
10 the maximum feasible productivity can not exceed the maximum
11 feasible capacity, is that correct?

12 A It depends on how you are defining capacity. If
13 you are talking about -- it depends on how you define
14 capacity and productivity. But if, in terms of -- given the
15 definitions here, capacity being daily capacity, whereas
16 productivity being number of sortations per hour, unless the
17 daily usage of the machines was less than an hour, I would
18 think -- you know, I would agree. So the -- let me make
19 --let me make sure.

20 Your question is the capacity -- I'm sorry. Could
21 you repeat the question again?

22 Q Sure.

23 A I am getting confused here.

24 Q I am trying to understand -- well, let me try it a
25 slightly different way. Maybe we can make this simpler.

1 Take a look at your response to 3(b), where we asked you why
2 the productivities of the DBSC and the CSBSC had the
3 opposite order than the capacity you showed in the library
4 reference. And you said that was because of the differences
5 in the way capacity and productivity were measured, am I
6 correct about that?

7 A Yes.

8 Q So now what I am asking you is, it is certainly
9 the case that productivity can not exceed capacity as those
10 terms have now been defined?

11 A Well, they are really two different things. If
12 you are talking about the amount of sorts, the productivity
13 is the amount of sortations per hour.

14 Q Right.

15 A The capacity is the amount of -- and the
16 definition that I have been using, it is the amount of
17 delivery point sequence pieces for a day. Now, since --

18 Q Well, let's -- let's --

19 A Well, let me just finish.

20 Q I'm sorry.

21 A Since the mail -- since delivery point sequencing
22 on a Carrier Sequence Bar Code Sorter, since that requires
23 three sortations, you could -- you can end up with a higher
24 per hour rate on a productivity than you would have of your
25 daily production of DPS pieces under some set of

1 circumstances. So I -- I guess I need to clarify what I
2 said earlier. I can't agree that productivity is
3 necessarily -- I think you were saying -- I think you are
4 saying capacity is necessarily bigger than productivity. I
5 ~~can~~ ^{cannot} agree that there is a certain relationship there. They
6 are two different measures, as I have -- as I said in my
7 --in my response.

8 Q Well, in terms of measuring cost of a particular
9 type of mail, which do you regard as the more reliable of
10 the two, productivity or capacity?

11 A They are both reliable, it is just a question of
12 the use to which you put each one. You use productivity for
13 the labor cost per piece, whereas, you use capacity for
14 determining how many Delivery Bar Code Sorters you need
15 versus Carrier Sequence Bar Code Sorters.

16 Q Understood. But the labor cost per piece, you
17 said you would use productivity, is that correct?

18 A That's right.

19 Q I'm sorry. Do you have library reference H128
20 with you?

21 A Yes, I do.

22 Q Would you take a look at page 21? And in
23 developing these coverage factors, did you use productivity
24 or capacity?

25 A Are you asking about a specific coverage factor,

1 or just in general?

2 Q Well, in general. Did you use different ones for
3 different ones of those items listed?

4 A Well, I don't think I -- let's see here. I don't
5 believe I made any use of labor productivities in any of
6 these coverages.

7 Q You did not use labor productivities in any of
8 these coverages?

9 A Right. And the only use of capacity, at least
10 explicitly, was the calculation -- the calculation that is
11 contained in lines 14 and 15 concerning the share of DBCS,
12 relative volume shares of DBCS and CSBCS.

13 Q But there you explicitly used which, capacity or
14 productivity?

15 A Capacity, the relative capacities of DBCS versus
16 CSBCS.

17 Q Let me ask one more question then. Do you believe
18 that for cost purposes, the Postal Service should be
19 consistent? That is to say, if you are using productivities
20 for measuring some functions, you should use productivities
21 for measuring all functions? Or conversely, as you've done
22 here, you've used capacity for measuring shares, then
23 capacity should also have been used for measuring cost.

24 A Well, no, they're two different things. The
25 purpose of these coverage factors is to -- in particular,

1 for lines 14 and 15 -- is to indicate the relative amount of
2 delivery point sequencing by the two types of bar code
3 sorters, delivery bar code sorters and carrier sequence bar
4 code sorters.

5 Q Right.

6 A And the relative capacities of the two types of
7 machines is what's important for that.

8 Delivery bar code sorters are considered to be
9 able to provide three times the amount of DPS daily volume
10 than a carrier sequence bar code sorter, and so, that ratio,
11 three to one, is what I used to ^{weight} ~~use~~ the numbers of DBCSs and
12 CSBCSs -- that is, we know that -- in the footnote two, we
13 know that there's 4,723 DBCSs, and we know that -- this is
14 projected for the test year -- projected for the test year
15 there's also 3,726 CSBCSs, and if one didn't consider that
16 the two types of machines are very different in the amount
17 of delivery point sequence mail that they can produce each
18 day, if one considered them the same and one just used the
19 volumes of equipment to find the relative shares, then that
20 would greatly overstate the amount of DPS sorting on carrier
21 sequence bar code sorters.

22 The DBCS has between 100 and 300 bins, and you can
23 walk sequence the mail with two passes, whereas the CSBCS
24 has about 13 to 17 bins, and that requires three passes, and
25 it requires three passes once the mail has already been

1 sorted to carrier route. So, in a sense, it's four passes.

2 So, again, the amount of DPS sorting that each
3 machine can provide is going to differ importantly for those
4 reasons.

5 Q I understand that -- you simply have told me that
6 the machines have different capacity. I understand that.
7 What I'm now asking you is -- the object of this exercise,
8 ultimately, is to measure cost, right? Isn't it?

9 A Right.

10 Q And is it capacity that drives cost or is it
11 productivity that drives cost?

12 A Well, if you're asking, is the object -- the
13 object of this -- what I'm doing here isn't to determine the
14 labor cost per piece. I mean that -- productivities are
15 relevant for labor costs per piece.

16 The coverage factor calculations aren't being used
17 to determine the labor cost per piece here. We're -- I'm
18 just trying to determine what percentage of the DPS is
19 occurring on each type of equipment, and that will allow us
20 to then use the labor productivities for ~~CBCS~~ ^{CSBCS} and DBCS in
21 the right relative weights in the models of the mail flow
22 modelers.

23 Q In the right relative weights by type of machine
24 assuming that you know what type of mail is being passed
25 over the machine and that different types of mail are being

1 passed over different types of machines?

2 A I didn't understand the question.

3 Q Well, let me take an example. You have pieces
4 that are already sorted to carrier route. As you said, once
5 they get to that, you only need three passes, I think you
6 said, on the DBCS. Is that correct?

7 A Pieces that are --

8 Q -- already prepared, sorted to carrier route.

9 A Right.

10 Q Now they're taken to the machine. How many passes
11 on a DBCS do you need?

12 A Okay. Well, on a DBCS they wouldn't need -- they
13 wouldn't be sorted to carrier route, they'd just be sorted
14 to five-digit --

15 Q Okay.

16 A -- and then they need two passes from that point.

17 Q Two passes from that point.

18 A Right.

19 Q But if the -- so, you wouldn't put mail that has
20 been already sorted to carrier route on a DBCS. Is that
21 correct?

22 A You could, but it's -- you know, you -- you
23 certainly -- it doesn't help you that it's been sorted to
24 carrier route.

25 Q It doesn't affect productivity.

1 A I don't know. I don't know if it does, but you --
2 the input for walk sequencing on a delivery bar code sorter
3 is mail sorted to the five-digit zone, and you could
4 aggregate mail that's been sorted to carrier route. I don't
5 know if it would affect productivity, but -- you could still
6 do it, but --

7 MR. VOLNER: I have no further questions, Mr.
8 Chairman. Thank you.

9 CHAIRMAN GLEIMAN: Thank you, Mr. Volner.

10 There are three parties remaining who wish to
11 cross examine -- the Alliance of Non-Profit Mailers, the
12 Bankers Association et. al, and Parcel Shippers.

13 I understand that some parties may have just a
14 very few questions that they wish to ask, and as I indicated
15 earlier, you know, our desire is to let parties who don't
16 have very much cross examination to go first.

17 I'm going to take about two minutes, and I'm going
18 to let the three remaining parties work out whether they
19 want to shift their order of cross examination.

20 [Recess.]

21 CHAIRMAN GLEIMAN: Gentlemen, have you -- we're
22 going to hear from parcel shippers next, then we're going to
23 hear from the bankers, and we'll finish up with the
24 Alliance.

25 Okay. Mr. May, whenever you're ready.

1 MR. MAY: Thank you.

2 BY MR. MAY:

3 Q Mr. Smith, I simply want to ask you very quickly
4 about the data used by Mr. Crum that he obtained from your
5 Study 106, and I believe in the preamble to your study, page
6 1-1, you state the total volume-variable mail processing
7 labor costs for the base year by rate category and by cost
8 pool are developed in LRH-146, Part 3, and that's shown for
9 letters, flats, and parcels respectively. Do you recall
10 saying that in your -- as a preamble to your study, the
11 overview?

12 A Okay. You're referring to page --

13 Q That's page 1-1, yes.

14 A Yes.

15 Q So you simply got that data from 146; correct?

16 A Yes, the data shown on pages II-1 and III-1 and --

17 Q The mail processing --

18 A IV-1.

19 Q For Standard A mail by shape.

20 A That's right.

21 Q And you didn't do any of that work yourself or
22 preside over it or direct it, you simply picked up whatever
23 was purported to you in Library Reference 146; is that
24 correct?

25 A That's right. I mean, I made the request for the

1 data, and I use it directly out of Library Reference 146.

2 Q Yeah. One of your answers to the ABA you said
3 there was no data collection associated with LRH-106.

4 A Yes.

5 Q So you have no way to vouch for or authenticate
6 that data other than your reliance on the fact that someone
7 else in the Postal Service system did that work; is that
8 correct?

9 A I myself didn't do the calculations. I did make
10 the request, and I can tell you -- I can describe to you
11 what the costs are, if --

12 Q Well, I mean, other than simply going to Library
13 Reference 146 and copying the costs and transposing the 106,
14 did you do anything else?

15 A In terms of them appearing on the three pages we
16 talked about?

17 Q Yes.

18 A The three pages that begin my work? No, I get
19 them directly from Library Reference 146.

20 CHAIRMAN GLEIMAN: Excuse me. Mr. Smith, could
21 you please either bend the mike a little further down or
22 pull it closer or speak up? I have a little bit of a hard
23 time picking you up. The mike is on. We need more volume
24 out of you or the mike closer to you, one or the other.

25 BY MR. MAY:

1 Q All right, now, Mr. Crum in his testimony where he
2 said that he got this data from your Reference 106, he also
3 stated, and I'm quoting him, and this is at page 2333 of the
4 transcript, that long before he did Library Reference 108,
5 long before it was prepared, he had discussions with the
6 people who produced the data that became Library Reference
7 106, and that those people told him that absolutely the data
8 would be perfect for the purposes he was using it for. Are
9 you the person he spoke to?

10 A I'm not sure. I guess I'd need to see that page
11 of the transcript, or you could -- maybe I need to see
12 Library Reference 108. Your --

13 Q You have no independent recollection?

14 A It was either myself -- I'm pretty sure I did
15 speak with Charlie Crum. I guess I'm not sure fully it
16 pertains to -- it likely does, but it would be useful to see
17 the transcript of that or does -- I believe Library
18 Reference 108 cites page -- cites the pages in Library
19 Reference 106, page 2-2, for instance.

20 Q Yes.

21 A Okay. It was either myself or Witness Degan, but
22 I would think it would be -- I'm pretty sure I had
23 discussions with him about it.

24 Q Well, I'm simply trying to find out because he
25 said he talked to those who produced the data in 106, and

1 they told him, whoever they are, that this data was perfect,
2 absolutely perfect -- those are his words -- for the uses
3 that he wanted it for, and I just want to know whether
4 you're the person, whether you have any independent
5 recollection of telling Mr. Crum that.

6 A Okay. If he said that he was speaking to the
7 people who developed -- a person who developed Library
8 Reference 106, then that's me. If he's talking about that
9 he talked to the people who developed the data in Library
10 Reference 146, then you know, that would be Witness Degen.

11 Q All right. He said who produced the data, not who
12 produced -- he said the people who produced the data that
13 became Library Reference 106, that those are the people he
14 talked to, and you do or don't have any independent
15 recollection of speaking to Mr. Crum and telling him that
16 this data was perfect for his purpose.

17 A I did speak with Mr. Crum, and I'm pretty sure I
18 did tell him that. I guess I -- I don't know if I told him
19 in quite those words or specifically in what -- that
20 reference -- the transcript you're referring to.

21 I certainly have talked with Mr. Crum about the
22 data in Library Reference 106, and I think he and I agreed
23 that it made sense for him to use it, but I guess I'm a
24 little uncertain here when you make a specific transcript
25 reference.

1 If there was something specific he was told, then
2 Witness -- and if he conferred with both Witness Degen and
3 I, it might not have been I who told him something specific
4 that you're referring to. So, I am a little uncertain.

5 I can confirm that Witness Crum and I talked and
6 that, in our discussions, we were in agreement that his use
7 of the data made sense.

8 Q What could you have told Mr. Crum about this data
9 other than the fact that you got it from 146? Did you know
10 anything else about it?

11 A My understanding is that I've used -- that Witness
12 Crum uses page II-2, which -- in which I do some
13 calculations. I apply the -- I apply some adjustments to
14 the costs to reflect the adjustments that Witness
15 Alexandrovich does in developing the base year mail
16 processing costs, and so, that's what I would have told him,
17 that I -- I would have told him that the data in page Roman
18 numeral II-2 and Roman numeral III-2 and Roman numeral IV-2,
19 which is -- which are the pages I believe he draws on -- I
20 would have told him that I do the same adjustments to this
21 data as Witness Alexandrovich has performed on the base year
22 costs and that -- apart from that, you know, I wouldn't have
23 been able to tell him -- that's, as far as I know, what I
24 would have been able to tell him about the data.

25 Q The data -- you got the data from 146.

1 A That's right.

2 MR. MAY: That's all, Mr. Chairman.

3 CHAIRMAN GLEIMAN: Okay. If my memory serves me
4 correctly, Mr. Corcoran.

5 MR. CORCORAN: Thank you, Mr. Chairman.

6 CROSS-EXAMINATION

7 BY MR. CORCORAN:

8 Q Mr. Smith, I am Brian Corcoran, appearing on
9 behalf of the Edison Electric Institute in this proceeding,
10 and I will be cross-examining you on behalf of the joint
11 group, the ABA-EEI and NAPM.

12 A Good afternoon.

13 Q Hi. Am I correct with respect to the benchmark
14 for bulk metered mail, that the Postal Services assumed that
15 such mail would be presented in trays?

16 A Yes.

17 Q Is it correct that, under Postal Service's
18 regulations, metered mail is not required to be trayed?

19 A That's right. Bulk metered mail is a subset of
20 metered mail and it is the subset used as our benchmark. It
21 is the portion of metered mail which is -- which comes to us
22 trayed.

23 Q Right. But there is no requirement that it be
24 trayed, as I understand the Domestic Mail Manual, is that
25 correct? It could be bundled, for example?

1 A Metered mail, in general, yes, there is no
2 requirement.

3 Q The only requirement, again, as I understand it,
4 is that if one has five or more pieces of metered mail, they
5 should be bundled, is that correct?

6 A I believe that's -- that's true.

7 Q Do you make any assumptions with respect to the --
8 let me rephrase it. In developing your bulk metered
9 benchmark cost, do you make any assumption with respect to
10 the volumes that might be presented as trayed to the Postal
11 Service?

12 A No, I don't.

13 Q From your study, do you know what the cost, the
14 unit cost of metered mail which is not trayed?

15 A The costs in Library Reference 106, at page Roman
16 numeral II-10, in column 5. Those are the unit costs for
17 all metered mail, both trayed and non-trayed metered mail,
18 metered mail letters.

19 Q Is traying a more efficient means for the Postal
20 Service to handle mail than if the same mail were bundled?

21 A I don't think I -- I'm sorry, I don't understand
22 your question.

23 Q Presumably the Postal Service requires mail to be
24 trayed because it is more efficiently processed.

25 A The Postal Service -- I mean, as you said earlier,

1 we don't require metered mail to be trayed, but we do tray
2 the mail -- we tray letter mail, collection letter mail,
3 before taking it for processing, and so, yeah, that is a
4 step in the process, and I can -- that must be -- no doubt
5 stems from the efficiency of doing that.

6 Q Well, for example, as a result of the Commission's
7 decision in MC-95-1, presorted mail must now be trayed, and
8 previously it could be bundled and presented to the Postal
9 Service. Are you familiar with that?

10 A Yes. First Class presort letter mail always had
11 to be in trays. It's just that now there's no bundles of
12 the letters within the trays except for non-OCR-upgradeable
13 letters, but -- I mean, all -- the mail needed to be trayed,
14 you know, all along, so it's -- that hasn't changed.

15 Non-OCR-upgradeable, that mail can still be
16 bundled, and it's still required to be bundled.

17 Q Turning to a different subject for the moment, is
18 it correct that the following MODS operations reflect mail
19 processing operations for the receipt of presorted First
20 Class mail by the Postal Service? And that'd be MODS
21 operations 02 through 09?

22 A Yes, this is for presort mail.

23 Q Correct, you say?

24 A Yes.

25 Q And within those operations the -- for example 02

1 is presort pref-carrier, and 03 is presort
2 bulk-carrier/saturation. Are you familiar with those two
3 operations?

4 A Not specifically. I'm familiar with the category
5 that I believe you're referring to the cost pool -- let's
6 see if I can find which cost pool that is. That's --

7 Q Well, I can help you out. It's 1 bulk PR, I
8 believe.

9 A Right.

10 Q Okay?

11 A Right. I'm familiar with the cost pool that
12 you're talking about, but the specific operations -- I'm not
13 that familiar with the specific operations, and --

14 Q Okay. Are you familiar enough to say whether the
15 designation pref refers to First Class and the designation
16 bulk refers to standard class?

17 A That'd be my -- that's my understanding.

18 Q And did I -- and the figures you show in page
19 II -- that's Roman II-5 of Library Reference 106, for
20 example, were taken from or derived from Library Reference
21 106 -- excuse me, I should -- let me rephrase it, because I
22 think some of those are numbers that you've done, but the
23 base numbers for fiscal year '96 for example that appear on
24 II, page 1, of Library Reference 106, is the source of those
25 numbers Library Reference 146?

1 A Yes.

2 Q And do I understand from your discussion with Mr.
3 May that you simply accepted the numbers from 146, that it
4 was not your independent work product?

5 A That's right.

6 Q So do you know whether the -- let me put it this
7 way -- so you can't say that, for example, with respect to
8 the 1 bulk PR designation for that cost pool whether the
9 costs shown on page II-1 for First Class mail include any
10 costs that should be assigned to Standard Class? Is that
11 correct?

12 A I would think they don't include -- I would think
13 they don't include costs that should be ^{assigned to Standard Class}, but that's -- again
14 was the work of Witness Degen and Library Reference 146. I
15 mean, the costs are -- Witness Degen has testified to how he
16 separated these costs by class and category, so, you know,
17 that'd be -- he could address that.

18 Q That's fine. No with respect to these MODS
19 operations 02 through 09, are you familiar enough to know
20 what they represent?

21 A Roughly, so, yes, I'm not going to be as familiar
22 as an operations witness, but I do know roughly what the
23 operations are there for.

24 Q Well, for example, with respect to pre-sorted
25 first-class mail, what do these operations represent?

1 A From my experience in the past, in general, those
2 operations are -- at least with respect to first-class mail,
3 they would include the tray sorting and sometimes bundle
4 sorting associated with first-class letters.

5 Q I'm talking pre-sort, just so we're clear.

6 A Right. For first-class pre-sort letters. My
7 recollection is that it's typically the -- can be the
8 initial operations, the initial tray handling and
9 separations done, but facilities differ in the way they use
10 these operations and how they use operations 02 to 09 versus
11 the other opening units, the opening units included in the
12 cost pools, the cost pools called opening pref and opening
13 bulk.

14 So, it's hard to generalize exactly how facilities
15 will use an operation like 02 or 02 to 09, but I know some
16 facilities do perform the initial tray sortations and
17 sometimes bundle sorting in those operations for first-class
18 pre-sort letters.

19 Q With respect to non-pre-sorted first-class mail,
20 is the analogous operations 010 through 028?

21 A Yes.

22 Q And mail that is not -- so I have this straight --
23 mail that is not pre-sorted is processed in MODS offices
24 through those operations. Is that correct?

25 A That's right.

1 Q With respect to the benchmark that you developed,
2 do you know which MODS operations reflect the acceptance
3 costs?

4 A If the mail goes into bulk mail acceptance -- and
5 I'm not sure that it does -- then it would be the LDC-79,
6 whatever MODS operations are included within LDC-79.

7 Q Doesn't that relate primarily to pre-sort?

8 A The bulk mail acceptance, right.

9 Q I see. That's what you meant by bulk mail.

10 A Yes.

11 Q I see.

12 A Right.

13 Q What about the acceptance costs, if any, for
14 single piece or non-bulk? Which MODS cost pool would such
15 costs be represented in?

16 A By acceptance -- there may not be any acceptance
17 costs per se, at least as I understand the term. There
18 might be costs associated with obtaining the meters, and the
19 meter --

20 Q Well, let me clarify it. What I'm looking for is,
21 at the time non-bulk, non-pre-sorted first-class mail is
22 received at the originating post office, is such mail -- is
23 the cost for such mail reflected in a particular MODS cost
24 pool, and if so, do you know which one?

25 A We're talking about bulk meter --

1 Q No.

2 A -- letters or metered letters?

3 Q No, just non-pre-sorted.

4 A Okay. Non-pre-sorted letters.

5 Q Yes. And bulk -- your benchmark -- just for
6 clarification, let's assume that those are not pre-sorted.
7 Isn't that right?

8 A Right. Okay. What do you mean by acceptance?

9 Q Well, that's what I was trying to clarify.

10 At the point at which such non-presorted mail is
11 received at the originating office?

12 Are you referring to the same sort of activities
13 that would occur as -- to be included under bulk mail
14 acceptance?

15 A By acceptance, are you -- because there's no
16 postage statement necessarily that comes with nonpresort, so
17 I am a little confused by what you mean by acceptance.

18 Q That's why I tried to get away from acceptance if
19 that seemed to be a source of confusion and I apologize for
20 that.

21 What I am interested in is at the time the mail is
22 received at the originating office. This is non-presorted
23 First Class mail. To what cost pool are costs associated
24 with such mail recorded?

25 A Are you referring to mail accepted -- received on

1 the platform?

2 Q However it is received.

3 A Okay. If it was received on the platform, then it
4 would be the MODS codes associated with platform operations.

5 Q And do you know what those operations are?

6 A I don't.

7 Q You have a -- in 106 you show a cost pool for OCR
8 and these represent various MODS operations.

9 Is it correct that for the most part OCR
10 operations would be performed on mail that is not barcoded?

11 A Yes.

12 Q And once your bulk metered benchmark mail is
13 received at the post office of origin, can you explain to me
14 how this mail gets to the OCR? What's the processing steps
15 it would follow?

16 A Bulk meter mail, since it is already trayed, that
17 needs to -- once it is identified as -- as soon as the mail
18 handlers identify it as, you know, as non-barcoded, given
19 that it is already trayed, it would be put on a cart and
20 taken over to the OCRs.

21 Now there could be -- you know, that might be done
22 somewhat differently at different plants. There might be
23 conveyors involved, but generally the mail would be taken
24 and brought to the OCRs in one way or another.

25 Q Okay, and for the operation to bring the mail to

1 the OCR, what MOD cost pool are those costs reflected in?

2 A I would think it would be the platform operations,
3 but there could be opening units involved. I am -- it might
4 be the, it could even be the 010 to 028 operations. I am
5 not sure.

6 I am not sure exactly who does that.

7 Q Okay. The last area I have relates to non-MODS
8 costs that you show in 106.

9 Are you familiar enough with the process of
10 developing those costs to explain how the costs shown on
11 page roman II-1 for the line Non-MODS for the column First
12 Class Presort Non-Carrier Route were developed?

13 A I can tell you -- I can give you my understanding
14 of what those costs are but I couldn't tell you -- excuse
15 me -- I can't tell you how they were calculated.

16 Q Okay. Do you know, for example, or again this may
17 be just something you accepted from 146, and if so that's
18 fine, but do you know what level of non-MODS costs are
19 reflected in Library Reference 106 for First Class single
20 piece and First Class presorted rate categories for the
21 operations that would be analogous to the MODS cost pools
22 BCS -- and I'll list a couple and if you do know, that would
23 be wonderful, but BCS, OCR, LD-15, and LD-79?

24 A Okay. I am not sure I understand your question.
25 You are looking for the corresponding non-MODS

1 operation or --

2 Q Yes. Can you tell me what the level of non-MODS
3 costs is reflected in Library Reference 106 for, say, First
4 Class single piece and First Class presorted mail for those
5 non-MODS operations that are comparable or the same as those
6 reflected for the MODS operations LD-15 or LD-79, for
7 example?

8 A No. No, I don't -- don't have that information.

9 MR. CORCORAN: Thank you, Mr. Chairman.

10 Mr. Smith, thank you. That's all I have.

11 CHAIRMAN GLEIMAN: Mr. Thomas, I think before we
12 start with your cross-examination, we are going take ten.
13 That way we won't have to interrupt you, hopefully. Okay.

14 MR. THOMAS: Oh, I don't have very long.

15 CHAIRMAN GLEIMAN: You don't have very long on
16 this. Okay. I was trying to getting a commitment out of
17 you.

18 We'll take ten then.

19 [Recess.]

20 CHAIRMAN GLEIMAN: Mr. Thomas.

21 [Pause.]

22 CHAIRMAN GLEIMAN: Mr. Thomas, whenever you're
23 ready.

24 MR. THOMAS: Do you want me to distinguish between
25 45 and 46?

1 CHAIRMAN GLEIMAN: I think so, because ST-46 is
2 not in yet, so --

3 MR. THOMAS: So --

4 CHAIRMAN GLEIMAN: You need to use the microphone,
5 sir. Pull it towards you.

6 MR. THOMAS: So right now we're dealing with
7 ST-45.

8 CHAIRMAN GLEIMAN: I think so. Yes.

9 CROSS-EXAMINATION

10 BY MR. THOMAS:

11 Q I really don't have an awful lot on this.

12 Dr. Smith, if you'll turn to -- I really just want
13 to confirm some things that we went over on Friday, so if
14 you'd take a look at page 3 of Library Reference 111. Have
15 I got that backwards?

16 MR. TIDWELL: Yes, 111 is in 46.

17 MR. THOMAS: Oh, I'm sorry. Let's do it the other
18 way. Okay. I turned it around.

19 BY MR. THOMAS:

20 Q In Library Reference LRH-77, there are a series of
21 tables. The first two are on pages 2 through 6, and the
22 second one is on 23 through 27. And those deal with base
23 year. And what I'm just concerned about is confirming the
24 source. If you can tell us the source of the data that is
25 not derived within that library reference that appear in

1 those tables.

2 A Okay. Could you give me those pages again,
3 please?

4 Q Sure. Just start with 2 through 6. This is base
5 year data.

6 A And this is for Library Reference 77.

7 Q This is 77; yes.

8 A Okay. Pages 2 through 6?

9 Q Yes.

10 A Okay. The source of the data is the base year
11 costs developed by Witness Alexandrovich. Do you want --
12 and also the calculations done by the program.

13 Q No, I --

14 A That follows the -- in other words, some of these
15 columns come right from the cost developed by Witness
16 Alexandrovich. Some of the costs shown on these pages are
17 developed by the program.

18 Q Within, yes. I'm just asking for where the stuff
19 from outside that was not generated or derived by the
20 program came from. And that's all from Alexandrovich. It's
21 from Library Reference LRH-6, I believe. Maybe I'm wrong.
22 That's what I'm trying to confirm.

23 A Okay. Let me just confirm that.

24 Yes, LRH-6. Yes.

25 Q Okay. And that is the same I believe for the next

1 set of similar tables on pages 23 through 27.

2 A Yes.

3 Q Okay. Then on pages 42 through 46, we get mail
4 processing for the test year, and all the rest of these are
5 test year tables. They're all similar, I believe. Where
6 did that data that was not generated within the program come
7 from? That I'm a little less clear on.

8 A Okay. That is from Witness Patelunas, and the
9 data specifically is from also LRH-6.

10 Q Okay. Is that going to be then true for the other
11 tables further on that deal with window service, city
12 delivery, carrier vehicle service drivers, special delivery
13 messenger-related and rural carrier-related? Is that all
14 from LRH-6? Other than what's derived within the program, I
15 understand.

16 A Yes, I believe so.

17 Q Okay.

18 A I just need to check one thing, though, just to
19 make sure. It's possible there's some reliance on Library
20 Reference LRH-4, but my understanding is it's LRH-6.

21 Q Okay. It was just unclear to me. I was fairly
22 certain that the first two were, and after that, it was a
23 little less clear when I looked back.

24 Again on 106, on page -- moving on to 106, on page
25 Roman I-2, there is a reference to an adjustment for various

1 classes and subclasses of a mail -- there's a reference to a
2 mail mix adjustment, as was done in LRH-126, in order to
3 reflect the impact of reclassification. Is that correct?

4 A Let's see. Are you referring to a specific
5 sentence?

6 Q Yes. I'm referring to the sentence that begins
7 with the word "Second," about the sixth or eighth line down,
8 seventh line down, on page Roman I --

9 A Yes. This is an adjustment to reflect the change
10 in the mail volume mix between 1996 and -- fiscal '96 and
11 fiscal '97. It would reflect reclassification and other
12 volume changes occurring between the two years.

13 Q Okay.

14 Now, on pages Roman VI and VII, there is -- there
15 are tables dealing with non-profit, and they show a mail mix
16 adjustment.

17 A That's Roman VI --

18 Q VI and VII.

19 A I'm sorry?

20 Q Yes. The pages themselves are not numbered at
21 this point, but it is page Roman VI-6.

22 A Okay.

23 Q They're numbered within the groups but not
24 continuously.

25 A Okay. I've got it.

1 Q What adjustment is that? Can you describe the
2 mail mix adjustment that is being accounted for here?

3 A Okay.

4 The Library Reference 126 is the source of the
5 first column, and that's the projected costs, the projected
6 costs in terms of the fiscal year '96 level of cost given
7 the '96 -- given the fiscal year '97 mail mix.

8 So, the cost level here for that first column is
9 the base year, but the mail mix reflected is for fiscal year
10 '97.

11 Q Is this the same way that you made -- let me try
12 this again. Is the mail mix adjustment here the same as the
13 mail mix adjustment done for regular rate mail, Standard A?

14 A Well, this calculation here isn't the mail mix
15 adjustment per se. This is inputs from the mail mix
16 adjustment. In other words, these numbers here come from
17 Library Reference 126, and I take numbers from Library
18 Reference 126 for regular mail on page Roman numeral VI-4.

19 Q Uh-huh.

20 A There's numbers that I take shown in column one of
21 that page that pertain to regular Standard A non-carrier
22 route.

23 Q Had they also had the mail mix adjustment applied
24 to them before you got them? In other words, did 126 apply
25 that mail mix adjustment to those figures?

1 A Yes.

2 The mail mix -- the Library Reference 126 develops
3 the costs -- develops the cost given the fiscal year '97
4 mail mix, and what I do is I use the information from
5 Library Reference 126 to determine the share of labor costs
6 associated with each shape after the mail mix adjustment,
7 and then I use those shares in the pages, both the Roman
8 VI-4 and Roman VI-6 -- I use the shares of cost from Library
9 Reference 126, which is in column two, and I then compute
10 the shares of costs associated with the development of the
11 costs in Library Reference 106 up to the point of the page
12 -- well, Roman numeral II-4 or III-4 or IV-4, which is the
13 page preceding the final calculation.

14 Q Right.

15 A And I am basically, I impose the shape percentages
16 from the mail mix Library Reference on the costs through
17 this calculation.

18 Q Okay. What --

19 A Towards the -- these ratios in column 5, once I
20 develop these ratios and apply them to the costs on, for
21 instance, on the costs on page Roman II-4, then that -- that
22 calculation leads to the cost by shape consistent with
23 column 2.

24 Q Right. I understand that. I think what is
25 confusing me is that I understood that the mail mix

1 adjustment referred on page I-2 was needed in order to
2 adjust for the effects of reclassification from MC95-1. Is
3 that correct? Is that what that reference is to?

4 A Yes, it is needed to reflect the mail mix changes
5 occurring between fiscal '96 and '97, and a lot of that mail
6 mix change was due to reclassification reform.

7 Q Now, reclassification reform for non-profits came
8 at a considerably later date. And what I am asking is where
9 did the mail mix -- is this the same mail mix adjustment, or
10 a different one that was applied, I guess for purposes of
11 establishing column 1 figures in -- on pages Roman VI-6 and
12 Roman VI-7?

13 A Well, it's the same calculation for non-profits.
14 Reclassification reform began later for non-profits but for
15 most or all of fiscal '97, non-profit mail -- non-profit
16 mail began, my guess, was under the reclassification reform
17 regime for most of fiscal '97, if not all of it. So, again,
18 your mail mix changes, your mail volume mix changes that
19 occur between '96 and '97, for non-profits, that would also
20 reflect -- that would reflect the effects of
21 reclassification reform.

22 Q Okay. So it is your understanding it is the same
23 adjustment, is what we are really coming down to? The same
24 adjustment was made for purposes of these non-profit tables
25 as was made for regular rate?

1 A It's the same calculations, I mean the --

2 Q Well, not --

3 A -- results of calculation are a little different,
4 but the --

5 Q But the adjustment that was made is the same
6 adjustment? The mail mix adjustment that was made.

7 A Yes. The factors --

8 Q Not what you did with them later.

9 A I'm sorry?

10 Q Not what you did with them later, but what led
11 into your -- the numbers that came to you then, were already
12 adjusted in the same way?

13 A Right. Right.

14 Q Okay. Let me go back to LRH-77 for a final point
15 here. Well, probably the finally point. You apply a series
16 of ratios that you develop to direct costs, to determine to
17 the indirect attributable costs of the mail. Is that
18 correct? Is that essentially what LRH-77 is about?

19 A LRH-77 is really just to determine the --

20 Q The ratios?

21 A The ratios of the total cost to the direct labor
22 costs. It is the -- it is the ratios of costs that are
23 present in either the base year cost development or the test
24 year cost development.

25 Q If you sum all of the indirect costs that are

1 piggybacked, would you come up with the total equal to,
2 greater than, or less than the CRA indirect cost, do you
3 know? Have you ever done that?

4 A No, I haven't. I mean as we talked about the
5 technical conference, you know, I haven't -- haven't done
6 that calculation. The summing, the indirect costs, since
7 all the indirect costs aren't accounted for by piggyback
8 factors in the sense that indirect costs associated with
9 postmasters, for which we don't produce piggyback factors,
10 and possibly other categories, there's no way to kind of
11 easily sum up the results of piggyback factors and then
12 compare them to the cost segments and components report. So
13 it is not ^{easy} but, no, we have never done that calculation.

14 MR. THOMAS: That's all I have on what I gather
15 was 46, ST-46.

16 CHAIRMAN GLEIMAN: Is there any follow-up?

17 [No response.]

18 CHAIRMAN GLEIMAN: No follow-up. I don't believe
19 there are any questions from the bench.

20 That brings us to redirect. There is no redirect.
21 If that is the case, then we will move on to the second
22 piece of testimony, which is 46, ST-46.

23 Mr. Tidwell, whenever you and your witness are
24 ready.

25 DIRECT EXAMINATION

1 BY MR. TIDWELL:

2 Q Mr. Smith, I have just handed you two copies of a
3 document which has been designated for purposes of this
4 proceeding as USPS-ST-46. It is entitled, "The Direct
5 Testimony of Marc A. Smith on Behalf of the United States
6 Postal Service. Have you had a chance to review the copies
7 of that document?

8 A Yes, I have.

9 Q Was that document prepared by you or under your
10 supervision?

11 A Yes, it was.

12 Q If you were to give that, the testimony contained
13 in that document, orally today, would that testimony be the
14 same?

15 A Yes, it would.

16 Q That testimony incorporates by reference a Library
17 Reference, Postal Service H-111. If you were provide the
18 contents of that Library Reference as your testimony orally
19 today, would it be the same?

20 A Yes, it would. I do have one errata, sorry.
21 Okay. Appendix B, Table 1, Footnote 5, there is a reference
22 there to Table 8 -- that should say Table 4. And I have
23 changed that in the copies here.

24 Q In the hard copy and the diskette copy?

25 A Yes.

1 MR. TIDWELL: With that change, Mr. Chairman, the
2 Postal Service would move into evidence the direct testimony
3 of Witness Smith which has been designated as USPS-ST-46,
4 which incorporates by reference Library Reference H-111.

5 CHAIRMAN GLEIMAN: Are there any objections?

6 [No response.]

7 CHAIRMAN GLEIMAN: Hearing none, Mr. Smith's
8 testimony and exhibits designated as ST-46 are received into
9 evidence, and I direct that they be accepted into evidence
10 along with the related library reference. As is our
11 practice, that will not be transcribed into the record.

12 [Direct Testimony and Exhibits of
13 Marc A. Smith, Exhibit No.
14 USPS-ST-46 was marked for
15 identification and received into
16 evidence.]

17 CHAIRMAN GLEIMAN: Mr. Smith, have you had an
18 opportunity to examine the packet of designated written
19 cross examination that was made available earlier on this
20 bit of your testimony?

21 THE WITNESS: Yes, I have.

22 CHAIRMAN GLEIMAN: If these questions were asked
23 of you today, would your answers be the same as those you
24 previously provided in writing?

25 THE WITNESS: Yes. Yes, they are. Yes, they

1 would.

2 CHAIRMAN GLEIMAN: If that is the case, Mr.
3 Tidwell, could I ask you to provide two copies of the
4 corrected designated written cross examination to the
5 reporter, and I'll direct that they be accepted into
6 evidence and transcribed into the record at this point.

7 [Designation of Written
8 Cross-Examination of Marc A. Smith
9 was received into evidence and
10 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MARC A. SMITH
(USPS-ST46)

Party

Alliance of Nonprofit Mailers

Interrogatories

ANM/USPS-ST46-1

Office of the Consumer Advocate

ANM/USPS-ST46-1
POIR No. 6, question 1

Respectfully submitted,



Margaret P. Crenshaw
Secretary

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-ST46-1. Please refer to the errata to Library Reference LR-H-111, filed October 28, 1997 that adds references to USPS LR-H-195 at pages 4, 14, 15, and also at Appendix A, Table 1; Appendix C, Tables 5-7; Appendix C, Table 8; and Appendix E, Table 1, 2, 3 and 8.

a. For the reference to LR-H-195 at page 4, please indicate precisely by page, line, and column, or cell, where the "[e]stimates for the percentage of mail dropshipped to origin and destination facilities (Y^{origin} , Y^{DBMC} , and Y^{DSCF})" can be found in LR-H-195.

b. If each datum referenced in preceding part (a) does not appear in LR-H-195, but must be computed from other data on nonprofit mail presented there, please indicate all data and computations necessary to derive (Y^{origin} , Y^{DBMC} , and Y^{DSCF}) for nonprofit Standard A Mail and exactly which data was used and the precise source of the data by document, page, line, and column.

c. Please provide a precise reference to the document, page, line and column where all nonprofit entry point profile data used in LR-H-111 and referred to in LR-H-195 at page 14 came from.

d. Please provide a precise reference by line, and column for all nonprofit pieces per container data used in LR-H-111 and referenced as being from LR-H-195 at page 15.

e. Please refer to the reference to LR-H-195 in Appendix A, Table 1, and indicate precisely where the nonprofit ODU data referred to in footnote 1 are located in LR-H-195 by page, line, and column.

f. In Appendix C, Table 5, please provide a precise reference by page, line, and column to all data in LR-H-195 that are associated with, or were used to compute, the costs per pound shown in Table 5. If the nonprofit data in LR-H-195 are not identical to the data in Table 5, please indicate precisely by page, line and column all nonprofit data from LR-H-195 that were used, provide the formulas in which they were used, and show how they were used to derive the data that appear in Table 5.

g. In Appendix C, Table 8, please provide a precise reference to the page, line, and column to all data in LR-H-195 that are associated with, or were used to compute, the array of data shown in Table 8. If the nonprofit data in LR-H-195 are not identical to the data in Table 8, please indicate precisely all nonprofit data from LR-H-195 that were used, provide the formulas in which they were used, and show how they were used to derive any data in Table 8 that were derived from data in LR-H-195.

h. In Appendix E, Tables 1, 2, and 3, please provide a precise reference to the page, line and column where all data in LR-H-195 that were used to compute the input percentages for sack, tray and pallet models shown in those three tables are presented. If the nonprofit data in LR-H-195 are not identical to the data in Tables 1, 2 and 3, please indicate precisely all nonprofit data from LR-H-195 that were used, provide the formulas in which they were

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
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used, and show how they were used to derive the data that appear in those three tables.

i. In Appendix E, Table 8, please provide a precise reference by page, line and column to the nonprofit pieces per sack, tray and pallet in LR-H-195 that appear in Table 8. If the data in LR-H-195 do not correspond to the figures shown in Table 8 (indicated by footnote 7), please indicate precisely all nonprofit data from LR-H-195 that were used, provide the formulas in which they were used, and show how they were used to derive the pieces per sack, tray and pallet data that appear in Table 8.

RESPONSE:

a. It is important to note that the dropship cost savings calculated for Standard Mail (A) shows the aggregate savings for both Regular Rate and Nonprofit. Therefore, all of the regular rate and nonprofit inputs into the dropship analysis have been aggregated.

The numbers used in estimating the percentage of mail dropshipped to origin and destination facilities (Y^{origin} , Y^{DBMC} , and Y^{DSCF}) are from Table 18 on page 26 in LR-H-195 and Table 18 on page 26 in LR-H-105. These two tables are structurally identical; they differ only in that Table 18 from LR-H-105 is the Standard Mail (A) Regular Rate mail entry profile and Table 18 from LR-H-195 is the Standard Mail (A) Nonprofit mail entry profile. In order to calculate the percentage of all mail dropshipped to origin and destination facilities, the Regular Rate and Nonprofit weight figures from each corresponding Table 18 were added together and divided by the aggregate total. For example, in Table 18 of LR-H-105, under "Weight (Thousands)," the first row shows all Standard Mail (A)

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
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Regular Rate pounds that were either dropshipped or plantloaded to the Originating Delivery Unit (ODU). The figures from this table were added together with the corresponding row from Table 18 of LR-H-195 (Standard Mail (A) Nonprofit pounds) in order to calculate the aggregate regular rate and nonprofit entry profile percentages by weight at the ODU. The same exercise was repeated for the OSCF, OBMC, DBMC, DSCF, and DDU. The combined Standard Mail (A) Regular Rate and Nonprofit entry profile in pounds is shown in LR-H-111, Appendix A, Table 1. The 4.61 percent of ODU entry shown in Appendix A, Table 1 is calculated from Table 18 from both library references by taking ratio of total (Regular and Nonprofit) Standard A pounds entered at the ODU which is 366,639 + 47,105 and total Standard A pounds which is 8,160,261 + 822,827.

- b. Please see the response to (a). Again, it is important to note that Y^{origin} , Y^{DBMC} , and Y^{DSCF} are not computed solely for Standard Mail (A) Nonprofit in LR-H-111. Rather, these percentages are calculated for Standard Mail (A) Regular Rate and Standard Mail (A) Nonprofit on an aggregate level.
- c. See the response to (a).
- d. Much like the entry point profile, the pieces per container were also aggregated for Standard Mail (A) Regular Rate and Standard Mail (A)

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Nonprofit. Table 17 on page 25 in LR-H-105 and Table 17 on page 25 in LR-H-195 each contain the Containers, Pieces, and Pieces per Container for Standard Mail (A) Regular Rate and Standard Mail (A) Nonprofit, respectively. In a similar manner as was done for the mail entry point profile, the data from the two Table 17s were summed together to produce aggregate containers, aggregate pieces, and then aggregate pieces per container across both Standard Mail (A) regular rate and nonprofit. The aggregate pieces per container were the figures used in LR-H-111. For instance, the 141 pieces per sack shown in Appendix E, Table 8 is calculated by first totaling the Regular and Nonprofit pieces in sacks, $9,467,614,022 + 1,603,427,193 = 11,071,041,215$. Then compute the total number of sacks $66,612,945 + 12,095,157 = 78,708,102$. Pieces per sack is $11,071,041,215/78,708,102 = 140.66$.

- e. The ODU data referred to in footnote 1 of LR-H-111, Appendix A, Table 1, is from Tables 18 of LR-H-195 and LR-H-105, in the table under the "Weight (Thousands)" heading. Please note again that the regular rate and nonprofit data are combined in the Standard Mail (A) portion of the dropship analysis. Therefore, although footnote 1 of LR-H-111, Appendix A, Table 1 refers to LR-H-195, it also refers to LR-H-105, since the data from both regular rate and nonprofit are aggregated in this analysis. LR-H-111, Appendix A, Table 1 shows the results of the aggregation for the

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mail entry point profile. For a detailed description of how the data was aggregated, see the response to (a).

- f. The costs per pound shown in LR-H-111, Appendix C, Table 5 are calculated in LR-H-111, Appendix D as noted above Table 5 and does not rely on LR-H-195. Table 8 (which is based on LR-H-195 and LR-H-105), however, incorrectly indicates that the results of Table 8 are used in Table 5. This will be revised to indicate that the results of Table 8 are used in Table 6 and that Table 5 along with Table 6 are used to obtain Table 7. Table 6 is taken directly from Table 8, which is discussed in part g of this question.
- g. Appendix C, Table 8 is calculated by adding together the total pieces or pounds that are dropshipped and plantloaded at each facility type from Table 18 on page 26 of LR-H-195 (Standard Mail (A) Nonprofit) and the corresponding Table 18 on page 26 from LR-H-105 (Standard Mail (A) Regular Rate). The total pieces or pounds for sacks is calculated by adding the pieces or weight of regular rate and nonprofit "Loose Sacks" for each facility type. The total pieces or pounds for trays is calculated by adding the pieces or weight of regular rate and nonprofit "Loose Trays" for each facility type. The total pieces or pounds for pallets is calculated by adding the pieces or weight of "Trays on Pallets" and "Bundles or Sacks on Pallets" for each facility type in both regular rate and nonprofit.

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- h. The first table in Appendix E, Table 1 shows the total number of pounds of sacked mail (excluding sacked mail on pallets) that is dropshipped and plantloaded at each entry point. It is this portion of Table 1, the first table, which is based on the mail entry profile data of LR-H-105 and LR-H-195. The total pounds in the column labeled "Dropshipped" is calculated by adding the data from Table 18 on page 26 of LR-H-195 in the column labeled "Loose Sacks, DS" to the corresponding data from Table 18 on page 26 of LR-H-105 for each entry type. The column labeled "Plantloaded" in the first table of Appendix E, Table 1 is calculated from the column marked "Loose Sacks, PL" in Table 18 of both LR-H-105 and LR-H-195. The same is true for the top portions of Tables 2 and 3 of Appendix E. For Table 2, the total pounds that is dropshipped and plantloaded for trays is calculated from the (DS and PL) columns labeled "Loose Trays" in the Weight Table from Table 18 of both LR-H-105 and LR-H-195. Table 3 of Appendix E, the top portion, is calculated by adding the pounds from the (DS and PL) columns labeled "Trays on Pallets" and "Bundles or Sacks on Pallets." The bottom two tables in Appendix E, Tables 1, 2, and 3 use the pound totals from the top of each page to determine the percent of pound volume that is on each flowpath. The flowpaths and the proportion of mail on each flowpath are shown in

RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
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Appendix A, Table 3. These proportions were calculated in MC95-1 and MC96-2 and do not rely on any of the new mail characteristics data.

In responding to this question, it was determined that the data from Table 18 of LR-H-195 had been erroneously omitted from the top portions of Tables 1,2, and 3 in Appendix E. Only the data from Table 18 of LR-H-105 was incorporated. Revised Tables 1, 2, and 3 of Appendix E will be filed showing the combined Regular and Nonprofit entry profile and the revised calculation of non-transportation costs. The impact of this change on the cost avoidances is very small. The only impact is that the Destination SCF cost avoided declines from 11.05 cents per pound to 11.04 cents per pound. The other cost avoidances are unchanged.

- i. See response to part d.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6**

1. Please refer to USPS LR-H-111, Dropship Savings in Periodicals and Standard Mail (A), Appendix F, which has five pages. Refer also to the spreadsheet showing the actual calculations behind this appendix. The first column on the first page shows productivities in "units per manhour." The second column shows deflated productivities under the heading "with variability." The spreadsheet shows these deflated productivities to be equal to the multiplicative product of the column 1 productivities and witness Bradley's (USPS-T-14) cost variabilities. Apparently, the deflated productivities are meant to reflect the lower levels of volume variable costs that result from witness Bradley's lower cost variabilities for mail processing. On pages 3 and 4 the wage rate (with adjustments) is divided by the deflated productivities to obtain dollars per unit, which is further converted into dollars per piece. A wage rate divided by a deflated productivity yields a larger cost savings. However, the effect of reduced cost variabilities should be smaller cost savings. The Postal Service is asked to provide a rationale for the sequence of manipulations that leads to inflated cost savings due to reduced cost variabilities.

RESPONSE:

An examination of Appendices F and G, concerning Periodicals Regular and Nonprofit dropship nontransportation cost avoidances indicates that the application of witness Bradley's variabilities was done incorrectly. I concur that the effect of reduced cost variabilities should be smaller cost savings, as compared to the cost savings with 100 percent cost variability. The calculations which are shown in the original LR-H-111 (now incorporated into USPS-ST-46), as indicated in the question, have in fact increased the cost savings due to the application of the variabilities. As a consequence, the originally filed cost avoidances were, regrettably, significantly

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6**

overstated. Correcting this error leads to a large downward revision in the cost avoidances. Revised pages for the USPS LR H-111 (now incorporated into USPS-ST-46) are being filed to reflect these changes. The following tables summarize the nontransportation dropship cost avoidances, as originally filed and as revised.

Costs Avoided for Periodicals Regular Dropshipping (Nontransportation)

<u>Point of Dropshipment</u>	<u>As Filed 7/10</u>	<u>Revised 11/20</u>
Destination SCF	\$0.0522	\$0.0204
Destination Delivery Unit	\$0.0984	\$0.0390

Cost Avoided for Periodicals Nonprofit Dropshipping (Nontransportation)

<u>Point of Dropshipment</u>	<u>As Filed 7/10</u>	<u>Revised 11/20</u>
Destination SCF	\$0.0477	\$0.0189
Destination Delivery Unit	\$0.0904	\$0.0361

One other substantive change to USPS-LR- H-111 is being filed today in conjunction with the November 17, 1997, response to ANM/USPS-ST46-1. In responding to this question, it was determined that the destination entry profile for Nonprofit mail (from Table 18 of LR-H-195) had been erroneously omitted from the top portions of Tables 1,2, and 3 in USPS L H-111, Appendix E. Only the destination entry profile data for Regular from Table 18 of LR-H-105 had been incorporated. Revised Tables 1, 2, and 3 of Appendix E in LR H-111 lead to revisions in the costs associated with container

**RESPONSE OF U.S. POSTAL SERVICE WITNESS SMITH TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6**

handling costs as calculated in Appendix D. This occurs due to changes in the probability associated with each operation (column one of the pages in Appendix D) change. The results of the changes in Appendix D are reflected in the revised pages of Appendix C. The impact of this change on the cost avoidances is very small. The impact is that the Destination SCF cost avoided declines from 11.05 cents per pound to 11.04 cents per pound and Destination Delivery Unit cost avoided declines from 13.79 to 13.78 cents.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.
5 One party indicated an interest in cross
6 examining, the Alliance of Non-Profit Mailers. Does anyone
7 else wish to cross examine?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, Mr. Thomas, fire away.

10 MR. THOMAS: I think this will go quite quickly.

11 CROSS EXAMINATION

12 BY MR. THOMAS:

13 Q Dr. Smith, could you confirm, on page three of
14 this library reference now, 111, that weight is used as a
15 proxy for cube, and by that, I mean X to the third?

16 A Let's see. It's page three?

17 Q Page three.

18 A Okay. I also should mention --

19 CHAIRMAN GLEIMAN: Mr. Smith, you're going to have
20 to either speak up or pull your mike closer.

21 THE WITNESS: Okay. I'm sorry. I tried to become
22 a doctor, but I wasn't able to, so I just want to make sure
23 -- I don't want to mislead you.

24 BY MR. THOMAS:

25 Q So, it is a proxy for --

1 A I'm sorry. I'm specifically addressing to your
2 addressing me as Dr. Smith. That doesn't bother me, but I
3 don't want to mislead you. I didn't get my Ph.D.

4 Q Okay.

5 A Okay. So, this is page three. Okay. Is there a
6 specific line on page three?

7 Q If I can find it here.

8 A You're saying X cubed?

9 Q I'm saying is weight used as a proxy for cube, and
10 by cube, I mean X to the third in volume on page three.

11 A Yes, weight is used as a proxy for cube for the
12 transportation cost.

13 Q Okay. In the transportation equation shown there
14 near the bottom of the page, it's my understanding that the
15 word "drop shipped" as used there pre-dates the current
16 usage of that and means entered at as opposed to the way we
17 would use drop ship now.

18 A That's right. The word "drop ship" there refers
19 to that it's mail -- that's where the mail is entered at, as
20 opposed to drop ship for a discount per se.

21 Q Right. And now this transportation equation also
22 implicitly assumes, does it not, that the Postal Service
23 realizes a savings as a result of drop shipping, though.

24 A Well, the equation on page three is the method
25 used to calculate the savings.

1 Q But it assumes going in that there is a savings,
2 that there is work that is avoided.

3 A I'm a little confused by that. You're saying it's
4 impossible for us to come out with the result that savings
5 are zero in doing this?

6 Q No, I was just asking if, when you start into this
7 formula, it assumed that, in fact, it would show that there
8 was savings. I suppose the formula could show that there
9 was not, but the assumption behind the exercise was to
10 establish that there was a savings.

11 A It was to determine what the savings were --

12 Q Okay. On page 6, with regard to nontransportation
13 costs, I just wanted to confirm a discussion that we had
14 that you agree that both weight and cube are cost drivers
15 for nontransportation costs?

16 A Both weight and cube can affect the
17 nontransportation costs. The more cube mail takes up and
18 the more it weighs, both can be factors in affecting the
19 container handling and dock handling type costs.

20 Q Okay. Turning now to Appendix A, Table 4, I
21 simply again want to confirm that the flow numbers shown in
22 what is labelled here Column 2 I think, although it is
23 really the first column on the left-hand side of the page,
24 are the numbers from Table 2, not from Table 3.

25 In other words, the footnote that begins, "Row

1 1" -- actually the row doesn't belong there at all, I don't
2 think. I think we agreed on that, but that it is Table --
3 wait a minute -- for some reason I thought there was a
4 change in that reference.

5 A Oh, for Appendix B. I mean that's the change.

6 Q Okay. You are referring to the Footnote 1 or the
7 item marked Row --

8 A Yes, the first footnote there.

9 Q Okay, well, that is referencing the total test
10 year pounds?

11 A That is developed in Appendix B, Table 2.

12 Q All righty -- then I --

13 A We had incorporated the other changes --

14 Q Right, but the numbers, the flow numbers there,
15 are the ones from Table 2?

16 Those flow numbers come from Table 2 of Appendix
17 A?

18 A Which flow numbers?

19 Q I'm sorry, that column that is labelled one, those
20 flow numbers do come from Appendix A, Table 2, that first
21 column, 1 through 13?

22 A Okay -- from column 12, the one, the column with
23 the number 12 on the top?

24 Q No, the ones that are numbered -- flow-numbered --
25 that comes from two pages earlier, Appendix A, Table 2,

1 right?

2 It's that diagram that shows the flows, which is
3 Appendix A, Table 2?

4 MR. TIDWELL: Let me make sure I understand what
5 you are asking.

6 If we look at the Appendix A, Table 4 --

7 MR. THOMAS: Right.

8 MR. TIDWELL: -- in column 2 --

9 MR. THOMAS: Right.

10 MR. TIDWELL: -- we have got a series of flow
11 numbers, 1 through 13.

12 MR. THOMAS: Right.

13 MR. TIDWELL: And you are asking whether those
14 flow numbers are the flow numbers depicted on Appendix A,
15 Table 2?

16 MR. THOMAS: Right, that's it. That's the
17 question.

18 THE WITNESS: Okay. The Table 3 basically
19 describes each flow, the origin and the destination, and
20 Table 2 provides the, kind of the diagram.

21 BY MR. THOMAS:

22 Q Right.

23 A So both tables are, I guess are relevant here.

24 The reference to Table 3 is made in regard to just
25 the description, the listing there on Table 3 which shows

1 the origin and destination for each flow.

2 Q All right, okay, and finally, on Appendix B, Table
3 5, the test year costs shown there in column 2 do not
4 reflect, as I understand it, some revisions -- those come
5 from Witness Patelunas's work papers but do not reflect a
6 correction or errata or update that he did in response to a
7 interrogatory, is that correct?

8 A That's right, yes.

9 MR. THOMAS: That's all I have.

10 CHAIRMAN GLEIMAN: Is there any follow-up?

11 [No response.]

12 CHAIRMAN GLEIMAN: There doesn't appear to be any.
13 There are no questions from the bench.

14 Mr. Tidwell indicates that there is no redirect
15 and if that is in fact the case, that concludes our hearing
16 for today.

17 I want to thank you, Mr. Smith. We appreciate
18 your appearance and your contributions to our record, and if
19 there is nothing further, you are excused.

20 THE WITNESS: Thank you.

21 [Witness excused.]

22 CHAIRMAN GLEIMAN: We will reconvene tomorrow
23 morning, December the 2nd, at 9:30 to receive supplemental
24 testimony of Postal Service Witnesses Pafford and McGrane.

25 Thank you all and have a pleasant evening.

1 [Whereupon, at 3:32 p.m., the hearing was
2 recessed, to reconvene at 9:30 a.m., Tuesday, December 2,
3 1997.]
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