

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

Postal Rate and Fee Changes, 1997

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Docket No. R97-1

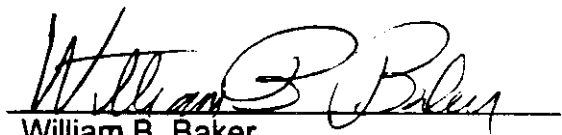
**NEWSPAPER ASSOCIATION OF AMERICA  
WITNESS MICHAEL DONLAN  
RESPONSE TO INTERROGATORIES OF  
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)  
February 4, 1998**

The Newspaper Association of America hereby provides responses of witness Michael Donlan to the interrogatories of the United States Postal Service filed on January 20 and 21, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

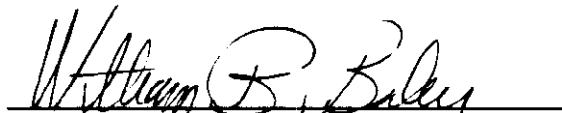
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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

February 4, 1998

  
William B. Baker

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USPS/NAA-T2-1. Please refer to Table 5 on page 10 of your testimony.

- a. Please confirm that Table 5 is intended to report pre- and post-reclassification *mail processing* cost differences between walk sequenced and non-walk sequenced Standard A commercial ECR nonletter mail. If not confirmed, please explain.
- b. Please confirm that mail processing cost difference between walk-sequence and non-walk sequenced Standard A commercial ECR nonletter mail that is reported on page 1 of Exhibit USPS-29D is 2.0193 cents (2.2830 cents - 0.2637 cent). If not confirmed, please explain and give corrected figures.
- c. Confirm that you report a "post-reclassification" unit mail processing cost difference between non-walk sequenced nonletters and walk sequenced nonletters of 1.465 cents. If not confirmed, please explain and give the correct figure.
  - (i) Confirm that the 1.465 cent figure measures the unit cost only between July 1, 1996 through the end of FY 96. If not confirmed, please explain.
  - (ii) What is the total number of days over which the 1.465 cent figure is measured?
  - (iii) Confirm that the 1.465 cent figure in subpart (c) is 0.5543 cent less than the figure to which you are referred in subpart (b). If not confirmed, please give the correct figure.
  - (iv) Do you believe that the implementation of classification reform contributed, at least in part, to the 0.5543 cent differential between the figures reported in subparts (b) and (c)(iii)? Please explain your response.
  - (v) If your answer to subpart (c)(iv) is affirmative, which of the new requirements of classification reform, as you discuss at page 9 of your testimony, do you believe contribute to a reduction in the mail processing cost difference between non-walk-sequenced and walk-sequenced ECR mail? Please discuss letter and nonletter shaped mail separately.
  - (vi) Are there any other factors of which you are aware or that you believe would explain or contribute to the 0.5543 cent differential to which you are

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referred in subpart (c)(iii)? If so, please identify all such factors and explain how they would contribute to the 0.5543 cent cost differential.

**Response:**

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed. As noted in my testimony, this figure was reproduced from Cross-Examination Exhibit NAA-XE-1 (Tr. Volume 15, page 7765).  
  
Postal Service Witness McGrane verifies the accuracy of the unit cost difference at Tr. Volume 15, pp. 7762-3.
  - (i) Confirmed.
  - (ii) According to Postal Service Witness McGrane, the post-reclassification period contained approximately 2 1/2 accounting periods or approximately 70 days.
  - (iii) Confirmed.
  - (iv) My testimony does not attempt to explain the causes of the unit cost differences between the pre-reclassification and post-reclassification periods. Based upon the limited data available, there exists a difference in the unit costs between the two periods. This cost difference suggests that reclassification may have affected mail processing costs.
  - (v) I have not analyzed the underlying causes of the reduction in the mail processing unit costs.

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- (vi) I have not analyzed the underlying causes of the reduction in the mail processing unit costs.

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USPS/NAA-T2-2. Please refer to the post-reclassification unit mail processing cost difference between non-walk sequenced nonletters and walk sequenced nonletters of 1.465 cents that is reported in Table 5 of your testimony.

- a. Prior to the filing of your testimony on December 30, 1997, did you consider that there may be seasonal mailing patterns that affect the mail processing unit cost of ECR mail?
- b. If your answer to subpart (a) is affirmative, please provide citations to any information that you considered in this regard.
- c. If your answer to subpart (a) is affirmative, what conclusions did you draw from the information that you considered?

Response:

- (a) As indicated in my response to Interrogatory USPS/NAA-T-2-1c(iv), I did not attempt to explain the causes of the unit cost differences reported in Table 5 of my testimony.
- (b) Not applicable.
- (c) Not applicable.

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USPS/NAA-T2-3. Please refer to page 8 footnote 3 of your testimony. In commenting upon witness McGrane's statement regarding the thinness of tallies, you state, "[witness McGrane's] statement appears unfounded, for no such similar analysis has been performed prior to this proceeding."

- a. In drawing the conclusion that you make in footnote 3, did you consider any other information other than Transcript volume 15 p. 7770? If so, what did you consider? Please provide citations to all information that you considered.
- b. Is your statement intended to convey that no similar analyses have been *performed* by any person prior to this proceeding, or does your statement simply intend to convey that you have not *seen* any similar analyses? Please explain your response.
- c. Doesn't witness McGrane's statement that you quote in footnote 3 state that previous analyses have been performed? Please explain any negative response.

Response:

- (a) My statement in footnote 3 at page 8 is based upon the testimony of Postal Service Witness Moeller and discussions with my colleague, NAA witness Sharon Chown.

Witness Moeller states in his direct testimony (USPS-T-36) at page 29, lines 7-14 that:

"An updated study used by witness Daniel (USPS-T-29) uses In-Office Cost System data to help ascertain the relevant mail processing cost differences. In previous proceedings, the differential was based solely on delivery cost differences. This *new methodology* allows for a more comprehensive analysis of the cost differentials. The study groups

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High-Density and Saturation together for cost measurement purposes, so the reported mail processing difference between High-Density and Saturation is zero. However, this is an improvement over *previous studies which assumed that the mail processing cost differential was zero between all three tiers.*" (emphasis added)

I am not aware of any previous analyses of the mail processing cost differences between walk-sequenced and non-walk-sequenced mail.

Also, Ms. Chown informed me that, to the best of her knowledge, no such studies have been performed prior to this proceeding.

- (b) My statement is intended to convey that, to the best of my knowledge, no similar analyses have been performed by the Postal Service prior to this proceeding.
- (c) Witness McGrane's statement implies that similar analyses have been performed previously. However, it is possible that Witness McGrane misspoke. It is my understanding that the Postal Service previously has filed analyses of mail processing costs by weight increment, similar to the analysis included in Exhibit 44B. It is possible that Witness McGrane was inadvertently referring to those studies when he made the statement at Tr. Volume 15, page 7770. To the best of my knowledge, the Postal Service has not filed any previous studies similar to the study in Exhibit 44A.

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USPS/NAA-T2-4. At page 8 lines 1-3 of your testimony, you state that "neither Postal Service Witness McGrane nor Witness Daniel provides any statistical or other measure of uncertainty that indicates the appropriate level of confidence to place on the results of the cost analyses."

- a. Prior to the date of filing of your testimony, did you review any estimates of the statistical reliability of mail processing costs?
- b. Please confirm that coefficients of variation for mail processing costs by subclass were presented in Table 6 of USPS-T-12, and these included coefficients of variation for Standard (A) ECR mail.
- c. With regard to Table 6 of USPS-T-12, does it appear that in general, the coefficient of variation is inversely proportional to the estimated mail processing cost of the subclass? If your answer is negative, please explain.
- d. Would it be reasonable to assume that the coefficient of variation for the cost estimates presented in Exhibit USPS-44A would be similar to the coefficient of variation presented in Table 6 of USPS-T-12 for categories that have a similar magnitude of cost? If your answer is negative, please explain.
- e. Please confirm that the coefficient of variation of the cost estimate for the period of time in the base year after reclassification would be much higher than the coefficient of variation of the cost estimate for the entire fiscal year.

Response:

Before answering the question, it should be noted that my statement at page 8 of my direct testimony refers to the lack of standard errors of the *unit cost* estimates, while



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this question deals with the standard errors (or coefficients of variation) associated with total mail processing costs.

- (a) Prior to the filing of my testimony, I had read the direct testimony of Postal Service Witness Degen (USPS-T-12), which provides information on the statistical reliability of mail processing costs.
- (b) Confirmed.
- (c) In general, yes.
- (d) No. Although it is possible that the coefficients of variation are similar, it is also possible that they are not. By collecting additional post-reclassification data, this question could be answered definitively without the need for this assumption.
- (e) Not confirmed. While the post-reclassification cost estimate is based upon less data than the cost estimate for the entire fiscal year, the post-reclassification coefficient of variation could be lower, equal to or higher than the coefficient for the entire year.

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USPS/NAA-T2-5. Please refer to your testimony at page 1, lines 22-24. You state that you, "conclude that the proposed increases in the presort discounts are not justified and [you] recommend that the Commission maintain current discounts for these categories of mail."

- a. Please refer to Attachment 1 to this interrogatory. Please confirm that Attachment 1 embodies your recommended discounts, i.e., the maintenance of the current discounts for ECR. If not confirmed, please explain.
- b. Please confirm the accuracy of Attachment 1. If not confirmed, please explain your response.
- c. Please attach a copy of Attachment 1 to your response or, if you do not confirm subpart (b), please attach a corrected copy of Attachment 1.
- d. Please refer to Attachment 2 to this interrogatory. Please confirm that Attachment 2 shows the effective proposed rates using your recommendation that the Commission maintain the current discounts for ECR. If not confirmed, please explain.
- e. Please attach a copy of Attachment 2 to your response or, if you do not confirm subpart (d), please attach a corrected copy of Attachment 2.

Response:

- (a) Confirmed.
- (b) I confirm that the discounts shown in Column (4), lines 2, 3, 7 and 8 of Attachment 1 are the current discounts that I recommend maintaining.
- (c) Attachment 1 has been attached to this response.
- (d) Not confirmed. My testimony addresses the appropriateness of the proposed increases in the discounts for ECR high density and saturation

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mail. My testimony concludes that those increases are not justified and recommends maintaining the current discounts. I do not recommended a particular rate structure for Standard A ECR mail in my testimony. The ECR rate structure is likely to be affected by many other issues outside the scope of my testimony.

- (e) Attachment 2 has been attached to this response.

Moeller WP1, page 18. Presort discounts held at current value.

**ENHANCED CARRIER ROUTE SUBCLASS  
DEVELOPMENT OF PRESORT AND AUTOMATION DISCOUNTS**

| Item               | MP + Del<br>Unit Cost<br>(Cents)<br>(1) | Differential<br>(Cents)<br>(2) | Discount<br>(4) | Cumulative<br>Discount<br>(Cents)<br>(5) | Pieces<br>(Millions)<br>(6) | Value<br>(Millions)<br>(7) |
|--------------------|---|--------------------------------|-----------------|--|-----------------------------|----------------------------|
| <b>Nonletters:</b> |   |                                |                 |  |                             |                            |
| 1 Basic            | 10.3844                                 | —                              | —               | —  | 10706.608                   | —                          |
| 2 High Density     | 7.5692                                  | 2.8152                         | 0.8             | 0.8                                      | 1150.761                    | 9.206                      |
| 3 Saturation       | 5.9082                                  | 1.6610                         | 1.0             | 1.8                                      | 8172.668                    | 147.108                    |
| 4 Subtotal         | —                                       | —                              | —               | —  | 20030.037                   | 156.314                    |
| <b>Letters:</b>    |   |                                |                 |  |                             |                            |
| 5 Basic            | 6.8745                                  | 3.5099                         | 0.0             | 0.0                                      | 6781.043                    | 0.000                      |
| 6 Automated        | 6.2687                                  | 0.6058                         | 0.7             | 0.7                                      | 2123.223                    | 14.863                     |
| 7 High Density     | 4.7640                                  | 2.1105                         | 0.8             | 0.8                                      | 394.077                     | 3.153                      |
| 8 Saturation       | 3.8560                                  | 0.9080                         | 0.9             | 1.7                                      | 3095.861                    | 52.630                     |
| 9 Letter Discount  |   |                                |                 | 0.0                                      | 3489.938                    | 0.000                      |
| 10 Subtotal        |   |                                |                 |  | 12394.204                   | 70.645                     |
| 11 Total           |   |                                |                 |  | 32424.241                   | 226.959                    |

(1) Page 10

(2) Difference between relevant cost figures in Col (1)

(5) Cumulative discount for that category.

(6) Page 4

(7) Col (5) \* Col (6)

Moeller WP1, page 31. Effective rates if ECR presort discounts held constant.

**Standard Mail (A) - Enhanced Carrier Route**

Proposed Rates (\$)

| Minimum per piece rates |            |         |          |      |
|-------------------------|------------|---------|----------|------|
| Density tier            | Shape      | current | proposed | %chg |
| Basic                   | Letter     | 0.150   | 0.162    | 8.0% |
|                         | Automation | 0.146   | 0.155    | 6.2% |
|                         | Nonletter  | 0.155   | 0.162    | 4.5% |
| High-Density            | Letter     | 0.142   | 0.154    | 8.5% |
|                         | Nonletter  | 0.147   | 0.154    | 4.8% |
| Saturation              | Letter     | 0.133   | 0.145    | 9.0% |
|                         | Nonletter  | 0.137   | 0.144    | 5.1% |

| Pound-rated pieces |           |         |          |
|--------------------|-----------|---------|----------|
| Density Tier       |           | current | proposed |
| Basic              | per piece | 0.018   | 0.053    |
|                    | per pound | 0.663   | 0.530    |
| High Density       | per piece | 0.010   | 0.045    |
|                    | per pound | 0.663   | 0.530    |
| Saturation         | per piece | 0.000   | 0.035    |
|                    | per pound | 0.663   | 0.530    |

| Destination Entry Discounts |      |           |           |
|-----------------------------|------|-----------|-----------|
| Piece-rated pieces          | DBMC | current   | proposed  |
|                             |      | per piece | per piece |
|                             |      | 0.013     | 0.015     |
|                             | DSCF | 0.018     | 0.018     |
|                             | DDU  | 0.023     | 0.023     |
|                             | DBMC | current   | proposed  |
|                             |      | per pound | per pound |
|                             |      | 0.064     | 0.072     |
| Pound-rated pieces          | DSCF | 0.085     | 0.088     |
|                             |      | 0.111     | 0.110     |
|                             |      | 0.111     | 0.110     |

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USPS/NAA-T2-6. Please refer to page 12 lines 20-21 of your testimony. You state, "the analytical approach used by the Postal Service accounts for DPS-related mail processing costs but ignores offsetting delivery cost savings."

- a. Please confirm that your statement applies only to letter shaped mail. If not confirmed, please explain.
- b. Please confirm that your statement applies only to letter shaped mail that is "automation compatible," *i.e.*, capable of being processed on automation equipment. If not confirmed, please explain.
- c. Please confirm that in order for the Postal Service to receive any savings in delivery for ECR Basic letters that are processed on automation, such pieces must be successfully barcoded, if they are not already correctly customer barcoded. If you do not confirm, please explain.
- d. Please confirm that in order for the Postal Service to receive any savings in delivery for ECR Basic letters that are processed on automation, such pieces must be successfully sequenced on delivery barcode sorters. If you do not confirm, please explain.
- e. Please confirm that ECR Basic letters that are successfully sequenced on automation to delivery sequence consist of only a subset of ECR Basic letters. If not confirmed, please explain.

Response:

- (a) Confirmed. It is clear from the discussion at pages 10-12 of my testimony that DPS-related costs and savings apply to letter shaped mail only.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.

-  
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- (e) Confirmed. Based upon Postal Service Witness Moden's testimony, I expect that the subset of ECR basic letters that are successfully delivery point sequenced is significant. Witness Moden states that:

"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." (USPS-T-4, page 8, lines 19-21)

## DECLARATION

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

Michael Donlan

Date: FEB. 4, 1998