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Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 15

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BEFORE THE

POSTAL RATE COMMISSION

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In the Matter of: :

POSTAL RATE AND FEE CHANGES : Docket No. R97-1

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Third Floor Hearing Room

Postal Rate Commission

1333 H Street, N.W.

Washington, D.C. 20268

Volume 15

Tuesday, December 2, 1997

The above-entitled matter came on for hearing, pursuant to notice, at 9:31 a.m.

BEFORE:

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HON. GEORGE W. HALEY, VICE CHAIRMAN

HON. W. H. "TREY" LeBLANC, III, COMMISSIONER

HON. GEORGE A. OMAS, COMMISSIONER

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C O N T E N T S

E X H I B I T S

E X H I B I T S [continued]

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
Supplemental Testimony and Exhibits of Michael R. McGrane, Exhibit No. USPS-ST-44	7618	7618
Designation of Written Cross-Examination of Michael R. McGrane		7619
Cross-Examination Exhibit NAA-XE-1	7761	7764

PROCEEDINGS

[9:31 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we continue hearings in Docket R97-1, the Postal Service request for changes in rates and fees. Postal Service witnesses Pafford and McGrane will be appearing to present supplemental testimony.

I want to remind everyone that designations of institutional responses provided by the Postal Service are to be submitted by Friday, December 5. They will be incorporated into the evidentiary record on December 10, and parties are urged to review the designations to make sure they're accurate and that material is not placed in the record more than once.

At the request of several participants, the Commission Staff has been working on developing a format to reflect material designated for incorporation into the record. On the table as you enter the room are two types of listings. In addition to our normal listing which shows items designated by party, we have a list which identifies every designated answer in the order in which it appears in the packet prepared by the Commission Staff, and it's in alphabetical order according to the requesting party. The -- not requested by designation but the party that filed the interrogatory initially, just to clarify. We hope that

having two listings will be helpful. We will welcome comments after counsel have had an opportunity to work with the new list.

During yesterday's hearing the Postal Service announced that a schedule conflict would prevent its witness appearing to testify on operation of the MODS system on December 10. It's suggested that he appear either on the afternoon of the 11th or the morning of the 12th. I believe it would be most convenient to schedule his appearance on the afternoon of the 11th.

This morning I'm issuing a ruling granting the Office of the Consumer Advocate additional time to respond to the Postal Service motion for reconsideration of Ruling No. 61. Other parties interested in commenting on that motion may file responses by 2 p.m., Thursday, December 4.

Does any participant have a procedural matter to raise before we begin?

If not, then we'll move on to our first witness. Our first witness is Bradley V. Pafford, who has already appeared for cross-examination concerning his testimony, USPS-ST-1. Today he's presenting USPS-ST-48, and cross-examination will be limited to matters relating to that testimony. Mr. Pafford is already under oath, so, Ms. Reynolds, if you would offer his supplemental testimony, including any necessary corrections.

Whereupon,

BRADLEY V. PAFFORD,

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

DIRECT EXAMINATION

BY MS. REYNOLDS:

Q Could you state your name once again for the record?

A Bradley V. Pafford.

Q And I've handed you two copies of a document entitled Supplemental Testimony of Bradley V. Pafford on behalf of the U.S. Postal Service, and it's designated ST-48. Are you familiar with this document?

A I am.

Q Was it prepared by you or under your direction?

A It was.

Q And if you were to testify orally here today, would this be your testimony?

A It would.

MS. REYNOLDS: At this time, Mr. Chairman, I'd like to move these documents into evidence.

CHAIRMAN GLEIMAN: Are there any objections?

Hearing none, Mr. Pafford's testimony and exhibits area received into evidence, and I direct that they be

accepted into evidence. As is our practice, they will not be transcribed into the record.

[Supplemental Testimony and Exhibits of Bradley V. Pafford, Exhibit No. USPS-ST-48, was marked for identification and received into evidence.]

CHAIRMAN GLEIMAN: Mr. Pafford, have you had an opportunity to examine the packet of designated written cross-examination that was made available to you earlier this morning?

THE WITNESS: I have.

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

THE WITNESS: Yes, it would.

CHAIRMAN GLEIMAN: That being the case, counsel, do you have copies of the designated materials? Please provide the two copies to the reporter, and I'll direct that the designated written cross-examination of Witness Pafford be accepted into evidence and transcribed into the record at this point.

[Designation of Written Cross-Examination of Bradley V. Pafford 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 BRADLEY V. PAFFORD
(USPS-ST48)

Party	Interrogatories
National Newspaper Association	NNA/USPS-ST48-1-14
Office of the Consumer Advocate	NNA/USPS-ST48-1-14

Respectfully submitted,

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS BRADLEY V. PAFFORD (ST48)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:	Designating Parties:
NNA/USPS-ST48-1	NNA, OCA
NNA/USPS-ST48-2	NNA, OCA
NNA/USPS-ST48-3	NNA, OCA
NNA/USPS-ST48-4	NNA, OCA
NNA/USPS-ST48-5	NNA, OCA
NNA/USPS-ST48-6	NNA, OCA
NNA/USPS-ST48-7	NNA, OCA
NNA/USPS-ST48-8	NNA, OCA
NNA/USPS-ST48-9	NNA, OCA
NNA/USPS-ST48-10	NNA, OCA
NNA/USPS-ST48-11	NNA, OCA
NNA/USPS-ST48-12	NNA, OCA
NNA/USPS-ST48-13	NNA, OCA
NNA/USPS-ST48-14	NNA, OCA

NNA/USPS-ST48-1. Please confirm that 38% of In-County mail volumes are estimated using a panel of non-automated offices, as described in Library Reference H-89, page 8, paragraph B. If you do not confirm, please explain.

NNA/USPS-ST48-1. Not Confirmed. This percentage referred to offices in the panel that are non-automated (please see my response to NNA/USPS T1-14, Tr.9/4360). The contribution of In-County volume from all panel offices to total In-County volume is estimated to be 44% for this same time period. The non-automated panel, hereafter referred to as just the panel, was described to include offices automated through the PERMIT system and non-automated offices (Tr.9/4383, lines 7-14, Tr.9/4388, lines 18-25, and Tr.9/4389, lines 1-3). It is important to note that at the time a panel is formed, the new offices that make up that panel are not automated through the PERMIT system. This is why the term "non-automated panel" has been used. Through time, some of the panel offices are automated for administrative convenience in order to relieve the burden on the postmasters and Headquarters data entry staff.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-2. Please confirm that within the panel of non-automated offices, the Postal Service collects volume data from mailers' statements [sic] through a census of those particular offices. If you do not confirm, please explain.

NNA/USPS-ST48-2. Confirmed.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-3. If your answer to question 2 is yes, please explain any differences between the data collected from mailers' statements through PERMIT and from mailers statements at the panel offices.

NNA/USPS-ST48-3. No difference.

Revised November 20, 1997

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-4. Please examine the Postal Service's response to NNA/USPS-T1-10 and T1-14. Do these responses mean that 92 offices were drawn to constitute a panel representing 5,902 offices, 6,103 offices or neither? Please explain your response.

NNA/USPS-ST48-4. Neither. There are a ninety-two non-automated and twenty-one automated offices (113 total panel offices) representing panels for periodicals and other mail categories. Of the 113 panel offices, twenty-one represent In-County intensive strata, of which the population count at the time of sample selection was 5,902 (see table provided in my response to NNA/USPS T1-16, PQ IV, strata 1 through 5; Tr.9/4363). An additional four panel offices represent the other stratum, of which the population count was 201. The total population count of offices in these strata, at the time of sample selection, was 6,103.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-5. Please confirm that the panel of 92 offices led to the result cited in NNA/USPS-T1-8-b. If you do not confirm, please explain how that result was obtained and provide workpapers to support your response.

NNA/USPS-ST48-5. Not confirmed. NNA/USPS-T1-8-b asked for base year estimated In-County volume. The ninety-two offices are the current office count, and relate to PQ III, FY 1997. The result cited in NNA/USPS-T1-8-b was obtained by identifying non-automated panel offices for each postal quarter of the base year, and then summing their respective In-County volumes. My response to NNA/USPS-T1-16 part e, Tr.9/4362, previously provided the workpapers.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-6. Please explain how the 92 offices referred to in question 4 were selected for the panel and provide a breakdown of those offices by CAG.

NNA/USPS-ST48-6. The ninety-two non-automated panel offices represent the following mail class and indicia based mail categories: First Class mail permit imprint (12 offices); Periodicals (20 offices); Standard Mail (A) permit imprint (19 offices); Standard Mail (B) Bound Printed Matter permit imprint (19 offices); and First Class mail/Standard Mail (A) metered and precanceled stamp (22 offices). For each of the above categories, a subpopulation of non-zero revenue offices is identified from a census or other source to establish a sampling frame. Offices are then stratified on revenue using a cumulative SQRT (f) stratum boundary method with fixed number of strata. A probability-based sample is selected for each category by allocating a fixed total sample size - based on a target coefficient of variation (relative to the total population of offices) - to strata using Neyman allocation. The method of selecting offices is simple random sampling within stratum. CAG information is not used and is not readily available.

NNA/USPS-ST48-7. Please confirm that no sampling of mailpieces is drawn in any way for purposes of compiling In-County mail volumes. If you do not confirm, please explain.

NNA/USPS-ST48-7. Confirmed (see Tr.9/4384; lines 3-14; Tr.9/4387, lines 21-25; Tr.9/4388, lines 1-11; Tr.9/4388, line 25; and Tr.9/4389, lines 1-3).

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-8. Please refer to LR-H-89, page 8, part B, "Sample Design," which states that "[f]or publishers' second-class all offices automated through the PERMIT system are included in one certainty stratum. The remaining offices are stratified into either In-County revenue intensive strata or other strata based on their total second-class revenue."

a. Please confirm that this means that (I)100 percent of offices where the acceptance of In-County second-class mail has been automated through the PERMIT system are placed in a single stratum for sampling purposes, (ii) 100 percent of such offices are sampled with certainty in each AP and (iii) at all such offices, 100 percent of In-County second-class mail is sampled in each AP.
b. If any element of subpart a. is not confirmed, please explain fully and provide a correction.
c. Please confirm that (I) 100 percent of the offices that are not included in the aforementioned single certainty stratum of offices automated through the PERMIT system are offices where the acceptance of In-County second-class mail has *not* been automated through the PERMIT system (ii) these offices are further subdivided in exactly two additional categories, namely an "In-County revenue intensive" category an "other" category and (iii) the criterion or criteria used to subdivide the non-automated offices is based solely on the second-class revenue at each individual office.
d. If any element of subpart c. is not confirmed, please explain fully and provide a correction.
e. The passage cited above indicates that the non-automated offices referenced in subpart c. are subdivided into "either In-County revenue intensive *strata* or other *strata*" [emphasis added] based on their total second-class revenue, implying that there are multiple groupings within each subdivision. Please enumerate all such strata within each subdivision, indicating the number of offices belonging in each, and the precise criterion or criteria, that determines the stratum to which each office belongs. If any other criteria besides total second-class revenue at the individual office is used, please describe the criteria fully, as well.
f. Is the division of the remaining offices references in subparts c. and e. used for any purposes other than to estimate In-County volumes? If so, please

describe all other purposes for which this stratification is performed.

g. Please refer to Witness Pafford's response to NNA/USPS-T1-10, part d. Of the 201 offices comprising the population of "other strata" referenced therein, how many were sampled for FY 1996?

NNA/USPS-ST48-8.

Response:

a. Question 8.a.(i) and 8.a.(ii) are confirmed.

b. Question 8.a.(iii) is not confirmed. One-hundred percent of In-County second-class mail is sampled each PQ, not each AP.

c. Question 8.c.(ii) is confirmed.

d. Questions 8.c.(i) and 8.c.(iii) are not confirmed. With regard to 8.c.(i), see the response to NNA/USPS-ST48-1 above. With regard to 8.c.(iii), In-County and non-profit/classroom revenues are the design criteria used to subdivide the population of non-automated offices.

e. My response to NNA/USPS-T1-16 at Tr.9/4362-63, enumerates such strata, and provides the number of offices in population and sample for the base year. The criteria used to define the strata boundaries beginning PQ IV, FY 1996, included In-County revenue for strata 1 through 5, and non-profit/classroom revenue for strata 6 (see table provide in my response to NNA/USPS-T1-16, Tr.9/4362). All criteria associated with the pre-PQ IV, FY 1996 strata are not known; however, In-County and classroom revenue were determining factors.

f. Confirmed. All periodical mail subclasses are estimated.

g. Please refer to the sample size provided for PQ IV, stratum 6 in the table from my response to

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-8. Response (continued):

NNA/USPS-T1-16, Tr.9/4362. See also my response to NNA/USPS-ST48-4 above.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-9. Please refer to LR-H-89, subpart C.1: "Sample Selection Methodology," which states that "the method of selecting sampling units (offices) for noncertainty strata for publishers' second-class ... was random initially."

a. Should this statement be taken to mean that, at the time the panel was initially drawn, the Postal Service believed the non-certainty portion of the panel was a representative probability sample of the universe of all In-County second-class mail entered at non-automated offices.
b. Please state the approximate time period when this sample was designed and list any and all time periods subsequent to that date when the design of the sample has been reviewed, altered or confirmed in its design.
c. If the answer to subpart a. is affirmative, does the Postal Service believe that this portion of the panel is still representative? If so, please explain fully the basis for this belief; if not, please explain why it is still being used.
d. If the answer to subpart a. is negative, please provide a correct interpretation of the referenced statement.
e. Please state any and all changes that may have been made in this sample design or the designation of offices comprising the sample as a result of errors discovered as a result of preparation for or litigation of R94-1 or in preparation for R97-1.
f. Please state whether any of the offices in the sample have been removed since the design of the sample because (i) they have been converted to the PERMIT system, or (ii) they have been closed.
g. If any offices are cited in response to subpart e. above, please explain how those offices are replaced in the sample. If they are not replaced, please explain why.

NNA/USPS-ST48-9. Response:

a. Yes.

b. The earliest known update of the PQ I - III periodicals sample design was PQ I FY1985. The panel was again updated PQ III FY1992. In PQ III FY1993, PQ I FY1994 and for FY1995 the design was changed to incorporate data from automated offices. Based on the results of a FY1995 census of post offices, the panel was updated effective PQ IV FY1996.

c. Yes. The panel was updated as recently as PQ IV, FY 1996.

d. Not applicable.

e. The Postal Service continually strives to maintain high quality revenue, pieces, and weight information, and to implement improvements in the associated data systems. As recently as PQ IV, FY 1996 the sample design and designation of offices was updated for the RPW noncountable subsystem. To the best of my knowledge there have not been any changes in the sample design or the designation of offices comprising the sample as a result of errors discovered as a result of preparation for or litigation of R94-1 or in preparation for R97-1.

f. To the best of my knowledge, none have been removed from the sample.

g. Not applicable.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-10. Please refer to the response of Witness Pafford to NNA/USPS-T1-15 (Tr.9/4361) where he states that "[t]he C.V. [of the estimated volume of In-County second-class mail] is not computed since it is not clear how the set of sample offices used for the base year PQ I-III period were originally selected prior to FY 1989." Please evaluate this response in light of your response to question 9 and explain the apparent contradiction with the portion of Library Reference LR-H-89 cited in question 9.

NNA/USPS-ST48-10. There is no contradiction. The sample was initially drawn using random sampling techniques. However, specific information about the probability selection methodology is no longer known.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-11. In order to allow the parties and the Commission to evaluate the precision of your volume estimates for In-County second-class mail entered in Post Offices where such entry is not automated through the PERMIT system, please provide:

a. upper and lower 95 percent confidence limits about these volume estimates for In-County second-class mail entered in offices in the In-County revenue intensive strata and for In-County second-class mail entered in offices in the other strata;
b. the data underlying your calculation of each of the two confidence intervals, in an electronic spreadsheet form;
c. the formula or formulae used in the calculations; and
d. a description of all statistical assumptions upon which these intervals rely.

NNA/USPS-ST48-11. The confidence interval is not computed for the same reason as given in response to NNA/USPS-T1-15, Tr.9/4361.

ANSWERS OF BRADLEY V. PAFFORD
TO INTERROGATORIES OF THE NNA

NNA/USPS-ST48-12. If there is some reason why it is not possible to compute a classical confidence interval in response to question 11, please fully explain the reason(s), and use the jacknife variance formula provided on page 6 of the LR-H—89 or, alternatively, another appropriate statistic that would allow the parties to evaluate the efficiency of your estimates.

NNA/USPS-ST48-12. The classical confidence interval for base year volumes cannot be computed for the reasons discussed first in NNA/USPS-T1-15, Tr.9/4361. Using the jacknife variance estimation approach for In-County volume for PQ I - III, and the design-based variance estimator for PQ IV of the base year, the estimated coefficient of variation for the estimated 877,829 (000) pieces is 3.18%.

NNA/USPS-ST48-13. Please refer to the Quality Assurance section on page 10 of LR-H-89. Please provide a plain English explanation of the "mainframe computer edits which examine sample data for completeness and consistency." Please also provide the computer code.

NNA/USPS-ST48-13. Speaking plainly, they include such things as 1) checks on the accurate transmission of data, 2) consistency checks on revenue, pieces, weight, revenue per piece, revenue per pound, and weight per piece, and 3) nonresponse checks. The checks are additional to those performed through the PERMIT system, and are applied to all input data. The computer code has been previously filed in LR H-42.

NNA/USPS-ST48-14. Please refer to the response of Witness Pafford to NNA's questions regarding the reasons why some post offices are not automated. (Tr. 9/4382, lines 15-25).

a. Please provide an explanation why 5,902 offices in the "In-County intensive strata" and the 201 offices in the "other strata" category are not automated.
b. Please state whether the Postal Service intends to automate each of these offices and, if so, the approximate schedule for conversion to automation. If the Postal Service does not intend to automate these offices within the next three years, please state any and all plans for revision of the strata or sampling systems to be used for calculating In-County volumes.
c. Please confirm that these offices tend to be smaller and more rural than the PERMIT offices in the system. If you do not confirm, please explain.

NNA/USPS-ST48-14. Response:

a. I do not know why the entire population of offices in these strata have not been automated. I can answer this only in terms of the panel offices for which I previously have testified to (USPS-T-1), and are currently testifying about (USPS-ST48). See part b. below.
b. I have not studied the Postal Service's plans for automating offices outside the panel. Panel offices are automated as explained in the response to NNA/USPS-ST48-1. Some offices may be automated within the next three fiscal years, however, I am unaware of any schedule.
c. Cannot confirm. I have not studied the demographics of these offices, other than to classify them for purposes of sample selection stratification.

CHAIRMAN GLEIMAN: Does any participant have additional written cross-examination for Witness Pafford?

There is none. Then we'll move on to oral cross.

Only one participant, the National Newspaper Association, requested oral cross-examination of Witness Pafford. Does any other participant wish to cross-examine the witness?

If not, Ms. Boone, would you please begin?

MS. BOONE: We have no questions at this time, Mr. Chairman.

CHAIRMAN GLEIMAN: Well, this is going to be the only time, because if you're not going to ask any questions, there can't be any followup, and I don't believe there are questions from the bench. So if that is the case, then we'll be able to move on.

I want to thank you, Mr. Pafford, for your appearance here today and your supplemental contributions to our record, and if there's nothing further, you're excused.

THE WITNESS: Thank you.

[Witness excused.]

CHAIRMAN GLEIMAN: And that brings us to our next witness, Mr. Alverno. I'll give you a moment to get yourself situated, and we can go off the record for a minute.

[Off the record.]

CHAIRMAN GLEIMAN: Mr. Alverno, will you identify the next witness, so I can swear him?

MR. ALVERNO: Thank you, Mr. Chairman. The Postal Service calls Michael McGrane.

CHAIRMAN GLEIMAN: Mr. McGrane, I regret having to ask you to stand right back up, but if you would and raise your right hand.

Whereupon,

MICHAEL R. McGRANE,

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

CHAIRMAN GLEIMAN: Please be seated.

DIRECT EXAMINATION

BY MR. ALVERNO:

Q Please introduce yourself.

A My name is Michael R. McGrane.

Q And where are you employed?

A I'm a Senior Economist with Christianson Associates of Madison, Wisconsin.

Q Now, earlier today I handed you two copies of a document entitled "Supplemental Testimony of Michael R. McGrane on Behalf of United States Postal Service," which is marked as USPS-ST-44. Did you have a chance to review those copies?

A Yes, I did.

Q And do you know where they are right now?

A With the court reporter.

Q And was this testimony prepared by you or under your direction?

A Yes, it was.

Q And do you have any changes or corrections to make?

A No, I don't believe so.

Q And if you were testify orally today, would your testimony be the same?

A Yes.

MR. ALVERNO: Mr. Chairman, I ask that the supplemental testimony of Michael R. McGrane on behalf of United States Postal Service, marked as USPS-ST-44, be received as evidence at this time.

CHAIRMAN GLEIMAN: Are there any objections?

[No response.]

CHAIRMAN GLEIMAN: Hearing none, Mr. McGrane's testimony and exhibits are received into evidence, and I direct that they be accepted into evidence. As is our practice, they will not be transcribed into the record.

[Supplemental Testimony and Exhibits of Michael R. McGrane, Exhibit No. USPS-ST-44, was marked

for identification and received into evidence.]

CHAIRMAN GLEIMAN: Mr. McGrane, have you had an opportunity to review the packet of designated written cross examination that was made available earlier today?

THE WITNESS: Yes, I have.

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

THE WITNESS: Yes, they would.

CHAIRMAN GLEIMAN: That being the case, I'm going to provide two copies of the designated written cross examination of Witness McGrane to the reporter, and I'll direct that they be accepted into evidence and transcribed into the record at this point.

[Designation of Written Cross-Examination of Michael R. McGrane 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 MICHAEL R. MCGRANE
(USPS-ST44)

Party	Interrogatories
Advo, Inc.	AAPS/USPS-T36-11 redirected to USPS ADVO/USPS-26-28 ANM/USPS-ST44-7 NAA/USPS-19 NAA/USPS-ST44-3-7, 18, 23, 25 NAA/USPS-T36-20-22, 24-26 redirected to USPS VP-CW/USPS-ST44-3, 6-9, 11-16, 19-25
Alliance of Nonprofit Mailers	ANM/USPS-ST44-1-9, 11 VP-CW/USPS-ST44-1-25
Direct Marketing Association, Inc.	ANM/USPS-ST44-9
Mail Order Association of America	NAA/USPS-ST44-8-11, 13-20, 23-24 VP-CW/USPS-ST44-1-4, 6-9, 11-22
Newspaper Association of America	AAPS/USPS-T36-8-11 redirected to USPS ABA/USPS-1 ADVO/USPS-26, 28 ANM/USPS-ST44-2-9, 11 MOAA/USPS-T36-1 redirected to USPS NAA/USPS-18-19 NAA/USPS-ST44-1-25 NAA/USPS-T36-17-27, 29-31 redirected to USPS VP-CW/USPS-ST44-1-25

Office of the Consumer Advocate	ANM/USPS-ST44-1-9, 11 NAA/USPS-ST44-1-25 VP-CW/USPS-ST44-1-25
Val-Pak Direct Marketing Services, Val-Pak Dealers Association, and Carol Wright	VP-CW/USPS-ST44-1-25

Respectfully submitted,

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MICHAEL R. MCGRANE (ST44)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:	Designating Parties:
AAPS/USPS-T36-8 rd. to USPS	NAA
AAPS/USPS-T36-9 rd. to USPS	NAA
AAPS/USPS-T36-10 rd. to USPS	NAA
AAPS/USPS-T36-11 rd. to USPS	ADVO, NAA
ABA/USPS-1	NAA, OCA
ADVO/USPS-26	ADVO, NAA, OCA
ADVO/USPS-27	ADVO, OCA
ADVO/USPS-28	ADVO, NAA, OCA
ANM/USPS-ST44-1	ANM, OCA
ANM/USPS-ST44-2	ANM, NAA, OCA
ANM/USPS-ST44-3	ANM, NAA, OCA
ANM/USPS-ST44-4	ANM, NAA, OCA
ANM/USPS-ST44-5	ANM, NAA, OCA
ANM/USPS-ST44-6	ANM, NAA, OCA
ANM/USPS-ST44-7	ADVO, ANM, NAA, OCA
ANM/USPS-ST44-8	ANM, NAA, OCA
ANM/USPS-ST44-9	ANM, DMA, NAA, OCA
ANM/USPS-ST44-11	ANM, NAA, OCA
MOAA/USPS-T36-1 rd. to USPS	NAA
NAA/USPS-18	NAA, OCA
NAA/USPS-19	ADVO, NAA, OCA
NAA/USPS-ST44-1	NAA, OCA
NAA/USPS-ST44-2	NAA, OCA
NAA/USPS-ST44-3	ADVO, NAA, OCA
NAA/USPS-ST44-4	ADVO, NAA, OCA
NAA/USPS-ST44-5	ADVO, NAA, OCA

Interrogatory:	Designating Parties:
NAA/USPS-ST44-6	ADVO, NAA, OCA
NAA/USPS-ST44-7	ADVO, NAA, OCA
NAA/USPS-ST44-8	MOAA, NAA, OCA
NAA/USPS-ST44-9	MOAA, NAA, OCA
NAA/USPS-ST44-10	MOAA, NAA, OCA
NAA/USPS-ST44-11	MOAA, NAA, OCA
NAA/USPS-ST44-12	NAA, OCA
NAA/USPS-ST44-13	MOAA, NAA, OCA
NAA/USPS-ST44-14	MOAA, NAA, OCA
NAA/USPS-ST44-15	MOAA, NAA, OCA
NAA/USPS-ST44-16	MOAA, NAA, OCA
NAA/USPS-ST44-17	MOAA, NAA, OCA
NAA/USPS-ST44-18	ADVO, MOAA, NAA, OCA
NAA/USPS-ST44-19	MOAA, NAA, OCA
NAA/USPS-ST44-20	MOAA, NAA, OCA
NAA/USPS-ST44-21	NAA, OCA
NAA/USPS-ST44-22	NAA, OCA
NAA/USPS-ST44-23	ADVO, MOAA, NAA, OCA
NAA/USPS-ST44-24	MOAA, NAA, OCA
NAA/USPS-ST44-25	ADVO, NAA, OCA
NAA/USPS-T36-17 rd. to USPS	NAA
NAA/USPS-T36-18 rd. to USPS	NAA
NAA/USPS-T36-19 rd. to USPS	NAA
NAA/USPS-T36-20 rd. to USPS	ADVO, NAA
NAA/USPS-T36-21 rd. to USPS	ADVO, NAA
NAA/USPS-T36-22 rd. to USPS	ADVO, NAA
NAA/USPS-T36-23 rd. to USPS	NAA
NAA/USPS-T36-24 rd. to USPS	ADVO, NAA
NAA/USPS-T36-25 rd. to USPS	ADVO, NAA
NAA/USPS-T36-26 rd. to USPS	ADVO, NAA

Interrogatory:	Designating Parties:
NAA/USPS-T36-27	NAA
NAA/USPS-T36-29 rd. to USPS	NAA
NAA/USPS-T36-30 rd. to USPS	NAA
NAA/USPS-T36-31 rd. to USPS	NAA
VP-CW/USPS-ST44-1	ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-2	ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-3	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-4	ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-5	ANM, NAA, OCA, VP-CW
VP-CW/USPS-ST44-6	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-7	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-8	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-9	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-10	ANM, NAA, OCA, VP-CW
VP-CW/USPS-ST44-11	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-12	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-13	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-14	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-15	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-16	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-17	ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-18	ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-19	ADVO, ANM, MOAA, NAA, OCA, VP-CW

Interrogatory:	Designating Parties:
VP-CW/USPS-ST44-20	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-21	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-22	ADVO, ANM, MOAA, NAA, OCA, VP-CW
VP-CW/USPS-ST44-23	ADVO, ANM, NAA, OCA, VP-CW
VP-CW/USPS-ST44-24	ADVO, ANM, NAA, OCA, VP-CW
VP-CW/USPS-ST44-25	ADVO, ANM, NAA, OCA, VP-CW

ADVO/USPS-26. Please refer to LR H-182, spreadsheet STDAMPWT.XLS. Explain the source and units (e.g., costs or weighted direct tallies) of the numbers in MODWIND, BMCWIND, and NMODWIND columns D-S.

RESPONSE:

The values appearing in columns D-S of sheets MODWIND, BMCWIND, and NMODWIND in STDAMPWT.XLS are the sum of the tally dollar value of direct tallies belonging to the particular mail processing cost pool, activity code, and weight increment represented by each cell. For this analysis, a direct tally is defined as a tally to which an activity code in the range of 0010 - 4950 was assigned.

ADVO/USPS-27. Please provide the source of the density (pounds/cubic feet) figures used in LR H-108 spreadsheet SA96SHP.XLS (BRCRT).

RESPONSE.

The values for letters and flats are found in Supplement 1 to USPS LR-MCR-13, filed in Docket No. MC95-1. The value for parcels is found in Appendix C of USPS LR-PCR-38, filed in Docket No. MC97-2.

ADVO/USPS-28. Please refer to USPS LR-H-182. Please provide, in a format similar to Tables 1 and 2 and Charts 1 and 2, adjusted attributable costs, mail volumes, and unit costs separately for (I) Regular Rate Carrier Route total and (ii) Regular Rate Carrier Route flats, after adjustment for presort level and dropship characteristics. Please explain and provide your derivations.

RESPONSE:

Attached to this response are tables detailing the requested adjustments. The first two tables show the source of the modeled costs used to calculate the adjustments. Table 1 shows the derivation of the modeled costs for each level of destination entry. Table 2 shows the source of the mail processing and delivery modeled costs.

Table 3 shows the calculation of the adjustment for differences in drop-shipping between weight increments. Weight by entry discount and weight increment was developed from the spreadsheet "ESTSAR96.XLS", which is found on the CD-ROM accompanying library reference H-108. To calculate the adjustment, the modeled costs for each entry location are multiplied the pounds entered at that location. These costs are summed over the four entry locations for each weight increment and divided by the total weight in that weight increment. This yields the average modeled cost per pound for each weight increment. The average modeled cost per pound is also calculated for the total of weight summed across all weight increments. This average cost per pound for all mail is subtracted from the average cost at each weight increment and then multiplied by the average weight per piece to yield the adjustment factor. The adjustment factor for each weight increment is the difference, in cents per piece, between the modeled costs at each individual weight increment and the modeled costs for all mail in the subclass.

Table 4 displays the calculation of the adjustment factors for differences in presort level between weight increments. These calculations are essentially the same as the calculations for adjustment for destination entry, except that the step of converting from pounds to pieces is not necessary. The mail volumes by presort level and weight increment were also developed from data in the spreadsheet "ESTSAR96.XLS", which is found on the CD-ROM accompanying library reference H-108.

Table 5 shows the application of the adjustments to the original unit costs by weight increment. The adjustment factors calculated in Tables 3 and 4 are subtracted from the original unit costs to yield adjusted unit costs. The primary effect of the adjustments is to lower the unit costs in the heavy weight increments. This occurs because mail in these weight increments is less presorted and dropshipped less often than mail in the lighter weight increments.

Charts 1 through 4 shows the original and adjusted unit cost curves for regular mail, regular flats, ECR mail, and ECR flats respectively.

Chart 1, Response to ADVO/USPS-28
Unit Cost by Weight Increment - Standard Mail (A) Regular

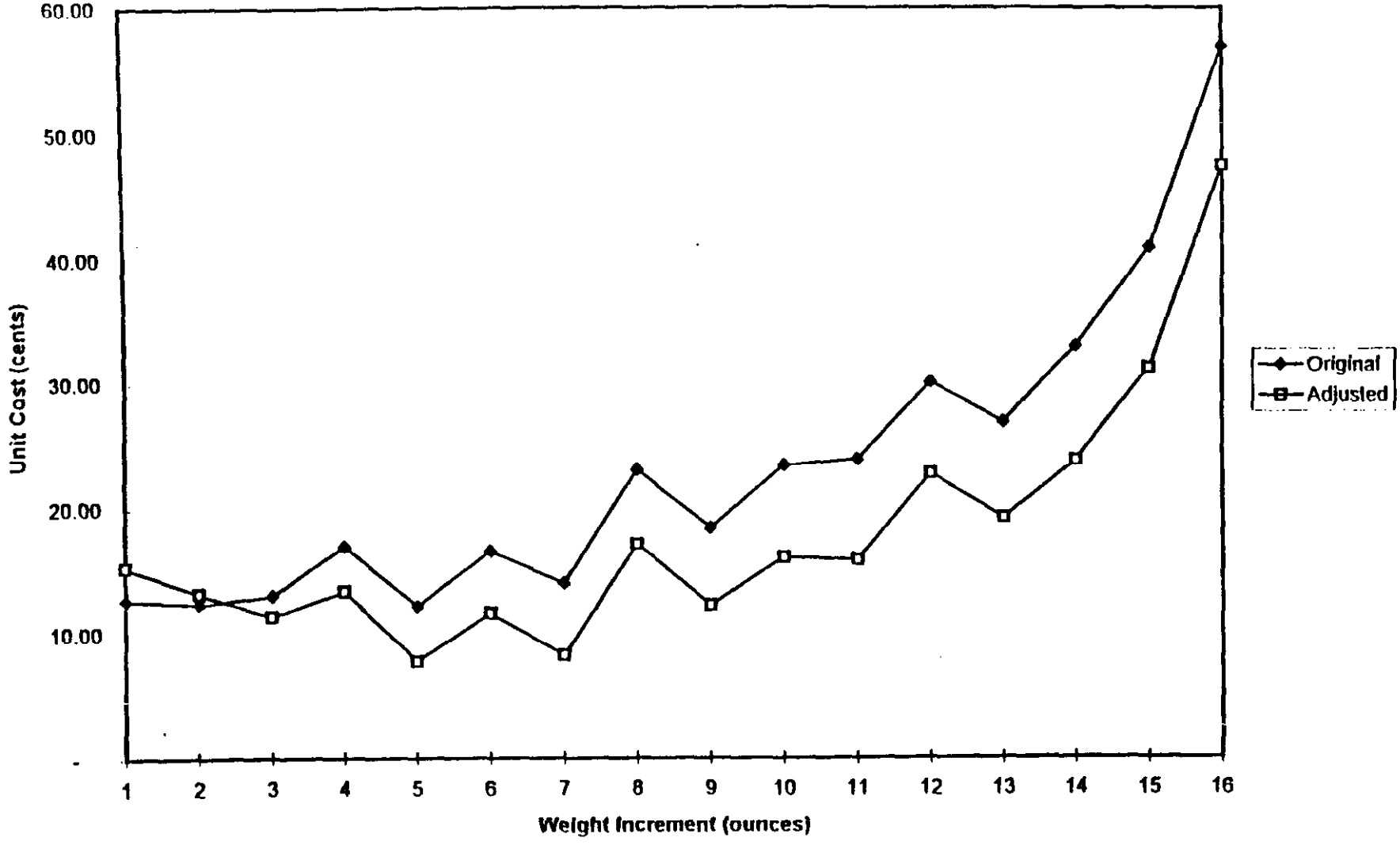

Chart 2, Response to ADVO/USPS-28
Unit Cost by Weight Increment - Standard Mail (A) Regular Flats

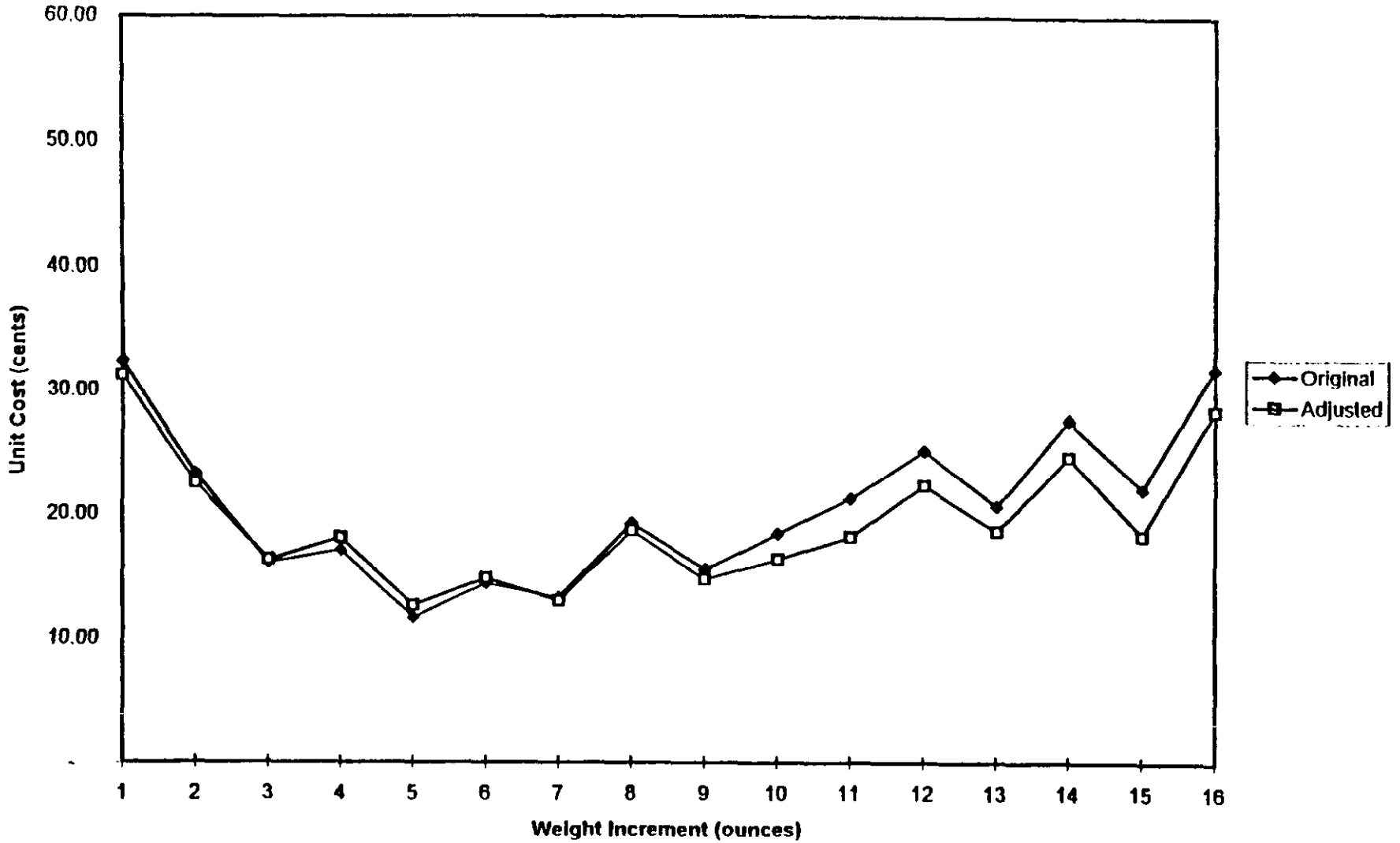

Chart 3, Response to ADVO/USPS-28
Unit Cost by Weight Increment - Enhanced Carrier Route Mail

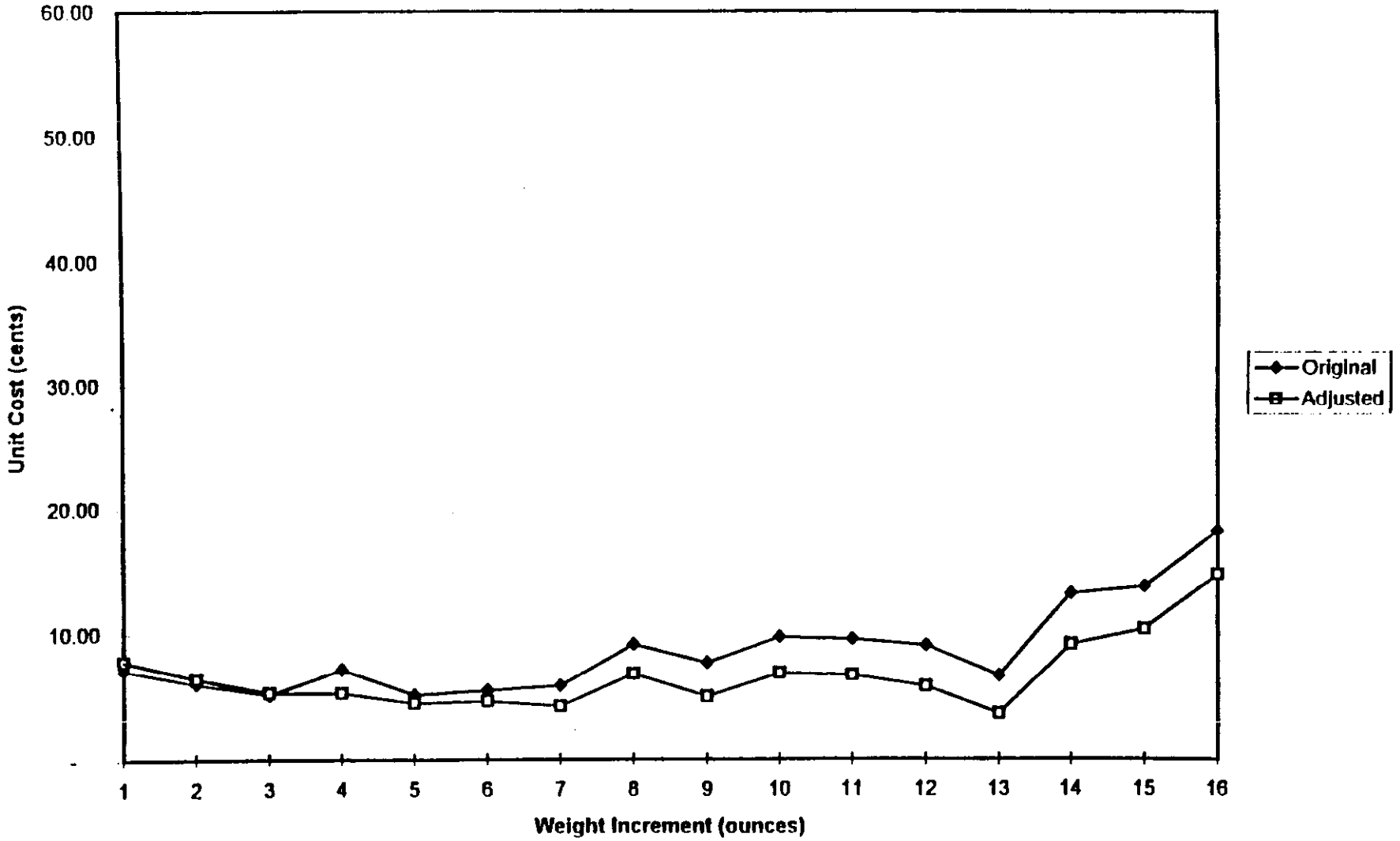

Chart 4, Response to ADVO/USPS-28
Unit Cost by Weight Increment - Enhanced Carrier Route Flats

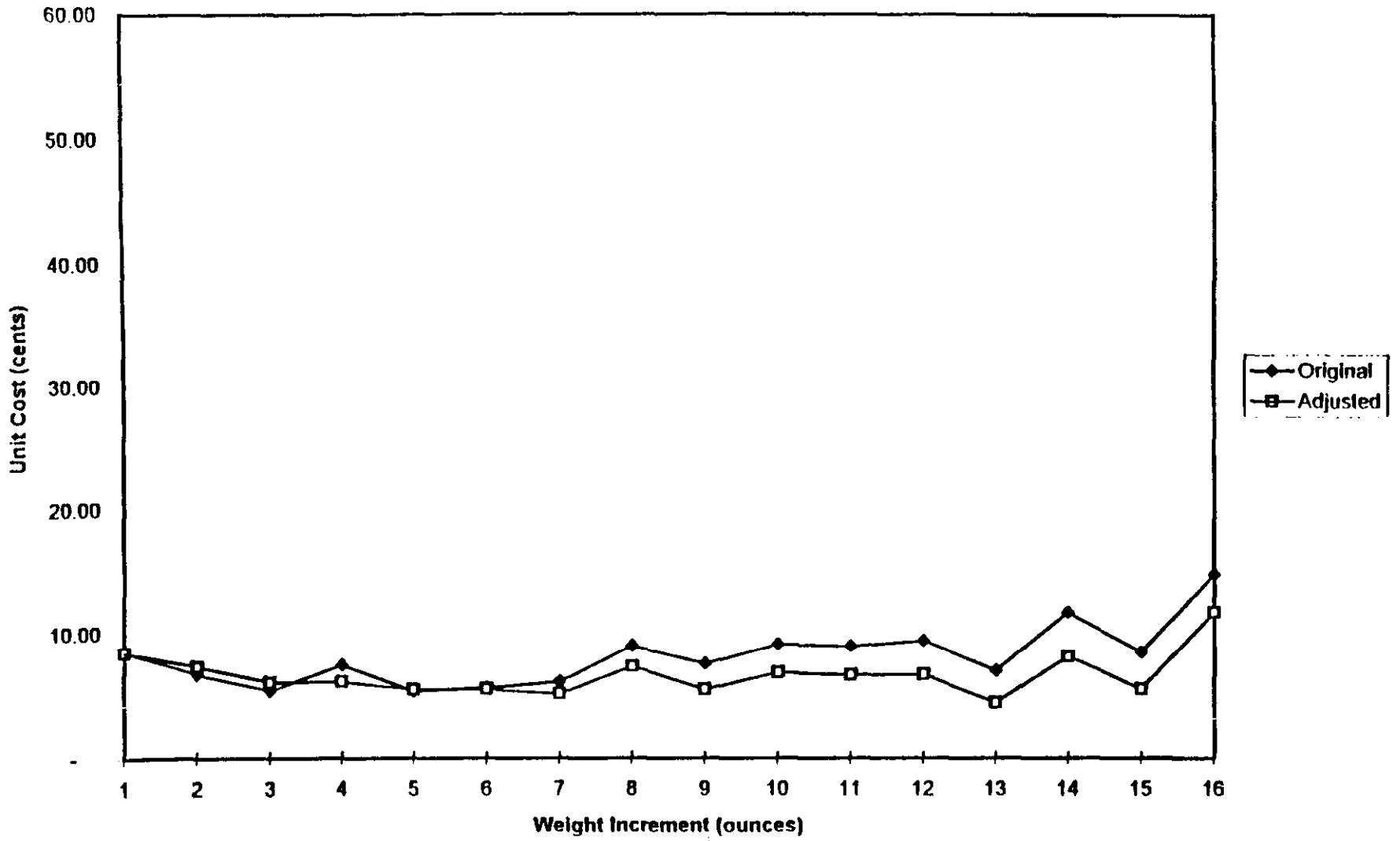

Table 1, Response to ADVO/USPS-28
Standard (A) Mail
Destination Entry Savings and Costs

Entry	Dropship Savings per pound (1)	Cost to Transport and Crosdock (cents per pound) (2)
No Discount		13.79
BMC	0.0904	4.75
SCF	0.1105	2.74
DDU	0.1379	-

Breakpoint 1/

(1) USPS LR-H-111
(2) Equals the DDU savings minus the savings for each row.

From USPS-T-36, Workpaper 1

Table 2, Response to ADVO/USPS-28
Mail Processing and Delivery Costs: Standard (A) Mail
Test Year (in cents)

Regular Subclass	Mail Processing	Delivery	Total
Presort			
Flats			
Basic	19.16	7.00	26.16
3/5-digit	11.42	7.00	18.42
Letters			
Basic	9.03	3.82	12.85
3/5-digit	6.74	3.79	10.53
Automation			
Flats			
Basic	16.34	6.22	22.56
3/5-digit	9.24	6.22	15.46
Letters			
Basic	5.27	3.46	8.74
3-digit	4.73	3.42	8.15
5-digit	3.42	3.36	6.78
Enhanced Carrier Route			
Letters			
Auto	2.91	3.36	6.27
Basic	2.51	4.37	6.87
High-density	1.00	3.76	4.76
Saturation	1.00	2.85	3.86
Flats			
Basic	4.54	5.85	10.38
High-density	2.41	5.16	7.57
Saturation	2.41	3.50	5.91

Source: Exhibit USPS-29C, page 2, except for mail processing costs for flats, which are from USPS-T-26, Table III-4 (actual mail makeup).

Table 3, I ...e to ADVO/USPS-28
Calculation of Adj...ment for Dropship Differences

	Weight Increment (ounces)																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
Weight by Entry Discount (000s of pounds) 1/																	
Regular - All Shapes																	
None	320,253	348,342	280,792	207,831	153,473	126,466	103,670	86,846	66,935	72,940	64,716	58,173	69,262	72,778	38,557	23,727	2,094,762
DBMC	93,491	177,151	224,980	270,639	164,742	98,675	53,879	42,942	31,224	22,426	26,033	44,266	31,918	21,520	9,151	4,650	1,317,690
DSCF	47,746	33,257	66,473	118,503	96,037	62,475	44,532	31,169	29,047	17,334	12,508	14,189	16,574	8,145	5,867	5,645	609,501
DDU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regular - Flats Only																	
None	21,420	103,489	147,552	171,005	141,190	109,721	70,983	59,872	47,823	45,356	29,957	24,553	22,279	17,723	18,170	12,048	1,043,141
DBMC	6,010	41,194	123,690	226,984	162,970	96,619	49,693	40,167	27,510	17,342	9,681	9,033	9,772	9,705	7,508	4,339	842,217
DSCF	5,079	17,259	47,983	107,103	95,096	61,288	39,939	26,751	25,495	15,876	8,039	8,184	11,465	5,123	5,282	5,591	485,552
DDU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Calculation of Modeled Costs and Adjustment Series for Regular Mail																	
Avg Model Cost/Lb 2/	10.82	10.27	8.95	7.50	7.63	8.29	8.94	9.24	9.05	10.29	10.17	9.01	9.78	11.01	11.04	10.72	9.15
Avg Model Cost/Lb - Flats Only	10.39	10.31	8.63	7.38	7.47	8.00	8.25	8.59	8.53	9.56	10.09	9.67	8.85	9.36	9.71	9.19	8.32
Avg Wt (lbs/pc) 3/	0.03	0.09	0.16	0.21	0.28	0.34	0.40	0.47	0.53	0.59	0.65	0.72	0.78	0.84	0.90	0.96	
Avg Wt - Flats	0.04	0.10	0.16	0.22	0.28	0.34	0.40	0.47	0.53	0.59	0.65	0.71	0.78	0.84	0.90	0.96	
DS Adjustment 4/	0.06	0.10	(0.03)	(0.35)	(0.42)	(0.29)	(0.08)	0.04	(0.06)	0.67	0.67	(0.10)	0.49	1.56	1.69	1.51	
DS Adjustment - Flats Only	0.09	0.19	0.05	(0.20)	(0.24)	(0.11)	(0.03)	0.13	0.11	0.74	1.15	0.97	0.41	0.87	1.26	0.85	

	Weight Increment (ounces)																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
Weight by Entry Discount (000s of pounds) 1/																	
Enhanced Carrier Route - All Shapes																	
None	74,778	52,566	55,781	40,158	20,977	15,728	8,306	4,534	3,239	2,462	1,785	1,725	1,218	1,523	951	679	286,411
DBMC	84,093	138,658	198,763	169,426	94,862	53,523	25,664	12,679	11,106	7,458	3,441	2,562	3,534	2,972	1,621	2,130	812,491
DSCF	130,795	259,010	397,483	340,755	267,866	169,990	111,317	52,430	52,794	29,057	19,166	10,357	20,949	6,011	6,658	7,423	1,884,059
DDU	21,836	118,203	252,187	88,179	261,921	144,049	49,029	12,042	4,641	2,539	1,638	740	498	219	199	77	957,996
Enhanced Carrier Route - Flats Only																	
None	11,528	21,083	29,817	27,909	18,961	15,291	8,108	4,453	3,199	2,442	1,747	1,679	1,197	1,471	925	676	150,486
DBMC	14,609	39,899	86,875	132,392	89,960	53,058	25,528	12,554	11,087	7,458	3,433	2,561	3,525	2,972	1,614	2,128	489,654
DSCF	38,627	151,078	289,461	307,321	265,594	169,309	110,924	52,304	52,731	29,041	19,113	10,338	20,946	6,000	8,655	7,422	1,538,864
DDU	9,302	107,302	242,836	87,181	261,317	143,744	48,859	11,917	4,571	2,486	1,620	720	491	213	197	74	922,830
Calculation of Modeled Costs and Adjustment Series for Enhanced Carrier Route Mail																	
Avg Model Cost/Lb 2/	5.74	3.68	3.10	3.59	2.28	2.44	2.79	3.26	3.37	3.59	3.59	4.18	3.47	4.81	3.90	3.86	3.29
Avg Model Cost/Lb - Flats Only	4.51	2.80	2.49	3.34	2.23	2.43	2.78	3.25	3.37	3.59	3.58	4.16	3.46	4.77	3.87	3.86	2.78
Avg Wt (lbs/pc) 3/	0.03	0.09	0.15	0.22	0.28	0.34	0.40	0.47	0.53	0.59	0.66	0.72	0.78	0.83	0.91	0.96	
Avg Wt - Flats	0.04	0.10	0.15	0.22	0.28	0.34	0.40	0.47	0.53	0.59	0.66	0.72	0.78	0.83	0.91	0.96	
DS Adjustment 4/	0.08	0.04	(0.03)	0.07	(0.28)	(0.29)	(0.20)	(0.01)	0.04	0.18	0.20	0.64	0.14	1.27	0.55	0.55	
DS Adjustment - Flats Only	0.07	0.00	(0.04)	0.12	(0.15)	(0.12)	(0.00)	0.22	0.31	0.48	0.53	0.99	0.53	1.66	1.00	1.04	

1/ Weight by entry discount calculated from data available in the CD-ROM accompanying library reference H-108.
2/ Equals the sum of the weight in each entry discount times the model cost from Table 1 divided by the total weight in the weight increment.
3/ Average weight per piece is calculated from LR H-108 data.
4/ Equals the average modeled cost for the weight increment minus the average modeled cost for the "Total" column times the average weight per piece.

Table 4
Calculation of se to ADVO/USPS-28
ment for Presort Differences

	Weight Increment (ounces)																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
Regular Subclass: Mail Volumes (000) 1/																	
Presort																	
Flats																	
Basic	128,271	308,708	250,288	199,787	130,040	96,658	68,619	54,180	44,294	42,685	39,727	35,710	30,113	29,852	19,774	12,108	1,490,815
3/5-digit	351,936	507,380	497,516	487,557	288,469	197,994	175,332	113,042	75,085	70,733	79,149	96,393	89,599	70,810	23,052	11,604	3,127,651
Letters																	
Basic	1,557,096	440,480	135,745	24,765	-	-	-	-	-	-	-	-	-	-	-	-	2,158,086
3/5-digit	3,756,212	956,780	636,697	270,797	-	-	-	-	-	-	-	-	-	-	-	-	5,620,486
Automation																	
Flats																	
Basic	9,627	30,687	25,056	28,498	23,922	16,077	7,806	6,668	4,992	2,884	2,053	1,466	820	911	799	1,042	163,307
3/5-digit	243,810	881,323	1,307,041	1,727,880	1,054,842	534,332	248,875	170,662	117,140	74,211	36,918	29,490	30,251	20,499	15,995	10,566	6,503,836
Letters																	
Basic	966,523	402,406	95,565	6,050	-	-	-	-	-	-	-	-	-	-	-	-	1,470,545
3-digit	2,448,039	1,212,532	257,108	16,540	-	-	-	-	-	-	-	-	-	-	-	-	3,934,219
5-digit	3,844,850	1,576,399	441,012	23,242	-	-	-	-	-	-	-	-	-	-	-	-	5,885,503
Avg Modeled Cost 2/	9 61	11 33	13 95	16 18	17 06	17 51	18 07	18 25	18 49	19 06	19 73	19 62	19 39	19 85	20 25	20 31	12 27
Avg Modeled Cost - Flats Only	18 84	18 36	17 54	17 00	17 06	17 51	18 07	18 25	18 49	19 06	19 73	19 62	19 39	19 85	20 25	20 31	17 79
Presort Adjustment 3/	(2 86)	(0 95)	1 87	3 91	4 79	5 24	5 80	5 98	6 21	6 79	7 46	7 34	7 12	7 57	7 97	8 04	
Presort Adjustment - Flats Onl	1 05	0 57	(0 26)	(0 79)	(0 73)	(0 28)	0 28	0 45	0 69	1 27	1 93	1 82	1 60	2 05	2 45	2 51	

	Weight Increment (ounces)																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Total
Enhanced Carrier Route: Mail Volumes (000) 1/																	
Letters																	
Auto	189,515	47,358	21,384	376	-	-	-	-	-	-	-	-	-	-	-	-	258,633
Basic	6,220,013	2,017,793	1,185,811	248,339	-	-	-	-	-	-	-	-	-	-	-	-	9,671,956
High-density	37,126	9,604	33,182	397	-	-	-	-	-	-	-	-	-	-	-	-	80,309
Saturation	1,538,714	664,853	387,895	7,464	-	-	-	-	-	-	-	-	-	-	-	-	2,598,926
Flats																	
Basic	916,242	1,214,604	1,808,054	2,063,979	1,209,868	842,856	347,012	145,104	122,553	64,352	35,738	19,142	32,610	12,288	12,106	10,463	8,454,972
High-density	55,113	183,651	242,898	90,740	92,800	36,833	19,726	9,179	6,377	2,483	1,226	1,125	360	193	88	48	742,839
Saturation	832,753	1,903,367	2,421,929	521,030	1,011,986	451,772	113,704	20,450	7,255	3,259	2,215	1,172	786	378	371	211	7,292,638
Avg Modeled Cost 2/	6 63	6 96	7 25	9 19	8 31	8 51	9 21	9 71	10 01	10 08	10 04	9 99	10 25	10 21	10 23	10 28	7 39
Avg Modeled Cost - Flats Only	8 23	7 65	7 69	9 42	8 31	8 51	9 21	9 71	10 01	10 08	10 04	9 99	10 25	10 21	10 23	10 28	8 28
Presort Adjustment 3/	(0 76)	(0 43)	(0 14)	1 80	0 93	1 12	1 82	2 32	2 63	2 69	2 65	2 60	2 86	2 82	2 84	2 89	-
Presort Adjustment - Flats Onl	(0 05)	(0 63)	(0 59)	1 14	0 04	0 23	0 93	1 43	1 74	1 80	1 77	1 71	1 97	1 93	1 95	2 01	-

1/ Pieces by presort category calculated from data available in the CD-ROM accompanying library reference H-108
2/ Equals the sum of pieces in each rate category times the model cost from Table 2 divided by the total pieces in the weight increment
3/ Equals the average modeled cost for the weight increment minus the average modeled cost for the "Total" column

Table 5, Response to ADVO/USPS-28

Summary of FY96 Unit Cost and Adjusted Unit Cost by Weight Increment for Standard (A) Regular and Enhanced Carrier Mail

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Bulk Regular Other																
Original Unit Cost	12.61	12.28	12.96	16.88	12.09	16.46	13.88	23.04	18.29	23.39	23.82	29.94	26.74	32.87	40.80	56.88
less:																
Presort Adjustment	(2.66)	(0.95)	1.67	3.91	4.79	5.24	5.80	5.98	6.21	6.79	7.46	7.34	7.12	7.57	7.97	8.04
Dropship Adjustment	0.06	0.10	(0.03)	(0.35)	(0.42)	(0.29)	(0.08)	0.04	(0.06)	0.67	0.67	(0.10)	0.49	1.56	1.69	1.51
Adjusted Unit Cost	15.22	13.13	11.32	13.33	7.73	11.52	8.16	17.03	12.14	15.93	15.70	22.70	19.12	23.74	31.13	47.34

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Bulk Regular Other - Flats Only																
Original Unit Cost	32.33	23.24	16.11	17.09	11.66	14.43	13.25	19.24	15.56	18.41	21.27	25.13	20.65	27.58	22.03	31.75
less:																
Presort Adjustment	1.05	0.57	(0.26)	(0.79)	(0.73)	(0.28)	0.28	0.45	0.69	1.27	1.93	1.82	1.60	2.05	2.45	2.51
Dropship Adjustment	0.09	0.19	0.05	(0.20)	(0.24)	(0.11)	(0.03)	0.13	0.11	0.74	1.15	0.97	0.41	0.87	1.26	0.85
Adjusted Unit Cost	31.19	22.48	16.32	18.08	12.63	14.82	13.00	18.66	14.75	16.41	18.18	22.34	18.64	24.66	18.31	28.39

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Enhanced Carrier Route																
Original Unit Cost	7.10	6.00	5.10	7.15	5.12	5.47	5.84	9.10	7.64	9.68	9.50	9.01	6.62	13.16	13.72	18.14
less:																
Presort Adjustment	(0.76)	(0.43)	(0.14)	1.80	0.93	1.12	1.82	2.32	2.63	2.69	2.65	2.60	2.86	2.82	2.84	2.89
Dropship Adjustment	0.08	0.04	(0.03)	0.07	(0.28)	(0.29)	(0.20)	(0.01)	0.04	0.18	0.20	0.64	0.14	1.27	0.55	0.55
Adjusted Unit Cost	7.78	6.40	5.27	5.29	4.48	4.64	4.23	6.79	4.97	6.82	6.64	5.77	3.62	9.08	10.32	14.70

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Enhanced Carrier Route - Flats Only																
Original Unit Cost	8.49	6.69	5.40	7.41	5.37	5.65	6.09	8.97	7.51	9.10	8.93	9.37	6.94	11.68	8.46	14.78
less:																
Presort Adjustment	(0.05)	(0.63)	(0.59)	1.14	0.04	0.23	0.93	1.43	1.74	1.80	1.77	1.71	1.97	1.93	1.95	2.01
Dropship Adjustment	0.07	0.00	(0.04)	0.12	(0.15)	(0.12)	(0.00)	0.22	0.31	0.48	0.53	0.99	0.53	1.66	1.00	1.04
Adjusted Unit Cost	8.46	7.32	6.04	6.15	5.49	5.54	5.16	7.31	5.47	6.82	6.63	6.66	4.43	8.08	5.51	11.73

ANM/USPS-ST-44-1. In your supplementary testimony USPS-ST-44, please refer to USPS-44A (LR-H-109), Table 1. The data in column 6 are referenced to LR-H-106. For the two pages of Table 1 that refer to Nonprofit Mail, (i.e. pp.6-7), and for each entry in column 6, please provide a precise reference to the page, row and column in LR-H-106. If the entries in Table 1, column 6 of LR-H-109 do not appear in LR-H-106, please indicate how they are computed, and provide complete references to all underlying data needed for all requisite computations.

RESPONSE:

Please see the response to NAA/USPS-19, subparts (a) and (b).

ANM/USPS-ST-44-2. Please indicate how the fractional amounts shown on the last (unlabeled) row of Table 1, in columns 7, 8 and 9 are derived or computed; i.e., assuming that the number shown in the "Total" row represents the numerator, what is the denominator, and the source of the denominator?

RESPONSE:

The denominator is the entry in column 6 of the "Total" row.

ANM/USPS-ST-44-3.

a. How many tallies underlie development of the cost of Standard A Nonprofit ECR Letters shown in Table 1, p. 6?
b. How many tallies underlie development of the cost of Standard A Nonprofit ECR Non-Letters shown in Table 1, p.7?
c. What is the standard deviation of the unit cost of Nonprofit Mail Walk-sequence and non-walk-sequence letters and non-letters?

RESPONSE:

a. There are 161 Standard (A) Nonprofit ECR letter mail processing tallies (activity code 1330).
b. There are 70 Standard (A) Nonprofit ECR nonletter mail processing tallies (activity codes 2330, 3330, 4330).
c. It is not possible to calculate the standard deviation of the unit cost, because the mail volume estimates are derived from a non-sampling system.

ANM/USPS-ST-44-4. Do the tallies used to develop the costs in Table 1 include tallies for supervisors and technicians (Cost Segment 2), or are they confined to tallies for clerks and mailhandlers (Cost Segment 3)? Please explain why tallies for Cost Segment 2 are or are not included.

RESPONSE:

The analysis develops costs for clerk and mailhandler mail processing costs only; therefore, only Cost Segment 3 tallies were used directly in the analysis. Cost Segment 2 tallies are used in the development of the costs that are used in the construction of piggyback factors incorporated in the variable mail processing costs (column 6), so they are included in the analysis indirectly.

ANM/USPS-ST-44-5. Are the Standard A ECR tallies used to develop Table 1 in USPS-44A identical to the Standard A ECR tallies used for the study in USPS-44B? If not, please describe all differences in the two sets of tallies.

RESPONSE:

Yes, the starting point for both analyses is the FY96 IOCS tally file, available as Library Reference H-23. The analysis in USPS-44B applied some edits to the data to insure its suitability for studying the weight/cost relationship that were not needed for the study in USPS-44A. Please see the responses to VP-CW/USPS-ST44-15 and VP-CW/USPS-ST44-16 for a description of the edit process used for the analysis presented in USPS-44B.

ANM/USPS-ST-44-6.

a. Please describe all edits and other checks which Christensen Associates performed on the IOCS tallies received from the Postal Service.
b. Please account for all tallies that were deleted from the original set of tallies received from the Postal Service – i.e., state how many were deleted, and explain why they were deleted.
c. Please account for all tallies that were or could be considered questionable (e.g., had unusual entries, such as weight of Standard A Mail exceeding 16 ounces), but were nevertheless left in the database that was used to develop Table 1.

RESPONSE:

a.-c. It appears that this question refers to Table 1 of Exhibit USPS-44A, in which case no edits were performed and no tallies were deleted. For a description of the edit procedures used for Exhibit USPS-44B, please see my response to VP-CW/USPS-ST44-15. For information on the number of tallies that were not included in the analysis, please see my response to VP-CW/USPS-ST44-16.

ANM/USPS-ST-44-7. Please refer to USPS-44A, p.2 where you state that "this approach is conservative in the sense that it assigns to walk-sequence costs which have the possibility of being caused by walk-sequence mail." Please explain what you mean by "the possibility of being caused by walk-sequence mail." Specifically, what other possibilities exist, and what is the likelihood that those possibilities might occur?

RESPONSE:

I am told that some data collectors may have misidentified as detached address cards cards that are attached to the face of a mail piece. To the extent that this occurred in FY96, my analysis would accordingly include the costs for these tallies in the walk-sequence category, and thus overstate these costs and understate non-walk-sequence costs.

ANM/USPS-ST-44-8.

a. How many tallies in the study used to develop Table 1 in USPS-44A were a counted mixed mail tally?
b. Please describe all entries in an IOCS mail processing tally that would identify and distinguish a mixed-mail tally from a direct non-mixed mail tally.
c. Please provide a legend which explains all entries that can be entered for counted mixed-mail tallies. That is, if the tally taker is instructed to enter some alpha-numeric combination, please explain what each possible entry means in terms of the counted mixed mail.

RESPONSE:

a. There are 54 counted mixed item tallies with Standard (A) ECR direct activity codes. The counted mixed item tallies were identified by non-blank entries in IOCS field F9253B. See the hardcopy documentation to Library Reference H-23 for information on the coding of this field.

b. Using witness Degen's classification of tallies, as described at page 9 of USPS-T-12 and page II-7 of Library Reference H-146, a "direct non-mixed mail tally" is a tally for which the employee is sampled handling a single piece of mail, or an item or container consisting of identical mail, and a direct activity code is assigned to the tally based on the IOCS question 23 response. The type of mail being handled (i.e., piece/item/container) is recorded in field F9213. Identical mail items may be identified using IOCS field F9216, and identical mail containers may be identified using field F9221. See the hardcopy documentation to Library Reference H-23 for information on the coding of these fields. Other tallies handling mail are

mixed-mail tallies by definition. Note that there are "direct mixed-mail tallies" of employees handling mixed-mail items that are subject to the "Top Piece Rule."

c. For data entry procedures for counted mixed-mail tallies, see the instructions to IOCS questions 21b (Library Reference H-49, pages 88-91, especially items 12-18 and 12-19) and 24 (Library Reference H-49, pages 133-134). See Tr. 12/6302 for references to the IOCS question 24 volume data and processing procedures.

ANM/USPS-ST44-9. Please refer to your response to VP-CW/USPS-ST44-2, where you discuss your views on the theory underlying the use of IOCS tallies to study the effects of weight, and class and subclass, on mail processing costs. Please either confirm your agreement with each of the following statements or, if you do not confirm, fully explain your reason(s) for disagreeing:

a. In order to use IOCS tallies to relate the incremental weight (or indeed class, subclass, and shape) of mail to the cost of clerk and mailhandler time spent processing mail, two principles must hold:

   (1) The sample must reflect the universe, meaning that the random instants in time when the tallies are taken must be representative of all instants of clerk and mailhandler mail processing time.

   (2) The cost of clerk and mailhandler mail processing time must be directly proportional to the time clerks and mailhandlers spend processing mail.

b. The IOCS sampling frame is stratified on the basis of CAG.

c. Parts a. and b. together imply that, within a CAG, if ten percent of the tallies are for Standard A Nonprofit rate mail of a particular shape and weight, then ten percent of all mail processing time is spent on mail of that shape and weight, and therefore ten percent of clerk and mailhandler mail processing costs is due to ("caused by") Standard A Nonprofit rate mail of that shape and weight.

RESPONSE

a. I agree with the first principle. Since a new mail processing methodology is used, however, the second principle needs to hold only within each separate cost pool. This is an improvement in the new mail processing methodology relative to the previous methodology, since the new methodology allows wages to vary across the cost pools while the previous methodology assumed the same wage for all mail processing labor within a CAG.

b. The IOCS stratification is based upon CAG, with CAG A offices further separated into CAG A heavy sample processing and distribution centers, CAG A heavy sample customer service offices, CAG A BMCs, and remaining CAG A offices. Also, within

certain groups of offices, employees at some pay locations are sampled more frequently.

c. Not confirmed. In the new mail processing methodology, the variability of the cost of mail processing labor is different for each cost pool. Therefore, only within a cost pool and CAG could one say that if ten percent of the tallies were associated with mail of a particular type, then ten percent of the variable costs in that pool are caused by mail of that type.

ANM/USPS-ST44-11. Please refer to your response to VP-CW/USPS-ST44-4, part a., and to the table labeled "Attachment 1" that accompanied it.

a. Do the numbers in the table consist of counts of all IOCS direct mail processing tallies summed across MODS 1&2 offices, BMCs, and other non-MODS mail processing offices? If so, please provide three similar tables disaggregating the tally counts into each of these categories. If not, please explain.

b. Do the numbers in the table include tallies from mixed "identified containers"? If so, were said tallies disaggregated into their component items and loose shapes and included in the piece and item rows? Please explain fully.

RESPONSE

a. Yes, the requested tables are attached.

b. No, the only container tallies presented in "Attachment 1" to VP-CW/USPS-ST44-4, subpart (a), are direct tallies. Direct tallies for a container result only when the container contains identical mail. See the response to VP-CW/USPS-ST44-11.

Attachment 1 to ANM/USPS-ST44-11.
Number of FY96 IOCS Tallies by Weight Increment and Field 9213 Response for MODS 1&2 Offices

		Weight Increment (ounces)															
Rate Category	F9213	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Commercial ECR	Piece	248	97	71	73	20	9	3	8	2	2	0	1	1	0	0	1
	Item	279	172	87	114	22	14	8	10	2	3	1	1	0	1	1	4
	Container	8	8	6	5	1	0	0	1	0	0	0	0	0	0	0	0
	Total	535	277	164	192	43	23	11	19	4	5	1	2	1	1	1	5
Regular	Piece	2,298	1,204	691	753	228	156	81	90	40	39	41	44	27	26	21	24
	Item	1,229	513	283	323	73	68	21	40	17	19	9	15	9	6	2	9
	Container	865	139	32	25	4	4	2	2	1	0	1	0	0	0	0	3
	Total	4,392	1,856	986	1,101	305	228	104	132	58	58	51	59	36	32	23	36
Nonprofit ECR	Piece	46	13	8	6	1	0	1	0	0	0	0	0	0	0	0	0
	Item	62	15	6	5	0	0	1	0	0	1	0	0	0	0	0	0
	Container	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	109	28	14	11	1	0	2	0	0	1	0	0	0	0	0	0
Nonprofit	Piece	940	282	115	106	17	20	9	5	4	7	4	2	2	0	0	1
	Item	533	141	65	22	11	8	2	4	1	0	2	0	0	0	1	1
	Container	12	5	1	2	0	0	0	0	0	0	0	0	0	1	0	0
	Total	1,485	428	181	130	28	28	11	9	5	7	6	2	2	1	1	2

Attachment 1 to ANM/USPS-ST44-11.
Number of FY96 IOCS Tallies by Weight Increment and Field 9213 Response for BMCs

Rate Category	F9213	Weight Increment (ounces) 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Commercial ECR	Piece	5	0	0	3	0	0	1	1	0	1	1	1	0	1	2	0
	Item	43	24	19	16	6	3	3	1	3	2	1	0	0	0	0	0
	Container	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	48	24	19	19	6	3	4	2	3	3	2	1	0	1	2	0
Regular	Piece	79	67	56	82	25	47	20	61	34	34	25	54	24	41	37	23
	Item	184	86	54	75	15	31	9	21	7	14	5	7	4	7	6	7
	Container	24	4	0	4	2	3	1	1	0	1	0	0	2	2	2	0
	Total	287	157	110	161	42	81	30	83	41	49	30	61	30	50	45	30
Nonprofit ECR	Piece	2	0	0	1	0	0	0	0	1	0	0	0	0	0	0	0
	Item	5	3	0	0	0	0	1	0	0	0	0	0	0	0	0	0
	Container	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	7	3	0	1	0	0	1	0	1	0	0	0	0	0	0	0
Nonprofit	Piece	24	9	5	13	0	5	4	2	0	1	0	0	0	2	1	0
	Item	69	26	8	9	2	2	0	1	0	0	1	0	0	0	1	0
	Container	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	93	35	13	22	2	7	4	3	0	1	1	0	0	2	2	0

Attachment 1 to ANM/USPS-ST44-11.
Number of FY96 IOCS Tallies by Weight Increment and Field 9213 Response for Non-MOD offices

		Weight Increment (ounces)															
Rate Category	F9213	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Commercial ECR	Piece	98	35	28	33	10	7	2	1	0	0	1	0	0	0	0	1
	Item	103	56	38	29	14	10	0	3	3	2	0	0	0	0	0	0
	Container	3	1	3	4	2	0	1	0	0	0	0	0	0	0	0	0
	Total	204	92	69	66	26	17	3	4	3	2	1	0	0	0	0	1
Regular	Piece	573	277	212	235	76	43	26	27	18	9	12	17	19	18	11	7
	Item	133	55	66	48	23	12	4	7	1	0	3	2	0	1	0	0
	Container	182	27	7	6	2	0	0	0	0	0	0	0	0	0	0	1
	Total	888	359	285	289	101	55	30	34	19	9	15	19	19	19	11	8
Nonprofit ECR	Piece	17	2	1	2	0	0	0	0	0	0	0	0	0	0	0	0
	Item	13	5	2	0	0	0	0	0	0	0	0	0	0	0	0	0
	Container	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	31	7	3	2	0	0	0	0	0	0	0	0	0	0	0	0
Nonprofit	Piece	204	67	27	30	6	4	2	1	0	0	1	2	0	1	0	0
	Item	56	16	4	7	1	0	1	0	0	0	0	2	0	0	0	0
	Container	2	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0
	Total	262	83	31	38	7	4	3	1	0	0	1	4	0	1	0	0

UNITED STATES POSTAL SERVICE RESPONSE TO INTERROGATORIES OF ALTERNATE POSTAL SYSTEMS REDIRECTED FROM WITNESS MOELLER

AAPS/USPS-T36-8. Assume that on day on a carrier delivers 500 identical Standard pieces each weighing 1 ounce, for a total of 31.25 pounds, and on day two he delivers 500 Standard pieces each weighing 7 ounces, for a total of 218.75 pounds. Assume further that all other mail to be delivered is identical. Will there be any difference in carrier street costs on the two days? Please explain.

RESPONSE:

In interests of simplicity, let us further assume that both the one ounce pieces and the seven ounce pieces are the same shape, say flats. Also assume that the carrier has no other mail on these two days, and that the 500 pieces on each day are addressed to the same 500 stops. Route time is the same on both days, since the carrier must traverse the same route on both days. Access time is the same, since the carrier deviates from the route to the same set of delivery points on both days. Elemental load time is the same, since the carrier is loading the same number of flat shaped pieces at each stop on each day. Other load time is the same, because the same set of delivery points is accessed on both days. Street support time will vary slightly between the days. For mounted routes, this time will vary because more time will be spent loading the vehicle, since presumably the 219 pounds of mail will fill more tubs than the 31 pounds of mail. However, this additional time will be restricted to the time required to load the additional tubs from a rolling container to the back of an adjacent vehicle. For park and loop and foot routes, preparing mail at either the vehicle or relay boxes may also vary, if the additional weight is concentrated in a particular swing, requiring the carrier to break the swing into two or more segments. However, given the assumption in the hypothetical that on each day the 500 pieces are delivered to 500 stops, it is unlikely that any swing for a typical route would need to be broken into more segments.

If the assumption that no other mail is delivered on the route is changed so that 500 pounds of other mail are delivered on each day, the effect of additional loading time and additional preparation time at the vehicle/relay box will be even smaller than before, since the total weight delivered on the route will change by a much smaller percentage.

AAPS/USPS-T36-9. Please refer to Library Reference H-182, the study of Standard mail unit cost by weight increment. At page 2, it states that "all other costs were distributed in proportion to pieces." Please describe the major costs contained in "all other costs" and, for each, explain why they were distributed in proportion to pieces.

RESPONSE:

These costs consist of costs in cost segments 1, 2, 4, 9, 11, 12, 13, 15, 16, and 18 which were not completely accounted for by the use of piggyback factors. Most of cost for these segments is represented by use of piggyback factors in the labor cost segments (3, 6, 7, 8, and 10), and thus is distributed in proportion to the direct cost of these segments. The remaining costs (about 3% of total attributable costs for enhanced carrier route, and 1% of total attributable costs for regular) are distributed in proportion to pieces because it was found in the study that the majority of costs in mail processing appeared to be piece-related rather than weight-related.

AAPS/USPS-T36-10. Please refer to Library Reference H-182, the study of Standard mail unit cost by weight increment. At Table 1 for Carrier Route mail, it shows that, for example, the attributable cost for a 13-ounce piece is the same as for a 1-ounce piece, that cost per piece declines from 1 ounce to 3 ounces, that a 4-ounce piece cost 39% more than either a 3-ounce piece or a 5-ounce peice, that a 9-ounce piece costs 14% less than an 8-ounce peice, etc. In your view, does a study that produces these results need any improvement? If so, what improvements do you suggest? If not, do you believe that these results are accurate?

RESPONSE:

See generally response to NAA/USPS-T36-22. Please note that the study presented in Library Reference H-182 was not intended to measure specific cost relationships between individual weight cells, but rather to provide the overall relationship between weight and cost for Standard Mail (A).

UNITED STATES POSTAL SERVICE RESPONSE TO INTERROGATORIES OF ALTERNATE POSTAL SYSTEMS REDIRECTED FROM WITNESS MOELLER

AAPS/USPS-T36-11. Please explain how the LIOCATT cost for carrier casing is developed for use in Library reference H-182. Does the result assign greater unit costs as weight increases?

RESPONSE:

See Library Reference H-182 at Appendix B. The process described assigns costs to weight increment in the following manner. For each IOCS observation of city carrier casing time, the weight of piece the carrier was handling when observed is recorded. This weight is used to assign the cost of each city carrier direct IOCS tally to weight increment. Thus, there is no explicit system to "assign greater unit costs as weight increases," but rather costs were assigned to the weight increments in which the pieces observed during the IOCS reading belong.

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE AMERICAN BANKERS ASSOCIATION

ABA/USPS-1.
In LR-H-182, please reproduce Table 1 for the mail processing cost segment only, using the method documented in Appendix A. Would these extra ounce costs be the same or about the same for workshared mail in First Class?

Response.

See attached Table 1 for mail processing only. No studies of First-Class costs by weight increment using the new mail processing methodology in Appendix A of USPS-LR-H-182 have been conducted; accordingly, the Postal Service has no information responsive to the remainder of the interrogatory.

REPSONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE AMERICAN BANKERS ASSOCIATION

Table 1 - Mail Processing Only

FY 1996 Mail Processing Unit Cost by Weight Increment
Standard (A) Bulk Mail

	Carrier Route			Other		
Weight Inc. (oz)	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)
1	203,067	11,884,976	1.7	1,291,882	19,888,875	6.5
2	92,434	6,618,447	1.4	555,532	8,310,370	6.7
3	52,593	6,100,688	0.9	315,883	4,143,309	7.6
4	62,430	3,024,681	2.1	323,973	3,025,509	10.7
5	15,913	2,352,129	0.7	101,110	1,615,153	6.3
6	8,313	1,145,220	0.7	89,247	904,275	9.9
7	3,991	495,384	0.8	34,067	546,745	6.2
8	4,017	176,959	2.3	51,446	370,421	13.9
9	2,355	137,224	1.7	23,023	255,938	9.0
10	2,465	70,751	3.5	25,851	201,637	12.8
11	1,362	39,292	3.5	19,404	165,235	11.7
12	215	21,572	1.0	27,237	168,569	16.2
13	121	33,805	0.4	17,992	154,530	11.6
14	760	13,118	5.8	20,978	127,321	16.5
15	704	12,681	5.6	15,805	62,867	25.1
16	1,100	10,735	10.2	15,520	37,420	41.5
	451,842	32,137,662	1.4	2,928,950	39,978,176	7.3
	- Sum of CS3.1 row from Table 3 and Table 5 of USPS-LR-H-182	- From Table 1 of USPS-LR-H-182		- Sum of CS3.1 row from Table 4 and Table 6 of USPS-LR-H-182	- From Table 1 of USPS-LR-H-182	

RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE MAIL ORDER ASSOCIATION OF AMERICA

MOAA/USPS-T36-1. Please refer to the Charts 1 and 2 of LR-H-182.

a. Please confirm that in [sic] both charts appear to show positive correlations between "Carrier Route" deviations from trend, (residuals) and "Other" deviation from trend, i e., the highs and lows of the "saw teeth" appear together in the same weight increments.

b. Were any studies performed to determine if the correlation of the residuals on the graph may have been induced by problems with design and/or data collection?

c. If the answer to part a is affirmative, please provide all studies or analyses.

RESPONSE:

a. Confirmed, in the sense that the peaks and valleys of the lines on the charts often occur in the same weight increments.

b. No.

c. Not applicable, assuming that this question was intended to refer to subpart (b).

NAA/USPS-18. Please refer to the answer NAA/USPS-T36-31(a), which was redirected to the Postal Service. That question asked:

"Please refer to pages 1 and 2 of Library Reference H-186. If you cannot answer, please refer to someone who can.

a. Please explain why there are letters that exceed 3.3 ounces.
b. Please explain how a sixteen-ounce piece can have the dimensions of a letter."

The response states that it "is assumed" that the question referred to Library Reference H-182. Although that assumption was understandable under the circumstances, because the interrogatory followed a series of questions relating to LR-H-182, NAA really did mean to refer to LR-H-***186***. Accordingly, please answer the question as originally posed, with respect to LR-H-182.

RESPONSE

The response for NAA/USPS-T36-31(a), redirected to the Postal Service, applies to Library Reference H-186 as well. The source of the volume estimates by weight increment for both LR H-182 and LR H-186 is the same.

NAA/USPS-19. Please refer to LR H-109.

a. Please explain the specific source (page number and column number of LR H-106) for the figures contained in Column (6), page 4 of LR H-109.

b. Please explain the specific source (page number and column number of LR H-106) for the figures contained in Column (6), page 5 of LR H-109.

c. Please identify the difference between the variable mail processing costs in Column (6) and the total direct tally IOCS costs in Column (3). What costs are included in Column (6) that are not included in Column (3)? Please explain fully.

d. Please explain all reasons why the difference between the variable mail processing costs in Column (6) and the total direct tally IOCS costs in Column (3) are distributed to "WS" and "non-WS" mail in proportion to the direct tally IOCS costs.

RESPONSE

a. The values used in LR H-109 at page 4 column (6) are calculated by multiplying the adjusted costs for each cost pool found on pages II-2 of LR H-106 by respective piggyback factors on page VI-2 of LR H-106 and the appropriate premium pay factor, which is found in the spreadsheet "CSTSHAPE.xls" on sheet "PremPay", located on the diskette accompanying LR H-106.

b. The values used in LR H-109 at page 5 column (6) are calculated by multiplying the adjusted costs for each cost pool found summed from pages III-2 and IV-2 of LR H-106 by respective piggyback factors on page VI-2 of LR H-106 and the appropriate premium pay factor, which is found in the spreadsheet "CSTSHAPE.xls" on sheet "PremPay", located on the diskette accompanying LR H-106.

c. There are three reasons why the direct tally costs do not match the variable mail processing costs. First, the direct tally costs are a subset of the tally costs used to distribute the variable mail processing costs to subclass, as described in the testimony of witness Degen. Unidentified item tally costs and container tally costs are also used in the distribution process. Second, the costs are allocated to cost pool independently of the allocation of costs to IOCS tallies. The total costpool dollars will not match the sum of the tally dollar value of tallies belonging to the costpool. Third, the variable mail processing column contains only variable costs, which are less than or equal to the total cost of the costpool. Witness Bradley's testimony describes the estimation of the mail processing variability factors. See witness Degen's responses to TW/USPS-T12-18(b) and TW/USPS-T12-24(a) for further discussion of the difference between direct tally costs and variable mail processing costs.

d. The direct IOCS tallies are the only tallies within each mail processing cost pool that can be separated into the walk-sequence and non walk-sequence groups, because the tally information used to make the separation (into walk-sequence and non walk-sequence groups) is only collected for direct tallies. The analysis contained in Library Reference H-109 assumes that distribution of walk-sequence and non walk-sequence mail for the ECR mail contained in unidentified items and in containers for a particular mail processing cost pool is the same as the distribution observed for the direct tallies in that cost pool.

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

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

RESPONSE:

No.

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

NAA/USPS-ST44-2. With respect to Exhibit 44A, previously filed as Library Reference LR-H-109, please confirm that ¾ of the data were collected prior to, and ¼ were collected after, the implementation of the mail reclassification changes resulting from Docket No. MC95-1. If you cannot confirm, please explain why not.

RESPONSE:

Not confirmed. The implementation of classification reform for commercial subclasses occurred on July 1, 1996, which was approximately in the middle of accounting period (AP) 11. Thus, 10½ APs were pre-reclassification and 2½ APs were post-reclassification.

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

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

RESPONSE:

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

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

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

RESPONSE:

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

Response to NAA/USPS-ST44-4

Table 1

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

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
		Before July 1, 1998			After June 30, 1998			Grand Total			Variable MP	Variable Costs Distributed to	
LDC	Cost Pool	Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total	Costs	Non-WS	WS
11	bce	3,676	63	3,739	979	63	1,042	4,654	127	4,781	16,985	16,553	432
18	Express	0	0	0	0	0	0	0	0	0	2	No Key	No Key
12	fsm	63	0	63	0	0	0	63	0	63	169	169	0
12	lsm	1,492	133	1,625	280	0	280	1,772	133	1,905	6,487	6,033	454
14	manf	65	0	65	63	0	63	129	0	129	249	249	0
14	manl	5,788	213	5,981	1,273	72	1,345	7,041	285	7,327	11,718	11,262	456
14	manp	0	0	0	104	0	104	104	0	104	201	201	0
13	mecparc	0	0	0	0	0	0	0	0	0	32	No Key	No Key
11	ocr	1,287	0	1,287	271	235	506	1,558	235	1,793	4,838	4,203	634
14	Priority	50	0	50	0	0	0	50	0	50	132	132	0
13	spbs Oth	1,431	0	1,431	173	0	173	1,605	0	1,605	2,584	2,584	0
13	spbsPrio	54	0	54	117	0	117	171	0	171	574	574	0
16	BusReply	0	0	0	0	0	0	0	0	0	0	No Key	No Key
19	Intl	63	0	63	0	0	0	63	0	63	136	136	0
15	td15	63	0	63	145	0	145	208	0	208	6,261	6,261	0
41	LD41	0	108	108	52	0	52	52	108	160	468	153	315
42	LD42	0	0	0	0	0	0	0	0	0	3	No Key	No Key
43	LD43	5,334	156	5,490	900	0	900	6,236	156	6,390	14,417	14,066	351
44	LD44	341	0	341	51	0	51	392	0	392	699	699	0
48	LD48_Adm	100	48	148	51	0	51	152	48	200	0	0	0
48	LD48_Exp	0	0	0	0	0	0	0	0	0	7	No Key	No Key
48	LD48_Oth	366	0	366	51	67	118	417	67	484	496	427	69
48	LD48_SpS	58	0	58	0	0	0	58	0	58	40	40	0
49	LD49	545	0	545	187	0	187	732	0	732	1,679	1,679	0
79	LD79	579	123	702	58	0	58	637	123	759	5,018	4,208	810
18	Mailgram	0	0	0	0	0	0	0	0	0	0	0	0
18	Registry	0	0	0	0	0	0	0	0	0	1	No Key	No Key
18	Rewrap	0	0	0	0	0	0	0	0	0	5	No Key	No Key
17	1bulk pr	0	0	0	0	0	0	0	0	0	33	No Key	No Key
17	1cancMPP	392	61	453	0	0	0	392	61	453	1,245	1,078	167
18	1EEqmt	0	0	0	0	0	0	0	0	0	834	No Key	No Key
18	1Misc	0	0	0	0	0	0	0	0	0	1,027	No Key	No Key
17	1OpBulk	3,114	129	3,243	332	0	332	3,446	129	3,576	13,789	13,271	498
17	1OpPref	2,407	0	2,407	349	0	349	2,756	0	2,756	10,915	10,915	0
17	1Platform	1,298	0	1,298	345	67	412	1,644	67	1,711	18,280	17,565	715
17	1Pouching	633	72	705	316	0	316	949	72	1,021	4,449	4,133	316
17	1Sackdl_h	249	0	249	193	0	193	442	0	442	2,382	2,382	0
13	1Sackdl_m	161	0	161	0	0	0	161	0	161	3,241	3,241	0
17	1scan	66	0	66	0	0	0	66	0	66	659	659	0
18	1Support	0	0	0	63	0	63	63	0	63	1,210	1,210	0
	BMC-NMO	0	0	0	0	0	0	0	0	0	13	No Key	No Key
	BMC-PSM	59	0	59	0	0	0	59	0	59	190	190	0
	BMC-SPB	285	0	285	0	0	0	285	0	285	978	978	0
	BMC-SSM	516	0	516	215	0	215	731	0	731	3,956	3,956	0
	BMC-Allied Ot	873	49	872	421	54	475	1,244	103	1,347	4,578	4,228	350
	BMC-Platform	721	53	774	161	0	161	882	53	936	4,708	4,440	268
	Non-MODS	18,981	908	19,887	3,336	358	3,696	22,299	1,264	23,563	46,687	44,183	2,504
											0		
Grand Total		51,242	2,115	53,358	10,492	916	11,409	61,734	3,031	64,765	192,382	182,080	8,339

Source

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

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

Table 1

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

		(13)	(14)	(15)	(16)	(17)	
		Non-WS Costs		WS Costs			
LDC	Cost Pool	Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96	No Key	
11	bcs	13,215	3,338	218	218	n/a	
18	Express	No Key	No Key	No Key	No Key		2
12	lsm	169	0	0	0	n/a	
12	lsm	5,078	954	454	0	n/a	
14	manf	127	123	0	0	n/a	
14	manf	9,226	2,036	341	116	n/a	
14	manp	0	201	0	0	n/a	
13	mecpare	No Key	No Key	No Key	No Key		32
11	ocr	3,471	732	0	634	n/a	
14	Priority	132	0	0	0	n/a	
13	spbs Oth	2,305	279	0	0	n/a	
13	spbsPrio	181	383	0	0	n/a	
18	BusReply	No Key	No Key	No Key	No Key		6
18	Intl	138	0	0	0	n/a	
16	ld16	1,914	4,367	0	0	n/a	
41	LD41	0	153	315	0	n/a	
42	LD42	No Key	No Key	No Key	No Key		3
43	LD43	12,036	2,031	351	0	n/a	
44	LD44	697	91	0	0	n/a	
48	LD48_Adm	0	0	0	0	n/a	
48	LD48_Exp	No Key	No Key	No Key	No Key		7
48	LD48_Oth	375	53	0	69	n/a	
48	LD48_Spt	40	0	0	0	n/a	
48	LD48	1,250	429	0	0	n/a	
78	LD78	3,826	382	810	0	n/a	
18	Mailgram	0	0	0	0		0
18	Registry	No Key	No Key	No Key	No Key		1
18	Rewrap	No Key	No Key	No Key	No Key		5
17	1bulk pr	No Key	No Key	No Key	No Key		35
17	1cancelPP	1,078	0	167	0	n/a	
18	1EEgvt	No Key	No Key	No Key	No Key		834
18	1Misc	No Key	No Key	No Key	No Key		1,027
17	1OpBulk	11,991	1,280	488	0	n/a	
17	1OpPref	9,531	1,384	0	0	n/a	
17	1Platform	13,875	3,690	0	715	n/a	
17	1Pouching	2,756	1,377	316	0	n/a	
17	1Sack8_h	1,340	1,042	0	0	n/a	
13	1Sack8_m	3,241	0	0	0	n/a	
17	1scan	858	0	0	0	n/a	
18	1Support	0	1,210	0	0	n/a	
	BMC-NMO	No Key	No Key	No Key	No Key		13
	BMC-PSM	190	0	0	0	n/a	
	BMC-SPB	976	0	0	0	n/a	
	BMC-SSM	2,783	1,163	0	0	n/a	
	BMC-Allied Oth	2,796	1,432	167	183	n/a	
	BMC-Platform	3,829	611	269	0	n/a	
	Non-MODS	37,599	6,614	1,795	709	n/a	
Grand Total		148,515	35,365	5,699	2,941		1,963

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

Table

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

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
		Before July 1, 1998			After June 30, 1998			Grand Total			Variable MP	Variable Costs Distributed to	
LDC	Cost Pool	Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total	Non Walk Seq	Walk Seq	Total	Costs	Non-WS	WS
11	bcs	72	0	72	0	0	0	72	0	72	281	281	0
18	Express	0	0	0	0	0	0	0	0	0	12	No Key	No Key
12	lsm	4,188	327	4,516	974	0	974	5,162	327	5,490	13,443	12,641	802
12	lsm	105	0	105	0	0	0	105	0	105	394	394	0
14	manl	4,029	72	4,101	416	72	488	4,445	145	4,589	9,302	9,009	293
14	manl	507	70	577	136	0	136	642	70	712	1,207	1,088	118
14	manp	493	45	539	0	0	0	493	45	539	832	579	53
13	mecpsrc	133	0	133	0	0	0	133	0	133	355	355	0
11	oct	0	0	0	0	0	0	0	0	0	14	No Key	No Key
14	Priority	133	0	133	0	0	0	133	0	133	281	281	0
13	spbs Oth	3,725	202	3,927	927	0	927	4,652	202	4,854	8,096	7,759	337
13	spbsPrio	133	0	133	72	0	72	205	0	205	656	656	0
18	BusReply	0	0	0	0	0	0	0	0	0	10	No Key	No Key
19	Intl	0	0	0	0	0	0	0	0	0	54	No Key	No Key
15	ld15	0	0	0	0	0	0	0	0	0	0	0	0
41	LD41	0	0	0	0	0	0	0	0	0	0	0	0
42	LD42	0	80	80	0	0	0	0	80	80	54	0	54
43	LD43	7,685	1,701	9,286	1,672	109	1,781	9,238	1,810	11,047	27,256	22,790	4,466
44	LD44	308	146	454	180	0	180	488	146	614	1,158	884	274
46	LD46_Adm	181	148	329	0	0	0	181	148	329	0	0	0
46	LD46_Exp	0	0	0	0	0	0	0	0	0	4	No Key	No Key
46	LD46_Oth	953	48	1,001	0	51	51	953	99	1,052	958	868	91
46	LD46_SpS	370	58	428	0	0	0	370	58	428	280	242	38
49	LD49	524	0	524	135	0	135	659	0	659	1,555	1,555	0
79	LD79	421	97	518	135	0	135	556	97	653	4,239	3,609	630
16	Mailgram	0	0	0	0	0	0	0	0	0	0	0	0
16	Registry	0	0	0	0	0	0	0	0	0	3	No Key	No Key
16	Rewrap	0	0	0	0	0	0	0	0	0	14	No Key	No Key
17	1bulk pr	289	0	289	0	0	0	289	0	289	585	585	0
17	1canclMPP	107	0	107	0	0	0	107	0	107	337	337	0
16	1EEqmt	0	0	0	0	0	0	0	0	0	1,093	No Key	No Key
16	1Misc	137	0	137	0	0	0	137	0	137	1,322	1,322	0
17	1OpBulk	3,043	189	3,232	329	0	329	3,372	189	3,561	13,289	12,583	706
17	1OpPref	2,462	215	2,677	498	0	498	2,960	215	3,175	11,212	10,453	759
17	1Platform	2,120	117	2,238	268	0	268	2,388	117	2,505	21,833	20,805	1,028
17	1Pouching	586	70	656	191	0	191	756	70	827	3,581	3,276	304
17	1SackS_h	1,088	111	1,207	126	0	126	1,222	111	1,333	5,629	5,161	468
13	1SackS_m	158	0	158	0	0	0	158	0	158	1,826	1,826	0
17	1scan	2	0	2	0	0	0	2	0	2	94	94	0
18	1Support	0	0	0	83	0	83	83	0	83	1,256	1,256	0
	BMC-NMO	53	157	211	54	0	54	107	157	264	661	268	393
	BMC-PSM	287	0	287	116	0	116	402	0	402	1,163	1,163	0
	BMC-SPB	527	59	586	101	0	101	628	59	687	2,087	1,917	180
	BMC-SSM	415	0	415	0	0	0	415	0	415	2,422	2,422	0
	BMC-Allied Ot	993	0	993	427	0	427	1,420	0	1,420	4,464	4,464	0
	BMC-Platform	799	107	906	295	0	295	1,094	107	1,201	6,085	5,542	542
	Non-MODS	21,495	3,444	24,929	3,772	1,438	4,710	24,758	4,882	29,639	66,409	56,469	10,940
Grand Total		58,300	7,464	65,824	10,397	1,671	12,068	68,747	9,135	77,882		192,014	22,475

Source

Analysis of IOCS tally file (LR-H-73)

USPS-ST-44 Exhibit 44A Table 1

(10)*(7)/(9) (10)*(8)/(9)

Table .

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

		(13)	(14)	(15)	(16)	(17)
		Non-WS Costs		WS Costs		
LDC	Cost Pool	Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96	No Key
11	bcs	281	0	0	0	n/a
16	Express	No Key	No Key	No Key	No Key	12
12	flvs	10,256	2,365	802	0	n/a
12	lsm	384	0	0	0	n/a
14	mail	8,166	843	147	147	n/a
14	mail	858	230	118	0	n/a
14	mmp	578	0	53	0	n/a
13	mspare	356	0	0	0	n/a
11	oct	No Key	No Key	No Key	No Key	14
14	Priority	261	0	0	0	n/a
13	spbs Oth	6,213	1,546	337	0	n/a
13	spbsPrio	426	231	0	0	n/a
16	BusReply	No Key	No Key	No Key	No Key	10
16	Intl	No Key	No Key	No Key	No Key	54
15	M15	0	0	0	0	0
41	LD41	0	0	0	0	0
42	LD42	0	0	54	0	n/a
43	LD43	16,884	4,125	4,198	269	n/a
44	LD44	661	302	274	0	n/a
48	LD48_Adm	0	0	0	0	n/a
48	LD48_Exp	No Key	No Key	No Key	No Key	4
48	LD48_Oth	868	0	44	47	n/a
48	LD48_Spc	242	0	36	0	n/a
49	LD49	1,239	318	0	0	n/a
79	LD79	2,734	874	630	0	n/a
16	Mailgram	0	0	0	0	0
16	Registry	No Key	No Key	No Key	No Key	3
16	Reurnp	No Key	No Key	No Key	No Key	14
17	1bulk pr	585	0	0	0	n/a
17	1cancMPP	337	0	0	0	n/a
16	1EEqmt	No Key	No Key	No Key	No Key	1,093
18	1Misc	1,322	0	0	0	n/a
17	1OpBulk	11,366	1,229	708	0	n/a
17	1OpPref	8,884	1,758	759	0	n/a
17	1Platform	16,662	2,343	1,026	0	n/a
17	1Pouching	2,451	825	304	0	n/a
17	1SackS_h	4,828	533	468	0	n/a
13	1SackS_m	1,826	0	0	0	n/a
17	1scan	84	0	0	0	n/a
18	1Support	0	1,256	0	0	n/a
	BMC-NMO	133	134	393	0	n/a
	BMC-PBM	829	334	0	0	n/a
	BMC-SPS	1,808	309	180	0	n/a
	BMC-SSM	2,422	0	0	0	n/a
	BMC-Allied Ot	3,121	1,344	0	0	n/a
	BMC-Platform	4,048	1,496	542	0	n/a
	Non-MODS	48,136	7,331	7,717	3,723	n/a
Grand Total		162,267	29,748	18,790	3,986	1,204

Source (11)*(1)/((1)+(4 (11)*(4)/((1)+(4 (12)*(2)/((2)+(5 (12)*(5)/((2)+(5 =(10) If No Key

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

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

RESPONSE:

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

Table 2

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

Commercial

						With No Key Distributed				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
	Not WS Endorsed		WS Endorsed		No Key	Not WS Endorsed		WS Endorsed		Source
	Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96		Before 7/1/96	After 6/30/96	Before 7/1/96	After 6/30/96	
Letters	146,515	35,585	5,698	2,641	1,963	148,026	35,931	5,756	2,668	Table 1, pg 1
Non-Letters	162,267	29,748	18,790	3,665	1,204	163,178	29,915	18,895	3,706	Table 1, pg 2
Total						311,203	65,846	24,652	6,375	
Sources:	Table 1	Table 1	Table 1	Table 1	Table 1	(1) + (5)* (1)/(sum(1..4))	(2) + (5)* (2)/(sum(1..4))	(3) + (5)* (3)/(sum(1..4))	(4) + (5)* (4)/(sum(1..4))	

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

RESPONSE:

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

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

Commercial ECR (000)

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

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

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

RESPONSE:

a. ECR mail is generally contained in identical items, and thus IOCS observations of ECR mail will tend to result in direct tallies. The distribution of mail in an item sampled within a costpool is likely to be the same as the distribution of mail in the same type of item residing in containers being handled in that costpool. This is generally the same assumption as being made for distribution methodology presented in Witness Degen's testimony (USPS-T-12).

b. Not confirmed. I calculate the percentage as 10.2 percent.

c. Platform generally has low incidence of handling mail as single pieces and items, from which a direct tally would result. However, ECR mail, especially at saturation densities, is predominately handled on the platform as pallet, which is an item subject to the identical mail sampling rule. The methods used here are conservative, because to the extent that saturation and high density mail is presented on pallets more often than Basic ECR mail, saturation and high density costs will be overstated.

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

RESPONSE:

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

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

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

RESPONSE:

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

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

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

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

Notes:
[1] Includes direct tallies only
[2] Includes mixed-mail.

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

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

RESPONSE:

Not confirmed. The analysis in Exhibit USPS-44A calculates the variable mail processing costs of non-walk-sequenced letters to be 16.553 million dollars for the BCS

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

a. Because employees clocked into the OCR and BCS operations are observed handling ECR letter mail.

b. I confirm that this would generally increase mail processing costs of the pieces that are processed on this equipment.

c. My testimony only covers the mail processing costs of ECR mail. Witness Hume's testimony, USPS-T-18, presents estimates of carrier in-office cost savings due to the DPS program and that these generally reduce carrier in-office unit costs. However, my understanding is that witness Hume's analysis does not present estimates of carrier in-office cost savings due to delivery point sequencing of ECR basic letters. See Exhibit USPS-18B, page 6, and Exhibit USPS-18C, page 6.

d. No, my testimony only covers the mail processing costs of ECR mail.

e. I am not aware of any Postal Service witness whose testimony addresses city carrier in-office cost savings due to delivery point sequencing of ECR basic mail. Also see my response to subpart (c) of this question.

f. No. First, unit costs are not presented in Table 1 of Exhibit USPS-44A. Second, Table 1 of Exhibit USPS-44A only concerns mail processing costs. Whether or not possible changes in city carrier in-office costs are modeled has no effect on the difference in mail processing costs.

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

RESPONSE:

No.

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

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

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

RESPONSE:

a-l. Please see the Written Response of United States Postal Service Witness Degen to Oral Questions of Alliance of Nonprofit Mailers (filed October 28, 1997), with respect to the questions posed at Tr. 12/6642 lines 4-6 and 8-11, and the responses to NAA/USPS-T36-31 and NAA/USPS-18.

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

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

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

RESPONSE:

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

Attachment 1 to Response to NAA/USPS-ST44-13.
Costs for Flat-Shaped Mail Only (thousands of dollars)

City Carrier In-Office - Commercial ECR Mail

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	30,737	32,994	22,841	23,090	8,760	5,168	2,667	2,541	1,271	817	196	381	214	98	187	92
"Distributed Mixed Mail"	2,646	2,933	1,994	1,866	805	377	216	220	107	64	16	30	13	8	17	7
"Support Costs"	5,794	6,236	4,310	4,331	1,660	962	500	479	239	118	37	71	39	18	35	17
"Piggybacked Costs"	12,846	13,825	9,557	9,603	3,681	2,134	1,109	1,062	530	262	82	158	87	41	79	38

City Carrier In-Office - Standard (A) Regular

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	30,138	41,586	30,650	31,569	8,231	6,878	3,996	3,089	1,827	1,456	909	660	692	342	571	47
"Distributed Mixed Mail"	2,569	3,571	2,589	2,687	693	555	368	272	152	107	69	53	46	42	41	25
"Support Costs"	5,676	7,837	5,769	5,945	1,549	1,290	761	563	343	271	170	124	128	67	106	13
"Piggybacked Costs"	12,585	17,377	12,791	13,182	3,434	2,880	1,697	1,293	761	601	378	274	284	148	236	28

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

City Carrier In-Office - Commercial ECR Mail

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	133,091	50,101	31,186	27,060	9,334	5,426	2,784	2,591	1,271	719	285	361	214	145	187	137
"Distributed Mixed Mail"	11,503	4,358	2,697	2,181	851	397	225	224	107	67	19	30	13	9	17	11
"Support Costs"	25,094	9,452	6,881	5,075	1,788	1,011	522	489	239	136	49	71	39	27	35	26
"Piggybacked Costs"	51,928	19,566	12,189	10,501	3,656	2,091	1,080	1,011	495	282	102	148	81	55	73	53

City Carrier In-Office - Standard (A) Regular

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	194,331	89,972	40,129	37,648	9,905	7,893	4,518	3,837	2,361	2,257	1,390	1,361	1,642	1,511	781	308
"Distributed Mixed Mail"	17,781	8,154	3,349	3,265	868	629	411	304	180	140	80	77	96	80	47	34
"Support Costs"	36,812	13,212	7,546	7,101	1,870	1,479	855	719	444	418	255	250	302	276	144	59
"Piggybacked Costs"	77,778	27,914	15,942	15,002	3,950	3,125	1,807	1,519	939	879	539	527	637	583	304	125

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

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

RESPONSE:

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

Attachment 1 to Response to NAA/USPS-ST44-14.
Costs for Flat-Shaped Mail Only (thousands of dollars)

Mail Processing - Commercial ECR Mail

	Weight increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	14,553	17,441	13,782	18,795	5,934	2,993	1,137	1,281	589	662	445	129	51	66	0	276
"Distributed Mixed Mail"	12,106	13,979	9,220	14,201	4,049	1,874	1,068	815	414	533	288	20	37	271	0	239
"Premium Pay"	-1,096	-1,291	-845	-1,356	-410	-200	-91	-86	-41	-49	-30	-6	-4	-14	0	-21
"Piggybacked Costs"	13,742	16,977	11,885	17,985	5,092	2,449	1,286	1,224	571	657	416	71	37	273	0	281

Mail Processing - Standard (A) Regular

	Weight increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	63,662	102,295	75,181	90,078	30,068	18,716	8,438	10,818	5,152	3,575	3,198	3,454	1,726	2,370	1,314	1,604
"Distributed Mixed Mail"	40,839	66,886	43,790	59,466	18,360	16,109	4,813	7,316	3,154	3,476	2,052	2,157	1,720	1,617	735	1,356
"Premium Pay"	-4,414	-7,133	-5,016	-6,305	-2,043	-1,468	-559	-765	-350	-297	-221	-237	-145	-168	-86	-125
"Piggybacked Costs"	54,451	87,152	60,257	77,952	24,481	19,832	6,915	10,307	4,396	4,728	2,726	3,066	1,909	2,521	1,145	1,879

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

Mail Processing - Commercial ECR Mail

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	61,769	30,627	19,470	22,291	6,239	3,590	1,183	1,516	697	782	508	129	51	109	177	327
"Distributed Mixed Mail"	49,784	24,308	13,883	18,725	4,259	2,045	1,099	999	569	695	329	20	37	299	223	423
"Premium Pay"	-4,584	-2,258	-1,358	-1,804	-431	-232	-94	-103	-52	-61	-34	-8	-4	-17	-16	-31
"Piggybacked Costs"	64,235	31,328	17,823	21,648	5,453	2,820	1,361	1,490	928	831	518	71	37	342	250	379

Mail Processing - Standard (A) Regular

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
"Direct Costs"	363,528	174,662	109,090	116,394	37,413	26,422	12,017	17,609	8,161	7,821	7,112	9,691	5,999	7,073	5,614	4,971
"Distributed Mixed Mail"	252,057	123,882	70,852	79,242	25,672	25,702	7,569	13,176	5,836	7,075	4,441	6,819	5,200	5,039	3,606	4,160
"Premium Pay"	-25,953	-12,587	-7,578	-8,184	-2,660	-2,196	-626	-1,296	-591	-620	-467	-696	-472	-511	-389	-385
"Piggybacked Costs"	361,778	183,949	98,262	104,183	32,978	31,273	11,398	19,515	8,739	10,298	6,875	10,630	6,940	8,492	6,535	6,256

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

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

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

RESPONSE:

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

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

Window Service - Commercial ECR Mail

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	220	0	0	49	0	0	0	0	0	0	0	0	0	0	0	0
"Distributed Mixed Mail"	0	0	0	4	0	0	0	0	0	0	0	0	0	0	0	0
"Piggybacked Costs"	93	0	0	22	0	0	0	0	0	0	0	0	0	0	0	0

Window Service - Standard (A) Regular

	Weight Increment (oz.)															
Component	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	262	268	185	349	174	151	0	0	0	0	127	0	0	0	0	0
"Distributed Mixed Mail"	11	8	9	5	4	2	0	0	0	0	0	0	0	0	0	0
"Piggybacked Costs"	115	116	82	149	76	66	0	0	0	0	54	0	0	0	0	0

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

Window Service - Commercial ECR Mail

Component	Weight Increment (oz.) 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	614	0	0	49	0	0	0	0	0	0	0	0	0	0	0	0
"Distributed Mixed Mail"	26	0	0	4	0	0	0	0	0	0	0	0	0	0	0	0
"Piggybacked Costs"	271	0	0	22	0	0	0	0	0	0	0	0	0	0	0	0

Window Service - Standard (A) Regular

Component	Weight Increment (oz.) 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Direct Costs	1,695	350	185	695	174	200	0	0	82	0	176	0	80	0	0	0
"Distributed Mixed Mail"	57	9	9	11	4	4	0	0	3	0	1	0	0	0	0	0
"Piggybacked Costs"	740	152	82	286	75	86	0	0	36	0	75	0	34	0	0	0

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

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

RESPONSE:

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

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

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

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

RESPONSE:

See attachment.

Attachment 1 to NAA/USPS-ST44-17

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

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Enhanced Carrier Route																
Original Unit Cost	1.71	1.40	0.86	2.06	0.68	0.73	0.81	2.27	1.72	3.48	3.47	1.00	0.36	5.80	5.56	10.25
less:																
Presort Adjustment	(0.48)	(0.22)	(0.02)	0.98	0.59	0.68	1.01	1.24	1.39	1.43	1.41	1.37	1.53	1.51	1.52	1.56
Dropship Adjustment	0.02	0.01	(0.01)	0.02	(0.07)	(0.07)	(0.05)	0.00	0.02	0.05	0.05	0.14	0.05	0.29	0.13	0.15
Adjusted Unit Cost	2.17	1.61	0.89	1.07	0.16	0.11	(0.16)	1.03	0.31	2.01	2.00	(0.51)	(1.22)	4.00	3.90	8.55

	Weight Increment (ounces)															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Enhanced Carrier Route - Flats Only																
Original Unit Cost	2.25	1.44	0.82	1.99	0.64	0.63	0.77	1.85	1.13	2.81	2.86	1.01	0.36	4.60	-	7.25
less:																
Presort Adjustment	(0.01)	(0.31)	(0.29)	0.55	0.02	0.12	0.44	0.67	0.82	0.86	0.85	0.81	0.98	0.94	0.96	0.96
Dropship Adjustment	0.01	(0.00)	(0.01)	0.03	(0.04)	(0.03)	0.00	0.06	0.08	0.12	0.13	0.22	0.14	0.36	0.23	0.26
Adjusted Unit Cost	2.24	1.74	1.12	1.41	0.65	0.54	0.33	1.12	0.22	1.83	1.90	(0.02)	(0.74)	3.28	(1.19)	6.01

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

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

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

RESPONSE:

a. If this question intends to use the concept of reliability as a proxy for standard error, then yes, smaller volumes in the higher weight increments will lead to larger standard errors. The point at which the standard errors become too large is largely a function of the use to which the estimates are put. As I understand witness Moeller's use of these data, no reliance is made on the point estimates at any single weight increment; therefore, his use of the data is appropriate given the level of standard error in the estimates.

b. Other factors may include shape of the mail piece; mechanical aspects of the mail piece such as flexibility, surface characteristics, open edges, binding/envelope type, address placement, and address readability; packaging characteristics such as strength of packaging materials, placement and readability of package labels, strength of tray strapping materials, and fullness of tray or sack; preparation characteristics such as the use of sacks versus pallets; regional or seasonal productivity effects; and other factors too numerous to mention.

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

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

RESPONSE:

A general impression of the standard errors of the mail processing cost estimates can be found by comparing the magnitude of the cost estimate in any weight increment cell and finding a subclass with a similar magnitude of cost in Table 6 of USPS-T-12. Similarly, the same procedure can be used to compare the city carrier in-office costs to Table 3 of USPS-T-12. Since standard errors cannot be calculated for the mail volume estimates, I have no opinion as to the standard errors of the unit cost estimate.

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

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

RESPONSE:

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

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

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

RESPONSE:

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

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

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

RESPONSE:

The study does not offer an explanation for this relationship.

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

NAA/USPS-ST44-23. Please refer to your response to NAA/USPS-ST44-6. Please reconcile the volumes provided in this response with volumes provided in LR-H-145 (the Billing Determinants) for the each of these categories of mail.

RESPONSE

The numbers supplied were from a different source than the Billing Determinants. The attached table reconciles these estimates with the Billing Determinant volumes.

Response to NAA/USPS-ST44-23.
FY96 ECR Mail Volumes Separated Into Pre and Post Reclassification

A. Mail Volumes From PERMIT Transactions

Commercial ECR (000)

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

B. Source Data for Control Factor

Commercial ECR (000)	Sum Over Pre/Post Reclass		LR-H-145 Billing Determinants	
	Letters	Non-Letters	Letters	Non-Letters
Basic	9,719,123	8,319,859	9,663,822	8,462,895
High Density and Saturation	3,084,663	8,014,607	2,525,429	8,528,591

C. Control Factor (LR-H-145 / PERMIT)

	Letters	Non-Letters
Basic	0.994310065	1.017192124
High Density and Saturation	0.818704896	1.064130891

D. Mail Volumes Reconciled to Billing Determinant Volumes (= A * C)

Commercial ECR (000)

	Letters		Non-Letters	
Category	Pre-Reclass	Post-Reclass	Pre-Reclass	Post-Reclass
Basic	8,652,738	1,011,084	6,685,291	1,777,605
High Density	28	104,711	575,845	215,806
Saturation	1,690,381	730,308	6,253,661	1,483,278

NAA/USPS-ST44-24. Please refer to your response to NAA/USPS-ST44-9. For each of the cost pools in Table 1 of Exhibit 44A, please provide a breakdown of the "direct tally IOCS" costs, the costs associated with "mixed mail" tallies, and the "not-handling-mail" costs. Please provide these costs separately for Standard A Regular ECR letters and non-letters.

RESPONSE

See attached table.

Response to NAA/USPS-ST44-24.
FY96 IOCS Volume Variable Costs ($000s) - Broken Down by Handling Category

LDC	Pool	Std A ECR Letters				Std A ECR Non-Letters			
		Direct	Mixed Mail	Not-Handlin	Total	Direct	Mixed Mail	Not-Handlin	Total
mods	bcs/	8,919	2,085	5,981	16,985	130	52	99	281
mods	express	0	1	2	2	0	5	8	12
mods	fsm/	95	20	54	169	8,197	926	4,321	13,443
mods	lsm/	4,296	491	1,700	6,487	236	54	103	394
mods	manf	150	17	82	249	5,380	844	3,078	9,302
mods	manl	7,578	467	3,674	11,718	737	92	378	1,207
mods	manp	55	57	89	201	283	69	280	632
mods	mecparc	0	19	14	32	175	31	149	355
mods	ocr/	2,667	497	1,675	4,838	0	9	5	14
mods	priority	38	35	59	132	101	44	116	261
mods	spbs Oth	1,150	296	1,137	2,584	3,440	1,133	3,523	8,096
mods	spbsPrio	224	76	274	574	268	75	313	656
mods	BusReply	0	4	3	6	0	6	4	10
mods	INTL	66	11	61	138	0	30	24	54
mods	LD15	6,245	36	0	6,281	0	0	0	0
mods	LD41	214	3	251	468	0	0	0	0
mods	LD42	0	2	2	3	26	4	25	54
mods	LD43	6,426	1,351	6,641	14,417	11,087	3,638	12,529	27,255
mods	LD44	403	25	271	699	631	78	448	1,158
mods	LD48 Exp	0	2	5	7	0	1	3	4
mods	LD48 Oth	100	62	333	496	217	118	624	959
mods	LD48_SSv	13	1	26	40	92	5	183	280
mods	LD49	900	79	700	1,679	811	96	648	1,555
mods	LD79	730	186	4,103	5,018	627	146	3,465	4,239
mods	MAILGRAMS	0	0	0	0	0	0	0	0
mods	Registry	0	0	0	1	0	1	2	3
mods	REWRAP	0	2	3	5	0	5	9	14
mods	1Bulk pr	0	15	17	33	209	65	311	585
mods	1CancMPP	555	193	498	1,245	131	71	135	337
mods	1EEQMT	0	484	351	834	0	685	408	1,093
mods	1MISC	0	35	992	1,027	168	156	998	1,322
mods	1OPbulk	4,704	2,406	6,659	13,769	4,658	2,243	6,388	13,289
mods	1OPpref	3,213	2,570	5,133	10,915	3,692	2,260	5,260	11,212
mods	1Platfrm	2,162	5,087	11,031	18,280	3,174	5,492	13,267	21,933
mods	1POUCHNG	1,386	920	2,143	4,449	1,122	734	1,725	3,581
mods	1SackS_h	427	654	1,301	2,382	1,294	1,246	3,089	5,629
mods	1SackS_m	325	1,072	1,844	3,241	276	540	1,010	1,826
mods	1SCAN	78	208	372	659	3	40	51	94
mods	1SUPPORT	47	29	1,134	1,210	62	53	1,140	1,255
BMCs	nmo	0	9	4	13	348	108	205	661
BMCs	psm	134	19	36	190	917	27	219	1,163
BMCs	spb	422	308	247	978	1,018	548	531	2,097
BMCs	ssm	2,275	510	1,171	3,956	1,291	414	717	2,422
BMCs	Othr	1,493	1,575	1,510	4,578	1,573	1,418	1,473	4,464
BMCs	Pla	1,232	1,118	2,359	4,708	1,880	1,736	2,469	6,085
Non Mods		27,418	5,866	13,403	46,687	34,453	9,827	22,129	66,409

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

NAA/USPS-ST44-25. Please refer to your response to NAA/USPS-ST44-3. Consider a mailing of ECR Basic mail that is prepared in walk-sequence, rather than line of travel sequence. Please list all possible endorsements for pieces of such a mailing, and state whether the possible endorsements differ between letters and nonletters.

RESPONSE

Section M620.1.1(e) of issue 50 of the Domestic Mail Manual, which was effective beginning on July 1, 1996, reads as follows:

> Subject to M012, all pieces must be marked "Bulk Rate" or "Blk. Rt." In addition, Basic, High Density, and Saturation rate pieces must each be marked "ECRLOT," "ECRWSH," or "ECRWSS," respectively, either in the optional endorsement line under M013 or in the carrier route information line under M014. Pieces not claimed at the corresponding rate must not bear the "ECRLOT," "ECRWSH," or "ECRWSS" marking unless single-piece rate postage is affixed or a corrective single-piece rate marking is applied under P600.

This standard makes clear that mail entered as ECR Basic must bear the marking "ECRLOT." This marking requirement applies to both letters and nonletters.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-27. Please refer to Table 3 of USPS LR-H-182.

a. Please confirm that the unit city carrier casing (cost segment 6) is 2.26 cents for a one-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.

b. Please confirm that the unit city carrier casing (cost segment 6) is 1.38 cents for a two-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.

c. Please confirm that the unit city carrier casing (cost segment 6) is 0.88 cents for a three-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.

d. Please provide all possible reasons for the declining unit costs of city carrier casing.

e. Is there a possibility of error when recording the weight of the piece when the tally is recorded? If so, please explain.

f. Was any attempt made to adjust the cost data for the density of the mailings within each weight increment? If so, what adjustments were made in the cost data to reflect the different densities of the mailings? If no, why not?

g. Was any attempt made to adjust the cost data for the degree of walk-sequencing of the mailings within each weight increment? If so, what adjustments were made in the cost data to reflect the differing amounts of walk-sequencing? If no, why not?

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

d. A possible reason may be that the proportion of lower-cost high density and saturation mail increases from 25 percent at one ounce to 53 percent at three ounces.

e. See response to NAA/USPS-T36-26, subpart e. It is not unreasonable to expect that there is a possibility for an error to occur in this process.

f. No. It is assumed that the question's use of the term "density" refers to the proportion of possible deliveries in a route covered by the average mailing in each ounce increment. No data, other than data separating pieces by shape and rate category, are available for FY96 to make this kind of adjustment.

g. No, in the interest of simplicity of presentation, no attempt was made to account for varying levels of the use of high-density and saturation mail by weight increment.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-17. Please refer to USPS LR-H-182, page 3.

a. Please explain why city carrier street costs are distributed to weight increment in proportion to mail volume.
b. Is it your opinion that weight has no effect on city carrier street costs?
c. Please refer to the testimony of Postal Service Witness Nelson (USPS-T-19) at page 6, lines 15-17. Please confirm that witness Nelson asserts that the weight of the mail has an impact on letter route driving time. If you cannot confirm this statement, please explain why.
d. Does this analysis of carrier costs by weight increment assume any difference in carrier street costs by shape of mail? If yes, please explain how this is factored into the analysis. If not, please explain why not.
e. Does the shape of the mail affect the city carrier load time costs? If no, please provide all support for your position. If yes, please explain what affect shape has on city carrier load time costs.

RESPONSE:

a. This assumption was made in interests of simplifying the analysis. Although there may be some weight related costs in city carrier street time, it is believed that the majority of costs are piece related.

b. No.

c. Confirmed.

d. For the analysis leading up to Table 1, no difference in carrier street costs by shape is assumed. Again, this was done for simplicity. For the analysis leading up to Table 2, the elemental load portion is derived from the CRA worksheet costs for Standard (A) flats only (based upon the methods described in USPS-LR-H-108), and thus takes shape into account.

e. Yes, see the development of elemental load costs in the CRA workpapers.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-18. Please refer to Table 2 at page 6 of USPS LR-H-182. Does Table 2 include flats and other non-letter pieces such as parcels? If so, please provide the data in Table 2 for flats only.

RESPONSE:

Table 2 includes flats only.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-19. Please refer to Table 2 at page 6 of USPS LR-H-182. Please provide the standard errors of the estimates of unit costs.

RESPONSE:

Since the estimates are formed from a combination of sampling and non-sampling data systems, standard errors cannot be calculated.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-20. Please refer to Tables 1 and 2 of USPS LR-H-182. Do these tables include data for both Standard Regular (commercial) and Nonprofit mail? If so, please provide separate tables with the unit costs by weight for Standard Regular and Standard Nonprofit mail.

RESPONSE:

Table 1 and 2 include both commercial and nonprofit mail. Data for commercial appears separately in Tables 3 and 4, and for nonprofit in Tables 5 and 6.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-21. Please refer to page 3 of USPS LR-H-182.

a. Do dropshipping levels vary by weight increment? Please provide all available data to support your response.

b. If your response to part (a) is yes, was any adjustment made to remove the effects on mail processing costs of the different levels of dropshipping from the data? If no, please explain why not. If yes, please explain what adjustments were made to the data.

RESPONSE:

a. Yes; the attached table includes data derived from USPS LR-H-108 which depicts pounds that are dropshipped by ounce increment.

b. No, in the interest of simplicity of presentation, no adjustment for varying dropship levels was made. In a similar study prepared for Docket No. MC95-1 (USPS LR-MCR-12), such an adjustment resulted in insignificant change in the cost relationships.

Weight by Weight Increment and Shape and Entry Discount
FY 1996 Standard Mail (A) Regular

Other		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
111	Letter	298,639	242,312	124,511	29,884	5,339	2,744	1,140	606	455	558	422	458	493	479	187	159
121	Letter - DBMC	87,461	135,801	101,142	43,281	1,316	1,323	523	367	17	14	55	185	76	32	12	-
131	Letter - DSCF	42,630	15,834	17,255	11,270	827	745	440	54	1,607	22	59	84	65	67	14	11
141	Letter - DDU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
211	Flat	21,420	103,489	147,552	171,005	141,190	109,721	70,983	59,872	47,823	45,356	29,957	24,553	22,279	17,723	18,170	12,048
221	Flat - DBMC	6,010	41,194	123,690	226,984	162,970	96,819	49,693	40,167	27,510	17,342	9,681	9,033	9,772	9,705	7,508	4,339
231	Flat - DSCF	5,079	17,259	47,983	107,103	95,096	61,288	39,939	26,751	25,495	15,876	8,039	8,164	11,465	5,123	5,282	5,591
241	Flat - DDU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
311	Parcel	193	2,542	8,730	6,941	6,944	14,002	31,547	26,368	18,658	27,026	34,337	33,162	46,491	54,576	20,200	11,520
321	Parcel - DBMC	19	156	149	374	456	733	3,664	2,408	3,697	5,071	16,287	35,048	22,069	11,784	1,631	311
331	Parcel - DSCF	37	165	1,234	129	115	442	4,154	4,363	1,945	1,436	4,410	5,922	5,044	2,956	571	43
341	Parcel - DDU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Carrier Route		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
112	Letter	63,225	31,180	25,600	8,894	1,120	364	128	35	5	8	28	21	-	33	22	-
122	Letter - DBMC	69,447	98,060	111,663	36,695	4,444	416	136	125	9	-	-	0	-	-	7	-
132	Letter - DSCF	92,039	106,710	107,850	32,971	1,952	512	369	83	16	13	26	9	1	4	-	0
142	Letter - DDU	12,496	10,433	9,001	754	229	101	51	30	28	23	4	12	6	6	-	-
212	Flat	11,528	21,083	29,617	27,909	18,961	15,291	8,108	4,453	3,199	2,442	1,747	1,679	1,197	1,471	925	676
222	Flat - DBMC	14,609	39,899	86,875	132,392	89,960	53,058	25,528	12,554	11,087	7,458	3,433	2,561	3,525	2,972	1,614	2,128
232	Flat - DSCF	38,627	151,078	289,461	307,321	265,594	169,309	110,924	52,304	52,731	29,041	19,113	10,338	20,946	8,000	8,655	7,422
242	Flat - DDU	9,302	107,302	242,836	87,181	261,317	143,744	48,859	11,917	4,571	2,486	1,620	720	491	213	197	74
312	Parcel	25	303	365	3,355	896	74	71	46	34	12	10	25	21	19	5	3
322	Parcel - DBMC	37	899	25	338	458	48	-	-	10	-	8	0	9	0	-	1
332	Parcel - DSCF	130	1,223	171	462	320	170	23	42	47	3	27	11	2	7	3	1
342	Parcel - DDU	39	467	350	243	375	204	120	95	42	31	14	7	-	-	2	3

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-22. Please refer to Table 1 at page 4 of USPS LR-H-182.

a. Please explain how a 13 ounce carrier-route piece can have a unit cost of 6.6 cents while a 12 ounce piece carrier-route piece has a unit cost of 9.0 cents and a 14 ounce carrier-route piece has a unit cost of 13.0 cents.

b. Does this pattern cause you to doubt the accuracy of the underlying data? If not, why not?

RESPONSE:

a. Since both the costs and the mail volumes are estimated from statistical systems, some variation in the unit cost should be expected, especially in the heavier weight increments where the sample is much thinner than in the lighter increments. There may also be variations in the amount of dropshipping, presortation, average haul of non-dropshipped mail, and other factors, all of which could cause variations in the unit cost by weight increment.

b. No. Even though there may be variation in unit cost between particular weight increments as described in this question, the true relationship between cost and weight should be centered within the variation across weight increments. The general implication of the study still stands: weight has a small cost-causative role in Enhanced Carrier Route.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-23. Please refer to page 2 of USPS LR-H-182. Was any attempt made to estimate unit volume variable costs for the Test Year?

RESPONSE:

No.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-24. Please refer to page 3 of USPS LR-H-182. With respect to the distribution of mail processing costs, were these costs distributed using the MODS cost pools? If no, why not?

RESPONSE:

Yes, each MODS cost pool's variable cost for a particular subclass was distributed in proportion to the IOCS tally dollar value by weight increment for direct tallies belonging to that particular cost pool and subclass. See Appendix A of USPS-LR-H-182.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-25. Please refer to Table 2 at page 6 of USPS LR-H-182.

a. Please explain all possible reasons why the unit costs for one ounce flats are significantly higher than the unit costs for three ounce flats.

b. Does the relationship of costs for the one ounce piece compared to the three ounce piece cause you to doubt the accuracy of the underlying data? If not, why not?

RESPONSE:

a. One ounce flats are dropshipped less often, are presorted less finely, and are less automated than three ounce flats. (See response to NAA/USPS-T36-21 and USPS LR-H-108). Statistical variation may account for this phenomenon as well, since there are significantly less one ounce flats than three ounce flats.

b. No. As explained in subpart a, the cost information is consistent with other data which could explain the higher costs for the first ounce increment. The study was not intended to detail specific cost relationships between individual weight cells, but rather provide the general relationship between weight and costs.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-26. Please refer to Table 3 of USPS LR-H-182.

a. Please confirm that the unit mail processing cost (cost segment 3.1) is 1.76 cents for a one-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.

b. Please confirm that the unit mail processing cost (cost segment 3.1) is 1.40 cents for a two-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.

c. Please confirm that the unit mail processing cost (cost segment 3.1) is 0.85 cents for a three-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.

d. Please explain all possible reasons for the declining unit costs in this cost segment.

e. When IOCS tally takers record the weight of a piece, is there any tendency simply to record a piece as one ounce if the piece is below the breakpoint rather than recording the actual weight of the piece? What steps does the Postal Service take to ensure that this does not happen?

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Possible reasons may include a preponderance of letter shaped basic carrier route mail in the first ounce increment (about 64 percent), which declines to approximately 20 percent in the third ounce increment. This mail is more costly than the saturation mail, which makes up about 50 percent of the third-ounce increment. This could explain, at least in part, the cost relationship identified in this question.

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e. IOCS tally takers are instructed to record the actual weight of the pieces.

See USPS-LR-H-49 at page 131.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-29. Please provide the average unit contribution to institutional cost for each ounce increment of nondropshipped Standard (A) Regular and Enhanced Carrier Route mail (excluding non-profit subclasses) at proposed rates stated separately for:

a. Letters and Nonletters; and
b. below breakpoint and above-breakpoint mail.

RESPONSE:

a and b. Cost coverages (and per piece contribution) are not calculated at this level of detail.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-30. Based upon the unit cost data provided in LR-H-182 and current rates, please provide the average unit contribution to institutional costs for Standard (A) Regular and Enhanced Carrier Route mail (excluding non-profit subclasses) stated separately for:

a. letters and nonletters; and
b. below breakpoint and above-breakpoint mail.

RESPONSE:

Cost coverages (and per piece contribution) are not calculated at this level of detail.

U.S. POSTAL SERVICE RESPONSES TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA REDIRECTED FROM WITNESS MOELLER

NAA/USPS-T36-31. Please refer to pages 1 and 2 of Library Reference H-186. If you cannot answer, please refer to someone who can.

a. Please explain why there are letters that exceed 3.3 ounces.
b. Please explain how a sixteen-ounce piece can have the dimensions of a letter.

RESPONSE:

a. It is assumed that this question is referring to USPS LR-H-182. Shape was determined by processing category, as described in DMM section C050.2.0. Since weight is not used a defining characteristic of letters, it is possible that some letters weigh more than 3.3 ounces. However, in the Standard (A) Mail rate schedule, all pieces weighing more that 3.3 ounces are defined as nonletters.

b. According to DMM C050.2.0, the maximum dimensions for a letters are 6 1/8" by 11½" by ¼", so it is possible to imagine a piece of those dimensions weighing 16 ounces. As a practical matter, less than one half of one percent of the sixteen ounce mail in the study was classified as letter-shaped.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-1. Please refer to Exhibit USPS-44B (a/k/a LR-H-182), study of Standard A costs by weight increment.

a. Please explain the extent of your responsibility for the design of the study. To the extent that you were not solely responsible for the study design, did primary responsibility rest with Christensen Associates or with the Postal Service?
b. Please explain the extent of your responsibility for execution of the study.

RESPONSE:

a. I was primarily responsible for the design and execution of the study. Feedback was sought and incorporated from both the Postal Service and other members of Christensen Associates' staff.

b. See response to (a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-2. Please explain your understanding of the theory that underlies the use of IOCS tallies to study the effect of weight on mail processing costs of Standard A mail.

RESPONSE:

The theory that underlies the use of IOCS tallies to study the effect of weight on mail processing costs is the same theory that underlies the use of IOCS tallies to study the effect of class and subclass on mail processing costs. The IOCS is designed to estimate the cost associated with time spent by various types of employees performing different functions (see USPS-T-12, page 1). For clerks and mailhandlers engaged in mail processing work, the term "functions" most commonly refers to handling mail of particular subclasses or with other characteristics recorded by the data collectors. Since the weight of mail is a recorded characteristic in IOCS, the cost of clerk and mailhandler time spent on mail at each increment of weight can be estimated. This can be compared to mail volume estimates for each weight increment to compute unit costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-3. Please explain any theory which you personally have about how weight affects the cost of Standard A mailpieces, especially mail processing costs, and indicate the type of data or evidence that you would consider most appropriate to investigate and document your own theory. In your response, please discuss the possibility of using any methodology of which you are aware, including but not limited to computer simulation studies, time and motion studies, mail flow models, statistical studies using data other than IOCS tallies, etc. (i.e. do not limit your response to a study based on IOCS tallies).

RESPONSE:

I will attempt to condense into a few paragraphs my understanding of the relationship between mail piece weight and cost, particularly mail processing costs. This is based upon my experience over the past six years of studying this subject. With regard to mail processing costs, these can be separated into two general groups of activities: distribution and non-distribution. Distribution is the act of sorting either pieces or bundles to the transportation or delivery scheme of the office, while non-distribution labor includes activities such as loading and unloading vehicles, opening containers and items, moving mail from location to location within the plant.

Distribution has increasingly become mechanized and automated over the last ten years. Local spikes in unit cost occur at weight ranges where pieces become incompatible with the machine technology and manual labor is substituted. I believe that two examples of such spikes are letter-shaped mail between 3 and 4 ounces and flat-shaped mail under 2 ounces.

Non-distribution activities share the following characteristics: they are generally performed on mail grouped into items or containers, and they are generally manual operations. Costs for non-distribution labor activities are generally in proportion to the number of items or containers that are handled in a particular operation, for example,

the number of pallets that are unloaded from a trailer. While it may be tempting to deduce that these costs should vary proportionally with mail piece weight, this is not necessarily the case, because weight can influence the manner in which Standard (A) pieces are made up, and ultimately handled in nondistribution activities. Specifically, for a given address list, as mail piece weight increases, the ability to make more finely presorted items and containers increases.

Consider 150 two-ounce flat-shaped pieces in a 3-digit sack, and assume that it is made up of three 50 piece bundles for each of three 5-digit zones. The mail in the sack weighs 18.75 pounds. Now increase the weight of the mail pieces to 5 ounces. Three 5-digit sacks, each with 15.63 pounds of mail are now required to be made. Mail processing costs are reduced. With the former 3-digit sack, the sack would be opened, three bundles sorted, these and these bundles re-sacked for transportation to the delivery unit. The 5-digit sacks are simply sorted for transportation to the delivery unit. Further savings are realized in most plant situations because the sawtooth or donut where the 5-digit sacks are sorted is usually located on or adjacent to the dock. The bundle sorting operation is often located at some distance from the dock, requiring more labor to move the mail from and to the dock.

A similar argument applies to pallet makeup, since required pallet makeup is based upon weight. Indeed, the savings for palletized mail are even clearer, because the cost savings between cross-docking three pallets versus breaking down and bundle sorting one pallet is greater. Consider a 3-digit pallet with 50 carrier-route bundles for each of three 5-digit zones, with each bundle weighing 4 pounds and the pallet weighing 600 pounds. This pallet will be broken down in the SCF, each bundle sorted

to the appropriate 5-digit zone, and the resulting mail moved back to the dock for transportation to the delivery unit. Triple the weight of each piece in the bundles, and now three 5-digit pallets, each weighing 600 pounds can be made. Clearly, the cost of crossdocking three pallets is less than the cost of breaking down and sorting 150 bundles and moving this mail to and from the bundle sorting operation.

To study these effects, we attempted to develop a computer simulation of the mail processing costs of a static mailing list as the mail piece weight was increased. The general design of the simulation was to develop the bundle and container profile of a mailing at varying weight increments and then to use the Postal Service's mail flow models to model the piece and bundle distribution costs at each of the weight increments.

This effort was not entirely successful, primarily because several key pieces of information were not available. These include the machinability of the mail pieces by weight increment, the automation compatibility of pieces by weight increment, the effect of weight of bundle on bundle distribution costs (time & motion study), the effect of weight on manual piece distribution (time & motion study), up to date information on the costs of crossdocking/sorting containers, the collection of address lists that could be used to proxy the entire Standard (A) mailstream, the makeup of bundles and containers at each weight increment, and the types of containers used at each weight increment.

Given the difficulties we encountered in following the computer simulation/mailflow model approach, I believe that a time sampling system, such as IOCS, is the preferred method to study the effect of mail piece weight on cost. The

IOCS has the appealing characteristic of sampling all clerk and mailhandler activities, whereas current mailflow models only cover distribution and a subset of non-distribution activities in a simplified manner. Computer simulation could be used to support and explain the results of the time sampling study, but much more information than is currently available would have to collected.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-4. Please refer to Exhibit USPS-44B (LR-H-182), Tables 3-6, cost by ounce increment for Standard A Mail.

a. For the mail processing costs, Segment 3.1, shown in these four tables, please indicate within each table, for each ounce increment, the number of IOCS tallies underlying the costs shown.
b. What is the minimum number of tallies needed for a reliable estimate of costs within a single one-ounce cell? What is the maximum variance that is acceptable for an estimate to be considered reliable?
c. Please confirm that the IOCS mail processing tallies which you used for this study have a field which indicates whether the clerk or mailhandler tallied was handling (i) a piece of mail, (ii) an item, or (iii) a container. If you do not confirm, please provide a list showing all information contained on IOCS mail processing tallies provided to Christensen Associates for this study.
d. Assuming that information described in preceding part c is available, for each of these four tables please provide a breakdown of the mail processing tallies in each ounce increment showing whether the person tallied was handling (i) a piece, (ii) an item, or (iii) a container.

RESPONSE:

a. See Attachment.

b. There is no single minimum number of tallies or maximum variance for an estimate in this context. The acceptable standard depends upon the application for which the data are used.

c. Confirmed.

d. See Attachment.

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Attachment 1 to VP-CWU/USPS-ST44-4.
Number of FY96 IOCS Tallies by Weight Increment and Field 9213 Response

Rate Category	F9213	Weight Increment (ounces) 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Commercial ECR	Piece	351	132	99	109	30	16	8	10	2	3	2	2	1	1	2	2
	Item	425	252	144	159	42	27	11	14	8	7	2	1	0	1	1	4
	Container	11	9	9	9	3	0	1	1	0	0	0	0	0	0	0	0
	Total	787	393	252	277	75	43	18	25	10	10	4	3	1	2	3	6
Regular	Piece	2,960	1,848	959	1,070	329	248	127	178	82	82	78	115	70	85	69	54
	Item	1,546	654	383	446	111	111	34	68	25	33	17	24	13	14	8	16
	Container	1,071	170	39	35	8	7	3	3	1	1	1	0	2	2	2	4
	Total	5,567	2,372	1,381	1,551	448	364	164	249	118	116	96	139	85	101	79	74
Nonprofit ECR	Piece	65	15	8	8	1	0	1	0	1	0	0	0	0	0	0	0
	Item	80	23	6	6	0	0	2	0	0	1	0	0	0	0	0	0
	Container	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	147	38	17	14	1	0	3	0	1	1	0	0	0	0	0	0
Nonprofit	Piece	1,168	358	147	149	23	28	16	8	4	8	5	4	2	3	1	1
	Item	658	183	77	36	14	10	3	5	1	0	3	2	0	0	2	1
	Container	14	5	1	3	0	0	0	0	0	0	0	0	0	1	0	0
	Total	1,840	546	225	190	37	38	18	13	5	8	8	6	2	4	3	2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-5. When an IOCS mail processing tally used for the study in USPS-44B (LR-H-182) recorded a clerk or mailhandler as handling an item, please confirm that the item could be a concon, bundle, pallet, pouch, sack, or tray. If the preceding list includes anything not classified as an item, or excludes anything that may also be classified as an item, please specify.

RESPONSE:

Confirmed. There is also an "other item" category. Please see Library Reference H-49, page 88.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-6. When an IOCS mail processing tally used for the study in USPS-44B recorded a clerk or mailhandler as handling an item, and a weight was also recorded on the tally, please explain how you interpreted and treated the recorded weight. Specifically, did you interpret and treat the weight as (i) a single piece of mail (*e.g.*, the top piece), (ii) the item itself (*e.g.*, a bundle), or (iii) something else? Regardless of your answer, please explain the rationale.

RESPONSE:

The recorded weight is that of an individual piece of mail. For a clerk or mailhandler handling an item, the weight of a single piece of mail is recorded when either the top-piece rule is applied, or the item contains identical mail. See item 12-10 on page 88 of Library Reference H-49. As for any other direct tally with valid weight information, the tally dollar value for item tallies with direct activity codes are accumulated in the matrix with activity code, weight increment, and cost pool dimensions. The distribution of accumulated direct tally dollar value by weight increment is used as the distribution key for the variable mail processing costs by cost pool. For mail in identical items, the rationale is that all of the pieces in the item have the same weight. For items where the top-piece rule was applied, the rationale is that the piece is randomly selected by the top-piece rule, and represents the other pieces in the item.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-7. Assume that one or more of the IOCS mail processing tallies used for the study in USPS-44B recorded a clerk or mailhandler as handling an item, and the weight recorded on the tally is less than one ounce.

a. What items handled by the Postal Service weigh less than one ounce?
b. Did you interpret the weight (under 1 ounce) recorded on the tally to refer to a piece of Standard A mail, or to the item itself?
c. How were such tallies used in the study in USPS-44B (LR-H-182)?

RESPONSE:

a. The weight recorded by the IOCS is for a single piece of mail. No information is collected on the weight of items.

b. A piece.

c. See response to VP-CW/USPS-ST44-6.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-8. Assume that one or more of the IOCS mail processing tallies used for the study in USPS-44B (LR-H-182) recorded a clerk or mailhandler as handling an item, and the weight recorded on the tally is between 10 and 16 ounces.

a. What items handled by the Postal Service weigh between 10 and 16 ounces? Please explain your answer.
b. Did you interpret the 10 to 16 ounce weight recorded on the tally to refer to a piece of Standard A mail, or to the item itself? Please explain your answer.
c. How were such tallies used in the study in USPS-44B (LR-H-182)?

RESPONSE:

a - c. See response to VP-CW/USPS-ST44-7.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-9. Assume that one or more of the IOCS mail processing tallies used for the study in USPS-44B (LR-H-182) recorded a clerk or mailhandler as handling an item, and the weight recorded on the tally was more than 16 ounces.

a. Would you agree that the weight (more than 16 ounces) recorded on the tally cannot refer to a piece of Standard A mail? Please explain any disagreement.
b. How were such tallies used in the study in USPS-44B (LR-H-182)? If any tallies were deleted or ignored on account of the weight recorded on the tally, please provide a full explanation concerning the treatment of all such tallies when preparing the study in LR-H-182.

RESPONSE:

a. Pieces more than 16 ounces do not meet the requirements for Standard (A) mail.

b. Tallies with recorded weight of greater than 16 ounces were excluded from the distribution of direct tally dollar value by weight increment. This exclusion occurs as a result of the "windx" function returning a zero value in the programs windxmod.f, windxbmc.f, and windxnmod.f as shown at pages C15, C17, and C19 of Exhibit USPS-44B.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-10. When an IOCS direct mail processing tally used for the study in USPS-44B (LR-H-182) recorded a clerk or mailhandler as handling a container, please confirm that the container could be an APC, a hamper a nutting cart, or an OTR. If the preceding list includes anything not classified as a container, or excludes anything that is classified as a container, please specify.

RESPONSE:

Containers also include ERMCs, Postal Paks, utility carts, wiretainers, "multiple items not in a container", and "other containers". Please see Library Reference H-49, page 91.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-11. When an IOCS direct mail processing tally used for the study in USPS-44B (LR-H-182) recorded a clerk or mailhandler as handling a container, and a weight was recorded on the tally, please explain how you interpreted and treated the recorded weight. Did you treat the weight as referring to (i) a single piece of mail (*e.g.*, the top piece), (ii) the item itself (*e.g.*, a bundle), or (iii) something else? Please explain the rationale for whatever treatment it was accorded.

RESPONSE:

The recorded weight is that of a representative piece of mail. See item 12-26 on page 92 of Library Reference H-49. Note that the only time that questions 22 and 23 are answered (and a direct tally will result) for an observation of a clerk or mailhandler handling a container is when the container contains identical mail. Such tallies are treated as any other direct tally as described in the response to VP-CW/USPS-ST44-6. The rationale is that all the mail pieces in a container of identical mail will have the same weight.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-12. Assume that an IOCS mail processing tally used for the study in USPS-44B recorded a clerk or mailhandler as handling a container, and the weight recorded on the tally is less than one pound.

a. What containers handled by the Postal Service weigh less than one pound? Please explain your answer.
b. Did you interpret the weight (under 1 pound) recorded on the tally to refer to a piece of Standard A mail, or to an item in the container (*e.g.*, a bundle or tray of mail)? Please explain your answer.
c. How were such tallies used in the study in USPS-44B (LR-H-182)?

RESPONSE:

a. The weight recorded in the IOCS is for a single piece of mail. No information is collected on the weight of containers.

b. A piece.

c. See response to VP-CW/USPS-ST44-11.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-13. Assume that an IOCS mail processing tally used for the study in USPS-44B recorded a clerk or mailhandler as handling a container, and the weight recorded on the tally exceeded 16 ounces. Did the study of the relationship between weight and cost in LR-H-182 treat this tally as being in the 15 to 16 ounce category, were such tallies discarded, or were they utilized in some other way? Please explain.

RESPONSE:

See response to VP-CW/USPS-ST44-9(b).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-14. At the outset of the study in USPS-44B, how many mail processing IOCS tallies were you provided for each of the Tables 3-6?

RESPONSE:

The starting point for the study was the complete FY96 IOCS dataset, available in Library Reference H-23. The counts of the direct tallies underlying Tables 3-6 of Exhibit USPS-44B are shown in the attachment to the response for VP-CW/USPS-ST44-4.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-15. Please provide a plain language description of all editing procedures that you used to distinguish and separate any IOCS tallies considered inappropriate or unusable for a study designed to determine the effect of weight on cost of Standard A mail.

a. What criteria were used to establish that a tally was minimally acceptable?
b. If no such editing was undertaken, please explain why it was not considered necessary.
c. Please provide a copy of any edit program(s) used by Christensen Associates in the execution of the study contained in LR-H-182.

RESPONSE:

Each Standard (A) Mail direct tally was checked to see if a valid piece weight was recorded.

a. If a) the tally had a non-zero weight recorded, and b) the tally had a weight of less than or equal to 16 ounces recorded, then the tally was used; any remaining tallies were not used.

b. Not applicable.

c. See response to VP-CW/USPS-ST44-9(b).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-16.

a. From the original set of IOCS mail processing tallies provided by the Postal Service, how many were deleted or identified as questionable by your editing or scrubbing procedures?
b. Of the original set of IOCS mail processing tallies for Standard A Mail provided by the Postal Service, how many had a recorded weight of greater than 16 ounces?
c. Of those mail processing tallies that had a recorded weight in excess of 16 ounces, how many were (i) single pieces, (ii) items, and (iii) containers?

RESPONSE:

a) Of the 18,306 direct Standard (A) Mail mail processing tallies considered for this analysis, 304 were eliminated because they were counted item tallies and had no weight information, and 21 were eliminated because they had a weight of greater than 16 ounces recorded.

b) See the response to subpart (a).

c) (I). 7 (ii). 14 (iii). 0

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-17. Please provide (i) a copy of all mail processing tallies used in the study in LR-H-182; (ii) a complete explanation as to the format (*e.g.*, database, spreadsheet); (iii) any instructions necessary to read the tallies in a PC; and (iv) an explanation of the information contained in each field.

RESPONSE:

The IOCS tally data were provided as Library Reference H-23. See the hardcopy documentation to H-23 for file format and field content information. The fields used in LR-H-182 are shown at page D2 of Exhibit USPS-44B.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-18. Please refer to LR-H-111.

a. Please confirm that this study purports to document the relationship between weight and cost for (i) transportation costs, and (ii) certain dock handling costs. *If you do not confirm, please explain your answer, and provide your* interpretation of the purpose and nature of LR-H-111.
b. To what extent does the inclusion of Segment 14 costs in USPS-44B (LR-H-182) replicate the study in LR-H-111?
c. According to the study in LR-H-111, drop shipment avoids weight-related costs. Please explain how the study in USPS-44B controlled for drop shipment and the obvious effect that drop shipment has on weight-related costs.

RESPONSE:

a. Not confirmed. Library Reference H-111 estimates the costs avoided by Standard (A) mail that are entered at certain nodes in the Postal Service transportation network, for the purpose of calculating discounts for destination entry.

b. Inclusion of segment 14 costs in Exhibit USPS-44B does not replicate the study in LR-H-111. Exhibit USPS-44B estimates the relationship between weight and attributable cost, while Library Reference H-111 estimates the cost avoidance due to destination entry.

c. See the response to ADVO/USPS-28.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-19. For the database of IOCS mail processing tallies used for the study in USPS-44B (LR-H-182), how many were (i) direct tallies, (ii) mixed tallies, and (iii) indirect tallies? Please explain what information recorded on the tally distinguishes between the three preceding possibilities.

RESPONSE:

Only direct tallies were used in the study. These are tallies having a Standard Mail (A) direct activity code, of which there were 18,306. See Library Reference H-1, Appendix B, for a list of activity codes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-20. Assume that an IOCS mail processing tally used for the study in USPS-44B (LR-H-182) recorded a clerk or mailhandler as handling an individual piece of Standard A Mail, and the weight recorded on the tally was more than one pound. Please explain how all such tallies were treated in the study of the relationship between weight and cost in LR-H-182.

RESPONSE:

See the response to VP-CW/USPS-ST44-9(b).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-21. Did any Standard A mixed mail tallies used for the study in USPS-44B (LR-H-182) have a weight recorded on them?

a. Unless your answer is an unqualified negative, please explain what the recorded weight represents; e.g., top piece, average weight of counted pieces, etc.
b. Please explain how mixed mail tallies were used in the study on the relationship between weight and cost.

RESPONSE:

Mixed-mail tallies were not used for the study in Exhibit USPS-44B.

a. My understanding is that weight is not recorded for mixed-mail tallies.

b. Mixed mail tallies were not used for the development of mail processing costs in this study. Mixed mail tally costs were distributed to direct mail tally costs for window service and city carrier in-office costs by the LIOCATT process. See Appendix B of Exhibit USPS-44B for an explanation of the programs used for this process.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK MARKETING SYSTEMS, ET AL.

VP-CW/USPS-ST44-22. Please explain whether the number of mail processing IOCS tallies that were used for the study in USPS-44B equals the number of mail processing tallies that were used to distribute mail processing costs to the four subclasses of Standard A Mail. If they were not equal, for each subclass please indicate (i) the number of tallies used to distribute mail processing costs, (ii) the number of tallies used to study the weight-cost relationship, and (iii) explain all reasons why not every tally used to distribute mail processing costs was used to study the effect of weight in cost.

RESPONSE:

I assume that this question is referring to the distribution of costs to subclass as shown in Table 5 of witness Degen's testimony (USPS-T-12). The number of tallies is not equal because the study in Exhibit USPS-44B only used direct tallies, whereas the distribution in witness Degen's study was constructed using all mail processing tallies.

i. This is impossible to calculate, since mixed-mail and not-handling-mail tallies cannot be associated with a single subclass. The number of Standard (A) Mail direct mail processing tallies is 18,306. The number of mixed-mail and non-handling-mail tallies by cost pool is shown at Tr. 12/6227-6228.

ii. See the attachment to the response to VP-CW/USPS-ST44-4.

iii. The only tallies with weight information are direct tallies. The mixed-mail and non-handling-mail distribution methodology described by witness Degen in USPS-T-12 does not specify rules for distributing tallies without weights to weight increment.

RESPONSE OF POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, ET AL

VP-CW/USPS-ST44-23.

Please refer to your response to VP-CW/USPS-ST44-4.

a. Please answer VP-CW/USPS-ST44-4, part b., assuming the data are to be used to study the effect of weight on mail processing costs.
b. Please provide, in electronic spreadsheet format, the estimated coefficient of variation, and the estimated upper and lower 95 percent confidence limits, for each entry in the table entitled "Attachment 1 to VP-CP/USPS-ST44-4, Number of FY96 IOCS Tallies by Weight Increment and Field 9213 Response."

RESPONSE

a. There is no specific number of tallies which can be said to provide a reliable estimate for a single ounce, because the variance of the cost estimate depends not only on the number of tallies, but on the stratum in which the tallies were sampled. Also, I do not consider the standard errors at individual weight increments to be the best measure of the usefulness of the data for the estimation of the cost-weight relationship. This is because I would not use the unit cost estimates at single points, but instead fit a line through all of the points. It is the standard error of the estimated slope of this line that would be useful in deciding whether the data are meaningful for studying the cost-weight relationship. Although the standard errors at individual points will affect the standard error of the slope of the line, the standard errors at individual points do not bias the estimate of the slope.

b. See attached table. An electronic version is filed as USPS LR-H-309.

Response to VP-CW/USPS-ST44-23, subpart b.
Coefficient of Variation, FY98 IOCS Standard (A) Direct Mail Processing Tallies by Weight Increment and F9213 Response

		Weight Increment (ounces)															
Rate Category	F9213	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Commercial ECR	Piece	6%	11%	12%	11%	21%	30%	44%	31%	68%	55%	82%	102%	112%	96%	67%	76%
	Item	5%	7%	9%	9%	18%	19%	28%	28%	38%	37%	64%	115%		93%	90%	54%
	Container	30%	37%	34%	36%	48%		84%	90%								
	Total	4%	6%	7%	7%	13%	17%	23%	20%	33%	31%	64%	77%	112%	68%	54%	44%
Regular	Piece	4%	4%	5%	4%	7%	7%	10%	8%	11%	11%	12%	10%	12%	12%	13%	12%
	Item	4%	5%	6%	5%	12%	9%	17%	13%	20%	16%	27%	20%	26%	28%	31%	23%
	Container	16%	22%	32%	25%	37%	42%	70%	54%	97%	98%	89%		64%	66%	65%	60%
	Total	3%	4%	4%	4%	6%	6%	9%	7%	10%	9%	11%	9%	11%	11%	12%	11%
Nonprofit ECR	Piece	13%	25%	33%	37%	115%		90%		93%							
	Item	12%	23%	33%	44%		99%	67%			98%						
	Container	77%															
	Total	9%	17%	23%	29%	115%	99%	54%		93%	98%						
Nonprofit	Piece	4%	6%	9%	9%	21%	18%	25%	37%	47%	34%	41%	51%	65%	55%	326%	88%
	Item	5%	8%	11%	17%	20%	28%	59%	38%	95%		48%	72%			65%	97%
	Container	26%	37%	79%	55%										92%		
	Total	4%	5%	8%	8%	16%	15%	23%	27%	42%	34%	31%	42%	65%	48%	66%	65%

Response to VP-CW/USPS-ST44-23, subpart b.
Upper 95% Confidence Limit, FY96 IOCS Standard (A) *Direct Mail Processing* Tallies by Weight Increment and F9213 Response

		Weight Increment (ounces)															
Rate Category	F9213	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Commercial ECR	Piece	394	159	122	133	43	25	11	16	5	6	5	6	3	3	5	5
	Item	468	285	170	187	57	37	17	22	14	12	5	3	-	3	3	8
	Container	18	15	15	16	6	-	3	3	-	-	-	-	-	-	-	-
	Total	855	438	288	317	94	57	26	35	16	16	9	7	3	5	6	11
Regular	Piece	3,161	1,668	1,045	1,164	373	282	152	207	112	99	96	138	87	105	86	67
	Item	1,676	716	432	493	137	131	45	85	35	44	26	33	20	22	13	23
	Container	1,404	243	64	52	14	13	7	6	3	3	3	-	5	5	5	9
	Total	5,934	2,536	1,491	1,668	503	406	192	283	141	137	116	164	103	123	97	90
Nonprofit ECR	Piece	81	22	15	16	3	-	3	-	3	-	-	-	-	-	-	-
	Item	99	33	13	9	-	-	5	-	-	3	-	-	-	-	-	-
	Container	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	173	51	25	22	3	-	6	-	3	3	-	-	-	-	-	-
Nonprofit	Piece	1,266	400	174	175	33	39	22	14	8	13	9	8	5	6	7	3
	Item	726	211	94	50	19	15	8	9	3	-	6	5	-	-	5	3
	Container	21	9	3	6	-	-	-	-	-	-	-	-	-	3	-	-
	Total	1,979	600	258	219	48	51	26	20	9	13	13	11	5	8	7	5

Response to VP-CW/USPS-ST44-23, subpart b.

Lower 95% Confidence Limit, FY98 IOCS Standard (A) Direct Mail Processing Tallies by Weight Increment and F9213 Response

		Weight Increment (ounces)															
Rate Category	F9213	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Commercial ECR	Piece	308	105	78	85	17	7	1	4	(1)	(0)	(1)	(2)	(1)	(1)	(1)	(1)
	Item	382	219	118	131	27	17	5	6	2	2	(1)	(1)	-	(1)	(1)	(0)
	Container	4	3	3	2	0	-	(1)	(1)	-	-	-	-	-	-	-	-
	Total	719	348	218	237	56	29	10	15	4	4	(1)	(1)	(1)	(1)	(0)	1
Regular	Piece	2,739	1,428	873	976	285	210	102	149	72	65	60	92	53	65	52	41
	Item	1,416	590	334	399	85	91	23	51	15	22	8	15	6	6	3	9
	Container	738	97	14	16	2	1	(1)	(0)	(1)	(1)	(1)	-	(1)	(1)	(1)	(1)
	Total	5,200	2,208	1,271	1,434	393	322	136	215	95	95	76	114	67	79	61	58
Nonprofit ECR	Piece	49	8	3	2	(1)	-	(1)	-	(1)	-	-	-	-	-	-	-
	Item	61	13	3	1	-	-	(1)	-	-	(1)	-	-	-	-	-	-
	Container	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total	121	25	9	6	(1)	-	(0)	-	(1)	(1)	-	-	-	-	-	-
Nonprofit	Piece	1,070	316	120	123	13	19	8	2	0	3	1	0	(1)	(0)	(5)	(1)
	Item	590	155	60	26	9	5	(0)	1	(1)	-	0	(1)	-	-	(1)	(1)
	Container	7	1	(1)	(0)	-	-	-	-	-	-	-	-	-	(1)	-	-
	Total	1,701	492	192	161	26	27	10	6	1	3	3	1	(1)	0	(1)	(1)

VP-CW/USPS-ST44-24.

Please refer to your response to VP-CW/USPS-ST44-6.

a. Please explain fully what you meant by "valid weight information."
b. Is it your understanding that all "invalid" weight information should have been removed from the IOCS mail processing tallies as a result of the Postal Service's IOCS data checking an verification procedures (see LR-H-14) before being saved to the file named "hqtal96.prc"? If not, please explain.
c. If your answer to part b. above is anything other than an unqualified affirmative, please explain how one should use the tally data provided in LR-H-23 (in the file named "hqtal96.prc"), or any other publicly available information provided in connection with this case, to identify those tallies with "valid weight information," as distinct from those with "invalid" weight information.

RESPONSE

a. See the response to VP-CW/USPS-ST44-15.

b. I understand that it is not possible for a tallytaker to enter a weight that is invalid for Standard (A) mail because the IOCS CODES software prevents the entry of piece weights outside the range acceptable for each subclass of mail. However, in the first version of CODES that incorporated changes due to mail classification reform changes following Docket No. MC95-1, this check was inadvertently disabled. This situation has since been corrected. To the extent that the software not incorporating the check was used in tallytaking, this resulted in a minor amount of invalid weight tallies shown in the response to VP-CW/USPS-ST44-16(a).

c. The IOCS fields F165, F166, and F167 contain the recorded weight of sampled pieces. To determine whether a tally has valid weight information, one need only compare the piece weight as indicated by these fields to the proper range of weight for the classification of mail that the tally represents. Only direct tallies with a sampled piece will have weight recorded; consequently, counted item tallies, which are considered direct tallies, will not have a recorded piece weight.

RESPONSE OF POSTAL SERVICE WITNESS MCGRANE TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, ET AL

VP-CW/USPS-ST44-25.

Please refer to your response to VP-CW/USPS-ST44-3.

a. Based on the observations and studies that you have done with respect to the effect of weight on cost, is it your belief that the increased weight of the mailpieces in a bulk mailing, especially substantial increases such as two to four times some initial weight, usually result in finer level of presortation and mail makeup, which in turn may result in lower handling cost? Please explain your response.
b. Please discuss the extent to which you think there may be weight-related presort savings that are not captured in the existing per piece measure of cost avoidance.

RESPONSE

a. Yes. This occurs because both sack and pallet makeup are controlled by weight. A sack is required to be made to a particular location in the sort sequence when that location has either 125 pieces or 15 pounds of mail. Thus, for mail over 1.92 ounces, increasing the weight of the mail decreases the number of pieces needed to make a required sack to a particular location. Pallets are required to made at 500 pounds of mail, so increasing the piece weight of a mailing will directly decrease the number of pieces needed to make a required pallet. It is likely that by substantially increasing the mail piece weight within a mailing, sacks or pallets at a finer level of presort will be required by the makeup rules.

b. Consider the pallet example in my response to VP-CW/USPS-ST44-3. Increasing the weight of mail decreased the cost of handling this mail at the destination SCF. However, since the rates paid for palletized mail depend on the package presort level and in the example the number of packages did not change, the number of pieces by rate category did not change. In general, the effect of increased piece weight leading to improved container presorting will not be reflected in the rates paid for palletized mail, and for barcoded flats in sacks, since both types of mail pay rates based upon the package presort level. Even for non-barcoded mail in sacks, there

are some improvements in sack presort which will not be recognized by rate differences, such as the movement from mixed-ADC to ADC sacks, and the movement from 3-digit to 5-digit sacks.

CHAIRMAN GLEIMAN: Does any participant have additional written cross examination for Witness McGrane?

[No response.]

CHAIRMAN GLEIMAN: If there is none, we'll move on to oral cross examination.

Five participants requested oral cross examination of this witness -- ADVO, the Alliance of Non-Profit Mailers, the Newspaper Association of America, Parcel Shippers Association, and Val-Pak Direct Marketing Systems and Val-Pak Dealers Association and Carol Wright Promotions, Inc.

Does any other participant have oral cross examination of Witness McGrane?

[No response.]

CHAIRMAN GLEIMAN: It is our intention to allow parties with light cross examination to go first. I only see two of the parties present in the room, so this may be an irrelevant matter at this point in time.

Why don't we just proceed with the first party who's present, and that would be the Newspaper Association of America.

Mr. Baker, whenever you're ready.

MR. BAKER: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. BAKER:

Q Good morning, Mr. McGrane.

A Good morning, Mr. Baker.

Q For the record, I am Bill Baker, appearing on behalf of the Newspaper Association of America.

I just have a little housekeeping matter.

Mr. McGrane, two documents were attached to your supplemental testimony that initially were filed as library references in this case, correct?

A Yes, that's correct.

Q And Exhibit 44-A is that document that was filed initially as Library Reference 109?

A That is correct.

Q And 44-B was filed as Library Reference 182?

A That is correct.

Q And so, you'll understand if, in our discussions today, I refer to the documents interchangeably as the exhibit or as the library reference, and you'll understand which documents I'm talking about?

A Certainly.

Q And certainly all your interrogatory answers that were using the library reference term applies equally to the documents status as exhibits.

A Yes.

Q Okay.

I'd like to start by asking you about Exhibit

44-A, which was the document filed as Library Reference 109, and in general, this document is the one that presents mail processing costs for Standard A mail that is separated between high-density saturation walk sequence mail on the one hand and the other carrier route mail in general. Is that correct?

A Yes.

Q Okay.

What was your involvement in the study?

A Well, I basically performed the entire study myself, with the help of some of my staff.

Q So you did it.

A Yes.

Q Okay. And did you make the assumptions that were necessary to make in the course of doing this study?

A Yes.

Q Okay.

Do you happen to know how the study is being used in this case by other Postal Service witnesses?

A Only very generally.

Q Okay. All right.

Let's take a look at the data that were your inputs in Library Reference 109. Am I correct that the data here are drawn from the 1996 IOCS tallies for mail processing costs?

A Yes, that's correct.

Q Okay. And are the endorsements that you reviewed limited to the direct tallies?

A That's correct.

Q Now, reclassification changes arising from MC95-1 were implemented on July 1, 1996, correct?

A Yes.

Q And I think, if you turn to your answer to NAA-USPS-ST-44-3 -- let me turn to that -- well, that's not actually the correct one. It was 2, No. 2.

We had asked you, in essence, how much the data that you used pre-dated reclassification and how much post-dated, and your answer, in fact, corrected my arithmetic by pointing out that 10 1/2 of the accounting periods used in preparing Exhibit 44-A pre-dated reclassification, 2 1/2 accounting periods post-dated reclassification, correct?

A Yes.

Q Now, in response to NAA-ST-44-4 and I think 5, you presented tables that replicated the Tables 1 and 2 of your Exhibit 44-A but with the difference that you stated the costs for pre-July 1 and post-July 1 separately, correct?

A Yes.

Q Okay. And in those tables, the pre-July 1 data are from the 10 1/2 accounting periods under the old

classification scheme and the post-July data are under the new classification scheme, correct?

A Yes.

Q And did the new classification scheme that went into effect on July 1, 1996, bring with it new sequencing requirements?

A As I understand and has been pointed out to me, the basic ECR mail, as it's called after reclassification, is required to be presented in line of travel order.

Q And is it possible that, in particular routes, the Postal Service might require that it be presented in walk sequence format?

A I'm not aware of that requirement.

Q Okay.

So, for the last 2 1/2 accounting periods of the year in which this data were collected, the basic non-letters were required to be prepared in line of travel, is your understanding, correct?

A That's my understanding.

Q Okay.

So, the data in the non-walk sequence column of your exhibits consists of 10 1/2 APs of data in which ECR basic mail could have been prepared in any sequence or no sequence and 2 1/2 accounting periods in which the basic non-letters had to be in at least line of travel sequence,

correct?

A That's correct, yes.

Q Did you compare the pre- and post-reclassification data to see if the reclassification had any effect on the cost?

A No, because to my understanding, whether the basic mail is presented in line of travel or not really shouldn't have much of an impact on mail processing cost, which was the basis for my study.

Q Okay.

Last week, I delivered to your counsel a document entitled "Cost Differences Between Walk Sequence and Non-Walk Sequence Standard A Commercial ECR Non-Letter Mail." Do you have a copy of that?

A Yes, I do.

MR. BAKER: All right.

Mr. Chairman, for the record, I suppose I should ask that this document be marked as a cross examination exhibit, and I believe the designation would be NAA-X -- EX-ST-44-1 maybe?

CHAIRMAN GLEIMAN: NAA-XE-1.

MR. BAKER: That would be fine.

[Cross-Examination Exhibit NAA-XE-1 was marked for identification.]

BY MR. BAKER:

Q Mr. McGrane, have you had an opportunity to review this document?

A Yes, I have.

Q Okay. And are you able to -- just to review it, we have columns for total cost in volumes and the unit cost across the top, and down the side, we have rows for non-walk sequenced and walk sequenced non-letters, both pre- and post-classification. Is that correct?

A That is correct.

Q Have you been able to verify that the total cost for non-walk sequence non-letters, both pre- and post-reclassification, have been accurately copied from the source cited on the document, Table 2 of your answer to NAA-USPS-ST-44-5?

A Yes, I did.

Q And are they accurate?

A They're accurate, yes.

Q And similarly, are you able to verify that the volume of walk sequenced non-letters is the sum of the high-density and saturation volumes presented in your answer to NAA-USPS-ST-44-23?

A Yes, they are the sum.

Q And are you able to verify that the cross examination exhibit correctly calculates the unit cost pre-and post-classification.

A Yes, that's correct.

Q And does this exhibit show that the pre-reclassification cost difference between non-walk sequenced and walk sequenced commercial ECR non-letters is slightly more than -- or about ~~.07~~ 0.7 cents greater than the post-reclassification cost difference?

A Yes, I would accept that. One thing I would qualify that would be that, generally, for mail processing costs, we rely on an entire base year for developing costs and that looking at a 2 1/2 AP period is not standard practice for the cost systems.

Q I understand that. Do you think the .7-cent cost difference is fairly remarkable given these changes were in effect for only 2 1/2 accounting periods?

A I wouldn't characterize it as remarkable. It's perhaps larger than I would like to see, but given the short period of time that the postreclassification data was developed from and the newness of the adjustment of the Postal Service to the postreclassification operating environment it's perhaps not surprising that there is a difference.

Q You mentioned the newness of the postreclassification environment. Is it likely that after the postal workers got more familiar with the changed classifications and the new entry requirements,

nomenclature, and so forth, that they become more efficient or less efficient when they process the mail?

A Well, one would hope more efficient.

MR. BAKER: Mr. Chairman, at this point I would like to move my cross-examination exhibit into the record as evidence.

CHAIRMAN GLEIMAN: Is there an objection?

If there's no objection, I'll direct that the Cross-examination Exhibit NAA-XE-1 be moved into evidence and transcribed into the record.

[Cross-Examination Exhibit NAA-XE-1 was received into evidence and transcribed into the record.]

NAA-XE-1

7765

COST DIFFERENCES BETWEEN WALK SEQUENCED AND NON-WALK SEQUENCED STANDARD A COMMERCIAL ECR NON-LETTER MAIL

	Total Cost	Volumes	Unit Cost (cents/pc)
Pre-Reclassification (before July 1, 1996)			
Non Walk-Sequenced Non-Letters	163,178	6,685,291	2.441
Walk Sequenced Non-Letters	18,895	6,829,506	0.277
Unit Cost Difference			2.164
Post-Reclassification (after July 1, 1996)			
Non Walk-Sequenced Non-Letters	29,915	1,777,605	1.683
Walk Sequenced Non-Letters	3,706	1,699,084	0.218
Unit Cost Difference			1.465

Source: Total Costs from NAA/USPS-ST44-5, Table 2
Volumes from NAA/USPS-ST44-23 section D
Unit Costs equal to Total Costs divided by Volumes multiplied by 100.

BY MR. BAKER:

Q Mr. McGrane, in your answer to Alliance of Nonprofit Mailers ST-44-5, as I read it you state that the -- you use the same IOCS data base for both Exhibit 44-A and for 44-B. Is that correct?

A Yes, that's correct.

Q You use the FY 96 data file --

A Yes.

Q IOCS data file.

Are the tallies themselves those that are presented in your response to Val-Pak CW-ST-44-4?

A Are the tallies what?

Q Are the tallies that you used for ECR -- Standard A ECR and Regular those that are presented here in this Val-Pak exhibit?

A Well, this is the number of direct tallies by weight increment -- that the editing procedures for the weight increments study as stated in Val-Pak CW-ST-44-16.

Q So these are direct tallies after you've cleansed the data file --

A Yes.

Q So to speak. Okay. And do you have that response No. 4 in front of you?

A Yes.

Q And are these numbers here individual tallies,

direct tallies?

A Individual tallies --

Q Okay.

A Yes.

Q So for example I notice that in the column labeled 1 for the row Commercial ECR piece there's a number 351. Does that number indicate that there were 351 direct IOCS tallies in FY 96 for commercial ECR pieces weighing up to an ounce?

A Yes, direct mail processing tallies, yes.

Q That you used in your analysis. Okay.

And if I sum the total line under Commercial ECR do I get about 1,900 tallies?

A I haven't performed that calculation.

Q Okay. My calculation was approximately 1,900, which I ask you to accept subject to check. And I believe in response to an Alliance number you said that the total number of tallies for the nonprofit ECR was 231, and that would be Alliance ST-44-3?

A 231, yes.

Q Yes. Of which 161 are for letters and 70 are for flats. Right?

A Yes.

Q Okay. Now please turn to your response to NAA-ST-44-24. And here you gave us a breakdown of direct

tally costs and mixed mail tallies and nonhandling mail costs for the cost pools in Table 1 of your Exhibit 44-A, and my question here first is, is this Exhibit 24 or Interrogatory 24 a cost for commercial ECR only or for commercial and nonprofit combined?

A I'm actually not sure at the moment which they are. Let me -- I could match a few numbers and see here.

They are for commercial ECR only.

Q Then are they based -- are the direct tallies that appear in Interrogatory 24 based on the direct tallies that you identified that we just discussed in response to Val-Pak CW-4?

A Yes.

Q Okay. So those direct tallies, I said about 1,900 give or take a few, are spread across the about 45 or 46 cost pools that are the Interrogatory NAA-24 to you?

A Yes.

Q Okay. And they are further divided into letters and nonletters, correct, interrogatory 24, NAA-24?

A Well, they're separately presented.

Q Um-hum.

A Yes.

Q Um-hum. So these tallies then are broken down into some 90 different possible categories, some of which have zero tallies; correct?

A Yes.

Q Did you consider whether you may have a thinness-of-data problem here?

A I did consider that --

Q Um-hum.

A But the majority of the costs are contained in cost pools which that problem doesn't -- or that does not present a problem, the thinness of tallies.

Q Because the overall pool doesn't have a problem? Is that what --

A Well, and the number of direct tallies for that pool is sufficient as well.

Q When you say number of direct tallies, are you thinking of for ECR or total tallies for all mail?

A Both.

Q Well, okay. For example here on the top line of Exhibit -- excuse me, Interrogatory NAA-ST-44-24, which is the MODS BCS pool, for the Standard A ECR letters calculate a cost of $8,919,000 on the direct tally, direct cost. Correct?

A Yes.

Q And for non-letters, it's $130,000?

A Yes.

Q Do you happen to know how many tallies underlie the $130,000 figure?

A No.

Q It wouldn't be very many, would it?

A No, I wouldn't believe so, but again, you wouldn't expect non-letter costs in the bar code pool.

Q Okay.

Is there a point at which you would worry about thinness of data for this purpose?

A Yes, but the reason that I'm not worried about it is that we performed this analysis over a number of years and got fairly similar results between the years.

The way I would look for thinness is that, if you would repeat this experiment over a number of different samples, that you would find widely differing results.

Q Do you expect that the results would continue to hold true after reclassification?

A Given a sufficient amount of time to collect the tallies. That's why I would argue that the 2 1/2 months shouldn't be relied upon as an estimate in itself.

Q So, to make sure I understand what you're saying, you're saying that you're not troubled by a thinness of tallies problem because similar analysis over past years has produced fairly similar results.

A Yes, that's correct.

Q Okay. And if the world is different after reclassification, are you expecting that would make a

difference or not make a difference in these kind of results?

A Well, I would argue that, in terms of post-reclassification, the world is not all that different for ECR mail.

Q Okay. So, we went through all that effort and it's not a whole lot different?

A Well, for ECR mail. I mean the impacts were much greater for non-ECR mail.

Q All right.

Could you turn now to a different subject, in your answer to NAA-USPS-ST-44-10? Would you turn to that one, please? Do you have it?

A Yes.

Q Okay.

In sub-part B of that question, we had directed your attention to some testimony of Witness Moden to the effect that there -- Postal Service attempts to identify in bundles of non-bar-coded ECR mail basic letters, non-bar-coded ECR basic letters which the Postal Service then applies a bar code to at the plant so that they can incorporate those pieces into the carrier's DPS mail, and you indicated in response to that question that that operation, the bar-coding of these non-bar-coded letters by the Postal Service, would generally increase mail processing

costs for those pieces. Is that correct?

A Yes, relative to if they had not been placed into DPS program.

Q And while your Exhibit 44-A does not account for this, presumably there would be some reduction in the carrier's in-office cost, as well.

A Yes, I'm willing to accept that.

Q Right. And in sub-part C of your answer, you -- in fact, you state pretty clearly you only are focusing on the mail processing costs of this picture --

A Yes, that's right.

Q -- and that we would look to someone else, if anyone, to see if there is a corresponding offset on the in-office cost side.

A Yes.

Q Okay. And I note also that it's your understanding that Witness Hume does not present estimates of carrier in-office savings due to the delivery point sequencing of ECR basic letters. Is that still your understanding today?

A Yes, that's still my understanding.

Q Okay. Very well.

Mr. McGrane, we're actually making good time here, and I'd like to shift my focus to your Exhibit 44-B, and this is the document that had been filed as Library

Reference 182.

Now, I believe you stated in response to Val-Pak CW-1 that you were the principle person who had the responsibility for designing this analysis?

A Yes, I was.

Q And did you do the actual computations that were involved?

A For the most part, yes.

Q And if not you, someone who worked for you?

A Yes.

Q Okay. Did you make the assumptions that were necessary for the analysis?

A Yes, with input from other people, yes.

Q From ~~Christiansen~~ Christiansen Associates or from the Postal Service?

A Well, I would characterize it as a feedback type of analysis. I presented what I thought were my assumptions, and then I got critique from other people as to what they would change and incorporated that into the analysis.

Q And I assume you reviewed your results pretty carefully.

A Yes, given the time available, yes.

Q Well, what was the time available? Did you feel pressured to complete this by a particular time? Would you

have rather had more time?

A The filing deadline did place considerable pressure especially on this analysis, yes.

Q Well, I have to ask, how many days before it was filed did you finish it?

MR. ALVERNO: Objection. I think that he's inquiring about matters that pertain to the Postal Service's development of the case and also that are not relevant to the Commission's understanding of the study itself.

MR. BAKER: Mr. Chairman, the witness just testified that he felt under pressure to complete it before it was filed, and I'm trying to find out if he had sufficient time to complete his analysis before it was filed.

CHAIRMAN GLEIMAN: I think you should attempt to answer the question, Mr. McGrane, if you recall.

THE WITNESS: Well, the analysis itself was complete sometime before filing. The pressure was mostly related to filing the considerable documentation. I have computer programs and such that goes along with it.

BY MR. BAKER:

Q Do you know how this analysis is used by other Postal Service witnesses in this case?

A Only very generally. I understand that Witness Moeller uses it along with a number of other factors to

decide how he is going to set the ~~boundary~~ pound rate.

Q Okay.

I want to talk about methodological questions for a while.

If you had a completely clean slate, how would you study the factors that influence postal costs?

A That's a pretty broad question.

Q It is. In this document, you took existing cost studies and manipulated the numbers by weight increments and so forth. My question goes to, is that the best way to proceed?

If you were asked to determine whether postal costs are affected by pieces or by weight or by shape or by some other factor and you could design your own study from the outset, would you do it the way you did it?

A I think that, given the tools that we have to study this problem and the data that's available, it's probably the best way that's available to study the problem.

If you could hire one person to monitor every other person that was working in the Postal Service to record what they're doing, yes, there would be other ways to study this problem, but the resources involved would be tremendous.

Q Well, you did not perform a simulation study of some kind to simulate carriers or mail processors handling

mail, correct?

A We did as an alternative way of looking at the problem. I think there's a lot of problems with proceeding in that way in that, as with any kind of modeling effort, the number of assumptions you're required to make to model the activity is great.

Q You say you did do one of those, tried to model simulation in the study?

A We started to proceed along that path until we ran into a number of obstacles, yes.

Q But Exhibit 44-B is not based on that approach, is it?

A No, it's not.

Q Okay. And did you -- you did not do a regression analysis either, did you?

A No, I did not.

Q Rather what you did was take cost estimates derived from certain postal costing systems and allocated them across the weight increments to the extent you could identify them, correct?

A Yes.

Q Uh-huh. Did -- on Exhibit 44-B, page 3, you state the -- you summarize the methods you used to distribute the costs and you present them there. No. 1, you distributed the variable mail processing costs in proportion to direct

IOCS tallies, by weight increment, within the cost -- MODS cost pools, correct?

A Yes, that is correct.

Q Okay. Under 2 and 3, you did window service costs and carrier in-office costs by weight increment, and are the -- either of those based on IOCS tallies?

A Yes, they are.

Q Both, okay.

A Both.

Q And No. 4, you distributed the city carrier street costs in proportion to volume?

A Yes, that is correct.

Q Okay. No. 5, vehicle service costs were distributed by cubic volume?

A Yes.

Q And that's indirectly a function of weight?

A Yes.

Q Okay. Rural carrier costs were mail volume. Transportation costs by weight, directly or indirectly. And other ~~all~~ costs by pieces?

A Yes.

Q Did -- does your choice of the allocation distribution methods that we just went over kind of force the relationship between cost and weight? Or by cost --

A I don't think force is the appropriate

characterization. The relationship follows from the assumptions you make, yes.

Q Okay. Now, focusing on your assumption about delivery -- street carrier costs, you -- to allocate the cost of delivery, you assume that those were 100 percent piece related, correct?

A Yes. Yes, I do.

Q And that was an assumption that was made in the interests of what you now, since you have adopted it, call it simplicity?

A Yes, I would say simplicity and in terms of simplicity also that, if you make considerably more detailed assumptions, the -- the effect really isn't all that different from what the simple assumption would be.

Q Did -- does this testimony that we have here, that you are presenting today, investigate at all whether delivery costs depend on weight?

A No, it doesn't investigate it. It is more based upon my understanding of the way delivery costs are developed, as stated in my response to -- NAA/USPS-ST-44-20.

Q Uh-huh. Now, in response to NAA/USPS-T-36-17-C, you confirm that Witness Nelson in this case has submitted testimony asserting that the weight of the mail has an impact on carrier route driving time, and you did confirm that, correct?

A Yes. After reviewing his testimony --

Q Right.

A -- when the question was asked. Yes.

Q Okay. Did you try other allocations, other than by pieces?

A Well, I did try, within the flat only analysis, the allocation is first to shape, following from the analysis in Library Reference 108, and to weight increment within, in proportion to pieces, and I have subsequently reviewed and applied that to the all shapes analysis as well to see what impact that would have.

Q And were you then separating out the parcels and the flats when you did that?

A Separating letters from flats, from parcels first, in proportion to the Library Reference 108 costs, and then to weight increment and proportion to pieces. And that analysis had virtually no effect on the carrier route cost.

Q Let's turn, well I guess stay on NAA-36-17(d). I direct your attention to (d) and here you state that you in fact took shape into account for the elemental load portion of the cost, is that correct?

A Yes, that's correct.

Q And in response to AAPS-36-8, which you may refer to if you wish, you stated that elemental load time -- now this was a hypothetical about one ounce pieces and 7-ounce

pieces, asking you to compare the cost of the two -- you state that the elemental load time is the same regardless of the weight of the piece, is that correct?

A Yes, that is the assumption in the methodology used to distribute street time costs.

Q Do you know whether the Postal Service has done any study of the effect of weight on elemental load time?

A I am not aware of any such study, no.

Q So then assuming these costs are piece-related and shape-related is a simplifying assumption here. You did not inquire into whether weight is a factor in elemental load time as well?

A Well, I think it's a fairly obvious assumption to make.

I mean elemental load consists of the carrier reaching into the satchel and fingering the mail that he needs to deliver to that particular receptacle, lifting it out and placing in the receptacle. I don't see within the range of weight available ~~and~~ in Standard A why weight should make a lot of difference to that procedure.

Q You don't think the carrier is indifferent to whether it weighs one ounce or 10 ounces?

A Not when he is lifting it out of a satchel and placing it in a receptacle.

Q Do you think he cares whether it is floppy or

sealed?

A Yes, he may.

Q Open-ended or stapled?

A Yes, there's any number of characteristics which may affect the cost.

Q And the only ones that we have here are the shape and the number of pieces, correct?

A Yes. Again, that seems to be a primary driver for that cost, yes.

Q Seems to be for the reason you just stated? That's your understanding of the process?

A Well, in the Postal Service methodology it's always been assumed to be the primary driver of that cost.

Q Did you inquire whether there are any other studies of elemental load time that had been done in the past that might be helpful to you?

A No, I did not.

Q Okay. Let me ask you a few questions about your understanding of the IOCS.

Have you worked with the IOCS for awhile?

A Yes, for a number of years.

Q Do you know whether employees at postal facilities are sampled according to the proportion of employees in each craft?

A Not according to the proportion of each craft.

I mean I believe the way the sample is drawn is that within each craft there is a certain target sampling rate set and then the last two digits, social security number, are selected in order to make the selection of the employee for sampling.

Q Does this result in different sample sizes across crafts?

A I believe so but I don't have that information in front of me.

Q Do you happen to know whether those differences might be large or small?

A Not to my knowledge right now.

Q Would the distribution of tallies then have different levels of accuracy across the crafts?

A That may be so. Again I am -- I don't have that information in front of me.

Q Let's focus now on the computations that you produced that are presented in Exhibit 44-B.

CHAIRMAN GLEIMAN: Mr. Baker, could you please pull the mike a bit closer or speak up --

MR. BAKER: Certainly.

CHAIRMAN GLEIMAN: -- or a combination thereof?

BY MR. BAKER:

Q Let's then focus on the actual computations you submit in Exhibit 44-B.

These computations are based on a mixture of mail service or a mixture of functions received by the mail --

MR. ALVERNO: I'm sorry, could I have a page reference for that?

MR. BAKER: All I'm looking at are his total results, so this would be Exhibit B, Table 1 or actually ultimately Table 5, his -- if that's the number. No, Table 2 -- Table 2, page 8.

MR. ALVERNO: Table 2, page --

MR. BAKER: No, I'm sorry. I am on the wrong exhibit. It's easy to do with the paper.

Well, let's look at Table 1 on page 4.

BY MR. BAKER:

Q These total unit costs are not controlled for the work sharing discounts, are they?

A No, not in Table 1 -- presented in the response to ADVO/USPS-28 an adjustment was made.

Q Right. So I am looking at Table 1 though. The mail here, some of it received full end-to-end transportation, sortation, delivery by the Postal Service while other mail was drop shipped or presorted and therefore did not receive end-to-end service, if you will.

A Yes, that's right.

Q Okay. Then in ADVO-28, you restated the numbers from Exhibit 44-B, adjusted to take into account

presortation and drop shipping differences, correct?

A Yes.

Q Now let's focus first on the drop shipping adjustment, which I believe would be Table 3 of ADVO-28.

A That's correct.

Q Is it accurate to summarize how you made this adjustment by saying you took the average unit cost per weight increment and adjusted it by the average unit savings of the total?

A Not exactly.

Q All right. How -- what did you do then?

A I took the average unit cost of the weight increment and adjusted it by the difference between the modelled cost for that weight increment and the average modelled cost across all weight increments.

Q Looking at the bottom part of that table, and I see you have -- there is a bold heading called "Calculation of Modelled Costs in Adjustment Series for Enhanced Carrier Route Mail" -- and the next to the bottom line says DS Adjustment, and under the One Ounce Increment column the number of 0.08 appears, is that correct?

A Yes.

Q Is that cents per piece?

A Yes, it is.

Q And is it correct to an understanding that number

is that that number represents how much more costly a one ounce piece of ECR mail is because it is not drop shipped to the average extent of all ECR mail?

A Yes. That is its intent, to the accuracy of the model used to calculate that difference.

Q Is this the only possible way to make this adjustment for drop ship and pre-drop ship differences?

A Well, from the data available -- I mean I could have assumed that the mail processing costs were piece related rather than weight related and made the adjustment that way, or -- yes, that's the only difference I considered.

I mean given a different model, you would get a different adjustment.

Q Is what you did the same as comparing all mail to a common service level of adding back in all the cost savings to see what the costs of full-service mail would have been?

A No. What I did was to try to normalize each weight increment so that it would have the same average drop-ship profile as all the mail together.

Q Okay.

Could one make the adjustment by adding back all of the cost savings to look at the full -- compare it at the full-service mail, to see the cost of the full-service mail?

A I don't think that's appropriate, because a lot of

the mail that is drop-shipped would be entered closer to destination regardless of the existence of that discount.

Q An earlier version of this sort of analysis was filed in the MC95-1 case as Library Reference 12 in that proceeding. Do I recall correctly that you had something to do with that study?

A Yes, I was one of the people who worked on that study, yes.

Q Do you happen to recall whether you -- in that study you adjusted for drop-ship differences in the same way you do in this case, in your testimony here?

A No, I don't recall.

Q Okay.

Now, turn two pages further back in the answer to ADVO-28 to Table 5. Is this the summary page after you adjusted for pre-sort and drop-ship?

A Yes, it is.

Q Okay. And the rows labeled "Pre-Sort Adjustment" and "Drop-Ship Adjustment" bring up to this table the results from the preceding pages, correct?

A That's correct.

Q Please look at the third grouping that's labeled "Enhanced Carrier Route." I notice that, on the pre-sort adjustment line, some of the numbers are negative and some are positive. Do you see that?

A Yes.

Q Does this indicate that some weight increments receive less pre-sorting and others receive more pre-sorting than the average piece of ECR mail?

A In this case, it's primarily a function of -- that the modeled cost for letter-shape ECR mail were less than the modeled cost for non-letter-shaped ECR mail.

Q So, this is based on separate model cost for letter and non-letter ECR mail?

A Yes, that's correct.

Q For the third grouping of ECR mail, is that all ECR mail or only ECR letters?

A Could you repeat that question?

Q The third group, called "Enhanced Carrier Route," where the original unit cost for the one-ounce increment is 7.10 -- is that for letters only, or is it for all ECR mail?

A This is for all ECR mail.

Q Okay. And the pre-sort adjustment, then, is based on all ECR -- is that based on a model cost for all ECR or for ECR letters only?

A For all ECR mail.

Q Okay. And similarly, I notice that the drop-ship adjustments are both negative and positive. What does that indicate?

A That some weight increments have mail that is less

drop-shipped than the average profile of drop-shipping across all increments and that some weight increments have more drop-shipping than the average drop-shipping across all increments.

Q And if you have more drop-shipment than the average or the model, will you have a negative or a positive number here?

A You would have a negative number.

Q Okay.

Let's turn to your answer to NAA-ST-44-18. Do you have it?

A 44-18? Yes.

Q Okay. And in sub-part B of this answer, you identify a number of other factors that could cause variations in the unit cost of mail, and these include the shape of the piece and a number of others, correct?

A Yes.

Q By shape, do you mean letters, flats, parcels, or are you thinking of characteristics such as bulkiness, length and width ratios, that sort of thing?

A In this instance, I believe I meant letters, flats, parcels.

Q Okay. Could bulkiness, aspect ratios also have an effect?

A Certainly.

Q You mention a little further in that answer, the flexibility and the openness of the edges, those could have an effect on the unit cost?

A Yes.

Q By openness, what are you referring to?

A Open edges are a characteristic which makes it hard to sort flats on the flat sorting machine.

Q What would be an example of an open-edged piece?

A Your standard magazine-type piece.

Q Okay. How about advertising pre-prints that are folded together but not stapled or sealed?

A That may be. I'm not sure exactly what type of piece you're referring to.

Q Okay.

Now, you refer to packaging characteristics and the fullness of the tray or sack. Does your testimony attempt to analyze the cost implications of any of these factors here?

A If you mean did I try to correct the curve presented for these factors, no, I don't. They are present in the mail stream that is measured by IOCS, yes.

Q You've not adjusted for them specifically.

A Yes.

Q No. So, your testimony presented does not allow one to say how much or how little these characteristics

could affect the unit costs, does it?

A Does my study? No.

Q Okay.

Now, let's return to Table 5 of ADVO-28, and I direct again your attention to the third grouping on the page called "Enhanced Carrier Route," and I see that the adjusted unit cost presented there, after adjusting for pre-sort and drop-ship, shows a decline from 7.78 cents in the first ounce to 6.4 cents at the second ounce and 5.27 at the third ounce. Do you see that?

A Yes.

Q Does that decline suggest that factors other than pre-sortation and drop-shipping could be having an effect on unit cost?

A It may, or it may indicate that the modeled costs used to calculate the adjustment really aren't appropriately used for this adjustment.

Q Okay.

Does your analysis explain the decline from 7.78 to 5.27 cents as one moves from the one ounce to three ounces?

A Does my analysis explain that? No, it does not.

Q Okay. And I notice that the unit cost here rises slightly at four ounces, then falls again at the five ounces to 4.48 cents, drops -- rises slightly at six ounces and

drops down to 4.23 at seven ounces and then jumps by more than 2 cents apiece at the eight ounces, to 6.79 cents. Is that correct?

A I see the same numbers, yes.

Q Okay. And again, your analysis does not explain those fluctuations, does it?

A No, it does not, but I would add that, you know, these are relatively small fluctuations given the magnitude of the pound rate we're trying to suggest what the relationship might be.

Q Moving up, I notice that the 12-ounce increment, you present the adjusted unit cost of 5.77 cents, and at 13 ounces, the figure is 3.62 cents per piece, which is a drop of more than 2 cents.

Can you explain what it is about a 13-ounce piece that reduces its cost by more than 2 cents from the 12-ounce piece?

A No, I can't offer that explanation. What I can say is that, as we get into the very heavy weight increments, the sample gets thinner, so you would expect some more variation in the estimates that you receive.

Q Okay. Similarly, we look at the 14-ounce increment, where the cost jumps from the 3.62 to the 9.08 cents per piece. We have this -- is it the same answer, same explanation for that? Is that a thinness problem?

A Possibly. It's impossible to say without repeating the analysis.

Q But your testimony doesn't explain what's going on there.

A That's correct.

Q Okay.

All these figures here on Table 5 have been adjusted already for pre-sortation and drop-shipping, correct?

A Yes, to the extent possible given the models presented in the case.

Q So, one would expect these fluctuations would have some other explanation. These cannot be accounted for simply by pre-sort or drop-ship characteristics, correct?

A Well, as we've been discussed, they also can be due to statistical variation or imprecision of the model application to each individual weight increment and many of the characteristics that were mentioned in the response we were just discussing.

Q Is there any point at which you begin to get uncomfortable with these results?

A It depends on what you mean by uncomfortable. I think that you can make a solid conclusion from the study that the relationship of weight with cost for ECR mail is not nearly as great as what the current pound rate is set

at.

Q Is there a point at which these estimates become unreliable for any purpose?

A Unreliable for any purpose -- I guess I don't -- in these particular estimates that I present, no, I wouldn't say that they're not reliable for any purpose, no.

Q Now, I believe you stated in response to an interrogatory, although I missed the -- I don't have the citation, that it's not possible to calculate a standard deviation with these numbers, correct? Is that correct?

A Yes, that's correct.

Q And is that because of the combination of a couple of sources that don't lend themselves to calculation --

A Well, specifically because the mail volume estimates are from a system that is non-sampled so that you --

Q Okay. So you really don't -- can't say how much the true cost at, say, the 12 and 13 ounce range that we looked at before, differs from the numbers presented in ADVO 28, correct?

MR. ALVENO: I think, I would like to object to that because that the introduction of the concept of a true cost assumes a fact that is not in evidence, that is, that the true cost is not represented on the page.

MR. BAKER: Well, the witness -- the exhibit here

presents an estimate of the cost. He has done a calculation and computation. He has presented a cost estimate. I am trying to ask the witness if he knows how much the estimate might be off.

CHAIRMAN GLEIMAN: I think that's reasonable. Why don't you go ahead, Mr. Baker, with your question. Answer, Mr. McGrane.

THE WITNESS: Well, if you consider the standard error, the standard error states what, the likely range in which the estimate would appear. The estimate that I presented in still the best estimate available from the data.

BY MR. BAKER:

Q Well, for instance, looking at the 13 ounce cost, which I would think you would agree looks anomalous. Is it possible that the cost of 13 ounces actually falls somewhere between 5.77, which is the 12 ounce cost, and 9.08, at the 14 ounce level?

A I would believe that that is probably within the confidence interval for that estimate, yes.

Q Okay. Now, these were total costs here, total unit costs, correct?

A Yes.

Q Okay. I want to go below this and look at the mail processing costs, and to do that, I would like to ask

you to look at NAA-ST-44-17, I believe the number is. And the attachment you provided there. Do you have it?

A Yes.

Q Now, this presents mail processing unit costs by weight increment for standard ECR mail that is adjusted for presort and drop shipping, correct?

A Yes, it is an attempt to, yes.

Q Right. Is that adjustment similar to the adjustments that you made to produce ADVO 28?

A Well, it is similar except that if you look at ADVO 28, Table 1 -- or, excuse me, Table 2, it just uses the modeled processing costs and not the delivery cost to adjust only the mail processing cost.

Q Okay. And what did you use for the drop ship adjustment that appears in NAA-17?

A Again, only the mail processing portion of the drop ship.

Q Okay. Uh-huh. Number NAA-17, again, do these include both commercial and non-profit mail?

A Yes, I believe so.

Q Okay. And does the top row, under enhanced carrier route, present data for letters and non-letters combined?

A Yes, that's correct.

Q And the bottom is flats only?

A Yes, that's correct.

Q Okay. Now, let's look at the adjusted unit cost for flats, which is the bottom half of that table. According to this table, what is the adjusted unit mail processing cost for one ounce ECR flats?

A The table reads 2.24 cents.

Q Okay. And then that unit cost drops to 1.12 cents at the 3 ounce level?

A Yes, that's correct.

Q Uh-huh. Rises to 1.14 at four ounces, then drops to 0.65 at five ounces, on down to 0.33 at seven ounces, correct?

A Those are the numbers, yes.

Q And then rises, jumps from seven ounces to eight ounces, it goes from .33 to 1.12 cents, correct?

A Again, this is all within the response, yes.

Q Okay. And drops off to 0.22 at the nine ounce increment, and I notice at the 12 ounce increment, and at the 13 ounce and 15 ounce increments, the adjusted cost is negative, correct?

A Yes.

Q That would mean that the Postal Service saves money whenever it processes a flat of -- ECR flat of those weights?

A No, it means that the adjustment and the initial

cost estimate -- the adjustment is larger than the initial cost estimate.

Q Okay. Do you think that is correct?

A No, I don't believe there is any piece that it costs the Postal Service a negative amount of money to process.

Q Okay. Now, earlier this morning, we established that the tallies that underlie the analyses of both of your exhibits were those, or at least the direct tallies, were those reported in ValPak 4. I would ask you to turn to Attachment 1 to that answer at this time. Maybe holding your finger though at NAA-17.

Are you there?

A Not yet.

Q Okay.

A Okay.

Q Am I correct that the total number of IOCS direct tallies for commercial ECR mail at the 11 ounce increment is four?

A Yes.

Q Okay. And that is out of all the IOCS tallies that were recorded in FY '96?

A Yes. I think that results from two factors. One, mail processing isn't a large part of the cost for ECR mail. And, two, there is relatively little 11 ounce ECR mail.

Q Okay. And, similarly, is the number of IOCS tallies for 13 ounce mail one?

A That's the number in the table, yes.

Q Okay. So the mail processing cost estimate for 13 ounce ECR mail is derived from exactly one direct IOCS tally?

A That is correct, yes.

Q Uh-huh. And the number of IOCS tallies for six ounce mail, commercial ECR, is 43, correct?

A Yes, that is correct?

Q Okay. And there are none for non-profit ECR at six ounces, correct?

A Yes, that is correct.

Q Okay. These aren't a whole lot of tallies at these weight increments, are they?

A When you say there are not a lot of tallies, yes. I mean the absolute numbers here are not large. The 43 tallies at six ounces actually produces a relatively small confidence interval.

Q Uh-huh.

A The fact is there isn't a lot of heavy ECR mail, and that's -- that's why you don't encounter a lot of tallies. I mean we generate unit costs, which are reasonable when you consider the range over these small tallies, but there is certainly variation between weight

increments.

Q Could you take a look now at ValPak CW-ST-44-23, subpart B, and that is where you were asked to present the coefficients of variations for -- at the various weight increments here? So could you turn to that?

A Yes.

Q Could you define in layman's terms what a coefficient of variation is?

A Well, a coefficient of variation is the standard error divided by the mean.

Q Mean, okay. And I notice in the commercial ECR category you have different coefficients for pieces, items, and containers, correct? And then a total.

A That's what I asked to provide, yes.

Q Okay. And is true that at every weight increment, the total coefficient is greater for ECR, commercial ECR, than it is for regular ECR?

A I haven't examined the whole table with that respect, but, at first glance, it appears to be so.

Q Uh-huh. Okay.

A And the table speaks for itself anyway.

Q And looking at the commercial ECR, I note that from seven ounces up, the coefficient of variation is 20 percent or greater, is that correct?

A Yes, that's correct.

Q And at 13 ounces, which is where we had our one direct tally, the coefficient of variation is 112 percent, correct?

A Yes, that's correct.

Q Does that imply that the cost could be 224 percent higher than the estimated cost? Is that possible?

A Well, given a confidence interval, you can calculate what the bounds are. I believe that would be within the 95 percent confidence interval, as would be two-hundred-and-twenty- --

THE REPORTER: That would be within what?

THE WITNESS: The 95 percent ~~confidential~~ Confidence interval, as would be 224 percent less than that estimate as well.

MR. BAKER: Okay. Mr. Chairman, I have no more questions.

CHAIRMAN GLEIMAN: Thank you, Mr. Baker.

We are going to take a break at this point. And I would ask the remaining parties who plan to cross-examine, and that would be ADVO, the Alliance of Non-Profit Mailers, Parcel Shippers and ValPak Direct Systems, et al., to talk during the break, if they will, and determine whether any one party has particularly light cross-examination, and maybe allow that party to go earlier.

As we indicated yesterday, we would like parties

who have light cross-examination to go first. So I am going to leave it to all you, counsel, to talk to one another and let me know what you decide when we come back. Otherwise, we will go back up to the top of the alphabet and start with ADVO and move right down the list.

And let's take a 10 minute break. Thank you.

[Recess.]

CHAIRMAN GLEIMAN: We're going to go back to the regular alphabetical order at this point, and that would mean that ADVO would cross-examine next. Mr. McLaughlin?

MR. McLAUGHLIN: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. McLAUGHLIN:

Q Mr. McGrane, just for a reference point I'd like to have you turn to your response to ADVO Interrogatory 28, it's ADVO/USPS-28, and particularly to Chart 3 and Chart 4 on that table -- in that response. For that matter, perhaps all four of the charts, Chart 1 through Chart 4.

In each of these charts the line that's labeled original, that's just a replication of what you had in the LR-182 library reference that's shown in your ST-44 testimony; is that correct?

A Yes, that's correct.

Q And all those lines are based on data for fiscal '96?

A Yes, that's correct.

Q You mentioned earlier that you had done a similar analysis for the MC-95 case; is that correct?

A Yes, that's correct.

Q What time period was that data based on?

A FY '93, I believe.

Q FY '93. Now there was a -- let's just take a look at ADVO-28 Charts 3 and 4. These are enhanced carrier route charts. There was discussion earlier with Mr. Baker about thinness of data and variations from one weight increment to the next weight increment, how the costs didn't always go in exactly the same straight line, they might veer down in one cell and then veer up in the next cell. Do you recall whether in your prior analysis were there similar situations where the dots didn't all line up in a perfect line?

A Yes, I believe that was the case.

Q And so, for example, there was talk about the 13-ounce weight cell where the costs in your response to ADVO 28 show a drop from the 12-ounce cell for the fiscal '93 analysis. Is it possible that in some of these cells there may have been the reverse, it may have been a little bit higher instead of lower, there may be variations from cell to cell if you look at it from year to year?

A Yes.

Q If you look at it overall, though, instead of just

focusing on a particular cell in a particular year, did you find any consistency of results between your earlier MC-95 analysis and this analysis here, even though it's based on two different years' periods?

A Yes, I found that the results were generally consistent.

Q In other words, in a particular year a cell may be below the average or -- below the trend, in another year it may be above the trend, but if you look at the two years together, or look at the 0-to-16-ounce range altogether, does it show a consistent pattern to you?

A Yes, it does.

Q In your view for an analysis like this would it be more important to look at the pattern or to focus on an individual weight cell and see how it compares with its adjacent weight cells?

A The pattern across all weight increments.

Q You mentioned that the MC-95 analysis was based on fiscal '93 data. This analysis is based on fiscal '96 data. Did you by any chance look at fiscal '94 or fiscal '95 data? Was that data available?

A Yes, in varying degrees we did. Yes.

Q Did you do a similar analysis, or did you just simply kind of eyeball it to see whether it was generally similar?

A Well, I believe in each year we did look at the mail costs or the mail processing costs line, and it was generally similar to what was presented in MC-95-1.

Q Other than variations from year to year, the overall pattern was similar?

A Yes, the overall pattern was similar.

MR. McLAUGHLIN: I have no further questions.

CHAIRMAN GLEIMAN: Mr. Thomas?

CROSS EXAMINATION

BY MR. THOMAS:

Q My name is Joel Thomas. I represent the Alliance of Nonprofit Mailers.

First of all, I just want to confirm a couple of things that we went over on Friday. With regard to what is now your Exhibit 44-B, Table 1, the column there under carrier route attributable costs is computed by adding the numbers in Table 3 at page 9 to the numbers in Table 5 at page 17; is that correct?

A Table 3 at page 9 and Table 5 at page 17, you said?

Q Yes.

A Yes, that's correct.

Q And then in the attributable-cost column for other it is -- they are from adding together Table 4 on page 13 and Table 6 on page 21?

A That's correct.

Q Okay. On Table 2, the caption for that table refers to other flats. I just want to confirm that there are no parcels in there, that that does not include -- when you say other flats you do not include parcels.

A Yes, this table includes flat-shaped mail only.

Q Right.

A And that that caption should -- actually the word "other" was mistakenly included. The caption should just read "bulk flats."

Q And basically Table 2 presents a subset of the data from Table 1?

A Yes.

Q A few minutes ago when you were going over these confidence intervals, is it -- what do you normally do when you hit a cell or something that has a zero factor in it? I mean, as you did with nonprofit rates in a specific weight category, I think it was six ounce. How do you derive anything from that?

A Well, in this case we added nonprofit to commercial mail and presented an estimate for some of them, two together. I mean, the reason we get a zero estimate for nonprofit is that there's very little mail in nonprofit ECR in some of these cells, and the costs that you should encounter would indicate that you would find, you know, less

than a whole tally to properly measure that cost.

Q Well, you were asked a question earlier, and let me follow up on it. Is there a point at which the data is simply too thin, or is even no data not too thin?

A Well, I think we address the thinness problem by combining regular rate or commercial with nonprofit.

Q You do that all the way through or just in those cells where you've had no data or very limited data?

A No, we do that to present the result, not in the individual construction of the tables.

Q Now if I understand the table that you provided in response to ValPak-Carol Wright USPS-ST-44-23, if you look at the 15 ounce interval for nonprofits you get a coefficient of variation of 326 percent, which means the rates related to that or derived from that could vary by as much as 326 percent?

A Could you give me the table?

Q It is the response to ValPak at Number 23, subpart (b). ValPak-Carol Wright.

A Okay. So you are saying that 326 percent in the piece only portion of --

Q Right.

A Well, there I would say that the appropriate number to look at is the 66 percent for that weight increment.

The piece tallies were not considered separate from the item or the container tallies in this analysis.

Q But it could still then vary as much as that -- the rate in that category and still be within your confidence interval?

A Well, the confidence interval says what the possible variation may be, but the estimate I presented is still the best estimate from the data.

Q What makes it best at this point? Can you describe what you mean by best?

A Well, it is the statistical property of -- with this random sample the result that you measure is the mean estimate and the standard error might measure the possible range of values that you might encounter if you repeat the experiment many times.

Q Is there a difference here between the word "only" and "best" that I am missing?

Is it not really the only available --

A Well, I think that what we have characterized, that we've seen this relationship over a number of years, and we find that the relationship with weight is generally the same over a number of times that we have repeated this experiment.

Q Well, I understand that, but is it really a difference between only and best? I mean isn't best being

used here in the sense that it is the only available estimate?

A But still within the theory of sampling, the sample that you draw is your estimate of what is going on.

I mean it --

Q Regardless of how thin it gets?

A Well, yes, considering the standard error of the estimate, yes.

MR. THOMAS: All righty. That's all I have.

CHAIRMAN GLEIMAN: Parcel Shippers Association.

MR. TODD: Mr. Chairman, Mr. May has asked me to inform you that he will not have any oral cross.

CHAIRMAN GLEIMAN: Thank you. That brings us to ValPak, et al. Mr. Olson.

CROSS EXAMINATION

BY MR. OLSON:

Q Mr. McGrane, William Olson representing ValPak-Carol Wright.

I want to ask you if you can turn to your response to ValPak-Carol Wright 44-2 to begin with, where we ask you to explain the theory that underlies your use of IOCS tallies to study the effect of weight on mail processing costs of Standard A mail.

Do you have your response there?

A Yes.

Q There you talk about the theory being the same as the theory that uses IOCS tallies to study mail processing costs by class and subclass, correct?

A Yes.

Q And is your answer -- does your answer not reflect the assumption that there is a single optimum weight-cost relationship that can be derived for each of the four components of Standard A mail that you analyzed?

A I am not sure what you mean by a single optimum weight relationship.

Q Okay. Well, you develop in your Library Reference 182 a unit cost by ounce increment for commercial ECR and commercial regular for nonprofit regular and for nonprofit ECR, correct?

A Yes.

Q Okay, and you are attempting to develop, are you not, a weight-cost relationship that applies to Standard A mail irrespective of point of entry or irrespective of condition of presort? In other words, it is an amalgam?

A Yes. I am simply measuring the unit cost of the mail within each weight increment for whatever mail happens to be at that weight increment.

Q Okay, and when you look at the IOCS tallies for each weight increment, you cannot tell, can you, the condition of presort that that mail came in that was being

tallied?

A Not from the IOCS tallies, no.

Q Okay, and so also from the IOCS tallies, you cannot tell the degree of drop ship that that -- or the point of entry as to whether that mail was entered, correct?

A Not from the IOCS tallies, no.

Q So in an analysis based on IOCS tallies you necessarily look at some combination, an amalgam of Standard A or whatever the subclass is that you are studying, correct? It is not specific to point of entry or presort condition?

A Well, I mean it is separated according to whether it is carrier route presorted or not carrier route presorted.

Q Yes, but other than that, it's not.

A No, it's not.

Q Okay. Let me ask you to think through with me a couple of different Standard A mailings and what you think the effect of weight on cost would be for these different mailings.

The first mailing would be a ECR mail which is entered at a DDU and if you can identify for me the kind of weight related costs that that mailing would incur?

A ECR-DDU mail?

Q Yes.

A Well, as I think the study shows, the ECR mail in general does not have a lot of relationship of cost with weight.

Q Well, necessarily the only cost -- if you are entering it at a DDU the only weight related cost that you could incur are at the DDU or in delivery, correct?

A Yes, that's correct.

Q Okay -- and yet if you compare that -- let's call that "A" -- that hypothesis "A" -- with another mailing, "B" and let's take a mailing of basic presort which is entered at the bulk mail acceptance unit of an originating BMC, and there is it not true that the weight of that mail drives costs through the entire system?

A Well, the basic presort mail will obviously travel through many more facilities and in general have higher costs.

To the extent those costs are due to weight or due to the number of pieces presented --

Q I'm not asking you to distinguish between piece related and pound related but rather simply to confirm that that mailing will incur weight related costs at the originating BMC and the destinating BMC and the destinating SCF as well as the DDU, correct?

A Yes, as well as it will incur piece related costs.

Q Correct -- and would you concur that it is likely

that this would have -- this second mailing labelled "B" here would cause there to be more weight related cost to be incurred than Mailing A?

A Mailing B would certainly have a higher unit cost than Mailing A, regardless of the way it was entered in, yes.

Q A higher weight-related cost.

A I don't think the comparison is appropriate. I think what you ought to consider is whether a mailing B of one weight has a higher cost of a mailing B of a lesser weight.

Q Well, I'm asking you to compare two mailings of the same weight but one is entered at a DDU and it's ECR mail -- that's mailing A -- and mailing B is basic pre-sort which is entered in originating BMC, and I'm asking you, isn't it true that mailing B will incur pound-related costs throughout the entire system? I believe you've confirmed that.

A Yes.

Q And that it will result in greater weight-related costs than mailing A.

A It will result in greater cost caused by its weight than mailing A, yes.

Q Okay.

Now, if we were to posit another mailing, which is

just like mailing A, but instead of the ECR mail being entered at a DDU, we enter it at a DCR, for example. Then that mail could incur costs at the DCF as well as the DDU that are weight-related, correct?

A Yes, its weight will cause cost at the DSCF and the DDU.

Q As well as transportation costs, correct?

A Yes, that's correct.

Q Okay.

So, what I'm asking you to consider for a moment is the possibility that there is no single weight cost relationship for mail irrespective of point of entry and pre-sort condition, but I'm asking you to consider the possibility that there are a variety of weight cost relationships for mail depending on point of entry and pre-sort conditions. Would you care to comment on that possibility?

A Well, yes, I think that that's probably true, and I think it's also reflected in the fact that the Postal Service offers weight-related discounts for destination entry.

Q And if it's true that there are a variety of weight cost relationships based on point of entry and pre-sort condition, which of those weight cost relationships do you believe to be the most significant for the Postal

Service to know in order to base its -- to be able to base its rates?

In other words, would you -- I'd suggest that non-pre-sorted mail that is not drop-shipped mail would be the weight cost relationship that would be most useful. Would you agree with that?

A Well, first, I would state that I'm not a pricing witness, and you know, I study costs.

Q Sure.

A I don't influence how rates are designed for the Postal Service.

And second, I would disagree with you and say that it's not the non-pre-sorted, non-drop-shipped mail that should form this basis, but if you took all the Postal Service's mail and increased it by a certain amount of weight, how would the Postal Service's cost change, not the one specific category that you're talking about.

Q No, I'm not asking you a rate-related question, but rather, as a cost witness, I'm trying to develop an analysis of the utility of the costs that you develop, and surely, when you develop costs, you think of their utility, and let me first of all ask you, isn't it true that pre-sort discounts and drop-ship discounts are calculated as deducts from a basic rate for Standard A mail? Are you aware of that?

A Yes, because it's assumed that the mailer is performing work-sharing activities added to just the mail that they would enter otherwise.

Q So, to derive that basic rate, do you have an opinion as to which of these weight cost relationships would be most useful, and I'm suggesting it might be non-pre-sorted, non-drop-ship weight cost relationship.

A Well, I think weight is a separate issue from pre-sort in that weight is just a native characteristic of the piece rather than an element of mailer work-sharing.

Q Well, it's a native characteristic of the piece, but depending on the condition of pre-sort and the point of entry, the weight has a different effect on cost. Did you not agree with me before on that point?

A Yes, that is true, but it doesn't mean that you should apply that relationship for a basic piece to the carrier route piece.

Q The weight cost relationship that you developed based on ISCS tallies, however, is, as I think I said before, an amalgam of all pieces irrespective of point of entry and pre-sort condition, correct?

A Yes.

Q So, it is not an effort just to focus on non-pre-sorted mail that is not drop-shipped, correct?

A No, but if you look at my response to ADVO-28 --

Q Okay.

A To perform the adjustment in the way you're suggesting, as we were discussing before, I computed the adjustment to account for drop-shipping and pre-sorting to adjust the mail to the average pre-sorting for the entire subclass -- I mean the average drop-shipping for the entire sub-class.

Now, you could re-do that adjustment and do it so that you'd bring everything up to no pre-sort or the base-level pre-sort for that sub-class and no drop-shipping, and all it would do is shift that adjusted line up slightly, but it wouldn't really change the overall relationship dramatically.

Q Okay.

Let me ask you to explain something in your response to ADVO-28 that you just referenced, and if you could turn to Table 1, do I take it from Note 1 that the drop-ship savings per pound is something that you took from Library Reference H-111 rather than something you calculated yourself as a result of your study?

A Yes. I believe I reference an exhibit in Witness Moeller's testimony that, I believe, was derived from Library Reference 111.

Q I mean doesn't it say that -- doesn't Footnote 1 say it's from Library Reference H-111?

A Oh, I'm sorry. Yes, you're correct.

Q So, your study did not attempt to determine the differential weight-related costs of pieces that were drop-shipped, but rather, you took those numbers from another witness.

A Yes, that's correct.

Q And getting back to your Table 1 and your Table 2, then, my question to you is, if this is an amalgam of what you've earlier acknowledged to be a variety of weight cost relationships that exist in the Postal Service for Standard A mail depending on the point of entry and pre-sort condition, I'm asking you what utility this amalgam has in understanding the costs of Standard A mail.

A Well, as presented in my response to ADVO-28, adjusting for those differences doesn't change the shape of the curve dramatically.

Now, if you're suggesting that the appropriate reference point is no drop-shipping and no pre-sorting, it would shift the curve up, but it would not change the slope of the curve. You would just change the intercept --

Q Okay. I'm not so much now focusing on the fact that non-pre-sort, non-drop-ship should be the reference point. Let's just put that aside for the moment.

But rather, I want to get your reaction to my observation that I believe you confirmed earlier, that there

are a variety of weight cost relationships within Standard A mail depending on the point of entry and the condition of pre-sort and your Table 1 and Table 2 are an amalgam of all of those weight cost relationships, correct?

A They're an amalgam, and I believe they're using the amalgam as an appropriate way to study the relationship of weight versus costs to support a rate design which has a pound rate which is applied to all those same mail.

Q Then I guess I'm coming back to how could that be in view of the fact that this is an amalgam of, in some sense, I guess, an average of a variety of weight cost relationships depending on all the various conditions of pre-sort and all the various points of entry that Standard A mail can have, and I'm asking you why this is useful rather than having developed the weight cost relationship of non-drop-ship, non-pre-sorted Standard A mail.

A Because the study studies the group of mail to which the rate is applied.

Q To which what rate is applied?

A To which the pound rate is applied.

Q You mean from which the pound rate is derived?

A No. The study uses Standard A mail to which a pound rate is applied to calculate the effect of cost and weight to support the pound rate to which the -- which applies to all the mail which was involved in this study.

Q Okay. I'm sorry, I misunderstand, because -- I don't understand your response, because you said you apply the pound rate, but it seems to me you're attempting to derive information from which you can determine the pound rate, are you not?

A Well, I'm not determining the pound rate myself at all.

Q I understand.

A All I'm saying is that --

Q Other witnesses are going to determine the pound rate -- Mr. Moeller, for example.

A All I'm saying is that this is unit cost at various weight increments, and from that, you can see the effect of increasing weight on cost.

Q If you would look at Table 1, would you confirm for me that Table 1 in your testimony at page four is for all Standard A mail? In other words, it's for letters and flats and parcels.

A Yes, that's correct.

Q Would you take a look at your response to ADVO 28 again, please, and the Table 5, I guess the last page, makes a final presort adjustment and a drop ship adjustment, and you have to forgive me, but I really didn't follow this, what presort -- what condition of presort are you adjusting for, what condition of drop ship are you adjusting for, or

is this some type of average of standard A mail as it now exists?

A In Table 5, what conditions of presort and drop ship am I adjusting for?

Q You're -- are you adjusting for the condition of presort ordinarily found at that weight increment? This may not be a very good question because I --

A What I am adjusting is -- is the difference between the modeled costs for the mail as a whole across all weight increments, and the modeled cost for that individual weight increment. So it represents the difference in the modeled costs between the mail that in that, only that weight increment, and all of the mail across all the weight increments.

Q Okay. Could you take an illustration bulk regular other, one ounce pieces, where you have a presort adjustment of 2.66 and show me where that number comes from?

A Yeah. Go to Table 4. And the first nine rows of data show the mail volumes for all the categories that are listed there. They are multiplied by the values for mail processing -- the total across mail processing delivery modeled costs shown on Table 2. Those costs, their sum, and divided by the total volume across all those rows to yield the modeled cost in the row labeled "Average Modeled Cost."

Now, if you go out to the row that says "Total,"

the same process is applied to that row, or to -- I mean to the column labeled "Total." The same process is applied there to come up with the figure of 12.27. And the minus 2.66 is just 9.61 minus the 12.27.

Q So, in other words, you are attempting to determine how the particular pieces entered at a particular ounce increment differ from the average, and make that -- make an adjustment based on that?

A Yes.

Q Is that a fair description also of what you do for the drop ship adjustment?

A Yes, it is essentially the same technique.

Q Could you look at your response to ValPak 44-3? And on page 2 of your response, where you provide some helpful insight into your theory as to how weight affects cost, you talk about two different mailings, 150 two ounce flats and compare that to 150 five ounce flats. Do you see that?

A Yes.

Q And there you indicate that a heavier weight piece could cause certain costs to be avoided because there are more sacks and more sack handlings and fewer bundle -- I'm sorry, fewer separate bundle handlings. Is that a fair description?

A Yes. And no opening and pouching costs, yes.

Q Pouching, you said?

A Pouching is the act of taking the bundles that have been sorted and re-sacking them, yes.

Q Okay. I thought that was re-sacking. I'm sorry.

Okay. So here you are talking about cost savings from, if I understand it, first bundle sorting, second, re-sacking, and, third, in the last line of that paragraph, the labor required to move the mail to and from the dock. Would that -- would those be the three kinds of costs that you believe would be avoided?

A And the fourth would be opening the sack itself.

Q Okay. Opening the sack. Now, the way that you phrase the analysis is comparing two mailings of two different weights. But I want to use this as a jumping off point to ask you about the determination of savings from drop shipping, and ask you if -- first of all, do you know how the drop ship discount is -- what it -- what it attempts, what cost savings it attempts to measure?

A Yes.

Q Okay. And what are those?

A Well, primarily transportation costs and then some mail processing costs related to the unloading and loading of trailers and cross-docking operations and certain container sorting operations.

Q Most -- dock handling costs, would they be

considered?

A Yeah, dock handling is loading and unloading and cross-docking.

Q Okay. And if --

THE REPORTER: Loading and unloading and what?

THE WITNESS: And cross-docking.

BY MR. OLSON:

Q And my question to you is, if you avoid -- if you drop ship a particular mailing, if these costs that you have identified here as being avoided in a five ounce, with a five ounce piece mailing, that are present in a two ounce piece mailing, would those same costs also not be avoided with drop shipping?

A No, because the mail that I am considering in this example, the deepest that it could be drop shipped is the destination SCF, and the cost that I am considering, ~~it's~~ in the example, occur at the destination SCF.

Q But if the mail is -- well, let's assume the mail is entered at a destination ~~SCR~~ SCF. That's what you are assuming in your -- in your example?

A Well, the costs that I had discussed here occur in the destination SCF regardless of whether the mail was entered there or not.

Q Okay. So if mail is entered at a destinating DDU, it would not incur those costs, correct?

A Mail that is not carrier route sorted would not be able -- eligible for DDU entry.

Q Well, what I am getting is when you -- when the Postal Service determines a drop ship discount, and it bases it only on transportation and dock-handling savings, is it missing some savings that are otherwise saved?

A Well, I think the calculation of the destination entry discounts considers the same kinds of costs, and, to the best of my understanding, which is very limited, they are reflected in the weight related discounts given for that activity.

Q But if those weight related discounts are based on only transportation and dock-handling, as you just testified, is it possible that they don't recognize other savings which are occurring?

MR. ALVENO: Objection. I think that this is a line of inquiry that would have been appropriate for Mr. Smith yesterday but not for Mr. McGrane. Mr. McGrane isn't offering testimony on the drop ship savings for standard A mail.

MR. OLSON: Well, he just told me what the drop ship savings were calculated upon. He said he had limited knowledge, and I suspect his responses would be viewed in connection with that.

CHAIRMAN GLEIMAN: Overruled.

THE WITNESS: Could you repeat the question, please?

BY MR. OLSON:

Q Sure. Is it possible that the drop ship discount, which measures only transportation and dock-handling savings, might ignore the kinds of savings that are reflected in your analysis regarding the two and five ounce flat illustration?

A Well, first, I would say ignore is an improper characterization.

Q Don't reflect --

A They are perhaps below the level of detail modeled for calculating the drop ship discount. And, again, in this example of mail which would be presented at non-carrier route rates, none of these activities could be avoided via drop shipping.

Q Okay. Let me ask you to turn the page and take a look at page 3 of your response to Interrogatory 44-3. And there you talk about the efforts that you made to develop a computer simulation of the mail processing costs of Standard A mail. Do you see that?

A Yes.

Q Okay. You say that effort was not entirely successful because several key pieces of information were not available. How far did you carry out that effort to

provide an alternative means to study the weight-cost relationship that doesn't use IOCS tallies?

A Well, basically to the point of identifying the needs listed in that paragraph.

Q So what we see here is the extent of the analysis that you made with respect to the use of a computer simulation model to determine these mail processing costs?

A Well, we had a working simulation that basically did not account for any of these factors and produce some results, but I guess that we judged its value as limited without collecting this additional information.

Q Did you compare those results to the results derived from the IOCS study that you did?

A Yes, we did.

Q Did you -- do you have any conclusions you can draw from the comparison?

A Well, if anything, the results from the simulation even had less relationship with weight than the IOCS results.

Q For both ECR and for regular?

A The simulation primarily focused on regular mail because ECR mail doesn't have a lot of -- well strike that -- no -- yes, for both ECR and regular.

Q You said first of all you didn't study ECR I believe? And then you said, "Strike that." I missed --

A Yes, I'm -- I think most of the interesting simulations concerned non-ECR mail because there's a lot more sorting and containerization effects from weight than there is for ECR mail.

Q Okay. What efforts did you make to obtain the key pieces of information from the Postal Service? Did you ever try to obtain that information from the Postal Service?

A We've made inquiries as to the existence of the data and tried to determine if some of that data could be collected with ongoing studies for the current case.

Q And in your answer there you identify the information which the Postal Service advised you was not available; is that correct?

A Yes, or could not be collected for this case. Yes.

Q One of them -- the first one is the machineability of mail pieces by weight increment. That's not something that's available from the Postal Service?

A No, it isn't currently. I mean, there was an effort during some of the studies for this case to try to collect that information, but it was available too late to consider for this analysis.

Q Do you know what time frame it became available?

A Well, I believe that the raw data was available shortly before the filing of this case.

Q In April?

A Yes.

Q Okay. With respect to automation compatibility of pieces by weight increment, that also the Postal Service could not provide to you?

A Yes, that's correct.

MR. OLSON: Thank you. That's all I have.

CHAIRMAN GLEIMAN: Is there any follow-up cross examination?

[No response.]

CHAIRMAN GLEIMAN: No follow-up.

Questions from the bench?

[No response.]

CHAIRMAN GLEIMAN: I just have a couple of questions. Maybe you can help me.

You mentioned to Mr. Olson that adjusting for the various and sundry differences that you had discussed with both him and with Mr. Baker doesn't change the shape of the curve, it just moves the curve up or down on the axis. Did you actually make these adjustments?

THE WITNESS: You mean make them by adding the model cost rather than --

CHAIRMAN GLEIMAN: Yes.

THE WITNESS: No, I did not.

CHAIRMAN GLEIMAN: So, it's just a guess on your

part that it doesn't change the shape of the curve at this point.

THE WITNESS: Well, no, I mean it's just a matter of the mathematics.

CHAIRMAN GLEIMAN: But you didn't do it, so you don't -- you can't show us a curve that you've done.

THE WITNESS: No, I don't have a curve that shows that currently.

CHAIRMAN GLEIMAN: When Mr. McLaughlin was questioning you, he talked about the studies -- or the data -- excuse me -- that were used in an earlier case, in the re-class case, and I understood you to say that it was based on data collected in 1993?

THE WITNESS: Yes, that's my recollection.

CHAIRMAN GLEIMAN: Do you know whether the data that was collected in 1993 was anymore extensive than the data that was collected more recently and was the subject of Mr. Baker's cross examination?

THE WITNESS: I believe that the number of tallies collected was similar in the two years, but I'm not absolutely certain of that.

CHAIRMAN GLEIMAN: So, it's conceivable that there are cells where there was only one tally both in '93 and again in '95 -- excuse me -- '96.

THE WITNESS: Yes. It's certainly conceivable.

CHAIRMAN GLEIMAN: So, we're dealing -- rather than with a time series of data, in effect we're dealing with two points in time where the data is rather sparse in some areas.

THE WITNESS: Yes, I guess that's an appropriate characterization.

CHAIRMAN GLEIMAN: Earlier on, in Mr. Baker's cross examination and again when you were being cross examined by some of the other intervenors, there was discussion about shape, and your point of your testimony, as I understood it, was that there's not much of a relationship between changing weight and the saturation mail or enhanced carrier route mail, but you talked about shape.

When you talk about shape, what do you mean? Two or three or 10 shapes of mail?

THE WITNESS: I generally think of it in terms of the mail processing technology used.

So, there's a letter shape that's processed in automation, in LSM. There's flat shape that can be processed on the flat sorting machines, and then parcel shapes which can be sorted on the BMC parcel sorting machines, but within those shapes, there's pieces that are incompatible with the technologies available at each of those --

CHAIRMAN GLEIMAN: Have you ever seen something

like this? It's sort of like a newspaper folded in half. This one's called Metro Service Guide, April '97, and it's marked ECR, WSS, and then the carrier route on it.

THE WITNESS: Certainly, yes.

CHAIRMAN GLEIMAN: Is this a flat piece or a letter piece, would you think?

THE WITNESS: I believe it would be a flat piece because of the orientation of the address. It may even technically fall within the letter dimensions.

CHAIRMAN GLEIMAN: Now, this is another piece that came in the mail. Is that a flat? It's one of these detached label-type pieces, you know, a four-page fold with some inserts in it. Letter or flat?

THE WITNESS: I would call that a flat piece.

CHAIRMAN GLEIMAN: You mentioned, when you were talking about elemental load time, that all it amounts to is reaching into a satchel and fingering mail and taking it out. Do you think it costs anymore to get a piece like this out than a piece like this? They're two different flat pieces.

THE WITNESS: It may, yes.

CHAIRMAN GLEIMAN: Here is a flat piece that I got. Well, it's interesting, let's look at it, because you told me that the first piece I showed you, which was this Metro Service Guide, might qualify as a letter.

Now, I've got something that was roughly the same size that was in my mail-box yesterday. It came like this. Of course, it's got a lot of loose pages all over the place, and a detached label.

Do you think that -- this isn't a -- well, let me ask you first. Would this be a letter, do you think? Same size.

THE WITNESS: I don't believe so, no.

CHAIRMAN GLEIMAN: Do you think this is anymore time-consuming in terms of fingering what's in the satchel?

THE WITNESS: It may, yes. I really haven't studied street time cost to any great extent.

CHAIRMAN GLEIMAN: Okay. Well, that sort of kind of answers my question. You haven't studied street time cost for that aspect of processing of mail.

I noticed on 44-A, at page two, in the introduction, you talk in the second paragraph about required endorsements starting in September of '94, and then, in the third paragraph, it says, with the advent of reclassification, the requirements for marking saturation and high-density mail were changed to ECR, WSS, and something else respectively, that this change took place July 1, '96.

Do I understand that mail that's ECR walk sequence saturation mail is supposed to be marked ECR, WSS, that's a

requirement of the Postal Service now?

THE WITNESS: Yes, that's how I read the DMM language, yes.

CHAIRMAN GLEIMAN: So, if I get something with a WSS and then the carrier route on it, that doesn't meet the requirements as you understand them?

THE WITNESS: You mean the WSS is before the carrier route?

CHAIRMAN GLEIMAN: Yes, but it doesn't have an ECR on it.

THE WITNESS: Well, in my study, I specifically assume that pieces that were letter or flat shaped and had a detached address label were in the walk sequence or saturation category.

CHAIRMAN GLEIMAN: All right. I just was trying to understand a little bit more about what you were talking about.

I have no further questions.

My colleague has a question.

COMMISSIONER LeBLANC: Bear with me just a moment, because I thought I understood your colloquy with Mr. McLaughlin, but -- and I heard the Chairman ask about the time series with the sparse data.

Are you saying that going back to '93 or '94 and then carrying it forward up to now is an average and

therefore it is okay to average just for that period?

Is that what we are saying? Because I mean if that is the case, you put me together with Shaquille O'Neal and the average is way off for both of us.

THE WITNESS: What I am saying is that we have looked at the results over a number of years and we get relatively the same shape of curve with a similar slope, so that if there -- if these results were extremely sensitive to the thinness of the sample, you would see a lot more difference in the shapes of the curves than I have observed.

COMMISSIONER LeBLANC: So you just are assuming that the thinness again is constant? It won't change over time?

THE WITNESS: Well, no. I am saying that, you know, the thinness is caused by there not being much mail in the weight increments being studied, and if it caused a problem you would see the estimated costs bounce around greatly, and I guess I don't see that happening.

COMMISSIONER LeBLANC: So I guess what I am coming back to, you are comfortable with the average then?

THE WITNESS: Yes, I am.

COMMISSIONER LeBLANC: Thank you.

CHAIRMAN GLEIMAN: Is there follow-up as a consequence of questions from the bench?

[No response.]

CHAIRMAN GLEIMAN: If not, that brings us to redirect. Mr. Alverno.

MR. ALVERNO: If we could have about eight minutes with the witness.

CHAIRMAN GLEIMAN: How about 10?

MR. ALVERNO: Ten would be fine. Thank you.

[Recess.]

CHAIRMAN GLEIMAN: Mr. Alverno?

MR. ALVERNO: Thank you, Mr. Chairman.

We have nothing further.

CHAIRMAN GLEIMAN: If there is nothing further then, I want to thank you, Mr. McGrane.

We appreciate your appearance here today and your contributions to our record.

If there is nothing further, you are excused.

[Witness excused.]

CHAIRMAN GLEIMAN: That concludes today's hearing.

We will reconvene tomorrow, Wednesday, December 3rd.

We will receive testimony, supplemental testimony of Postal Service Witnesses Harahush, Lion, Treworgy -- got that right that time -- Baron, Talmo, and Hatfield, and it is my understanding that at least as of right now we have no cross examination for the first three witnesses tomorrow -- Harahush, Lion and Treworgy, so people should be on notice

to the extent they want to cross examine other witnesses that it may move along rather quickly, in the morning at least.

Thank you all and have --

MR. ALVERNO: Mr. Chairman, I do have one procedural matter to take up.

CHAIRMAN GLEIMAN: Yes, sir.

MR. ALVERNO: I am not quite certain how much cross is expected on Witness -- I believe it is Baron who is before Witness Talmo.

Witness Talmo is here from out of town and would like to leave that same day.

I don't anticipate that being a problem, whether he is first or second, but if there are other parties that appear tomorrow for Witness Baron I guess I would ask that consideration be given to placing Witness Talmo first.

CHAIRMAN GLEIMAN: It is my understanding that as of right now we have little cross examination requested for Witness Baron.

It was indicated to me that it was light -- on the light side -- so let's stick to the order that we have and if it appears as though we are going to run into a problem if we can accommodate the witnesses' concerns and needs and those of counsel for the Intervenors, we will endeavor to do so.

MR. ALVERNO: Thank you.

CHAIRMAN GLEIMAN: Thank you. Have a good afternoon.

[Whereupon, at 12:29 p.m., the hearing was recessed, to reconvene at 9:30 a.m., Wednesday, December 3, 1997.]