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Before the

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: **POSTAL RATE AND FEE CHANGES**

Docket No. **R97-1**

VOLUME 22

DATE: Thursday, February 19, 1998

PLACE: Washington, D.C.

PAGES: 11320 - 11937

ANN RILEY & ASSOCIATES, LTD.
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1 BEFORE THE
2 POSTAL RATE COMMISSION
3 - - - - - X
4 In the Matter of: :
5 POSTAL RATE AND FEE CHANGES : Docket No. R97-1
6 - - - - - X

16 The above-entitled matter came on for hearing,
17 pursuant to notice, at 9:30 a.m.

19 BEFORE:

20 HON. EDWARD J. GLEIMAN, CHAIRMAN
21 HON. W. H. "TREY" LeBLANC, III, COMMISSIONER
22 HON. GEORGE W. HALEY, COMMISSIONER
23 HON. GEORGE A. OMAS, COMMISSIONER

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1 P R O C E E D I N G S

2 [9:30 a.m.]

3 CHAIRMAN GLEIMAN: Good morning. Today we
4 continue hearings in Docket R97-1 to receive the direct
5 cases of participants other than the Postal Service,
6 including their rebuttal to the Postal Service. Scheduled
7 to appear today are Florida Gift Fruit Shipper Association,
8 Witnesses Ball, Davis and Merewitz; Recording Industry
9 Association of America, et al., Witness Andrew; Coalition of
10 Religious Press Associations, Witness Stapert; and Witness
11 Haldi appearing on behalf of the Alliance of Non-Profit
12 Mailers.

13 Does any participant have a procedure matter to
14 raise before we begin today?

15 MR. WIGGINS: Mr. Chairman, Frank Wiggins for the
16 RIAA.

17 CHAIRMAN GLEIMAN: Yes, sir.

18 MR. WIGGINS: There were some additional
19 Interrogatories services on Witness Andrew by the Postal
20 Service the end of last week. We provided Answers to those
21 Interrogatories to the Postal Service by facsimile on -- I
22 am shy to admit, yesterday afternoon. We are going to be
23 filing them today, and I have left a number of copies of
24 those on the table if other participants want to review them
25 before Dr. Andrew takes the stand today.

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1 CHAIRMAN GLEIMAN: Do you know whether they are
2 going to be filed before Dr. Andrew takes the stand today,
3 or at the end of the day? You indicated they would be filed
4 today.

5 MR. WIGGINS: They will be filed sometime today.
6 I can't promise you exactly, Mr. Chairman, at what moment
7 they will be filed. Does it make a difference?

8 CHAIRMAN GLEIMAN: I just --

9 MR. WIGGINS: I can control this.

10 CHAIRMAN GLEIMAN: Well, I think it would be
11 helpful if they were actually filed before he appears on the
12 stand, in the event that the Postal Service had some
13 follow-up questions they wanted to ask, at least we would be
14 asking them based on Interrogatory responses that were a
15 matter of record at that point.

16 MR. WIGGINS: I will -- I will leave --

17 CHAIRMAN GLEIMAN: Unless someone --

18 MR. WIGGINS: I will leave the room right now and
19 make sure that they are filed before Dr. Andrew takes the
20 stand.

21 CHAIRMAN GLEIMAN: Well, I certainly didn't intend
22 to chase you out of the room, sir. But if that is what it
23 takes. I believe we won't be hearing from Dr. --

24 MR. WIGGINS: If that is the proper course, Mr.
25 Chairman, I am happy to comply.

1 CHAIRMAN GLEIMAN: I think that is probably a
2 better way to do it.

3 MR. WIGGINS: It's done.

4 CHAIRMAN GLEIMAN: Okay. Thank you, sir.

5 Anyone else?

6 [No response.]

7 CHAIRMAN GLEIMAN: If there is no one else, then
8 we will proceed.

9 Mr. Wells, there were requests for oral
10 cross-examination of Witness Davis, and I was wondering if
11 you are prepared to move his testimony and Designated
12 Cross-Examination into evidence at this point of time.

13 MR. WELLS: Do you want the witness to take the
14 stand and the --

15 CHAIRMAN GLEIMAN: It is not necessary, but if he
16 is in the room, certainly, he can take the stand. I can
17 swear him in and he can attest to it. On the other --

18 MR. WELLS: Let me call him to the stand and we
19 can do that. I call Mr. Frank E. Davis.

20 Whereupon,

21 FRANK E. DAVIS

22 a witness, was called for examination by counsel for the
23 Florida Gift Fruit Shippers Association and, having been
24 first duly sworn, was examined and testified as follows:

25 CHAIRMAN GLEIMAN: Please be seated.

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1 DIRECT EXAMINATION

2 BY MR. WELLS:

3 Q For the record, would you please state your name?

4 A Frank E. Davis.

5 Q Mr. Davis, I show you two copies of what has been
6 identified as FGFSA-T-3, entitled "Testimony of Frank E.
7 Davis on Behalf of Florida Gift Fruit Shippers Association,"
8 and ask you if that was prepared by you or under your
9 direction and supervision?

10 A Yes, this is.

11 Q And do you adopt that now as your direct testimony
12 in this proceeding?

13 A Yes, sir.

14 MR. WELLS: Mr. Chairman, I would offer that into
15 evidence and hand two copies of the testimony to the
16 reporter.

17 CHAIRMAN GLEIMAN: Are there any objections?

18 [No response.]

19 CHAIRMAN GLEIMAN: Hearing none, Mr. Davis'
20 testimony and exhibits are received into evidence, and I
21 direct that they be transcribed into the record at this
22 point.23 [Direct Testimony and Exhibits of
24 Frank E. Davis, FGFSA-T-3, was
25 received into evidence and

1 transcribed into the record.]
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FGFSA - T -3

BEFORE THE POSTAL RATE COMMISSION

DOCKET NO. R97-1

Postal Rates and Fee Changes, 1997

TESTIMONY
of
FRANK E. DAVIS

In Behalf of

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

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Orlando, FL 32802

Due Date: December 30, 1997

1

2

3

4

DIRECT TESTIMONY OF FRANK E. DAVIS

5

6 I. IDENTIFICATION OF WITNESS

7 My name is Frank E. Davis and I am the President of PITTMAN & DAVIS,

8 INC. 801 North Expressway, Harlingen, Texas.

9 I received a BA and a BSBA from Trinity University in 1978. I have
10 continued my education by taking every class on citriculture at Texas A&I, have
11 read extensively on direct marketing matters, and have attended several
12 seminars presented by Direct Marketing Association.

13 I have been employed by Pittman & Davis since 1978. Since 1988 I have
14 served as President of the company.

15

16 II. DESCRIPTION OF MAILER

17 Pittman & Davis is a family-owned business which has operated
18 continuously since 1926.

19 The principal office is located in Harlingen, Texas. Since 1984, it also has
20 maintained and operated a packing facility in Vero Beach, Florida.

21 Our business is a catalog mail order undertaking for the sale and
22 distribution of gift packages. The principal products are grapefruit and oranges,
23 but the product lines also include other fresh and processed food products.

24 Parcels are shipped from Florida and Texas to destinations in all
25 contiguous 48 states.

1 Products are packaged and shipped under our own label in response to
2 order placed by customers by mail or phone.

3 **III USE OF THE POSTAL SYSTEM FOR PARCEL DELIVERY**

4 All parcels are transported to the destination delivery area with line-haul
5 tractor-trailer transportation, utilizing refrigerated trucks loaded to a capacity of
6 45,000 pounds. Parcels are drop-shipped at destination postal facilities. On
7 some trips, there may be partial unloads en route to the final destination delivery
8 point.

9 Rate minimization, avoidance of zone 3 rates and additional handlings in
10 inter-BMC movements, and expedition of delivery time are major factors involved
11 in our selection of destination delivery points.

12 We tender parcels to the Postal Service from destination delivery at
13 various facilities, including BMCs and SCFs. Selection of the facilities is
14 coordinated closely with the Postal Service. Postage is determined using an
15 itemized postage system.

16 Most parcels are mailed as parcel post, although some are sent by air to
17 obtain expedited delivery.

18 Business is conducted year-round, but the heaviest volume is during the
19 citrus season - from November through April. During the 1996-1997 season,
20 about 690,000 parcels were handled.

21

22 **IV. WEIGHT RELATED HANDLING COSTS**

1 The proposed parcel post rates are designed to cover costs (a) on a per
2 piece basis to cover non-transportation costs, (b) on a per pound basis to cover
3 weight related handling costs and (c) on a per pound basis to cover
4 transportation costs.

5 There are no known studies to identify or quantify non-transportation
6 handling costs which are weight related, and no one has identified such costs.
7 Even so, the rate includes 2 cents per pound to cover these unidentified and
8 unquantified costs.

9 I know of no justification to impose a charge of 60 cents on a 30# parcel,
10 and only 20 cents on a 10# parcel.

11 From my experience and observations of handling parcels of various sizes
12 and weights, it appears clear that space related and other processing costs may
13 vary according to the size or cube of the parcel, but that weight is not a
14 distinguishing factor.

15 The established relationship between weight and cube is currently used
16 for the allocation of transportation costs, which are incurred on the basis of cubic
17 feet. That same relationship should be used for the allocation of the unidentified
18 non-transportation costs which are said to be weight related, but in fact are
19 related to the size, or cube, of the parcel. The amount of the 2 cents per pound
20 should be determined and allocated in accordance with the weight-cube
21 relationship.

1 We urge the Commission to correct the per pound element for weight
2 related non-transportation costs to more closely reflect cost causing factors of
3 size or cube, rather than that straight line per pound elements.

4

5 V. IMPACT OF PROPOSED RATE INCREASE

6 The proposed rates for parcel post are for essentially a 30% increase for
7 all rates which we use. Postage is a significant part of our direct costs, and an
8 increase of this magnitude will have major and significant impact. Such an
9 increase would cause an increase in our prices by at least 5%, if we were to be
10 able to pass through the increase.

11 The gift fruit industry is highly competitive with alternate products, and this
12 degree of increase would likely send our customers to these other sources for
13 the gift shipments. Customers of direct marketing react to price increases. We
14 are highly dependent on repeat customers. Loyalty from old customers is the life
15 blood of the direct marketing gift food business. Usually we receive repeat orders
16 from about 70% of our customers, if they repeat the first year. But, if the
17 customer does not repeat due to a price increase, then the repeat business
18 drops to about 20%. Any drastic price increase causing many people to lose
19 their sense of loyalty to the direct marketing company.

20 Recent price increases in the 6% range have demonstrated a decline in
21 volumes for all products, ranging from a 3% decline to over 32%. A further
22 increase across the board to cover the postage increase could have very severe
23 consequences in the loss of volumes. We presently employ 200 people in Texas

1 and 150 in Florida on a seasonal basis. A sales volume decrease of 10% would
2 probably result in reduced employment by at least that much. Loss of
3 employment for seasonal workers can be dramatic.

4 We urge the Commission to moderate the increase in parcel post rates,
5 and to require satisfactory evidence to support the costing methodology which
6 has been used by the Postal Service.

1 CHAIRMAN GLEIMAN: Mr. Davis, have you had a
2 chance to review the packet of what we call Designed Written
3 Cross-Examination that was made available to you earlier
4 today? Those are your previous written responses.

5 THE WITNESS: I didn't understand the question.

6 CHAIRMAN GLEIMAN: Earlier today, some material
7 was provided, these are copies of earlier written responses
8 that you provided to Interrogatories, and parties have asked
9 that we include those written responses in the record. Have
10 you had a chance to review those written responses?

11 THE WITNESS: Yes, sir.

12 CHAIRMAN GLEIMAN: And if those questions were
13 asked of you today, would your answers be the same as those
14 you previously provided in writing?

15 THE WITNESS: Yes, sir.

16 CHAIRMAN GLEIMAN: That being the case, I am going
17 to provide two copies of the Designated Written
18 Cross-Examination of the witness to the court reporter and
19 direct that they be incorporated into the record and
20 transcribed into the record at this point.

21 [Designation of Written
22 Cross-Examination of Frank E. Davis,
23 FGFSA-T-3, was received into
24 evidence and transcribed into the
25 record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS FRANK E. DAVIS
(FGFSA-T3)

Party

United States Postal Service

Interrogatories

USPS/FGFSA-T3-1-5

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS FRANK E. DAVIS (T3)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/FGFSA-T3-1
USPS/FGFSA-T3-2
USPS/FGFSA-T3-3
USPS/FGFSA-T3-4
USPS/FGFSA-T3-5

Designating Parties:

USPS
USPS
USPS
USPS
USPS

USPS/FGFSA-T3-1

On page 2 of your testimony you state that you use "line-haul tractor trailer transportation, utilizing refrigerated trucks loaded to a capacity of 45,000 pounds. Parcels are drop-shipped at destination postal facilities."

- a. Please describe how Pittman and Davis purchases this transportation. Does it own the vehicles itself, does it lease them, obtain them under contract with a contract carrier, or does it use a common carrier.
- b. How many postal facilities do you dropship to?
- c. How many tractor trailers do you dispatch?
- d. To what extent do your tractor trailer shipments split their load among several destination postal facilities? Please explain.
- e. How do you decide which facilities receive your drop shipments? Please explain what factors influence your decision, including volume, value of shipments, cube, ability to consolidate shipments with other mailers, service performance, service commitments, etc.
- f. What is the average number of pieces drop shipped to each facility?
- g. What is the average weight of pieces drop shipped to each facility?
- h. What is the average cube of pieces drop shipped to each facility?

ANSWER

- a. Transportation is arranged through truck brokers. We tell the broker the destination or destinations, and the broker works with various companies using refrigerated trucks.
- b. 58
- c. 239 trailers during November and December, and 311 during the entire year.
- d. If we do not have a full load, about 45,000 pounds, for a single drop to a postal facility, we combine two or more drops on a single trailer. We try to arrange drops close together in order to minimize transportation cost. In 1997, we had 153 trailers for single drops, 64 for two drops, 36 for three drops and 60 for more than three drops.
- e. Primarily on postal cost savings and the volume of parcels for delivery in the area. The value or cube of the products do not influence the decision. We consolidate shipments with other mailers very rarely. The service performance and service commitments we receive from USPS play a large part in our decision to use USPS over other delivery services, but rarely influences our decision as to which USPS facility we use.
- f. 1,073.
- g. 17.5 pounds.
- h. 1,460 cubic inches.

USPS/FGFSA-T3---2

**What percentage of the Pittman and Davis business now shipped using
the Postal Service is mailed to residential addresses?**

ANSWER

83%

USPS/FGFSA-T3-3

Will Pittman and Davis qualify for any of the new discounts the Postal Service is proposing for Standard B mail (see USPS-T-37)?

- a. If so, please specify each such discount and provide an estimate of the volumes qualifying for each.
- b. If not, does Pittman and Davis have plans to consolidate its shipments with those of other mailers in order to qualify?

ANSWER

- a. We will qualify for the barcode discount, since we have used barcodes for a five digit zip code on our packages for some five years. We will not qualify for the DSCF rate if we have to sort or containerize. If we do not have to sort or containerize, the estimated volume is about 67,000 per year. We will not qualify for the DDU rate.
- b. There are no present plans to consolidate our shipments with those of other mailers, if there is a requirement to sort or containerize. If we do not have to sort or containerize, there would be economic advantage for many perishable shippers to consolidate shipments.

USPS/FGFSA-T3-4

How does Pittman and Davis determine the price to charge for a 10 pound package of fruit versus a 30 pound package of fruit? In providing your response, please assume that the type and quality of fruit in each package is the same.

ANSWER

Cost of fruit, cost of packing and transportation are on a per pound basis.

Cost of the carton is determined by size.

Cost of handling, office and overhead costs, and allowance for profit are on a per package basis.

USPS/FGFSA-T3-5

Please refer to page 4, lines 16-18 of your testimony. How does Pittman and Davis determine that a customer does not repeat due to a price increase, rather than for some other reason (spoiled fruit, late delivery, et.)?

ANSWER

Our full guarantee of satisfaction is very prominent in our sales material. Customers are very prone to complain if there is any problem. If the customer or recipient reports any problem, we will send a replacement or refund. In years when the fruit is much more perishable than other years, we do not lose the loyalty of our customers, because we are prompt and generous with our adjustments. As a matter of fact, we get higher loyalty rates after an adjustment has taken place, as they have learned to trust us. When prices go up, the customer's choices include buying a smaller package or buying something of less cost from a competitor. When prices go up, we can measure the change to smaller packages, how customers purchase fewer parcels, and how the percent of repeat buyers goes down. We do not have an exact science as to how we might lose customer loyalty when prices go up, since we rarely have an across the board price increase, such as would be caused by a postal rate increase.

1 CHAIRMAN GLEIMAN: As I indicated, there were no
2 requests for cross-examination of this witness. Is there
3 anyone here today who cares to cross-examine the witness who
4 had not previously indicated so?

5 [No response.]

6 CHAIRMAN GLEIMAN: There doesn't appear to be
7 anyone. If that is the case, Mr. Davis, I want to thank you
8 for your efforts, your appearance here today, and for your
9 contributions to our record. And if there is nothing
10 further, you are excused.

11 THE WITNESS: Thank you. I appreciate it.

12 [Witness excused.]

13 MR. WELLS: Mr. Chairman, I will call Mr. Joseph
14 Ball.

15 Whereupon,

16 JOSEPH E. BALL,
17 a witness, was called for examination by counsel for the
18 Florida Gift Fruit Shippers Association and, having been
19 first duly sworn, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. WELLS:

22 Q Would you state your name for the record, please?

23 A My name is Joseph E. Ball.

24 Q I show you a copy of what's been identified as

25 FGFSA-T-2 entitled Testimony of Joseph E. Ball on Behalf of

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1 Florida Gift Fruit Shippers Association, and ask if that
2 were prepared by you or under your direction and
3 supervision.

4 A Yes, sir; that is correct.

5 Q And do you now adopt that as your direct testimony
6 in this proceeding?

7 A Yes, sir; I do.

8 MR. WELLS: Mr. Chairman, I'll hand two copies to
9 the reporter and ask that it be transcribed into the record
10 and received into evidence.

11 CHAIRMAN GLEIMAN: Are there any objections?

12 Hearing none, Mr. Ball's testimony and exhibits
13 are received into evidence, and I direct that they be
14 transcribed into the record at this point.

15 [Direct Testimony and Exhibits of
16 Joseph E. Ball, FGFSA-T-2, was
17 received into evidence and
18 transcribed into the record.]

19

20

21

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23

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25

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FGFSA - T - 2

BEFORE THE
POSTAL RATE COMMISSION

DOCKET NO. R97-1

Postal Rate and Fee Changes, 1997

TESTIMONY
OF
JOSEPH E. BALL
In Behalf of
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

MAXWELL W. WELLS, JR., ATTORNEY
MAXWELL W. WELLS, JR., P.A.
POST OFFICE BOX 3628
105 EAST ROBINSON STREET, SUITE 201
ORLANDO, FLORIDA 32802

Due Date: December 30, 1997

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CERTIFICATE OF SERVICE

DIRECT TESTIMONY OF JOSEPH E. BALL1 I. IDENTIFICATION OF WITNESS
23 My name is Joseph E. Ball and I am the Executive President of Florida Gift Fruit
4 Shippers Association, North Kirkman Road, Orlando, Florida 32808-7645.5 I received my Bachelor's Degree in zoology (pre-med) University of Arkansas in
6 1964 and a MBA in Personnel ministration from George Washington University in 1969.

7 I am a retired Captain, United States Naval Reserve.

8 From 1970 to 1982 I was employed with the Housing Division, University of
9 Florida, Gainesville, Florida, and served as its Business Manager from 1976.10 I have worked with the Florida Gift Fruit Shippers Association since 1982,
11 serving as Associate Vice President until 1988, at which time I was elected as
12 Executive Vice President of the Association I have served in that capacity to the
13 present time.14 I am a member of the Board of Directors of Parcel Shippers Association. I
15 served as Chairman of the Parcel Sub Group of the Competitive Services Task Force
16 and presently serve as a member of the fourth class sub-committee of the Mailers
17 Technical Advisory Committee, both of which were organized by the Postal Service. I
18 previously appeared before the Postal Rate Commission as a witness in Dockets R90-1
19 and MC93-1.20 My duties and responsibilities have involved all aspects of transportation matters
21 pertaining to gift fruit shipments and my work has included development of charges and
22 rates for pickup, handling, line haul and delivery at destination. I participated with
23 officials of the Postal Service, Canada Post and United Parcel Service in the

1 development of rates and charges for use in connection with the truck program ad-
2 ministered by the Association (the truck program is described hereinafter) My duties
3 include the general supervision and direction of the entire truck program of the
4 Association.

5 The truck program presently administered by the Association was initiated in
6 1968 under the direction and supervision of William A. Stubbs, who was Executive
7 Vice President of the Association from 1951-1988 and who now serves as
8 Transportation Consultant to the Association.

9

10 II. IDENTIFICATION OF INTERVENORS

11 Florida Gift Fruit Shippers Association is a cooperative, the members of which are
12 shippers of fresh citrus from Florida in gift packages. There are approximately 142
13 shipper members. The Association represents the industry in all matters dealing with
14 transportation in the conduct of the gift fruit business. The Association also maintains
15 and operates a transportation program to handle products for members of the
16 Association. This transportation program is hereinafter referred to as the "truck
17 program."

18

19 III. DESCRIPTION OF INDUSTRY

20 The gift fruit industry is a part of the Florida citrus industry and approximately
21 3,000,000 gift fruit packages are shipped from Florida during each fruit season, which
22 runs from November to May. Gift fruit shipments essentially provide for delivery of
23 quality fruit direct from the grove to the consumer. Sales result from mail orders,

1 tourists and vacationers in Florida, regular shipments by gift or purchase, Christmas
2 gifts by businesses and individuals, and other similar occasions. Marketing methods
3 and practices are varied, with no uniformity among all shippers. Marketing will differ
4 according to the sales method, location of point of sale, type of customer, and many
5 other factors.

6 Shipments of gift fruit are made in many different types of packages. These
7 depend on the type of fruit -- variety, straight or mixed, or size -- type of package --
8 carton, basket, wrapped or tray -- and type of content -- plain fruit, fancy or deluxe
9 combination. For shipment, however, all packages are standardized in rectangular
10 cartons of corrugated or fiberboard.

11 Generally, the shipment of fresh fruit may be separated into eight size
12 categories: 7 lbs., 10 lbs., 13 lbs., 15-18 lbs., 20 lbs., 26 lbs., 35 lbs., and 44 lbs.

13 The average weight per package of shipments of Florida gift fruit is
14 approximately 25 lbs. About 56% of the packages are over 20 lbs., with the 26 lb.
15 package accounting for approximately 26% of the total.

1 IV. TRANSPORTATION OF GIFT FRUIT PACKAGES

2 Florida gift fruit packages are shipped from Florida to destinations throughout the
3 United States and Canada with some shipments to European destinations. Pricing by
4 each shipper is varied with no uniformity. Generally, there is a single price for a
5 particular size package, which price includes delivery to any destination east of the
6 Mississippi. There may be additional charges for destinations west of the river, on the
7 Pacific Coast, Europe, and Canada, but, as stated, the base transportation cost usually
8 is not separately stated in the pricing.

9 For many years, gift fruit packages were shipped from Florida direct to the
10 consumer via Railway Express and the successor R.E.A. Agency. The service
11 provided by rail deteriorated with the result that delivery time worsened and damage
12 claims increased, with a higher degree of customer dissatisfaction. The deterioration in
13 service was coupled with continuing increase in rates. These factors contributed
14 substantially to the necessity for the development of a substitute method of
15 transportation. From this, the Association sponsored and developed what has
16 become a very efficient truck program.

17 The truck program carried on by the Association for the benefit of its members
18 may be divided into essentially four components; the pickup, classification and sorting,
19 the line haul, and destination delivery.

20 The Association provides pickup service as a part of the truck program for
21 ninety-eight of the members of the Association. Pickup service is provided throughout
22 the citrus-growing areas of Florida, which essentially include all of Central and South
23 Florida. Pickup service is provided by over-the-road tractor-trailer units or trucks,

1 which are routed to each member as required. The shipper marks each package with a
2 route number designated by the Association. After pickup, all packages are delivered
3 to the terminal facility maintained by the Association in Orlando.

4 At the Orlando terminal facility, all packages are unloaded on a conveyer and
5 sorted by route number in approximately twenty-two bays in the building. Packages for
6 a particular route number may be accumulated within a bay until a sufficient number of
7 packages are received or they may be direct loaded onto a trailer for the line haul
8 portion of the movement.

9 As each parcel is sorted into a bay, it is placed on a scale to determine weight.
10 While on the scale, the operator keys in the zip code from the parcel address and
11 electronically scans the bar code on the parcel reflecting the member number. The
12 computer calculates the appropriate rate for the parcel based on the zip code and
13 weight. This would include rating for intra-BMC, inter-BMC or DBMC. This process
14 includes an automatic classification between non-machinable and machinable parcels.
15 The computer then generates a label to be affixed to the parcel, which would include a
16 bar code for the parcel identification number and identification as to whether the parcel
17 is a DBMC rate or a schedule 400 rate. A second label is affixed to each parcel
18 destined for delivery in Arizona, California or Texas to show that the parcel was
19 processed in accordance with agricultural requirements concerning fumigation.

20 From the scale, each parcel is either loaded directly into an out-bound trailer or
21 placed on the floor in a bay for later loading into the trailer. For the parcels loaded on
22 each trailer, a postal Form 8125 is prepared, along with a bill of lading.

23 Since the 1992-1993 season, the Association has participated with the Postal

1 Service in a program for the determination of postage, which is referred to as the plant
2 verified drop ship program. The Postal Service sends a team of inspectors to the
3 Association's office to inspect, review and approve the system utilized by the
4 Association in the determination of postage for the parcels handled through the
5 terminal. This inspection includes the computer hardware and software programs, the
6 rate schedule, and the quality control program designed to assure a correct
7 determination of postage. This entire system was reviewed and approved prior to the
8 beginning of the season and has been spot-checked by postal inspectors periodically
9 to verify the operation and the sufficiency of the quality control verification.

10 In lieu of a printed manifest, the Association provides to the Orlando SCF a
11 computer-generated floppy disk which reflects a manifest for each truck which has been
12 loaded that day. The disk includes: the manifest number, the date and the truck
13 number, and for each parcel, the parcel identification number, zip code, weight and
14 postage. The total amount of postage is paid by check which accompanies the floppy
15 disk.

16 Line haul transportation from the Orlando terminal to the point of destination
17 delivery is provided by over-the-road tractor-trailer units. Transportation from Orlando
18 to final destination city is a flat rate per trailer regardless of weight. Trailer loading
19 usually approximates 41,200 lbs. with an average of 1,603 packages per trailer. For the
20 1993-94 season, typical flat rates per trailer to destinations in various post office zones
21 are: Zone 5-\$1,010.00 to \$1,615.00; Zone E-\$1,510.00 to \$2,385.00. In addition,
22 there is a stopoff charge of \$30.00 for stops for partial unloading enroute. Partial
23 unloadings may be as many as six on a trip, but the average is less than three. As a

1 general rule, the minimum number of packages to establish a stopoff for partial
2 unloading is seventy-five.

3 Some of the larger shippers (members of the Association) have sufficient volume
4 to certain destinations, mainly during December, to enable them to ship direct to
5 destination delivery facilities. The procedure used by the individual shipper is similar to
6 that described for the Association. Direct shipment is desirable since it reduces the
7 costs of delivery, time in transit and the number of handlings.

8 Destination delivery in the U.S.A. is accomplished by USPS using fourth class
9 parcel post. For destinations outside of continental U.S.A., delivery is by priority mail,
10 except in Canada, where destination delivery is by Canada Post. European delivery is
11 made by various carriers.

12 Factors taken into consideration of the selection of destination delivery points are
13 to use the local zone rate, if possible, to avoid higher zone rates, to avoid the additional
14 handling involved in an inter-BMC movement and to expedite delivery time, and to meet
15 the operational requests of the Postal Service. Parcel post local zone is the preferred
16 objective in selecting destination distribution points, primarily as a result of the level of
17 rates and charges compared to alternative modes of delivery.

18 If Zone 1 and 2 rates apply, selection of the delivery carrier is determined by
19 several factors, including - service, unloading and rates.

20 During the season 1996-97, the total packages handled by the Association
21 terminal exceeded 1.2 million, including Canada.

22 Currently, the Association tenders parcels to a total of thirty-two postal facilities,
23 including all 21 BMC's. Selection of each postal facility for entry points to handle each

1 zip destination is made by the Office of Transportation Services of USPS after meetings
 2 with the Association. The Association cooperates with USPS by making drop
 3 shipments at entry points designated by USPS, even though the cost to the Association
 4 may be increased as a result. Parcels delivered to an SCF are for distribution to AC's
 5 serviced by the SCF or to other SCF's having a direct link. These parcels generally are
 6 not processed through a BMC₁ and avoid BMC handling cost and transportation cost
 7 from the BMC to the SCF. The BMC's, rather than SCF's, are used at the request of
 8 the Postal Service, because of diverse three digit zips served over a wide area. Parcels
 9 tendered to the BMC rather than the SCE avoid handling at the SCE and transportation
 10 to the BMC.

11 The rather complex system for delivery of parcels to the Postal Service at SCF's
 12 has been undertaken to expedite handling and delivery and to qualify for the lowest
 13 available rate.

14 Analysis of the gift fruit parcels for the 1996-97 season reveals volume by weight
 15 category as follows:

	<u>Size</u> <u>Package (lbs)</u>	<u>No. Pkgs.</u> <u>Shipped</u> <u>96-97 Season</u>	<u>Percentage</u>
16			
17			
18			
19			
20		(1)	
21	Under 7	141,548	11.03
22	8 - 10	69,612	5.42
23	11 - 15	299,146	23.31
24	16 - 18	47,490	3.70
25	19 - 21	75,892	5.91
26	22 - 29	333,106	25.96
27	30 - 37	88,743	6.91
28	38 and over	<u>227,860</u>	17.75
29			
30	Totals:	1,283,397	100.00
31			

1 (1) Excludes Canada
2

3 Each delivery of parcels to a postal facility will include a mix of packages
4 representing various weight categories. When given to the Postal Service at an SCF,
5 all parcels are handled in the same manner with no distinction as to machinability.
6 Actually, machinability is not a factor for most parcels, since at most SCF's sorting and
7 handling is manual rather than mechanical.

8

9

10 V. INTRA-BMC TRANSPORTATION COSTS

11 There is an obvious error in the distribution of intra-BMC highway service
12 purchased transportation costs.

13 Intra-BMC highway service costs are distributed on basis of intra-BMC cubic feet
14 miles. The final distribution key developed by TRACS for FY 1996 is stated separately
15 for each quarter. The average for the year for Standard A mail is 26.652%, for Intra-
16 BMC Parcel Post is 21.618% and for DBMC is 7.597%. The total cubic feet of Intra-
17 BMC and DBMC mail is 22,497,000 and 70,469,000, respectively. (LR-H-135) The total
18 cubic feet for Standard A for the year is 395,737,000 (LR-H-111). There is a major
19 inconsistency when the TRACS distribution key for Standard A is less than the total
20 distribution key for parcel post Intra-BMC and DBMC. It simply cannot be correct. The
21 total cubic feet of Standard A using intra-BMC transportation is more than 4.25 times
22 the total cubic feet of intra-BMC parcel post and DBMC. The final distribution key
23 should reflect the same relationship.

24 Similar inconsistencies appear to exist in the development of the distribution

1 keys for the other subclasses of fourth class mail, but the mail flow to establish the true
2 quantity of such sub-classes use of intra-BMC transportation cannot be determined
3 from the data available to me.

4 Since highway transportation costs are distributed on basis of cubic feet, the
5 cubic feet for each class of mail should be representative of the costs distribution.

6
7 Sampling under TRACS for intra-BMC is apportioned to 5 facility type strata:
8

9 BMC - destination 60%
10 SOF - into BMC 6%
11 Other - into BMC 2%
12 SCF - out from BMC 25%
13 other - out from BMC 5%

14 This sampling is heavily biased so that third class mail will not be reflected in a
15 representative manner. It is my understanding that most third class mail is either
16 deposited at a BMC or plant loaded. Very little third class mail originates at a SCF for
17 handling through a BMC. Thus, 70% of the TRACS sampling will not record any
18 significant part of the third class volume.

19 There are other serious deficiencies in the sampling procedures of TRACS since
20 the samples reflect that the DBMC volume is less than the intr-BMC parcel post volume.
21 Such is contrary to the volumes measured for each.

22 The evidenced non-representativeness of the TRACS sampling data results
23 in disproportionate distribution of intra-BMC highway transportation cost to parcel post.

24 The TRACS system calculates the cubic feet of included mail based on a
25 uniform factor based on the relationship between cube and weight for each class and
26 subclass. Application of the uniform factor for parcel post fails to account for the
27 degressive ratio of cube to weight, which is used in the distribution of transportation

1 cost within parcel post, but which is not used in the attribution of transportation cost to
2 parcel post. Failure to utilize this degressive ratio results in an over attribution of costs
3 to parcel post.

4

5

6 VI. COST OF EXCESS CAPACITY

7 It has been well established that attribution of costs for postal rate-making is to
8 be founded on a causal relationship with a class or subclass of mail.

9 For surface transportation costs USPS has and uses capacity in excess of
10 that needed for moving the mail.

11 The low utilization of the contracted for highway transportation for intra-BMC
12 and inter-BMC transportation demonstrates this excess capacity.

13 The costs of excess capacity are increasing. These costs have no causal
14 relationship to the mail being handled, but rather is the result of the management
15 decision to select and contract for excess capacity vehicles. This excess capacity is not
16 a one-time or isolated situation, but appears to be of a continuing nature.

17 The costs of highway transportation for intra-BMC and inter-BMC are attributed
18 by the Postal Service to the extent of more than 90%.

19 It appears that the management decision to maintain contracts for purchased
20 transportation to provide capacity far in excess of the need to transport mail results in
21 costs which are not caused by any class or subclass of mail and, therefore, should not
22 be classified as attributable costs, but rather should be a part of institutional costs.

23

1 VII. WEIGHT RELATED NONTRANSPORTATION HANDLING COSTS

2 The proposed rate structure for parcel post includes a two cents per pound factor
3 to cover weight related nontransportation handling costs.

4 However, there are no studies to identify or quantify the effect of weight on
5 handling costs, and no one has been able to identify any such costs. In the absence of
6 any study or knowledge, there can be no justification of the use of this factor in the rate
7 structure. All nontransportation handling costs should be recovered by the per piece
8 element of the rate.

9 This per pound element of the rate structure results in rates for a 30# parcel to
10 include 60 cents for unidentified, unquantified costs, whereas a 10# parcel would
11 include only 20 cents for such costs. There is not shown, or known, to be any
12 justification for this difference, based solely on the weight of the parcel.

13 There may be some costs, such as floor space and number of parcels in a
14 container or sack, which differ according to the size, or cube, of the parcels. Such costs
15 are determined by the size, or cube, of the parcel, rather than the weight of the parcel.
16 The relationship between weight and cube has been established for transportation
17 costs, and that same curvilinear relationship should be applied to apportion the weight
18 related nontransportation costs. Failure to use this relationship will result in
19 discriminatory treatment of the heavier parcels, charging those parcels with a greater
20 portion of the costs than can be justified.

21 VIII. ASSIGNMENT OF INSTITUTIONAL COSTS

22 For postal ratemaking purposes, institutional costs are those for which there is
23 no established causal relationship with any particular class or subclass of mail and

1 which are not variable with volume. These are in the nature of overhead expenses
2 which are incurred to maintain and operate the system.

3 Every piece of mail benefits from the system and the postage rate for every
4 piece of mail should include some amount in excess of its attributable cost as payment
5 for the benefit of participating in the system.

6 All mail does not equally benefit from the system, since some mail receives
7 varying degrees of preferred or expedited service, and other mail is subject to a
8 deferred or slower level of service. Fourth class parcel post is in the latter category.

9 Value of service, both to the mailer and the addressee, should be taken into
10 account, necessarily on a judgmental basis, in determining the amount to be paid by
11 each piece of mail toward the total of institutional costs.

12 The amount to be added to attributable cost to establish the rate may be referred
13 to as the "mark-up" for institutional costs. The total mark-up for all mail must be
14 sufficient, in total amount, to cover all such costs.

15 An appropriate starting point for the determination of the mark-up is a uniform
16 amount for each piece of mail. From there, appropriate adjustments should be made to
17 reflect the relative benefits from participating in the system, the value of service, and
18 the ratemaking criteria of the Postal Reorganization Act.

19 Since parcel post, and other fourth class mail, is subject to deferral in delivery
20 and also is handled by surface transportation, which is slower than air transportation,
21 each piece of such mail should have a mark-up of less than a piece of first class mail.

22 Weight should not be a factor in determining the mark-up or the amount to be
23 paid toward institutional costs. A 30 lb. parcel receives no greater benefit from the

1 system than does a 5 lb. parcel, and there should be no difference in the amount of the
2 mark-up.

3 In the past, assignment of institutional costs has been made by the application of
4 a mark-up percentage to attributable costs. Differences in the cost of handling and
5 processing each piece of mail are reflected in the amount of attributable cost for that
6 piece. Those differences should not be compounded by the application of a mark-up
7 percentage for institutional cost. There is no relevant relationship between attributable
8 costs and institutional costs.

9 Continued application of this methodology means that, if the Postal Service
10 becomes more efficient in handling and processing a particular type of mail, with the
11 resultant lower costs, then, due to the improved service, that type of mail will make a
12 lower contribution to institutional costs.

13 Such a consequence is inconsistent with reasonable assignment of the
14 institutional costs, which brought about the improved efficiencies and cost reductions.

15 For all mail, the amount of attributable transportation cost increases with
16 distance. However, only for zone-related mail is the difference separately attributed
17 based on zone destination. I find no justification for a piece of mail destined to Zone 8
18 having a larger mark-up amount than a piece of mail destined to Zone 4. The only
19 difference between the two is the transportation cost. Transportation costs are not
20 a part of the system of operating the Postal Service, but rather are services purchased
21 from independent providers outside of the Postal Service. Attributable costs resulting
22 from purchased transportation should not be included in the base against which the
23 mark-up is applied.

1 Preservation of parcel post as an integral part of the postal system is vital to all
2 parcel mailers.

3 The steady decline of parcel post volume was curtailed by the creation of the
4 DBMC rate in Docket No. R90-1. That has enabled the Postal Service to regain some
5 of the volume of parcels from business mailers, who had previously diverted parcel
6 volume to competitive delivery services. The recovery of volume, enabled by the
7 DBMC rate, has been gradual, but is essential to assist in restoring volume which is
8 necessary for efficient operation of the bulk mail system.

9 The factors which have justified low cost coverage for parcel post in prior rate
10 cases continue to apply. We urge the Commission to moderate the cost coverage for
11 parcel post in this case so that the recovery of volume, principally through utilization of
12 the DBMC rate, can have the opportunity for success.

13

1 CHAIRMAN GLEIMAN: Mr. Ball, have you had an
2 opportunity to examine the packages of what we call
3 designated written cross-examination, the written responses
4 that you previously provided?

5 THE WITNESS: Yes, sir; I have.

6 CHAIRMAN GLEIMAN: And if those questions were
7 asked of you today, would your answers be the same?

8 THE WITNESS: They would be the same.

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

14 [Designation of Written
15 Cross-Examination of Joseph E.
16 Ball, FGFSA-T-2, was received into
17 evidence and transcribed into the
18 record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS JOSEPH E. BALL
(FGFSA-T2)

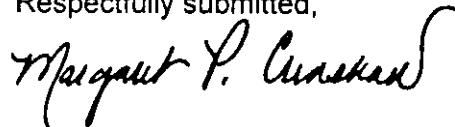
Party

United States Postal Service

Interrogatories

USPS/FGFSA-T2-1-8

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS JOSEPH E. BALL (T2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/FGFSA-T2-1
USPS/FGFSA-T2-2
USPS/FGFSA-T2-3
USPS/FGFSA-T2-4
USPS/FGFSA-T2-5
USPS/FGFSA-T2-6
USPS/FGFSA-T2-7
USPS/FGFSA-T2-8

Designating Parties:

USPS
USPS
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USPS/FGFSA-T2-1

Please refer to your discussion of the transportation or truck program sponsored by the FGFSA.

- a. On page 6 line 20, you describe the pickup service that is provided as part of the truck program. When your pickups are run, do your trucks operate full on each leg of their journey? If your answer is anything but an unqualified yes, please explain.
- b. On page 7 line 1, you state that trucks are routed "as required". Please describe what you mean by "as required". Are minimum volumes required to participate in the program? Who determines when volume is sufficient to constitute a pick up?
- c. Are any materials shipped from the terminal to customers, or do the shipments only move from the customers to the terminal?
- d. Are the rates described on page 8, lines 21-22, charged by the Association to the participants in the program, or are these rates charged to the Association by a third party trucking firm?
- e. Please confirm that the typical truck may serve as many as seven destinations (the final destination and "as many as six" (page 8, line 23) partial unloadings along the way). If you do not confirm, please explain.
- f. Please confirm the average number of destination is usually less than four ("less than three" (page 8, line 23) partial unloadings plus the final destination). If you do not confirm please explain.
- g. Have you studied the extent to which ECR Standard A mail is entered beyond the BMC? If so what are the results of your research?

ANSWER

- a. Trucks are generally empty on the outbound leg. However, occasionally, we will carry a load of foam rubber packing material or other supplies to our members.
- b. Trucks are routed as member volume requires. We seek to optimize volume by selective pickup based upon volume. We request a minimum volume of 15 parcels. The Transportation Committee determines the minimum, based on stop costs.
- c. See a above.
- d. These are the rates charged to the Association by third party carriers.
- e. confirmed.
- f. confirmed.
- g. No.

USPS/FGFSA-T2-2

Please refer to your discussion of Standard A and parcel post volumes on page 11 of your testimony.

- a. Please describe and provide the derivation of the average "distribution key" for Standard A mail of 26.652%. Please confirm whether this figure includes Nonprofit Standard A mail. Please confirm whether this figure includes ECR Standard A mail.
- b. Please describe and provide the derivation of the average "distribution key" for Intra-BMC parcel post of 21.618%.
- c. Please describe and provide the derivation of the average "distribution key" for DBMC parcel post of 7.597%.
- d. Is it your understanding that the distribution factors listed in parts a through c are based on cubic feet or on cubic foot-miles?
- e. Have you studied the extent to which ECR Standard A mail is entered beyond the BMC? If so what are the results of your research?

ANSWER

- a. TRACS material in USPS-LR-H-82 and 84
- b. Same as a
- c. same as a
- d. I understand that TRACS develops the distribution key on the basis of cubic foot miles.
- e. No.

USPS/FGFSA-T2-3

On page 11-12 of your testimony, you state that "inconsistencies appear to exist in the development of distribution keys for other subclasses of fourth-class mail, but the mail flow to establish the true quantity of such sub-classes (sic) use of intra-BMC transportation cannot be determined from the data available to me."

- a. Please specify the data that you considered in making this conclusion.
- b. Please explain, how, in the absence of data that you consider to be appropriate, you can draw conclusions about mail flows.
- c. Is it your testimony that the commission should make decisions on cost distributions based on speculation regarding the magnitude of mail flows?

ANSWER

- a. CRA - Statistics by Class of Mail
- b. The distribution keys for purchased highway transportation do not reflect the relative volume of mail in each sub-class.
- c. No.

USPS/FGFSA-T2-4

Please refer to page 12, lines 4-5 of your testimony.

- a. By "highway transportation costs", are you referring to all highway transportation, not just intra-BMC?
- b. If the answer to (a) is yes, please provide a source for the assertion that intra-BMC, inter-BMC and inter-SCF transportation distribution are based on cubic feet.

ANSWER

- a. It is my understanding that some highway transportation costs are distributed on the basis of cubic feet, and others on the basis of cubic foot miles.
- b. Not applicable.

USPS/FGFSA-T2-5

Please explain what you mean by the statement: "This sampling is heavily biased . . ." at page 12, line 14 of your testimony.

ANSWER

Standard A mail has a high incidence of drop shipping to utilize various discounts, and the volume into the BMC would be significantly less than the volume out from the BMC. Since the samples are taken 70% on the inbound movement, this would result in the bias I refer to in my testimony.

11379

USPS/FGFSA-T2-6

In your opinion does a "biased sample" lead to biased estimates? Please explain.

ANSWER

The bias in the sampling process will result in bias in the results.

USPS/FGFSA-T2-7

On page 12, lines 17-18 of your testimony, you state: "Thus, 70% of the TRACS sampling will not record any significant part of the third class volume." Please describe and provide the derivation of this 70% figure.

ANSWER

TRACS sampling percentages - 70% inbound and 30% outbound. See USPS-LR-H-82, which I understand provides this information.

USPS/FGFSA-T2-B

On page 13, lines 7-8 of your testimony, you state that the "USPS has and uses capacity in excess of that needed for moving mail."

- a. Please describe what you regard as the amount of capacity "needed for moving the mail."
- b. Is this statement based on your understanding of the amount of empty space measured in TRACS tests? If not, please explain the basis for your statement.

ANSWER

- a. The capacity to handle the average volume on the heaviest portion of the trip. Peak volumes could be handled by extra trips, probably at lower total cost.
- b. Yes, but is also based on my personal observations of unloading of vehicles at Postal Service facilities.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for Witness Ball?

3 MR. McKEEVER: Mr. Chairman, John McKeever for
4 United Parcel Service. Mr. Wells was kind enough yesterday
5 to give me a copy of some answers of Mr. Ball that were
6 filed I think the day before yesterday, and I believe one of
7 those which we would like to have in the record is not in
8 the pack of designated written cross. It's Mr. Ball's
9 answer to Interrogatory UPS/FGFSA-T-2-2, and I would like to
10 add that to the record today.

11 CHAIRMAN GLEIMAN: If you'd please approach the
12 witness and let him review the responses for a moment.

13 CROSS-EXAMINATION

14 BY MR. McKEEVER:

15 Q Mr. Ball, I just handed you a copy of your
16 response to Interrogatory UPS/FGFSA-T-2-2. If that question
17 were asked of you today, would your answer be the same as
18 reflected in what I just handed you?

19 A Yes, sir; it would.

20 MR. McKEEVER: Mr. Chairman, I have two copies to
21 supply to the court reporter, and I ask that Mr. Ball's
22 answer to Interrogatory UPS/FGFSA-T-2-2 be admitted into
23 evidence as additional written cross-examination of Mr.
24 Ball.

25 CHAIRMAN GLEIMAN: If you could provide those

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1 copies to the reporter, I'll direct that they be accepted
2 into evidence and transcribed into the record at this point.

3 [Additional Designation of Written
4 Cross-Examination of Joseph E.
5 Ball, FGFSA-T-2, was received into
6 evidence and transcribed into the
7 record.]

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UPS/FGFSA-T2-2

Refer to page 7 of FGFSA-T-2 regarding calculation of the appropriate rate for a parcel based on zip code. Is the Association able, at its choice, to designate any post office within the BMC area as the entry post office for purposes of determining the origin zip code, even though the parcel is dropped at the BMC, or does the Postal Service require that the BMC (or some other facility designated by the Postal Service) be treated as the entry office for purposes of determining the origin zip code for rate purposes? Please explain your answer.

ANSWER

The designated parent post office for each BMC is used as the entry post office for all parcels unloaded at the BMC

1 CHAIRMAN GLEIMAN: Anyone else have additional
2 written cross-examination?

3 There doesn't appear to be anyone else. That
4 brings us to oral cross. I'm going to wait for the paper to
5 catch up with the record.

6 One participant requested oral cross-examination
7 of Witness Ball, the United States Postal Service. Does any
8 other party wish to cross-examine this witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, then Ms. Reynolds, when
11 you're ready, you may begin.

12 MS. REYNOLDS: Thanks, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MS. REYNOLDS:

15 Q Good morning, Mr. Ball.

16 A Good morning.

17 Q First of all I'd like to refer you to your
18 testimony at page 11, beginning at line 13.

19 A Yes.

20 Q And at the same time your response to
21 Interrogatory No. 2 from the Postal Service.

22 A T-2-2?

23 Q Yes. Okay. That interrogatory, Parts A through
24 C, asked for you to provide the source for the figures
25 26.652 percent, which appears on line 15 of your testimony

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1 at page 11. Also, 21.618 percent. And Part C asked about
2 the 7.597 percent figures, which each appear on line 16 of
3 page 11.

4 A Yes.

5 Q And your response was that those figures came from
6 TRACS material in Postal Service Library References LRH-82
7 and 84.

8 A That's correct.

9 Q I was wondering if you could provide us with some
10 more specifics as to how you calculated those figures.

11 A I'm sorry, Ms. Reynolds, I cannot. This was
12 actually furnished to me by a consultant who analyzed those
13 TRACS reports, and I simply took his figures and put them
14 into my response.

15 Q Okay. Is this consultant your -- the expert --
16 Dr. Merewitz?

17 A Yes.

18 Q Okay. If I could refer you now to your response
19 to USPS No. 8.

20 A Yes.

21 Q In preparing your testimony, did you read the
22 testimony of postal operations experts from prior cases? I
23 am referring specifically to James Orlando, from R80 or R84.

24 A No, I did not.

25 Q So you would not know that he testified regarding

1 the efficient procurement of transportation and how that is
2 consistent with unused capacity, is that correct?

3 A I would not be familiar with that, no.

4 Q In your response to Interrogatory No. 8 from the
5 Postal Service, you indicate in your answer to Part A that
6 peak volumes could be handled by extra trips.

7 A Yes.

8 Q Is it your understanding that they are?

9 A No, it is not my understanding that they are. My
10 response to this is a response from private industry. It is
11 what we -- it is what private industry would do if we were
12 running that transportation system. We would plan our
13 transportation, our average daily transportation, based on
14 average daily volume, not on peak annual volume. When peaks
15 occurred, we would contract out or arrange some different
16 way to handle peak volume with specific -- specific trips.

17 Q Have you analyzed the point at which it becomes
18 more economical from the Postal Service's standpoint to add
19 an extra trip, rather than obtaining a larger vehicle?

20 A No, I have not.

21 Q I am going to walk you through a short
22 hypothetical.

23 A Right.

24 Q I hope it ends up being as short as I intend it to
25 be. I would like to look at a contract that runs from the

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1 BMC to the SCF and then back to the BMC. Now, let's suppose
2 that 90 percent of the mail that travels on this contract
3 goes from the BMC to the SCF and 10 percent goes from the
4 SCF to the BMC. Now, let's suppose we sample the BMC to the
5 SCF leg using 30 percent of our samples, and the trip back
6 from the SCF to the BMC using 70 percent of our samples.

7 Now, is your testimony that this would impart a
8 biased estimate on the mail in the whole contract?

9 A Yes, that is my testimony, and I would further
10 back that up by asking you to look at the results of the
11 TRACS system shown on page 11 of my original testimony. The
12 results show that the average for Standard A mail is 26
13 percent and the sum of the other two is a little over 29
14 percent, yet the volumes are clearly in a different ratio,
15 about 4 to 1 Standard A versus Standard B. So, I would say
16 that that is evidence in itself that there is something
17 wrong with the TRACS system.

18 Q So, basically, just to paraphrase what you are
19 saying, is that the mail on the BMC to the SCF, or the
20 outbound leg, would be under-represented and understated in
21 the final estimate?

22 A Yes, I would say so. And I just think -- I'll
23 just say, again, that the results bear out my suggestion
24 that there is something wrong somewhere. It is very likely
25 that it is in the sampling system. It could be somewhere

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1 else. In my view, it is in the sampling system. But the
2 results definitely show that there is something wrong.

3 Q Well, let's look at the 30 percent sample that is
4 going from the SCF -- no, that is going from the BMC to the
5 SCF. Now, suppose we take that 30 percent sample and we
6 inflate it by a factor of a third, 3.33, and suppose we
7 inflate the 70 percent sample by 100 over 70, which is 1.43.
8 Would this weighting compensate for the sample disparity?

9 A I don't know. I am familiar with what you are
10 saying, we are adding a weight factor to the sampling
11 process to try to even it out. My answer would be that, in
12 spite of that weighting factor, there is something wrong
13 when one category of mail that is 26.6 percent of cubic
14 footage and another category of mail that is about 29
15 percent is totally represented differently in the analysis
16 of the TRACS system. So there's -- the weighting,
17 obviously, is not doing the job.

18 Q Let me refer you quickly to your response to
19 Postal Service Interrogatory No. 1.

20 A Yes.

21 Q And I am just confused about one of your
22 responses. Your response to A, this is talking about your
23 truck program.

24 A Yes.

25 Q That is run by the Gift Fruit Shippers. When your

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1 pick-ups are run -- the question was, When the pick-ups are
2 run, do the trucks operate full on each leg of the journey?
3 And you responded that they are generally empty on the
4 outbound leg. By that response, do you mean that they are
5 generally full on the other legs?

6 A Yes, that is correct. And I would add to that as
7 we cost our pick-up, we cost on the entire round-trip of the
8 load, not on each leg of the load, and that, I think, is one
9 of the errors in the TRACS system, it tries to cost each leg
10 separately.

11 Q If I could refer you to your response to
12 Interrogatory 3 from the Postal Service.

13 A Yes.

14 Q In your response to Part A, you indicate that the
15 data you considered in making the statement in your
16 testimony that inconsistencies appear to exist in the
17 development of distribution keys, you indicate that the data
18 you considered was the CRA. Is that the 1996 CRA?

19 A I don't know, Ms. Reynolds. Once again, these
20 figures were given to me by our consultant. I believe that
21 they were the 1996 figures, but I can't state that with
22 certainty.

23 Q Okay. And that is Dr. Merewitz?

24 A Yes.

25 Q And your response to Part B, you indicate that the

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1 distribution keys for purchased highway transportation do
2 not reflect the relative volume of mail in each subclass.
3 Is it your opinion then that the distribution keys should
4 reflect the relative volumes?

5 A It is my opinion that the distribution keys should
6 reflect the relative volumes. I think I would refer you to
7 page 12 of my testimony where I think the most important
8 statement I made in the entire testimony is on lines 4 and
9 5, and I'll just quote that. "Since highway transportation
10 costs are distributed on a basis of cubic feet, the cubic
11 feet for each class of mail should be representative of the
12 cost distribution."

13 Q So you are advocating the use of relative volumes
14 rather than distribution keys?

15 A Well, I think distribution keys are useful, but I
16 think the fact that the relative volume of Standard A mail
17 versus Standard B mail, as indicated in CRA, is in variance
18 with the cost based on distribution keys from TRACS.

19 MS. REYNOLDS: All right. Thank you. I've got
20 nothing further.

21 CHAIRMAN GLEIMAN: Is there any follow-up cross
22 examination? Do the Commissioners have any questions for
23 the witness?

24 [No response.]

25 CHAIRMAN GLEIMAN: I just have one question. You

1 were asked by Ms. Reynolds whether you had reviewed
2 testimony of an operations expert, I think she characterized
3 him as, a Mr. Orlando who presented testimony in the R-80
4 and R-84 rate cases concerning, as I recall, the efficient
5 procurement of transportation.

6 I have not reviewed that material, either, but I
7 am kind of curious. Do you have a sense of whether much has
8 changed in the transportation industry since 1980 or 1984 in
9 the way people go about designing and procuring -- purchase
10 transportation? I'm just kind of curious. I can't believe
11 things have been static for 14 or 18 years. Do you have any
12 sense of changes that may have taken place?

13 THE WITNESS: It's curious to me that within the
14 Postal Service, there are apparently no changes because the
15 relative amount of transportation that's purchased is still
16 about the same or slightly increased even in spite of the
17 enormous amount of drop shipping that's occurred by private
18 industry. To me, that's a curiosity. I don't have the
19 answer to that.

20 On the other part, changes -- consolidation is
21 occurring in the transportation industry. A lot of the
22 smaller independents are being squeezed by efficiencies in
23 larger companies. Consolidation is occurring in the parcel
24 shipping industry. There's more incentive, and this case
25 itself offers still more incentive for people to consolidate

1 more of their packages.

2 Beyond that, I don't think of any other changes
3 that I would cite.

4 CHAIRMAN GLEIMAN: Thank you.

5 Commissioner LeBlanc has a question, I believe.

6 COMMISSIONER LeBLANC: Mr. Ball, how are you doing
7 again?

8 THE WITNESS: Wonderful.

9 COMMISSIONER LeBLANC: Good.

10 THE WITNESS: How are you, sir?

11 COMMISSIONER LeBLANC: Fine, thank you.

12 I wasn't really going to ask this question, but I
13 guess maybe I need to get it clarified. You seem to be
14 saying in your testimony the transportation cost should not
15 have the markup applied to it.

16 THE WITNESS: I'm saying that the markup should
17 not be applied on the basis of transportation cost.

18 COMMISSIONER LeBLANC: But that's a little bit
19 different than the way I said it.

20 THE WITNESS: Yes, sir, it is.

21 COMMISSIONER LeBLANC: So I just want to make sure
22 that that's what you're trying to say.

23 THE WITNESS: That's exactly what I'm trying to
24 say.

25 COMMISSIONER LeBLANC: Okay.

1 THE WITNESS: I'm saying that if you have a -- if
2 this is a package right here and this package weighs ten
3 pounds and it's mailed within Zone 1, and I have an
4 identical package in every respect that's mailed to Zone 8,
5 the postage for Zone 8 is higher than the postage for Zone
6 1. I'm saying that I don't think the markup for these two
7 identical packages should be different. I think the markup
8 should be the same because I think the Postmaster General's
9 time that he has allocated to these two packages that are
10 identical in every respect is the same. I'm using the
11 Postmaster General's time as an indication of institutional
12 costs or markup.

13 COMMISSIONER LeBLANC: Well, then that gets me to
14 the next question, then. You also seemed to indicate the
15 institutional costs should be assigned on a per-piece basis
16 also. That's kind of along the lines of what you're saying
17 there.

18 THE WITNESS: Yes.

19 COMMISSIONER LeBLANC: All right. But now how
20 would you -- do you have any suggestions or ideas since you
21 seemingly are not sold on the track system as to how we can
22 do that?

23 THE WITNESS: I think you could establish a
24 uniform markup for each piece of mail, and don't base that
25 markup on the overall postage for that piece of mail; base

1 it on the characteristics of that piece of mail,
2 characteristics such as level of service, weight and cube,
3 but not on overall postage or purchase highway
4 transportation costs used to deliver this piece of mail.

5 COMMISSIONER LeBLANC: You are aware that there's
6 some argument as to what is a parcel, what is a flat, what
7 is the size, what is the girth, what is -- of everything.

8 THE WITNESS: Yes, sir, I am, but I will tell you
9 that I don't think that argument extends to packages with
10 round oranges from Florida in it. I think everyone knows
11 those aren't flats.

12 COMMISSIONER LeBLANC: Last question would be,
13 then, what about the weight of those oranges? If you're
14 going to do it on a per-piece basis, the heavier weight
15 piece should be assigned a heavier burden?

16 THE WITNESS: I don't think so, Mr. LeBlanc. As I
17 indicated earlier, I think that the institutional overhead
18 for each piece -- if I did say weight earlier, I misspoke,
19 and I apologize. But I think that the amount of the
20 Postmaster General's time for two packages within the same
21 category is about the same. It may be different for an
22 Express Mail package than it is from a deferred class of
23 mail or some other class of mail, but as far as packages
24 within class, I think the institutional support for those
25 packages is the same, should be the same.

1 COMMISSIONER LeBLANC: Let me go back, then, and
2 take your example a minute ago. If you've got a 70-pound
3 package that goes to Zone 1, you've got a 70-pound package
4 that goes to Zone 8, they should have the same markup?

5 THE WITNESS: Yes, sir, I do. I think they should
6 have.

7 COMMISSIONER LeBLANC: So weight does not come in
8 play in --

9 THE WITNESS: No, sir.

10 COMMISSIONER LeBLANC: -- your scenario at all?
11 And it doesn't matter to what zone.

12 THE WITNESS: It doesn't matter to what zone, no
13 sir.

14 COMMISSIONER LeBLANC: Okay. Thank you very much.

15 THE WITNESS: Yes, sir.

16 COMMISSIONER LeBLANC: Thank you, Mr. Chairman.

17 CHAIRMAN GLEIMAN: Does any participant have
18 follow-up cross examination as a result of the questions
19 from the bench?

20 [No response.]

21 CHAIRMAN GLEIMAN: That brings us to redirect.

22 Mr. Wells, would you like a few moments with your witness?

23 MR. WELLIS: I need one minute.

24 CHAIRMAN GLEIMAN: Well, you can have one or a
25 little bit more, if you want it.

1 [Off the record.]

2 CHAIRMAN GLEIMAN: Mr. Wells.

3 MR. WELLS: Thank you, Mr. Chairman.

4 REDIRECT EXAMINATION

5 BY MR. WELLS:

6 Q Mr. Ball, in response to a question from Ms.
7 Reynolds, I believe that you perhaps gave a false impression
8 as to whether or not on your in-bound -- your pick-up trips,
9 whether the trucks were entirely full on the entire in-bound
10 trip. You do make partial loadings at various members'
11 stops, do you not?

12 A Yes, sir, that is correct. For example, our Miami
13 leg, the truck starts at our most distant member, who
14 probably has already bed-loaded his packages or her packages
15 on the truck, and then the truck starts a pedal run to
16 Orlando, and when the truck is filled, then we go ahead and
17 pull him in. But until he's filled, he has additional
18 stops.

19 Q So it is not full for the entire --

20 A That's correct.

21 Q -- in-bound run?

22 A That is correct.

23 MR. WELLS: Mr. Chairman, I just needed to clarify
24 that one point so there wouldn't be a misconception in the
25 record.

1 CHAIRMAN GLEIMAN: Did redirect generate any
2 further cross?

3 [No response.]

4 CHAIRMAN GLEIMAN: That being the case, I want to
5 thank you, Mr. Ball. We appreciate your appearance here
6 today and your contributions to the record, and if there is
7 nothing further, you're excused.

8 THE WITNESS: Thank you, sir.

9 [Witness excused.]

10 CHAIRMAN GLEIMAN: Mr. Wells, you can call your
11 last witness for today.

12 MR. WELLS: I call Mr. Merewitz.

13 Whereupon,

14 LEONARD MEREWITZ,
15 a witness, was called for examination by counsel for the
16 Florida Gift Fruit Shippers Association and, having been
17 first duly sworn, was examined and testified as follows:

18 CHAIRMAN GLEIMAN: Before you begin, Mr. Wells,
19 just let me refresh everybody's memory. The Postal Service
20 has filed a motion to strike the testimony of Mr. Merewitz.
21 Over the past several weeks, counsel had been working to
22 resolve the problems that led the Postal Service to file
23 this motion, and I have agreed to defer ruling on the motion
24 in the hopes that the parties can successfully resolve this
25 dispute.

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1 AS I recall from yesterday afternoon, the hope is
2 that with cross examination today, outstanding problems,
3 concerns the Postal Service has can be resolved. We're
4 going to receive testimony this morning from the witness
5 subject to the pending motion. The dispute cannot remain
6 pending indefinitely.

7 Ms. Duchek, if you feel necessary to request that
8 all or part of Witness Merewitz' testimony be stricken, I
9 want you to file a supplemental written document by close of
10 business this Friday, the 20th.

11 If your remaining concerns are applicable to a
12 limited portion of the testimony, I would expect that you
13 would provide a statement identifying the specific pages and
14 lines that continue to concern the Postal Service or that
15 the Service continues to find objectionable, and answers
16 would be due on or before Friday, February the 27th should
17 such a motion be filed this coming Friday.

18 Are we all clear on the procedures at this point?

19 MS. DUCHEK: Yes, Mr. Chairman. Let me try and
20 explain where we are at this point because that may be
21 helpful.

22 We are still negotiating over various things. We
23 discovered yesterday afternoon that there were still three
24 files that we had not been provided. Mr. Wells e-mailed
25 those to the Postal Service after close of business

1 yesterday. We have been able to determine this morning
2 we've got no problems with two of those files. One was a
3 file that was obsolete; another my understanding was the
4 corrected file for that. There's a third file that contains
5 nine spreadsheets. We have not been able to review all of
6 those spreadsheets yet. There are a few of them we're still
7 looking at, and as of right now, we don't fully understand
8 them. With further review, we're hopeful that we will.

9 We have a little bit of a concern that we may not
10 understand them and may want to have some further questions
11 of Dr. Merewitz in order to understand them. Once we did
12 that, then presumably we would think that we're aiming
13 towards withdrawing the motion to strike.

14 Mr. Wells stated that he would be in town through
15 next Wednesday and said that once we got back and examined
16 this additional file, any remaining questions that we had
17 about it, we could talk to him about and either, you know,
18 file written questions or maybe have them resolved somehow
19 informally.

20 So that's where we are on things. I will try to
21 meet the deadline tomorrow, although I'm not -- frankly, I'm
22 not quite sure we can.

23 CHAIRMAN GLEIMAN: Well, given what you have said
24 about the timing, the continued questions and Mr. Wells'
25 continued and usual cooperation on matters like this,

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1 perhaps the most prudent thing to do, if Mr. Wells is
2 agreeable, is to change that date that I set to close of
3 business next Wednesday, the 25th, and then should a motion
4 be filed continuing the objections and to strike, then at
5 that point you'll have an opportunity to respond.

6 MR. WELLS: That would be fine. That would be
7 consistent with what we've talked about.

8 MS. DUCHEK: That's fine with the Postal Service,
9 Mr. Chairman. Thank you.

10 CHAIRMAN GLEIMAN: Then the date we're looking at
11 now is the 25th, and we will wait until the 25th before we
12 establish an answer date. Hopefully we won't have to worry
13 bout any answers having to be filed.

14 Mr. Wiggins, you should not be so embarrassed
15 about having to fax responses to the Postal Service. It's
16 obvious that people are e-mailing and faxing. Quite
17 frankly, while sometimes it seems inconsistent with, you
18 know, our raison d'etre, which is to ensure a viable Postal
19 Service for all of us in the future, it's obvious that some
20 of these new technologies help us all resolve matters more
21 quickly. So I think we use the tools we need, and none of
22 us should feel any embarrassment as long as we're furthering
23 the ultimate goal here.

24 If you would proceed, Mr Wells, with Dr. Merewitz'
25 testimony at this point.

1 DIRECT EXAMINATION

2 BY MR. WELLS:

3 Q Would you state your full name for the record,
4 please?

5 A Leonard Merewitz.

6 Q Mr. Merewitz, I hand you a copy of a document
7 entitled FGSAT-1, the testimony of Leonard Merewitz, revised
8 per errata on behalf of Florida Gift Fruit Shippers
9 Association, and ask you if this was prepared by you or
10 under your direction and supervision.

11 A Yes, it was.

12 Q And does this document include all of the pages
13 that were identified in the original and in the second
14 notice of errata?

15 A Yes, it does.

16 Q At the time of preparing the second notice of
17 errata, was there a -- did the computer insert some language
18 that caused a couple of lines to be dropped and not
19 reproduced?20 A Yes, I believe because of our adding the footnote
21 on one page, two lines were then shifted to the next page
22 and not -- I didn't realize this until very recently, last
23 night in fact, so I provided an extra -- inserted page 25A
24 so the record would be complete.

25 Q That is included in the document that you have now

1 identified?

2 A Yes, it is.

3 Q And do you now adopt this as your direct testimony
4 on behalf of Florida Gift Fruit Shippers Association?

5 A I do.

6 MR. WELLS: Mr. Chairman, I would hand two copies
7 to the reporter and ask that this be received as the
8 testimony of Leonard Merewitz subject, of course, to the
9 pending motion that may or may not be withdrawn.

10 CHAIRMAN GLEIMAN: Are there any objections?

11 MS. DUCHEK: No objections, Mr. Chairman. I just
12 have a question about Mr. Wells' last statement that there's
13 this page 25A. I don't think that was sent to us in the
14 materials that we got on Monday. If I could just have a
15 copy of that page. I understand what you're saying -- it
16 just shifted a couple of lines.

17 CHAIRMAN GLEIMAN: Hearing no objections, the
18 corrected testimony and exhibits of Witness Merewitz are
19 received into evidence, and I direct that they be
20 transcribed into the record at this point.

21 [Direct Testimony and Exhibits of
22 Leonard Merewitz, FGFSA-T-1, was
23 received into evidence and
24 transcribed into the record.]

.25

FGFSA-T-1

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

POSTAL RATE AND FEE CHANGES, 1997 DOCKET NO. R97-1

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

TESTIMONY
OF
LEONARD MEREWITZ
(Revised per errata)

In Behalf Of
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

Maxwell W. Wells, jr.
Maxwell W. Wells, Jr., P.A.
P. O. Box 3628
Orlando, FL 32802

January 26, 1998

1 I. Qualifications

2 My name is Leonard Merewitz. I am a Principal in LAMA Consulting and have testified
3 before this commission four times before: in R80-1, and R84-1, on behalf of USPS and direct and
4 rebuttal testimony for the National Association of Presort Mailers in MC95-1. In this testimony the
5 Florida Gift Fruit Shippers Association asked me to do studies on purchased transportation and its
6 distribution over classes and subclasses of mail.

7 My education in economics was at Harvard College where I received a Bachelor of Arts
8 degree magna cum laude in 1964 and at University of California at Berkeley where I received the
9 Ph.D. in 1969. I began teaching as an Acting Assistant Professor at the same University in 1968 and
10 remained as assistant professor at what is now the Haas School of Business Administration at
11 Berkeley. I taught quantitative methods and transportation there until 1975 when I moved to the
12 Motor Vehicle Manufacturers Association of the US (Now American Automobile Manufacturers
13 Association) in Detroit. There I did research on autos and trucks and their regulation. In 1976, I
14 moved to become Director of Transportation Studies at J. W. Wilson Associates in Washington. I
15 joined the federal government in 1977 as a Senior Economist at the National Transportation Policy
16 Study Commission, a temporary agency composed of Congressmen, Senators and members of the
17 public who hired a staff to do studies and write a Report.

18 In 1979 the Postal Service hired me as Special Assistant to the Senior Assistant Postmaster
19 General-Finance I remained at the PS as a member of Postal Career Executive Service from 1979
20 until 1986. At that time I joined the PRC as Special Assistant to Commission Crutcher and Staff
21 Assistant. In late 1993, I left the US government's employ and I started LAMA Consulting in 1995.
22 Between 1994 and 1996 I had affiliations with Jack Faucett Associates, Symbiotic Technologies and

1 Whitfield Russell Associates and participated in a trucking privatization project in Ukraine in 1994.
2 I have published three books and about 17 articles in referred journals or books including two in a
3 series on postal matters edited by Professors Crew and Kleindorfer and published by Kluwer
4 Academic Publishers in 1993 and 1997. I have been a member of the Transportation Research Forum
5 since 1970. In addition to postal testimony, I have entered expert witness testimony before the South
6 Dakota, North Dakota, and Montana Public Utility Commissions and the Superior Court of Alameda
7 County, California. I am a member of Phi Beta Kappa, the Transportation Research Forum, the
8 American Economics Association and the National Economists Club.

9 The purpose of my testimony is to review the work of Bradley USPS T-13 on attribution of
10 purchased highway transportation costs. I then review the TRACS system of Price Waterhouse
11 sponsored by witness Nieto USPS T-16. I evaluate methods of allocating attributable costs and
12 suggest one of my own. I then review some of the special economics relating to transportation. These
13 principles help us articulate criteria for judging cost allocation methods. From the errors of theory
14 and data we find in TRACS. We find that we are unable to derive a distribution key for highway
15 purchased transportation. In course of making these points we voice some opinions on the methods
16 of TRACS, unfortunately many negative..

1 II. What Purchased Transportation Do We Study?

2 The Florida Gift Fruit Shippers Association asked me to study purchased transportation over the
3 period 1988 to 1996, concentrating on highway transportation and the TRACS system.

4

5 A. The PS purchased some \$3,730 million worth of transportation in FY 1996. Air, rail and
6 water accounted for \$1,538 million. Highway in total was almost exactly half the purchased transport
7 budget at \$1,540 million. Of this \$1540 million, IntraBMC was about \$260 and InterBMC was about
8 \$230 million. Source: Comprehensive Statement on Postal Operations p.20 (1996).

9 We have provided an Exhibit on recent history of Inter and Intra BMC purchased transportation.

10 That is Exhib LAM-1.

11 Since parcel post is nonpreferential mail, and part of Standard (B) it uses (when Inter BMC and in
12 certain other circumstances) the nonpreferential transportation system which uses the BMC's as hubs.

13 It is collected from Associate Offices (AO's) to the extent it is entered there and then shipped to the
14 rest of the country by InterBMC transportation. From there it is distributed to SCF's and AO's
15 in their distribution area.

16

17

18 B. Bradley's regression analysis.

1 Professor Bradley describes an elaborate model. Much in it is correct and much is clever.
2 A "scrub" is a logical term for data editing. Unfortunately the theoretical basis of the model is weak.
3 He would not disagree that measurement without theory is a poor methodology. His main
4 independent variable appears to be output but in the final analysis what he has measured is capacity
5 and not volume. There is a close fit of cost to cubic foot-miles CFM of capacity. There is no
6 showing of a close fit to volume variations, a necessary condition to infer "variability" or attribution.
7 Attributable costs are those costs demonstrably related to volume. see Lib. Ref. H-1.

8 Prof. Bradley has foisted on this Commission a very clever little trick. He correlates container
9 capacity required and container cost. That is a theoretical relationship. His good fits are deceptive.
10 That is like a correlation between plant size and expected output. Industrial cost analysis focuses on
11 cost per actual unit of eventuated output. Actual output is a random variable and as such is
12 stochastic. High costs may eventuate from bad planning. In Bradley's model bad planning can never
13 show. He never discusses actual output, discussing instead ceiling output whether he mentions it up-
14 front or not. The history of capacity utilization as recounted in my Exhibit LAM-10 shows that
15 capacity is a poor measure of true output or throughput. Effective management in transportation is
16 not achieved by simply contracting for capacity. Developing good load factors is the key to that
17 business as it is in the airline business which is well-known to consumers. Entrepreneurs go to great
18 lengths to favorably affect their load factors.

1 Exhibit LAM-6 through LAM-8 show the impact of drop-ship rules new in 1991 and rates
2 in third-class and Standard (A) on the traffic in the two accounts of purchased transportation which
3 we study. Basically, the conclusion is that traffic is down while expenditures on transportation are
4 up. Traffic is down because mailers, especially Standard (A) mailers are taking advantage of work
5 sharing opportunities and doing more of their own transportation.

6 The top panel of LAM-6 is a summary showing a 12.1 percent drop in Standard (A) traffic
7 between 1991 and 1996 and a 18.5% increase in Standard (B) traffic. Since Standard (A) is a bigger
8 class in volume -- 12% of the larger group is greater than 18.5% of Standard (B).

9 Panel 2 concerns Standard (A) regular and shows that mail subject to nationwide entry or BMC
10 entry¹ was 41.8 billion in 1991 and is only 36.9 billion in 1996. The change in workload measured
11 by pieces is a -11.6 percent. When those pieces are converted to pounds the decrease goes to 13
12 percent. The second part of Panel B shows that Stand(A) nonprofit workload declined by 5.8 %
13 whereas pieces declined more.

14 Panel 3 (p. 2) concerns Standard (B). Here we have largely natural growth taking place with
15 one exception. There has been considerable work sharing proceeding apace in the rate category of
16 Destination-BMC parcel post. This phenomenon substitutes for Inter BMC transportation but not
17 for Intra BMC. Destination BMC parcels still require transportation to their destination SCF's and

¹This mail is "mail not drop-shipped beyond [i.e. deeper into the system than] the BMC."

1 AO's. Our solution is to claim one half the saved pounds as a workload saving since these two
2 accounts (intra BMC and inter BMC) are roughly equal in magnitude. Line 8 shows the full savings
3 and line 9 accounts for half the savings. The result when both Standard (A) and Standard (B) are
4 brought together is a 4.3 percent decrease in traffic.

5 We may now compare this small decrease in traffic to an apparent healthy increase in
6 transportation expenditures and explore the meaning of those changes. First we must obtain an
7 estimate of real increase in the use of transportation services. Expenditures alone will not tell the full
8 story because they include the results of price change, usually increases. When we have taken out
9 those price increases, we will have the real increase in transportation services purchased.

10 From LAM-7 and LAM-8 we may infer that price change in the over-the-road trucking sector
11 was no greater than 2.5 per cent per year (in fact the current estimate is 2.25 per cent per year) over
12 the period 1991 to 1996. The exhibits show the price index for trucking nonlocal between June 1992
13 and November 1997. Exhibit LAM-8 performs a regression analysis on the model

14 $\ln Y = A + b * t$

15 Where \ln is natural logarithm and t is time in months. Time differentiation shows that the rate of
16 growth is the parameter b . The b we estimate is a monthly rate of growth. The quantity $(1+b)$ raised
17 to the power 12 gives the annual rate of growth which is here estimated to be 2.25 per cent. Since
18 I do not have the complete series I need for my analysis I have to say that price growth was no

1 greater than 2.5 per cent per year. Therefore in the period of our comparison price increase was 13.1
2 per cent while contract expenditures increased 26.8 per cent. The result was a 10.8 per cent increase
3 in real purchased highway transportation services. One can say this was real in the sense of cubic
4 foot-miles abstracting from price level change.

5 Thus, between 1991 and 1996 volume in the nonpreferential highway transportation system declined
6 from 8044.4 million pounds to 7700.9 or by some 4.3% mainly because of drop shipping. Please see
7 LAM-6. During the same period, purchased highway transportation increased 27 %. Not more than
8 13.1% of this increase was price increase because the price index, "Trucking excluding local" shows
9 a 2.25 per cent average rate of growth in truck rental costs over that period). So, during this period
10 there was a 13.7% real increase in the purchase of highway transportation services by the postal
11 service. To summarize and simplify, we have a 14 % real increase in the face of a 4 % decrease in
12 volume demanding transportation.² What should we make of this? It certainly seems that the volume

²Even though this is the non-pref transportation system, designed for third-class and fourth-class (with the preferential designed for first-class and second-class) periodicals are seen in the traffic. One might object that traffic was increased over the period from the second-class or periodicals direction. But, the volume, by which I mean cube and not pieces (of periodicals has not changed over this time period). In millions of cubic feet, it was 242 in 1991 and only 240 in 1996.

Zoning

Zoning has existed in periodicals for a long time and this is analogous to dropship discounts. There is a premium for delivering mail and depositing it into the system closer to the destination. There is simply less traffic on those trucks and yet the amount of purchased transportation services is up about 15.8% in real terms. Volume (whether cube or pieces) alone does not drive the amount of purchased transportation input.

1 make of this? It certainly seems that the volume growth and spending growth are inversely
2 correlated. As one goes down the other goes up. We do not seriously conclude this but the
3 simplistic pari passu increase in purchased transportation as volume increases of Bradley's T-
4 13 testimony is surely brought into question. It also appears that transportation is related to
5 service standard needs as well as to volumes. Schedules are made to meet service standards.
6 Trucks are consistently between 50% and 30% empty. Volume alone does not drive capacity;
7 the need to meet schedules and serve volume drives capacity. Dr. Bradley has not taken
8 into account service standards at all in any of his analysis: what has been called Service
9 Related Costs in an earlier PRC proceeding, R77-1.

10 Mr. Bradley has told us that actual volume would be preferable to capacity.

11 As he wrote in an article in 1988:

12 In purchased transportation, the "output" is the transportation of mail and the appropriate
13 variable should include both distance and weight (or cube). In purchased air transportation,
14 payment is made on the basis of actual shipments, so data is available for the actual pound-
15 miles of mail transportation. In purchased highway and rail transportation, however, data is
16 not available on the actual level of volume, because contracts are specified and payments are
17 made on the basis of capacity. Therefore, a proxy for actual volume is required and the proxy
18 that was used was cubic foot-miles of capacity.³
19

20 Capacity is just a proxy . The TRACS sampling process actually yields volume data for proper
21 econometric analysis to find the impact of additional pieces on purchased transportation costs without

³Michael D. Bradley and Alan Robinson, *Determining the Marginal Cost of Purchased Transportation*, Journal of the Transportation Research Forum, p.172

1 the dubious intervention of the relationship between capacity and volume. The relationship between
2 capacity and volume may not be that simple.

3 Bradley very neatly and very intensely studied the wrong subject. He has done an engineering
4 cost analysis with the econometrician's tools. We need an economic or econometric cost analysis
5 with real world data. He ought to be very pleased to know that the data now exist to do his analysis.
6 Bradley had available to him through TRACS real actualized volume from actual truck runs with live
7 mail. These are available in L.R. H-82 and 84. He failed to use these data despite the fact that he said
8 in his own writings that real volumes were preferable to a proxy for volume. Unfortunately Bradley
9 must be rejected as a well-executed, poorly conceived project. He has made precise estimates of
10 parameters which unfortunately have little relevance to regulation. Mr. Bradley has told us that
11 actual volume would be preferable to capacity. Capacity is just a proxy . The TRACS
12 sampling process actually yields volume data⁴ for proper investigation and to find the impact
13 of additional pieces on purchased transportation cost without the dubious interconnection of
14 the relationship between capacity and volume. The relationship between capacity and volume
15 may not be simple.

16 This analysis flies in the face of the obvious facts. One of the most successful work
17 sharing programs is in transportation. Mailers are availing themselves of it in droves. So
18 effective volume (for transportation purposes) is going down. PS responds by purchasing
19 more transportation. Six years is a long time. This is long enough to make adjustments in the
20 transportation system. Several of the major changes of drop shipping should have had their

⁴Including weight and mailcode or subclass,

1 impact by now.

2 As shown in LAM-9b the average use of capacity on Intra BMC is 56.7% and
3 declining. On Inter BMC (longer-haul) it is 69%. Spending on these two accounts has
4 increased 49% in the last six years. Real spending has increased and capacity utilization is
5 going down. After all the t-statistics and R-squared are discussed what is the policy
6 prescription of Bradley's analysis? It is that in the long run⁵ as volume increases 100% real
7 purchased transportation will increase 97%. Well, transportation needs have gone down and
8 transportation expenditures have increased, nevertheless.

9

10 Bradley would have us believe that he studied cost drivers and that TRACS will
11 provide the missing link to relate transportation cost to volume. He believes that he has
12 studied the change in cost with respect to the change in capacity and the TRACS will provide
13 the answer on change in capacity with respect to change in volume. He is wrong. TRACS
14 has nothing to do with capacity or changes over time. TRACS looks at one point in time to
15 distribute costs. Bradley's analysis, therefore, fails because of the missing link. Professor
16 Bradley surely knows that misspecification is one of the most serious problem in
17 econometrics. Not getting correct variables in an analysis. Unfortunately he has fallen in to
18 a classic trap in social science. Wisely, he divides the problem he must solve into several
19 parts. Unfortunately he cannot or does not know how to study the important or difficult part,

⁵ Really the "rate-relevant" run of about three years.

1 while he can flex his methodological muscles on the part that is less important, almost trivial.
2 Transportation is pervasive throughout our economy. It is provided by households and by
3 producers both owner operators and firms. The nature of its costs are very well known. The
4 government uses standard costs on income tax returns 31.5 cents per mile is the allowable
5 cost on transportation. That is an average which can be used nation wide without much error.
6 Similarly, the cost of operating trucks is well known. If Bradley could study the change in
7 transportation cost with respect to his cost driver that would be fine if it were supplemented
8 with good relationship between changing capacity and change in volume. No one has done
9 proper econometric specification of this second relationship. Surely it must consider factors
10 other than volumes so that the net effect of volume can be seen with more preferential mail
11 on in these accounts service standard is surely influenced. With persistent over capacity the
12 relationship of capacity to changes in volume is variable. With all due respect, professor
13 Bradley is somewhat like the inebrate who has lost his keys. He can't see in the dark (where
14 they probably lie). So he looks under the street lamp where the light is good with such over
15 capacity and with the growth of preferential and nonpreferential transportation runs. Factors
16 other than volume must be in the transportation cost equation.

17 III. TRACS

18 A. Description

19 Although TRACS, a measurement system designed by Price-Waterhouse (PW), for
20 the USPS, has been in use in rate cases since R 90-1 it has never been tested or examined or
21 evaluated on the record. Information about it has come from the PS at a slow pace: a few library

1 references every now and then in mail classification cases and a few now and then in a rate case. It
2 is a measurement system to measure utilization of transportation resources for air, rail, highway, and
3 water. It is not a statistical system, but it does involve sampling and has statistical properties which
4 can be measured. PW designed forms to be filled out in a CODES environment with hand-held
5 equipment by PW and postal technicians.

6 In addition to statistical accuracy, issues of not slowing down the mail were in the minds of
7 the designers of TRACS. In the highway sampling system, a truck is never stopped on the road for
8 sampling. Instead, sampling is done only when mail is unloaded from trucks. At that time, mail waits
9 to be processed so there is time for sampling without unduly slowing the mail. Nevertheless, the
10 estimates have statistical properties whether or not they were designed as a statistical system. Despite
11 the heaviness of traffic on the outbound movement, 70% of sampling was done on inbound
12 movements, and only 30% on the outbound.⁶ The inbound movement is sampled more heavily for
13 the convenience of the postal service. This is certainly not a sampling scheme designed to minimize
14 the variance of estimators and witness Nieto says as much (see Tr. 7/3434).

15 B. Expansion

16 Ms. Nieto uses the word "expansion" to means several things. The TRACS system in seeking
17 to be able to find costs of each leg of the trip expands volume off-loaded many times. It expands
18 what is in items or containers to the size of the container. That space is expanded to the size of the
19 vehicle and later the off-loaded material is expanded for the emptiness of the vehicle on previous legs
20 of its journey. One might almost say that TRACS' designers were obsessed with expanding.

21 I wish to separate these because some I accept in my analysis and some I cannot accept.

⁶ These are detained with respect to the BMC for all intra BMC and inter BMC's.

1 **Some of the methods used by P-W and described by witness Nieto are haphazard methods.

2 Discussion surrounding the variable PERCONT were loosely described and applied by
3 statistical technicians. Some technicians recorded pieces, others weight or percentages of the
4 truck or of the container or item. Nieto attempts to paper over these problems by saying it
5 will all come out in the wash (FGFSA/USPS, T 2-49).

6 2. To expand from a "sampling" to a universe or population I accept as standard sampling and
7 extrapolation to a population.

8 3. To expand for empty space. I cannot accept. This is to charge the "items" for only that traffic
9 presently in the items. It is also to charge the vehicle-trip for only those items presently in the
10 vehicle. The key problem with this approach is the concentration on the leg of the trip as the
11 proper unit of cost analysis of the trip segment from point A to point B and not the round trip
12 from A to B and back to A. Professors Bowersox, Smykay and LaLonde (see below, p. 22)
13 record the accepted analysis unit as the round trip in the freight transportation literature.

14 I am informed that the PS never stacks freight higher than 6 feet. UPS, on the other hand uses
15 a "double bottom" so that space can be used up to the full 10 feet of the trailer. It is ludicrous to
16 expand to the full cubic foot capacity of the truck when trucks are very rarely if ever used above the
17 six foot high point.

18 Ms Nieto frequently protests that no costs are calculated in her analysis (Tr. 7/3433).

19 She says she does not cost one leg at a time. This is technically true because she does no costing per
20 se, but it is the simplest of steps from a distribution key to a list of costs. The main contribution of
21 TRACS to purchased transportation cost finding is the development of a distribution key.
22 Nevertheless, how a sample is treated is very important in developing a distribution key. If

1 proportions of mail codes or subclasses are derived from a calculation, then the calculation in a very
2 real sense is determining the Distribution Key which will then be applied to the attributable amounts.

3

4 Expanding for empty space is very akin to blaming the victim. The carpool results we discuss
5 in the next section work out much more equitable with more reason when the unit over which the
6 spreading of costs is done is larger than the leg. Some traffic happens to be on sparse runs. These
7 are often incoming and therefore in a peak-load analysis would be charged a lower unit cost. We
8 explore that possibility but are not advocating that. Please see LAM-3. They are charged in the
9 Postal Service method for the leg. Because there is sparse traffic on the leg, they pay high unit costs.
10 That is the key problem: costing the leg. One may advocate costing the round trip or costing general
11 transportation in a multi causation framework which we call "jointly determined". In our car pool
12 example, the one driver is on some analysis asked to pay for the full cost of the drive home from
13 school. Since the other riders need the car at home in the morning, I do not believe that is fair. The
14 trip to and from is a unit. Please see our discussion of the special economics of transportation starting
15 at p.21. There is no point in expanding to the size of the truck. Let us charge each CFM on both
16 outbound and inbound the same unit cost. Charge each student in the carpool for trips he takes. The
17 students take three man-trips in the morning and only one man trip to return the vehicle because the
18 other students have different schedules and get home on their own. Let us assume that the cost of
19 a round trip is \$8.00. Then Table A applies. Expansion is needed when the purpose is to find the cost
20 of the leg *per se*. When costs and CFM are aggregated and then a quotient is formed, the aggregation
21 serves the function of the expansion: applying the sampled proportions to the whole. The crucial item
22 is the unit of aggregation.

1 There are decided differences between the class composition of the traffic on in-bound and
2 out-bound trips to and from the BMC. See LAM 9a analysis of this can be facilitated by observing
3 facility categories (FACCAT's) where tests are taken. These come in the following five types :

4 Inbound SCF

5 Inbound other

6 BMC

7 Outbound SCF

8 Outbound other

9 Outbound and inbound runs are shown in LAM-9a. Parcel Post is 33.9% of the CFM in
10 quarter 1 for inbound runs but is only 23.9% for outbound runs.

11 TRACS was executed more with the convenience of PS in mind and less with statistical
12 accuracy in mind. Ms. Nieto said several times that her estimates did not partake of desirable
13 statistical characteristic of minimum variance".

14

15 C. Examples

16 Most regulatory problems involving joint or common costs can be boiled down to the question
17 of how to split the costs of a group lunch. Four people go out to lunch. Do they split the bill four
18 ways or do they split the bar bill separately?

19 A simple example may show the issues in a more familiar context. Here is an exemplé which
20 shows that expansion to the size of the truck is wrong, that calculating costs for each leg of a trip is

1 erroneous.⁷ Let us envision a carpool. Three students carpool to a school. All three users, the driver
 2 and two riders, use the carpool in the morning. In the afternoon, since class schedules differ, only
 3 the driver returns home in the carpool. They rotate using each other's cars but the same student with
 4 the late classes takes the car back to the bedroom community each night. The question is how should
 5 the \$8.00 round-trip cost of the carpool (\$4.00 on each leg) be apportioned among the three users.
 6 In Scheme A, as shown in Table A below, every man-trip costs \$2.00, since there are a total of four
 7 man-trips each day. The drive in the morning generates \$6.00 and the drive home generates \$2.00
 8 in revenue. Scheme B charges the driver more when he is alone coming home. This ensures that the
 9 round trip is the unit of analysis, and no effort is spent trying to allocate the cost of each leg.

10 **Table A**

11 **Equal Cost Per Person Per Man-Trip First Pricing Scheme**

13 Student	14 Uses	14 Total Number Of Man-trips	14 Charge Per Man-trip	14 Student Charges
16 A	17 Morn & Afternoon	18 2	18 \$2.00	18 \$4.00
17 B	18 Morning	19 1	19 \$2.00	19 \$2.00
18 C	19 Morning	20 1	20 \$2.00	20 \$2.00
21 Total:				21 \$8.00

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Table B First Pricing Scheme

Student	Morn	Afternoon	Total
A	\$2.00	\$2.00	\$4.00
B	\$2.00	\$0.00	\$2.00
C	\$2.00	\$0.00	\$2.00
Total	\$6.00	\$2.00	\$8.00

In Scheme B, the riders apportion the cost of each leg in proportion to how many people are on each leg. In the morning, the three users pay \$1.33 each so that the revenue generated on the drive is \$4.00. In the afternoon, with only one person aboard, the charge is \$4.00 for that person. This results in Student A's (the driver) paying \$5.33 and the other two paying \$1.33 each. Scheme B generates \$4.00 revenue for each leg but the cost of a man-trip varies.

Table C

Equal Cost and Charges Per Leg

Second Pricing Scheme by Trips

Leg	Rides	Cost Of Leg	Cost/Student Per Ride
Morning	3	\$4.00	\$1.33
Afternoon	1	\$4.00	\$4.00

1			
2	Total:	\$8.00	
3			
4			

5 **Table D Second Pricing Scheme by Students**

7	Student	Morning	Afternoon	Total for Student
9	A	\$1.33	\$4.00	\$5.33
10	B	\$1.33	-	\$1.33
11	C	\$1.33	-	\$1.33
12				
13	Total:	\$4.00	\$4.00	\$8.00
14				

15
16 Another example is from postal circumstances. In carrier street time analysis, carrier
17 access is the time taken away from the route to access the house and load the mail receptacle and
18 return to the route. Apart from load time, the time "up the garden path" (or access) to the house
19 and "back down the path" (deaccess) to the route is attributed to the single class causing a stop.
20 In a PW-Nieto world, the time used in making the access would be attributable to the subclass
21 causing it (which was being carried), but the time caused by the deaccess would be attributable to
22 the classes remaining in the pouch, all but the true cause. The deaccess is necessitated by the
23 access and the trip should be attributable to the same cause not to the mail which happens to be in
24 the leg while the deaccess takes place. This shows that it is treacherous and misleading to allocate
25 costs leg by leg. When asked if mail to be delivered causes the trip from the route to the
26 house, did that same mail cause the trip back to the route? His answer in FGSA/USPS T

1 11-3 was, yes. This means that mail present on a segment is not coincident with the cause
2 of that segment's costs.

3 Our two approaches (so far)⁸ may be characterized as follows: Our choice is to cost the
4 leg or to cost the joint product: the round trip. If we cost the leg some riders will pay \$1.33 per
5 ride and others will pay \$4.00 Why is the first or method A above preferable? When there is
6 uneven traffic not at the option of the traveler or shipper there will be wide swings in cost per
7 trip, if we cost each leg. It is not that one user is getting a better product and therefore they
8 should pay more. There is nothing more desirable about the service being offered to incoming
9 trips at BMC's than that offered outgoing trips.

10

11 There are really three cases discernable in allocating costs of truck transportation:

12 Every leg on its own- allocate cost of each leg by dividing costs of leg by traffic on that
13 leg only.

14

15 Round trip- add up the costs of line haul and back haul. Divide total by traffic (person-
16 trips or CFM).

17

18 Joint determination- this approach recognizes that service standards have a role in
19 determining costs as well as mail volume. A schedule of trips prevents long delay times.
20 The costs of transportation are partitioned through accounting techniques into a small

⁸ We shall find that there really are three cases.

1 number of sectors based on size of vehicles and approximate length of haul (e.g., Intra B,
2 Inter B, Inter SCF, Intra SCF). Within such groups where costs can be expected to be
3 homogeneous total costs are divided by total CFM, a measure of transportation demand.

4

5 It is important to realize that all approaches but one aggregate CFM and costs and
6 make a grand quotient within a control group (either the round trip or the accounting sector).
7 Only the each leg on its own method keeps the quotient within the leg exclusively.

1 IV. Received Economic Theory Pertinent to Transportation and Its Application

2 A. Theory

3 There are some salient facts about transportation which should guide its analysis.

4 1. It is created in bulk. If some potential services are not used, those are gone for ever. This
5 is why it is efficient to have a high load factor. This is also why international tanker (ship)
6 rates fluctuate by a factor of 10 to 1 and more.

7 2. It is often scheduled for service quality rather than for efficiency. There is a fixed schedule
8 of trips whether passengers or freight eventuates. The schedule is staggered so that
9 demand will be "sufficient." There is usually one trip per day at a minimum between two
10 cities. Commuter railroads run several trains in the middle of the day (albeit with fewer
11 cars) so that maximum waiting time will be reduced.

12 3. Entrepreneurs prefer to sell units of round trips. This is evident to anyone who has ever
13 tried to purchase a one-way airline ticket.

14 4. Line haul and back haul are joint products. This is as near to fixed output proportions as
15 we ever come in economics. The miles from New York to Washington are exactly equal
16 to the miles from Washington to New York. As Marshall (see below) tells us that the cost
17 of anything used for several purposes has to be defrayed by its fruits in all of them. In the
18 PS the rules for transportation do not allow mixing mail with other freight. Therefore we
19 cannot haul furniture if not enough mail materializes in order to minimize cost.

20 To elaborate on number 4 above, we might discuss the following. In the production of
21 transportation services, it is very difficult to produce a line haul without producing a back haul to
22 go along with it. Therefore, the contract costs of purchased transportation would be joint costs.

1 The useful unit of analysis is the line haul and back haul together. They are a unit because we
2 cannot have the one without the other. This resembles in essential ways the classical joint product
3 of economics: the wool and mutton and the wheat and straw discussed by Alfred Marshall,
4 Principles of Economics (p. 321-323, Eighth Edition, London: Macmillan, 1961). The truck
5 needs to return to its origin to accomplish the next line haul. Similarly, the car in our carpool
6 example above needs to get back to the bedroom community so that it is available to take the
7 group to school in the morning. The trip there and back is more fruitfully seen as a unit in
8 transportation.

9 Microeconomic theory usually focuses on the pricing problem: What can the enterprise get
10 for the “by product” which is desired in addition to the prime product. By contrast, our problem
11 is one of cost analysis, but it is always maintained that the joint production of two outputs must be
12 seen as a unit. Prof. Panzar, in referring to “the ‘segments’ or ‘legs’ of a route...,” says that he
13 “[does] not see how their costs could be analyzed separately from those of the route as a whole.”
14 (Panzar FGSA T-11-1(b)).

15 That the round trip is a logical unit of analysis in transportation is demonstrated in several
16 ways:

- 17 • The authority Bowersox, Smykay and Lalonde (BS&L), Physical Distribution
18 Management: (New York: Macmillan, 1968 rev. ed.) is a practical book on transportation
19 analysis and logistics. We provide a quotation from this book which discusses the rational
20 analysis of line-haul cost.
- 21 • The difficulty, experienced by many, of purchasing one-way airline tickets is a layman’s
22 introduction to this truth acknowledged by transportation professionals. Entrepreneurs

1 want to cover their return trips when they undertake a line haul. If you are not convinced,
2 try to take a taxi trip which takes the driver out of his normal area.

3 ● The difficulty in renting a car and returning it to a place other than the origin. There is
4 almost always an extra charge for doing so.

5 BS&L in their standard text on logistics have a chapter on transportation cost analysis. It
6 is entitled, "Transportation Costing." For truck transportation cost what BS&L call line-haul
7 costs⁹ are usually analyzed with the round trip as a unit. "because a truck usually goes from an
8 origin to a destination and back, line-haul costs are generated in both directions." Round trip
9 costs is a heading in the following table, 7-2. (p. 169). See LAM-11, p. 5 of 5.

10

11

12

13

14 B. HOW MUCH USE CAN WE MAKE OF TRACS DATA VS. TRACS ANALYSIS

15 We would like very much to design a distribution key for TRACS which eliminates the
16 inequity of charging traffic on light segments high rates. Present indications are that the data
17 forthcoming from TRACS is not reliable. Is there enough quality control? Exhibit LAM 4b
18 shows alternate estimates of cubic feet by two approaches.

19 Exhibit LAM-4b combines two Library References, one on Standard (A) and one on Standard (B)
20 mail. The Exhibit is in terms of thousands of cubic feet. In the Intra BMC movement these figures
21 from Lib. Ref. H-111 and 135 indicate the ratio of cubic feet between parcel post and standard A as

⁹ To be distinguished from terminal and administration cost for example.

1 4.25 to 1 in favor of standard A. But if we rely on TRACS we find a ratio of CF equal to 1.08 LAM-
2 13. (See Lib. Ref. FGFSA-H-2). This is quite a discrepancy: one estimate is 3.8 times the other.
3 We are despondent about TRACS. The ability to estimate CF and CFM is necessary and the effort
4 is laudable. But what are we to make of a system which makes these contradictory findings.
5 See LAM 4b. There are further problems with the TRACS data. The mail code KK signifies bulk
6 small parcels, a category which never existed. Somehow TRACS technicians found 225,000 cubic
7 feet in postal quarter 1 of 1996 and 739,000 cubic feet in the second quarter of this mail code. Please
8 see LAM 4a for Quarters 1 and 2. There are different patterns to in-bound and out-bound
9 movements. In one observation, standard A was 33.1% of in-bound movements whereas looking at
10 out-bound movements where bound equals 2, standard A was 37.2% and this is not the most
11 dramatic of comparisons. In-bound and out-bound movements have very different composition. In
12 a situation such as this one we cannot be indifferent as to which type of trips fall in to the random
13 sample because certain types of movements serve some classes more than others and if those are
14 monitored too much cost will be allocated to these classes.

15 We showed above that charging by the leg and making an "equitable" distribution therein
16 penalizes classes of mail on lightly-traveled routes just as the driver in the carpool is penalized for
17 being the only one on the inbound leg. It is more equitable and efficient to charge every volume unit
18 (CFM) and therefore implicitly "cost out"¹⁰ the round trip as a unit. With regard to witnesses in this
19 case Nieto clearly states that she costs out purchased transportation leg by leg [Tr., 7/3434]. Bradley
20 by contrast, clearly says that to study the problem leg by leg is improper [FGFSA/USPS T13-25].

¹⁰ By "cost out" we mean "find of the costs of."

1 Panzar says the same thing.

2 This distribution key would be more in line with economic theory. We could go further with
3 economic theory in the direction of linear or mathematical programming. Such analysis would lead
4 us to calculate costs at the maximum-load point as Meyer, Kain and Wohl (Cambridge: Harvard
5 University Press, 1965) have done in their classic study of urban transportation.¹¹ In our application
6 here this would suggest calculating costs when the trucks are at their fullest (certainly on outbound
7 trips). This peak-load approach looks at outbound runs only and divides costs as the proportions of
8 mail classes present on those trips. This distribution key is shown in Exhibit LAM-3.

9 Unfortunately the TRACS data collected are not reliable because (among other things) of the finding
10 DBMC mail on incoming runs; a logical contradiction.¹² Further TRACS data collection problems
11 are shown in LAM 4b and LAM-13. Lib Refs H-111 and H-135 are inconsistent in their estimates
12 of the relation between Parcel Post and Standard A cubic feet.

13

14

15 In the Opinion and Recommended Decisions of several recent cases, the PRC has found that
16 the identity and integrity of the preferential and nonpreferential transportation systems which once
17 existed separately is now a thing of the past. (R 87-1)

18 We see first class loading in candidate Distribution Key's of 14%; 11-17% in the fourth

¹¹See p. 186 for their decision to charge the construction cost of rapid transit largely to the traffic at the peak.

¹²[11a] "DBMC Parcel Post is delivered by the sender to the destination BMC. As such it should never appear on inbound purchased transportation runs. Yet it appears in the tallies and was counted, rated and weighed by TRACS data technicians."

8 We see first-class-loading-in-candidate-Distribution-Key² of 14%, +1-17% in the fourth -
9 quarter of the base year between 10 and 18% for first class including priority. Some 10 % of the cubic
foot miles are periodicals. The decline of the distinction between preferential and nonpreferential in

¹¹See p. 186 for their decision to charge the construction cost of rapid transit largely to the traffic at the peak.

1 the transportation system began when non-red tag mailers in second class insisted that the postal
2 service charge "red tag"¹² mailers for the better service they received. Postmaster-general bolger
3 decree that all second class will be preferential. There was a long tradition that magazines were
4 distributed through BMC's.

5 There is more and more preferential mail on these historically nonpreferential transportation
6 routes. Therefore decisions begin to be made considering service quality and the need to meet service
7 standards. New transportation contracts are entered into because of these considerations and not
8 exclusively because of volume. That transportation cost could vary 97% with volume or even 90 or
9 95% seems more and more unlikely.

10 TRACS is preoccupied with proportions to the exclusion of basic piece data. If one parcel
11 were in a container or item, all the space would be allocated to Parcel Post. If three parcels were in
12 the container all the space would be allocated to Parcel Post as well.

13 Mr. Hatfield's analysis has problems. He suggests treating DBMC differently from Intra
14 BMC. These parcels move with each other on the same truck at the same time. Why should
15 their cost analysis be different? Many other classes of mail are transported for the convenience
16 of the carrier. To make decisions as to whether a particular segment was part of the net pay
17 load in the direction that the pieces traveling or whether for the convenience of carrier would
18 subject rate making to much more detail than it presently has. Mr. Hatfield divided cost in
19 one typology as Inter BMC, Intra BMC, DBMC and Intra SCF. In an other typology, he
20 distinguishes local, intermediate and long distance transportation.

¹² Red tag means second class items which received preferential service because they were published weekly or more frequently.

1

2 The files related to TRACS highway transportation analysis are divided in to the following
3 groups: DESIGN, EDIT and EXPAND. In the Design group, samples are defined. In the EDIT
4 group, data are scrubbed and mistakes are found and cast off. In the EXPAND group, articles are
5 weighted for cubic feet and to convert from pounds to cubic feet and they are expanded to fill the size
6 of items and containers and ultimately the size of the truck. We have concentrated on analysis on the
7 EXPAND group of analysis especially hwy-1 through hwy-12. The results available in LAM-4b are
8 from an exercise which follows the TRACS methodology except for three items:

9 . An error in PERCONT

10

11 . Expansion to the size of the truck is eliminated

12

13 . FACCAT weighting is alternately used and not used.

14 . Distribution key can be observed for cubic foot miles and cost using the Nieto methodology. These
15 are available in the intra BMC account for both in-bound, out-bound and the union of the two
16 categories which we call “.” or “dot.”.

17 . There is no question that there is a bias in data collection for TRACS:

18 . TRACS is not a minimum variance sample.

19

20 . TRACS takes 70% of its sample on inbound movements.

21

22 . Why did PW and PS collect in-bound samples more frequently? It was easier to sit at the BMC where

1 a lot of shipments come in and collect much data with little travel and in short amount of time. AO's
2 and DU's have less dock activity per hour.

3 We have shown in the in-bound and out-bound analysis that parcel post is heavily represented
4 in in-bound trips. This has an easy explanation. PS has a large market share in the household to
5 household and household to business parcel post market. PS's comparative advantage is its retail infra
6 structure or set of offices all over the land, well established and convenient to households. That mail
7 is present on in-bound movements to BMC's and AO's. Business to household packages are more
8 likely to be drop shipped at BMC's.¹³ Such traffic would not arrive on postal purchased
9 transportation. The weighting of FACCAT is meant to counteract this known bias. The only way to
10 be sure there was a random sample of possible trips is to know the NASS schedule. That is
11 considered proprietary by the PS. I believe that there is a strong likelihood that the sample remains
12 biased in favor of a sampling of in-bound unloadings and the mail classes which are present on those
13 inbound runs.

14

¹³ FGSA's packages do this largely for quality because of the limited shelf life of the product and desire for freshness.

1 We used data provided in LR's H-82 (TRACS Highway Sample Design Programs and
2 Documentation) and H-84 TRACS Data Files in Machine Readable Format. We did
3 two types of analysis. We studied the pure data collected by PW and PS. We also did
4 several runs of the SAS program with modifications.

5

6 We analyzed implicit cost distributions over mail codes on inbound, outbound (using
7 the BOUND Variables). Our distribution were made in CF, cubic foot miles and costs
8 as shown in Exhibits LAM-3 and LAM-9

LAM-1

Historical Data on Intra and Inter BMC Purchased Transportation Cost

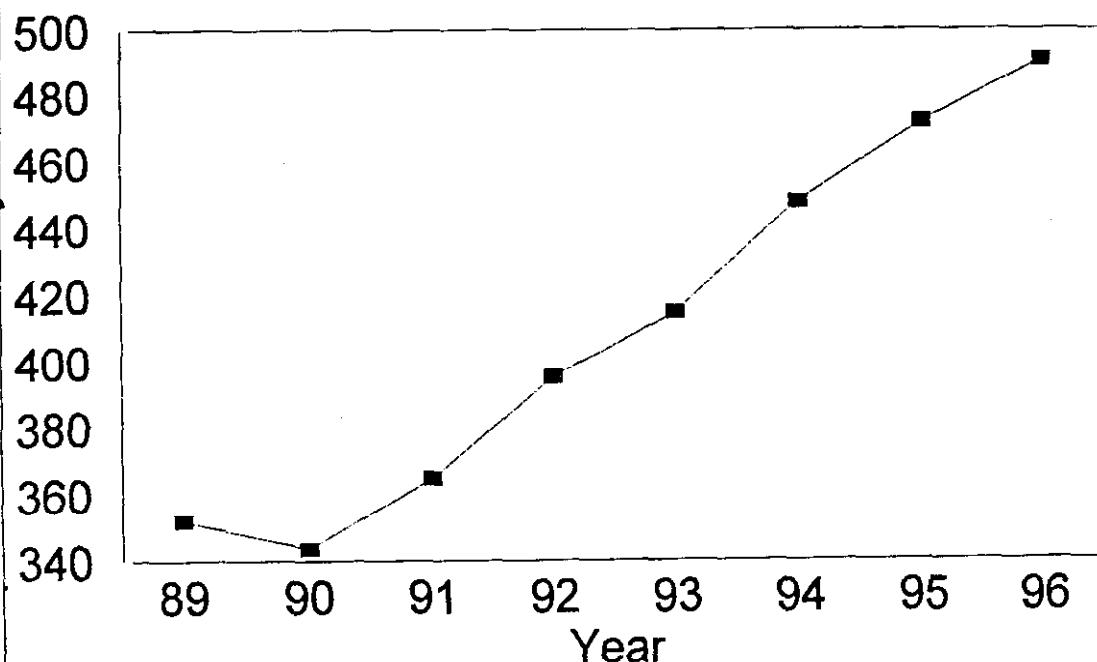
Year	Intra BMC	Inter BMC	Total
84	144.5	134.4	278.9
85	166.1	154.6	320.7
89	163.7	188.2	351.9
90	161.3	173.7	335
91	185.3	209.2	394.5
92	181.6	214.5	396.1
93	232.3	201.4	433.7
94	248.1	214.5	462.6
95	257.4	223.7	481.1
96	257.1	243	500.1

Source: National Consolidated Trial Balance 1990-96, 1985

C:\WINDOW...t\GFS\hist\intra.erpp.wb3

LAM-1a

Growth of Purchased Transportation Intra BMC plus Inter BMC Highway



LAM-2 A~

**Purchased Transportation FY1996
by Quarter Accounts and Attribution**

	(1)	(2)	(3)	(4)	(5)
	Intra		Inter		
	Acct No.	Amt (a)	Acct No.	Amt (a)	
1996 Q1	53127	44415	53131	48714	
	53128	7456	53132	1517	
	53129	1368	53133	2174	
	53136	4941			
		58180			
1996 Q2	53127	45052	53131	48894	
	53128	10322	53132	3856	
	53129	1543	53133	2861	
	53136	6085		55611	
		63002			
1996 Q3	53127	44960	53131	51010	
	53128	6374	53132	1438	
	53129	1316	53133	2706	
	53136	5046			
		57696			
1996 Q4	53127	61708	53131	74011	
	53128	6890	53132	1865	
	53129	1609	53133	2893	
	53136	7900		78769	
		78107			

Sources:

a: USPS T-5, Workpaper B-14, Worksheet 14.0.1, p.2

c: Col 5 = Col 4 * Col 3

Col 9 = Col 8 * Col 7

LAM-2b

Cost Accounts Within Purchased Transportation
Which We Study

IntraBMC	53127
Exceptional Service	53128
Emergency Service	53129
Leased Trailers	53136

InterBMC	53131
Exceptional Service	53132
Emergency Service	53133

TRACS Replication for Outbound Runs

ACCOUNT=53127 BOUND=2
 PQ196 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
 Intra-BMC

MAILCODE	CuFt	Percent		Percent		Percent	
		CuFt	CFM	CFM	Cost	Cost	
1st Class	67,605,983	11.74	3,408,194,649	8.31	1,607,169	8.12	
2nd Cl Period	79,581,325	13.82	5,880,015,821	14.34	2,009,028	10.15	
International	1,840,852	0.32	107,789,975	0.26	23,801	0.12	
PRI	38,977,752	6.77	1,772,521,718	4.32	697,044	3.52	
STD A	183,418,478	31.86	14,904,072,720	36.34	5,851,859	29.55	
STD B - Other	64,978,922	11.29	5,156,461,738	12.57	2,548,389	12.87	
STD B - P	139,329,063	24.20	9,787,979,345	23.86	7,065,654	35.68	

PQ296 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
 Intra-BMC

MAILCODE	CuFt	Percent		Percent		Percent	
		CuFt	CFM	CFM	Cost	Cost	
1st Class	109,323,576	18.14	7,753,691,936	14.76	3,351,566	16.33	
2nd Cl Period	72,184,443	11.98	5,114,335,739	9.73	2,516,920	12.27	
International	2,122,343	0.35	119,261,967	0.23	53,081	0.26	
PRI	45,277,681	7.51	2,433,286,372	4.63	1,123,873	5.48	
STD A	149,120,469	24.74	13,528,516,846	25.75	5,317,618	25.91	
STD B - Other	80,616,798	13.38	8,268,680,322	15.74	2,969,945	14.47	
STD B - P	144,013,878	23.90	15,320,410,118	29.16	5,187,844	25.28	

PQ396 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
 Intra-BMC

MAILCODE	CuFt	Percent		Percent		Percent	
		CuFt	CFM	CFM	Cost	Cost	
1st Class	107,263,534	14.95	9,185,781,862	10.88	3,736,241	10.45	
2nd Cl Period	78,816,840	10.98	9,510,158,221	11.26	3,638,525	10.17	
International	2,459,722	0.34	97,160,068	0.12	53,221	0.15	
PRI	45,890,579	6.39	3,641,789,628	4.31	1,474,924	4.12	
STD A	234,660,210	32.70	30,120,361,835	35.67	14,014,906	39.19	
STD B - Other	81,292,087	11.33	8,716,142,315	10.32	3,489,684	9.76	
STD B - P	167,276,206	23.31	23,170,039,508	27.44	9,352,237	26.15	

PQ496 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
 Intra-BMC

ACCOUNT=53127 BOUND=2

MAILCODE	CuFt	Percent		Percent		Percent	
		CuFt	CFM	CFM	Cost	Cost	Cost
1st Class	127,270,796	17.90	10,087,503,790	14.15	4,263,058	13.19	
2nd Cl Period	98,899,168	13.91	9,141,881,525	12.83	4,211,322	13.03	
International	1,930,147	0.27	211,960,607	0.30	106,262	0.33	
PRI	60,446,024	8.50	4,434,145,043	6.22	1,874,700	5.80	
STD A	189,650,276	26.68	23,792,036,769	33.38	9,927,636	30.72	
STD B - Other	68,045,634	9.57	7,864,558,736	11.03	4,005,167	12.39	
STD B - P	164,603,707	23.16	15,738,094,576	22.08	7,929,794	24.54	

Source: SAS run y96a11 with data from L.R. H-84 , Nov. 17, 1997.

PQ196 Bound =

CF, CFM and Cost for Inbound, Outbound Movements and Union, Various Mail Classes

LINE	Mail Category	Percent		Percent		Percent	
		CuFt	CuFt	CFM	CFM	Cost	Cost
1	First Class Letters	44,954,516	5.73	3,192,077,217	4.65	1,502,869	4.49
2	First Class Presort	25,453,944	3.25	1,321,645,999	1.93	587,551	1.76
3	Single-PC Cards	244,681	0.03	9,900,170	0.01	4,454	0.01
4	Prest Postcards	57,933	0.01	2,542,921	0.00	1,177	0.00
5	Total First Class	70,711,074	9.02	4,526,166,306	6.60	2,096,050	6.27
6	Priority	36,877,313	4.70	2,475,685,375	3.61	1,016,116	3.04
7	Express	845,758	0.11	32,745,528	0.05	16,424	0.05
8	Periodicals	84,121,040	10.73	6,495,409,463	9.47	2,598,884	7.77
9	Std A Single Piece	9,334,149	1.19	1,006,278,299	1.47	463,719	1.39
10	Std A ECR	49,013,085	6.25	4,771,943,508	6.96	2,921,048	8.73
11	Std A Other	169,860,723	21.67	15,388,469,739	22.43	6,829,481	20.42
12	Total Reg Std A	228,207,966	29.11	21,166,691,545	30.86	10,214,248	30.54
13	NonPref ECR	3,063,355	0.39	220,634,861	0.32	81,759	0.24
14	NonPref Other	17,369,743	2.22	1,794,507,223	2.62	681,198	2.04
15	Total Std A	248,641,064	31.71	23,181,833,629	33.79	10,977,205	32.82
16	Small Parcels	225,193	0.03	13,680,498	0.02	5,609	0.02
17	Parcel Post	223,600,427	28.52	21,096,269,312	30.75	11,472,201	34.30
18	Bound Printed Matte	56,151,668	7.16	4,518,848,849	6.59	2,484,651	7.43
19	Std B Special	42,358,627	5.40	4,367,076,708	6.37	1,797,805	5.38
20	Std B Library	10,326,617	1.32	1,002,374,601	1.46	541,393	1.62
21	Penalty-USPS	2,674,884	0.34	284,885,962	0.42	111,879	0.33
22	Free for Blind	658,955	0.08	43,728,285	0.06	58,112	0.17
23	International	6,828,011	0.87	558,089,631	0.81	269,955	0.81
24	Total All Mail	784,020,631	100.00	68,596,794,146	100.00	33,446,283	100.00

PQ196 Distribution Keys Usir UNLOADED Mail (Weighted)

Intra-BMC

ACCOUNT=53127 BOUND=1

LINE	Percent		Percent		Percent		
	CuFt	CuFt	CFM	CFM	Cost	Cost	
1	First Class Letters	12,813,826	4.21	1,477,023,344	4.48	663,789	4.20
2	First Class Presort	1,627,102	0.54	129,172,495	0.39	47,679	0.30
3	Single-PC Cards	53,692	0.02	5,266,019	0.02	2,126	0.01
4	Prest Postcards	15,671	0.01	1,145,811	0.00	525	0.00
5	Total First Class	14,510,291	4.77	1,612,607,668	4.90	714,119	4.52
6	Priority	11,933,348	3.92	1,142,375,085	3.47	488,765	3.10
7	Express	140,906	0.05	8,340,580	0.03	3,624	0.02
8	Periodicals	19,176,340	6.31	1,263,607,566	3.84	834,787	5.29
9	Std A Single Piece	5,769,829	1.90	696,297,700	2.11	334,825	2.12
10	Std A ECR	10,417,531	3.43	1,453,806,270	4.41	1,738,231	11.01
11	Std A Other	71,491,181	23.51	7,030,018,339	21.34	3,510,565	22.24
12	Total Reg Std A	87,678,541	28.84	9,180,122,308	27.87	5,583,621	35.37
13	NonPref ECR	338,171	0.11	57,589,728	0.17	24,831	0.16
14	NonPref Other	6,868,558	2.26	696,476,721	2.11	252,863	1.60
15	Total Std A	94,885,271	31.21	9,934,188,757	30.16	5,861,315	37.13
17	Parcel Post	101,383,527	33.34	12,662,773,499	38.44	4,929,651	31.22
18	Bound Printed Matte	20,369,801	6.70	1,521,211,955	4.62	770,439	4.88

7 Express	290,174	0.09	147,209,641	0.12	57,774	0.12
8 Periodicals	64,827,561	19.32	24,595,414,620	20.59	9,711,461	20.54
9 Std A Single Piece	3,230,475	0.96	1,715,289,689	1.44	675,246	1.43
10 Std A ECR	8,644,740	2.58	3,725,515,149	3.12	1,464,426	3.10
11 Std A Other	66,954,175	19.95	24,162,975,476	20.23	9,503,071	20.10
12 Total Reg Std A	78,829,390	23.49	29,603,780,314	24.79	11,642,743	24.62
13 NonPref ECR	2,119,140	0.63	627,591,032	0.53	244,519	0.52
14 NonPref Other	17,044,781	5.08	6,672,046,171	5.59	2,641,889	5.59
15 Total Std A	97,993,311	29.20	36,903,417,517	30.90	14,529,151	30.72
16 Small Parcels	146,242	0.04	71,898,970	0.06	28,256	0.06
17 Parcel Post	86,818,856	25.87	28,880,348,631	24.18	11,378,750	24.06
18 Bound Printed Matte	11,826,607	3.52	3,628,090,210	3.04	1,421,319	3.01
19 Std B Special	14,770,833	4.40	6,194,984,150	5.19	2,465,835	5.21
20 Std B Library	3,354,570	1.00	1,266,349,510	1.06	495,330	1.05
21 Penalty-USPS	3,420,830	1.02	1,156,567,115	0.97	463,664	0.98
22 Free for Blind	521,512	0.16	223,807,520	0.19	87,939	0.19
23 International	1,900,935	0.57	1,042,813,838	0.87	410,405	0.87
24 Total All Mail	335,612,762	100.00	119,429,385,825	100.00	47,289,829	100.00

PQ296 Distribution Keys Usir UNLOADED Mail (Weighted)
Intra-BMC

ACCOUNT=53127 BOUND=.

LINE	CuFt	Percent	CFM	Percent	Cost	Percent
		CuFt		CFM		Cost
1 First Class Letters	75,802,597	9.58	6,674,018,571	8.64	2,683,691	8.35
2 First Class Presort	31,688,725	4.01	2,772,098,240	3.59	1,216,862	3.78
3 Single-PC Cards	247,078	0.03	22,664,926	0.03	8,958	0.03
4 Prest Postcards	5,062,764	0.64	343,361,067	0.44	157,763	0.49
5 Total First Class	112,791,164	14.26	9,812,142,805	12.70	4,067,275	12.65
6 Priority	58,567,334	7.40	5,942,772,878	7.69	2,315,839	7.20
7 Express	2,100,183	0.27	62,858,705	0.08	49,254	0.15
8 Periodicals	77,320,330	9.77	6,211,774,408	8.04	2,997,513	9.32
9 Std A Single Piece	15,638,855	1.98	1,191,882,451	1.54	501,680	1.56
10 Std A ECR	33,321,362	4.21	3,340,428,772	4.32	1,777,780	5.53
11 Std A Other	132,923,463	16.80	11,816,521,573	15.29	4,969,830	15.46
12 Total Reg Std A	181,883,679	22.99	16,348,832,795	21.16	7,249,290	22.55
13 NonPref ECR	3,230,256	0.41	397,574,914	0.51	171,785	0.53
14 NonPref Other	22,376,892	2.83	2,196,186,736	2.84	949,425	2.95
15 Total Std A	207,492,827	26.23	18,942,594,446	24.51	8,370,500	26.03
16 Small Parcels	739,461	0.09	24,524,708	0.03	1,932	0.01
17 Parcel Post	222,344,175	28.10	23,806,063,318	30.80	9,525,137	29.63
18 Bound Printed Matte	42,554,332	5.38	3,752,695,135	4.86	1,649,902	5.13
19 Std B Special	44,405,081	5.61	6,292,430,623	8.14	2,167,681	6.74
20 Std B Library	12,754,207	1.61	1,532,860,345	1.98	618,328	1.92
21 Penalty-USPS	1,160,658	0.15	107,431,533	0.14	52,746	0.16
22 Free for Blind	4,145,434	0.52	529,321,020	0.68	216,880	0.67
23 International	4,784,332	0.60	263,615,643	0.34	118,677	0.37
24 Total All Mail	791,159,519	100.00	77,281,065,566	100.00	32,151,665	100.00

PQ296 Distribution Keys Usir UNLOADED Mail (Weighted)

19 Std B Special	25,704,997	8.45	3,175,741,947	9.64	1,304,997	8.27
20 Std B Library	8,537,183	2.81	839,987,433	2.55	476,373	3.02
21 Penalty-USPS	1,349,481	0.44	262,632,067	0.80	95,261	0.60
22 Free for Blind	620,718	0.20	40,606,438	0.12	57,059	0.36
23 International	5,433,925	1.79	474,045,281	1.44	251,281	1.59
24 Total All Mail	304,045,789	100.00	32,938,118,276	100.00	15,787,672	100.00

PQ196 Distribution Keys Usir UNLOADED Mail (Weighted)
Intra-BMC

ACCOUNT=53127 BOUND=2

LINE	CuFt	Percent CuFt	CFM	Percent CFM	Cost	Percent Cost
1 First Class Letters	32,140,690	6.70	1,715,053,874	4.81	839,080	4.75
2 First Class Presort	23,826,841	4.96	1,192,473,504	3.34	539,871	3.06
3 Single-PC Cards	190,989	0.04	4,634,151	0.01	2,328	0.01
4 Prest Postcards	42,263	0.01	1,397,110	0.00	652	0.00
5 Total First Class	56,200,783	11.71	2,913,558,639	8.17	1,381,931	7.83
6 Priority	24,943,965	5.20	1,333,310,290	3.74	527,351	2.99
7 Express	704,852	0.15	24,404,948	0.07	12,800	0.07
8 Periodicals	64,944,700	13.53	5,231,801,897	14.67	1,764,097	9.99
9 Std A Single Piece	3,564,320	0.74	309,980,599	0.87	128,894	0.73
10 Std A ECR	38,595,563	8.04	3,318,137,238	9.31	1,182,817	6.70
11 Std A Other	98,369,542	20.49	8,358,451,400	23.44	3,318,916	18.79
12 Total Reg Std A	140,529,425	29.28	11,986,569,237	33.61	4,630,627	26.22
13 NonPref ECR	2,725,184	0.57	163,045,133	0.46	56,928	0.32
14 NonPref Other	10,501,185	2.19	1,098,030,502	3.08	428,335	2.43
15 Total Std A	153,755,794	32.03	13,247,644,872	37.15	5,115,890	28.97
16 Small Parcels	225,193	0.05	13,680,498	0.04	5,609	0.03
17 Parcel Post	122,216,900	25.46	8,433,495,813	23.65	6,542,550	37.05
18 Bound Printed Matte	35,781,867	7.45	2,997,636,893	8.41	1,714,212	9.71
19 Std B Special	16,653,629	3.47	1,191,334,761	3.34	492,808	2.79
20 Std B Library	1,789,434	0.37	162,387,168	0.46	65,020	0.37
21 Penalty-USPS	1,325,403	0.28	22,253,895	0.06	16,618	0.09
22 Free for Blind	38,238	0.01	3,121,846	0.01	1,052	0.01
23 International	1,394,086	0.29	84,044,350	0.24	18,674	0.11
24 Total All Mail	479,974,843	100.00	35,658,675,869	100.00	17,658,612	100.00

PQ196 Distribution Keys Usir UNLOADED Mail (Weighted)
Inter-BMC

ACCOUNT=53131

LINE	CuFt	Percent CuFt	CFM	Percent CFM	Cost	Percent Cost
1 First Class Letters	27,047,645	8.06	9,001,176,913	7.54	3,570,273	7.55
2 First Class Presort	6,829,369	2.03	2,148,792,053	1.80	886,327	1.87
3 Single-PC Cards	191,900	0.06	63,112,480	0.05	29,411	0.06
4 Prest Postcards	10,587	0.00	3,671,059	0.00	1,451	0.00
5 Total First Class	34,079,500	10.15	11,216,752,505	9.39	4,467,462	9.49
6 Priority	15,661,831	4.67	4,101,731,598	3.43	1,752,483	3.71

PQ296 Distribution Keys Usir UNLOADED Mail (Weighted)
Intra-BMC

ACCOUNT=53127 BOUND=1

LINE	CuFt	Percent CuFt	CFM	Percent CFM	Cost	Percent Cost
1 First Class Letters	21,418,825	7.07	2,346,385,701	7.19	830,915	5.67
2 First Class Presort	4,044,913	1.34	580,596,494	1.78	235,188	1.61
3 Single-PC Cards	119,705	0.04	9,402,673	0.03	3,754	0.03
4 Prest Postcards	1,139	0.00	117,706	0.00	49	0.00
5 Total First Class	25,584,582	8.45	2,936,502,575	9.00	1,069,906	7.30
6 Priority	23,645,618	7.81	3,788,074,767	11.61	1,329,192	9.07
7 Express	105,574	0.03	12,320,338	0.04	5,171	0.04
8 Periodicals	18,658,032	6.16	1,723,457,313	5.28	890,470	6.08
9 Std A Single Piece	7,127,539	2.35	647,334,357	1.98	268,412	1.83
10 Std A ECR	4,527,463	1.49	471,389,327	1.44	613,209	4.19
11 Std A Other	61,776,568	20.40	5,893,058,843	18.06	2,637,209	18.00
12 Total Reg Std A	73,431,570	24.25	7,011,782,526	21.49	3,518,830	24.02
13 NonPref ECR	397,578	0.13	18,433,840	0.06	7,199	0.05
14 NonPref Other	14,371,915	4.75	1,120,276,806	3.43	497,529	3.40
15 Total Std A	88,201,062	29.12	8,150,493,171	24.98	4,023,558	27.46
17 Parcel Post	100,362,670	33.14	10,316,876,617	31.62	4,870,897	33.25
18 Bound Printed Matte	12,800,560	4.23	1,266,521,160	3.88	637,097	4.35
19 Std B Special	18,972,808	6.26	2,898,124,836	8.88	1,198,386	8.18
20 Std B Library	10,060,132	3.32	1,199,873,134	3.68	466,271	3.18
21 Penalty-USPS	612,462	0.20	64,380,434	0.20	32,745	0.22
22 Free for Blind	869,965	0.29	111,277,550	0.34	54,452	0.37
23 International	2,974,900	0.98	160,421,790	0.49	73,090	0.50
24 Total All Mail	302,848,365	100.00	32,628,123,685	100.00	14,651,236	100.00

PQ296 Distribution Keys Usir UNLOADED Mail (Weighted)
Intra-BMC

ACCOUNT=53127 BOUND=2

LINE	CuFt	Percent CuFt	CFM	Percent CFM	Cost	Percent Cost
1 First Class Letters	54,383,773	11.14	4,327,532,870	9.69	1,852,776	10.59
2 First Class Presort	27,643,812	5.66	2,191,501,746	4.91	981,675	5.61
3 Single-PC Cards	127,372	0.03	13,262,252	0.03	5,204	0.03
4 Prest Postcards	5,051,625	1.03	343,243,361	0.77	157,714	0.90
5 Total First Class	87,206,582	17.86	6,875,640,230	15.40	2,997,369	17.13
6 Priority	34,921,716	7.15	2,154,688,111	4.63	986,648	5.64
7 Express	1,994,609	0.41	50,538,367	0.11	44,083	0.25
8 Periodicals	58,662,298	12.01	4,488,317,095	10.05	2,107,043	12.04
9 Std A Single Piece	8,511,315	1.74	544,548,094	1.22	233,267	1.33
10 Std A ECR	28,793,899	5.90	2,869,039,445	6.43	1,184,571	6.65
11 Std A Other	71,146,895	14.57	5,923,462,731	13.27	2,332,621	13.33
12 Total Reg Std A	108,452,110	22.21	9,337,050,270	20.91	3,730,459	21.32
13 NonPref ECR	2,832,678	0.58	379,141,075	0.85	164,586	0.94
14 NonPref Other	8,006,978	1.64	1,075,909,930	2.41	451,896	2.58

15 Total Std A	119,291,765	24.43	10,792,101,274	24.17	4,346,941	24.84
16 Small Parcels	739,461	0.15	24,524,708	0.05	1,932	0.01
17 Parcel Post	121,981,505	24.98	13,489,386,701	30.21	4,654,240	26.60
18 Bound Printed Matte	29,753,773	6.09	2,486,173,976	5.57	1,012,805	5.79
19 Std B Special	25,432,273	5.21	3,394,305,787	7.60	969,295	5.54
20 Std B Library	2,694,075	0.55	332,967,211	0.75	152,057	0.87
21 Penalty-USPS	548,196	0.11	43,051,099	0.10	20,001	0.11
22 Free for Blind	327,5468	0.67	418,043,470	0.94	162,428	0.93
23 International	1,809,432	0.37	103,193,853	0.23	45,588	0.26
24 Total All Mail	488,311,154	100.00	44,652,961,881	100.00	17,500,429	100.00

PQ296 Distribution Keys Usir UNLOADED Mail (Weighted)
Inter-BMC

ACCOUNT=53131

LINE	CuFt	Percent CuFt	CFM	Percent CFM	Cost	Percent Cost
1 First Class Letters	29,112,363	9.58	8,524,907,524	7.10	3,427,915	7.11
2 First Class Presort	6,126,209	2.02	1,626,400,067	1.35	656,482	1.36
3 Single-PC Cards	100,444	0.03	30,906,065	0.03	12,420	0.03
4 Prest Postcards	5,815	0.00	1,172,677	0.00	471	0.00
5 Total First Class	35,344,831	11.63	10,183,386,334	8.48	4,097,289	8.50
6 Priority	3,050,772	1.00	1,008,648,305	0.84	404,998	0.84
7 Express	33,599	0.01	5,711,747	0.00	2,296	0.00
8 Periodicals	68,277,771	22.47	26,072,946,343	21.72	10,541,486	21.86
9 Std A Single Piece	5,564,583	1.83	3,103,490,925	2.59	1,230,899	2.55
10 Std A ECR	7,191,808	2.37	2,706,668,126	2.25	1,089,421	2.26
11 Std A Other	61,342,067	20.19	26,626,057,318	22.18	10,715,016	22.22
12 Total Reg Std A	74,098,458	24.38	32,436,216,369	27.02	13,035,336	27.04
13 NonPref ECR	1,722,719	0.57	664,066,891	0.55	263,685	0.55
14 NonPref Other	15,559,011	5.12	6,146,244,238	5.12	2,509,133	5.20
15 Total Std A	91,380,188	30.07	39,246,527,498	32.69	15,808,153	32.79
16 Small Parcels	224,080	0.07	109,624,499	0.09	44,069	0.09
17 Parcel Post	71,022,643	23.37	28,350,465,163	23.62	11,293,922	23.43
18 Bound Printed Matte	10,685,170	3.52	4,484,568,523	3.74	1,796,712	3.73
19 Std B Special	15,469,009	5.09	6,994,354,389	5.83	2,789,849	5.79
20 Std B Library	3,558,540	1.17	1,644,399,438	1.37	663,244	1.38
21 Penalty-USPS	1,258,142	0.41	219,206,531	0.18	86,675	0.18
22 Free for Blind	527,749	0.17	396,528,521	0.33	159,404	0.33
23 International	3,061,342	1.00	1,332,202,089	1.11	524,381	1.09
24 Total All Mail	303,883,846	100.00	120,048,569,380	100.00	48,212,481	100.00

PQ396 Distribution Keys Usir UNLOADED Mail (Weighted)
Intra-BMC

ACCOUNT=53127 BOUND=

LINE	CuFt	Percent CuFt	CFM	Percent CFM	Cost	Percent Cost

1 First Class Letters	82,266,991	9.14	8,928,582,219	8.40	3,396,567	7.79
2 First Class Presort	48,041,022	5.34	3,891,105,157	3.66	1,669,668	3.83
3 Single-PC Cards	809,859	0.09	84,117,432	0.08	36,885	0.08
4 Prest Postcards	265,939	0.03	17,256,186	0.02	2,918	0.01
5 Total First Class	131,363,812	14.60	12,921,062,995	12.16	5,106,038	11.72
6 Priority	45,582,384	5.07	4,149,098,488	3.91	1,647,004	3.78
7 Express	891,565	0.10	67,894,578	0.06	45,310	0.10
8 Periodicals	96,633,971	10.74	11,452,600,410	10.78	4,113,671	9.44
9 Std A Single Piece	16,898,391	1.88	2,042,566,490	1.92	885,233	1.99
10 Std A ECR	38,016,039	4.23	4,996,840,988	4.70	2,088,784	4.79
11 Std A Other	188,094,148	20.90	24,162,677,238	22.74	10,977,395	25.19
12 Total Reg Std A	243,008,578	27.01	31,201,084,716	29.37	13,931,413	31.97
13 NonPref ECR	2,823,564	0.31	429,711,674	0.40	191,241	0.44
14 NonPref Other	30,890,553	3.43	3,243,885,387	3.05	1,322,048	3.03
15 Total Std A	276,722,796	30.75	34,874,681,777	32.82	15,444,701	35.44
16 Small Parcels	597,106	0.07	75,047,108	0.07	30,706	0.07
17 Parcel Post	231,535,036	25.73	28,710,400,875	27.02	12,023,062	27.59
18 Bound Printed Matte	50,528,781	5.62	4,643,988,866	4.37	1,932,868	4.44
19 Std B Special	45,917,265	5.10	7,488,830,423	7.05	2,475,771	5.68
20 Std B Library	10,865,388	1.21	986,667,189	0.93	421,591	0.97
21 Penalty-USPS	3,146,529	0.35	409,524,097	0.39	187,998	0.43
22 Free for Blind	830,283	0.09	60,530,195	0.06	23,464	0.05
23 International	5,137,628	0.57	410,034,146	0.39	127,016	0.29
24 Total All Mail	899,772,545	100.00	106,250,361,149	100.00	43,579,203	100.00

PQ396 Distribution Keys Usir UNLOADED Mail (Weighted)
Intra-BMC

ACCOUNT=53127 BOUND=1

LINE	CuFt	Percent CuFt	CFM	Percent CFM	Cost	Percent Cost
1 First Class Letters	31,609,961	10.37	3,900,544,507	11.20	1,516,479	10.46
2 First Class Presort	14,312,701	4.69	1,457,342,405	4.19	576,270	3.98
3 Single-PC Cards	252,788	0.08	40,444,511	0.12	16,472	0.11
4 Prest Postcards	235,399	0.08	15,236,009	0.04	1,917	0.01
5 Total First Class	46,410,849	15.22	5,413,567,432	15.55	2,111,138	14.57
6 Priority	9,942,003	3.26	1,318,253,185	3.79	538,561	3.72
7 Express	51,911	0.02	3,979,089	0.01	2,182	0.02
8 Periodicals	32,015,115	10.50	4,026,839,230	11.56	1,456,901	10.05
9 Std A Single Piece	6,464,928	2.12	493,322,243	1.42	249,867	1.72
10 Std A ECR	5,306,598	1.74	753,047,105	2.16	285,775	1.97
11 Std A Other	59,449,396	19.50	7,126,105,280	20.46	3,220,975	22.22
12 Total Reg Std A	71,220,922	23.36	8,372,474,629	24.04	3,756,616	25.92
13 NonPref ECR	615,938	0.20	78,356,742	0.23	38,752	0.27
14 NonPref Other	12,003,785	3.94	1,177,225,321	3.38	459,996	3.17
15 Total Std A	83,840,645	27.50	9,628,056,691	27.65	4,255,365	29.36
16 Small Parcels	558,958	0.18	65,398,057	0.19	26,813	0.19
17 Parcel Post	82,729,812	27.14	8,159,693,464	23.43	4,086,675	28.20
18 Bound Printed Matte	11,242,427	3.69	897,018,214	2.58	333,533	2.30

FILE=C:\OK-RERUN1-Wb3, SHEET-A

Estimates of Parcel Post and Standard A CF From Non-TRACS Sources

<u>Panel A</u>		<u>Parcel Post</u>
<u>Mail Category</u>	<u>Intra BMC</u>	<u>Cubic Feet (000)</u>
Parcel Post	22,497	a
DBMC	70,468	b
	<hr/> <u>92,965</u>	
	<u>Inter BMC</u>	
Parcel Post	<u>42556 c</u>	

Source: Lib. Ref. H-135, Standard Mail (B) Parcel Post Volume and Cubic Feet Data Distribution by Weight and Zone and BMC/ASF - GFY 1996, Attachment I.

- a. p. 32
- b. p. 44
- c. p. 38

<u>Panel B</u>	<u>Standard (A)</u>
	<u>Cubic Feet (000)</u>
	<u>Inter BMC</u>
Standard(A)	<u>135,639</u>
	<u>381,540</u>

Source: Lib Ref. H-111 Dropship Savings in Periodicals and Standard Mail Appendix A, Table 4 and conversion factor .056583 = 1/17,873 from TRACS program "hwy 1", p. 171, Lib. Ref. H- 82.

Panel C Summary Figures

	<u>Inter BMC</u>	<u>Intra BMC</u>	
Parcel Post	42600 a	92965 b	
Standard(A)	135639 c	381540 d	
Sources:	a Panel A .	c Panel B	ratio Sta/PP
	b Panel A	d Panel B	4.104122

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**Impact of Drop Shipping on Workload
In Intra-BMC and Inter BMC Purchased Transportation**

	1991	1996
	millions	
Standard (A) mail not ds beyond BMC ee/ lb regular See workpaper 2 nonprofit	41786.4 pcs 5287.7 lbs <u>695.4</u> lbs	36945.2 4602.9 workpaper 5 655.4
Standard (B) w. DBMC correction	2061.3 lbs <u>8044.4</u> lbs	2442.6 1.185 7700.9 0.957

Standard A Mail

	1991	Standard A		1996	Standard A
		Standard A	millions		
a Dest SCF Entry	6619	bb	SCF DE	16516 c	
b DDU Entry	1821		DDU DE	5870 d	
	8440			22386	
see W/P 2	e Total BR Regular	50226.4		Tot St. A Reg	59331.2 f
	Dst SCF or Dest D	8440		Dst SCF or Dest	-22386
	not ds beyond BMC	41786.4		DDU	
	mail not ds beyond BMC ee/ Nonprofit	41786.4			36945.2
	(millions)	pounds	pcs	Nonprofit (millions)	lbs.
Nationwide Entry	10,193,716	659,618			
BMC Entry	575,571	35,762			
Total	not ds beyond BMC	<u>695,380</u>			
		low transport notds beyondBMC	12209.083 1287.673 SCF entry DU entry	12209.083 1287.673 961.524 371.126	822.824 70,964 72,9175 23,5255
			2620,323 9588.76	2620,323 9588.76	167,407 655,417

Notes: 1. Single-letter notes refer to Workpaper 1.

2. ds = drop-shipped

bb. SCF DE = SCF Destination Entry

ee. "ds beyond BMC" means to SCF , AO or DU.

Mail	Standard B Mail		Pieces	Weight
	1991 (000)	Weight thous lbs		
1 PP	138,494	729,724		212.8
2 BPM	363,532	918,484		516.1
3 Special	153,138	308,611		189.8
4 Library	40,228	117,641		30.1
5 Total	695392	2,074,460		948.8
ratio of workload			1.3619	bef DBMC adjus
6 lbs/pc PP		5.1447		5.2688
7 DBMC PP (mills)		5.12		96.41
8 lbs saved millions		26.3		508.0
9 half of DBMC savings		13.2		254.0
10 Standard (B) after DBMC adj		2061.3 mill lbs	2442.6	0.9732
				1.242

DBMC PP avoids inter BMC transp but it does not avoid intraBMC transp

LAM-7

Price Index of Truck Transportation Except Local (a)

Jun	1992	100.0
Jul	1992	99.8
Aug	1992	99.7
Sep	1992	99.5
Oct	1992	99.5
Nov	1992	99.4
Dec	1992	99.4
Annual	1992	
Jan	1993	100.7
Feb	1993	100.5
Mar	1993	100.6
Apr	1993	100.6
May	1993	100.3
Jun	1993	100.8
Jul	1993	100.1
Aug	1993	100.8
Sep	1993	100.8
Oct	1993	100.8
Nov	1993	101.1
Dec	1993	101.1
Annual	1993	100.7
Jan	1994	101.5
Feb	1994	102.1
Mar	1994	102.3
Apr	1994	102.4
May	1994	102.6
Jun	1994	103.0
Jul	1994	103.2
Aug	1994	103.4
Sep	1994	103.5
Oct	1994	103.8
Nov	1994	103.8
Dec	1994	104.2
Annual	1994	103.0
Jan	1995	104.4
Feb	1995	105.0
Mar	1995	105.1
Apr	1995	105.0
May	1995	105.1
Jun	1995	105.4
Jul	1995	104.7
Aug	1995	105.4
Sep	1995	105.3
Oct	1995	105.6
Nov	1995	105.5
Dec	1995	105.0
Annual	1995	105.1
Jan	1996	106.0
Feb	1996	106.7
Mar	1996	106.8

Apr	1996	106.8
May	1996	107.0
Jun	1996	108.6
Jul	1996	107.4
Aug	1996	107.7
Sep	1996	107.9
Oct	1996	108.7
Nov	1996	108.7
Dec	1996	108.7
Annual	1996	107.6
Jan	1997	109.9
Feb	1997	110.3
Mar	1997	110.1
Apr	1997	110.4
May	1997	110.5
Jun	1997	110.5
Jul	1997	110.8
Aug	1997	111.2
Sep	1997	111.1
Oct	1997	111.3
Nov	1997	111.0

US Bureau of Labor Statistics, labstat Internet site, series PCU4213#P

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P. 1 of 2

Estimation of Annual Rate of Growth of Trucking Price index

month Yr.	Index	nat. log.	t	
Jun 1992	100.0	4.60517	1	Regression Output:
Jul 1992	99.8	4.603168	2	Constant 4.588696
Aug 1992	99.7	4.602166	3	Std Err of Y Est 0.005332
Sep 1992	99.5	4.600158	4	R Squared 0.978215
Oct 1992	99.5	4.600158	5	No. of Observations 66
Nov 1992	99.4	4.599152	6	Degrees of Freedom 64
Dec 1992	99.4	4.599152	7	
Jan 1993	100.7	4.612146	8	X Coefficient(s) 0.001847
Feb 1993	100.5	4.610158	9	Std Err of Coef. 3.4E-05
Mar 1993	100.6	4.611152	10	t value 53.80731
Apr 1993	100.6	4.611152	11	monthly growth fact 1.022389
May 1993	100.3	4.608166	12	
Jun 1993	100.8	4.613138	13	moly rog 0.022389
Jul 1993	100.1	4.60617	14	rate of growth 2.238904 % per yea
Aug 1993	100.8	4.613138	15	
Sep 1993	100.8	4.613138	16	
Oct 1993	100.8	4.613138	17	
Nov 1993	101.1	4.61611	18	
Dec 1993	101.1	4.61611	19	
Jan 1994	101.5	4.620059	20	
Feb 1994	102.1	4.625953	21	
Mar 1994	102.3	4.62791	22	
Apr 1994	102.4	4.628887	23	
May 1994	102.6	4.630838	24	
Jun 1994	103.0	4.634729	25	
Jul 1994	103.2	4.636669	26	
Aug 1994	103.4	4.638605	27	
Sep 1994	103.5	4.639572	28	
Oct 1994	103.8	4.642466	29	
Nov 1994	103.8	4.642466	30	
Dec 1994	104.2	4.646312	31	
Jan 1995	104.4	4.64823	32	
Feb 1995	105.0	4.65396	33	
Mar 1995	105.1	4.654912	34	
Apr 1995	105.0	4.65396	35	
May 1995	105.1	4.654912	36	
Jun 1995	105.4	4.657763	37	
Jul 1995	104.7	4.651099	38	
Aug 1995	105.4	4.657763	39	
Sep 1995	105.3	4.656813	40	
Oct 1995	105.6	4.659658	41	
Nov 1995	105.5	4.658711	42	
Dec 1995	105.0	4.65396	43	
Jan 1996	106.0	4.663439	44	
Feb 1996	106.7	4.670021	45	
Mar 1996	106.8	4.670958	46	
Apr 1996	106.8	4.670958	47	
May 1996	107.0	4.672829	48	
Jun 1996	108.6	4.687671	49	
Jul 1996	107.4	4.67656	50	

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Aug	1996	107.7	4.67935	51
Sep	1996	107.9	4.681205	52
Oct	1996	108.7	4.688592	53
Nov	1996	108.7	4.688592	54
Dec	1996	108.7	4.688592	55
Jan	1997	109.9	4.699571	56
Feb	1997	110.3	4.703204	57
Mar	1997	110.1	4.701389	58
Apr	1997	110.4	4.70411	59
May	1997	110.5	4.705016	60
Jun	1997	110.5	4.705016	61
Jul	1997	110.8	4.707727	62
Aug	1997	111.2	4.71133	63
Sep	1997	111.1	4.710431	64
Oct	1997	111.3	4.712229	65
Nov	1997	111.0	4.70953	66

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Totals for Mailcodes
Account 53127, BOUND 1

MAILCODE	PIECES	Percent	WT	Percent	CUFT	Percent
A	7,619	15.16	459.91	5.10	32.98	4.25
B	1,616	3.21	69.60	0.77	4.99	0.64
C	305	0.61	0.91	0.01	0.07	0.01
D	33	0.07	0.45	0.01	0.03	0.00
E	213	0.42	1.51	0.02	0.11	0.01
F	49	0.10	0.33	0.00	0.02	0.00
H	175	0.35	342.28	3.79	27.07	3.49
I	62	0.12	15.94	0.18	2.25	0.29
J	1,766	3.51	627.32	6.95	35.76	4.61
K	629	1.25	83.19	0.92	6.90	0.89
L	1,382	2.75	162.97	1.81	9.22	1.19
M	29,112	57.91	2,875.73	31.88	162.72	20.99
N	527	1.05	34.69	0.38	2.12	0.27
O	5,140	10.22	387.08	4.29	23.65	3.05
P	445	0.89	2,223.56	<u>24.65</u>	316.93	40.88
Q	243	0.48	518.13	5.74	34.79	4.49
R	375	0.75	623.56	6.91	58.90	7.60
S	57	0.11	212.94	2.36	15.80	2.04
T	102	0.20	7.53	0.08	0.53	0.07
U	89	0.18	55.06	0.61	5.36	0.69
V	11	0.02	0.88	0.01	0.07	0.01
W	252	0.50	114.75	1.27	7.06	0.91
Y	12	0.02	80.56	0.89	11.02	1.42
AA	10	0.02	1.13	0.01	0.13	0.02
DD	8	0.02	0.64	0.01	0.06	0.01
EE	1	0.00	1.31	0.01	0.08	0.01
GG	1	0.00	0.06	0.00	0.01	0.00
HH	7	0.01	1.27	0.01	0.09	0.01
II	1	0.00	0.31	0.00	0.02	0.00
LL	28	0.06	116.31	1.29	16.58	2.14
<hr/>						
	50,270	100.00	9,019.91	100.00	775.31	100.00

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Totals for Mailcodes
Account 53127, BOUND 2

MAILCODE	PIECES	Percent	WT	Percent	CUFT	Percent
A	3,483	9.55	300.27	4.70	21.53	4.10
B	6,123	16.79	241.83	3.78	17.34	3.30
C	1	0.00	0.06	0.00	0.00	0.00
D	5	0.01	0.05	0.00	0.00	0.00
E	175	0.48	1.45	0.02	0.10	0.02
F	41	0.11	0.31	0.00	0.02	0.00
H	166	0.46	293.38	4.59	23.21	4.42
I	44	0.12	35.50	0.56	5.01	0.95
J	1,995	5.47	515.81	8.07	29.40	5.60
K	309	0.85	40.13	0.63	3.33	0.63
L	3,864	10.59	289.94	4.54	16.41	3.12
M	16,010	43.89	2,104.70	32.92	119.09	22.68
N	403	1.10	33.50	0.52	2.05	0.39
O	3,170	8.69	207.83	3.25	12.70	2.42
P	190	0.52	860.13	<u>13.45</u>	122.59	23.35
Q	174	0.48	496.13	7.76	33.31	6.34
R	104	0.29	209.38	3.28	19.78	3.77
S	25	0.07	44.31	0.69	3.29	0.63
T	20	0.05	30.31	0.47	2.15	0.41
U	2	0.01	29.19	0.46	2.84	0.54
V	1	0.00	0.19	0.00	0.01	0.00
Y	6	0.02	5.75	0.09	0.79	0.15
AA	5	0.01	2.38	0.04	0.28	0.05
BB	4	0.01	1.31	0.02	0.15	0.03
DD	2	0.01	0.06	0.00	0.01	0.00
EE	1	0.00	1.94	0.03	0.11	0.02
FF	1	0.00	3.81	0.06	0.46	0.09
HH	8	0.02	0.27	0.00	0.02	0.00
II	3	0.01	25.94	0.41	1.87	0.36
JJ	2	0.01	11.81	0.18	1.65	0.31
KK	1	0.00	3.13	0.05	0.30	0.06
LL	117	0.32	596.00	9.32	84.95	16.18
MM	20	0.05	5.75	0.09	0.33	0.06
NN	2	0.01	0.13	0.00	0.01	0.00
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	36,477	100.00	6,392.64	100.00	525.09	100.00

LAM-Q b

Utilization of Truck Floor Space

Year	Intra BMC	Inter BMC
1993	58.35	73.00
1994	57.62	70.00
1995	57.40	68.32
1996	53.67	64.62

Source: Response to FGSA/USPS J-2-12, Attachment 1

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- Only PQ1 available for FY90.

TRACS Historical Highway Capacity Utilization Factors FY90-FY94

Attachment 1

Response to FGSAUSPS-T2-12

RESPONSE OF POSTAL SERVICE WITNESS NIETO TO INTERROGATORIES
OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

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11458

RESPONSE OF POSTAL SERVICE WITNESS NIETO TO INTERROGATORIES
OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

- b. Highway capacity utilization factors for FY96 can be seen in the table below:

Highway Capacity Utilization Factors
FY96

	FY 1996			
	PQ 1	PQ 2	PQ 3	PQ 4
Intra-SCF Test Conducted At:	43.1%	44.1%	41.7%	35.1%
Inbound SCF	33.3%	41.5%	35.1%	29.3%
Inbound Other	56.3%	51.4%	43.5%	28.6%
Outbound SCF	51.6%	56.4%	50.6%	52.1%
Outbound Other (a.m.)	47.1%	48.3%	43.9%	42.5%
Outbound Other (p.m.)	27.1%	22.9%	35.3%	22.9%
Inter-SCF Test Conducted At:	54.7%	44.7%	40.9%	38.3%
BMC	63.5%	38.1%	28.2%	23.2%
SCF	53.1%	53.1%	50.3%	49.3%
Other	47.5%	42.9%	44.2%	42.5%
Intra-BMC Test Conducted At:	53.8%	58.8%	54.0%	48.1%
BMC	44.8%	40.5%	38.0%	41.3%
Inbound SCF	57.1%	61.2%	60.0%	56.9%
Inbound Other	37.5%	58.9%	42.8%	29.5%
Outbound SCF	73.8%	75.2%	72.2%	66.2%
Outbound Other	55.6%	58.2%	56.7%	46.6%
Inter-BMC Test Conducted At:	70.1%	67.3%	63.6%	57.5%
BMC	69.1%	71.0%	63.2%	61.1%
SCF	69.3%	67.4%	64.0%	61.3%
Other	71.8%	63.3%	63.4%	50.0%

c.

Objection filed September 15, 1997.

(Aug 91)

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**RESPONSE OF POSTAL SERVICE WITNESS NIETO TO INTERROGATORIES
OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION**

**Highway Capacity Utilization Factors
FY95**

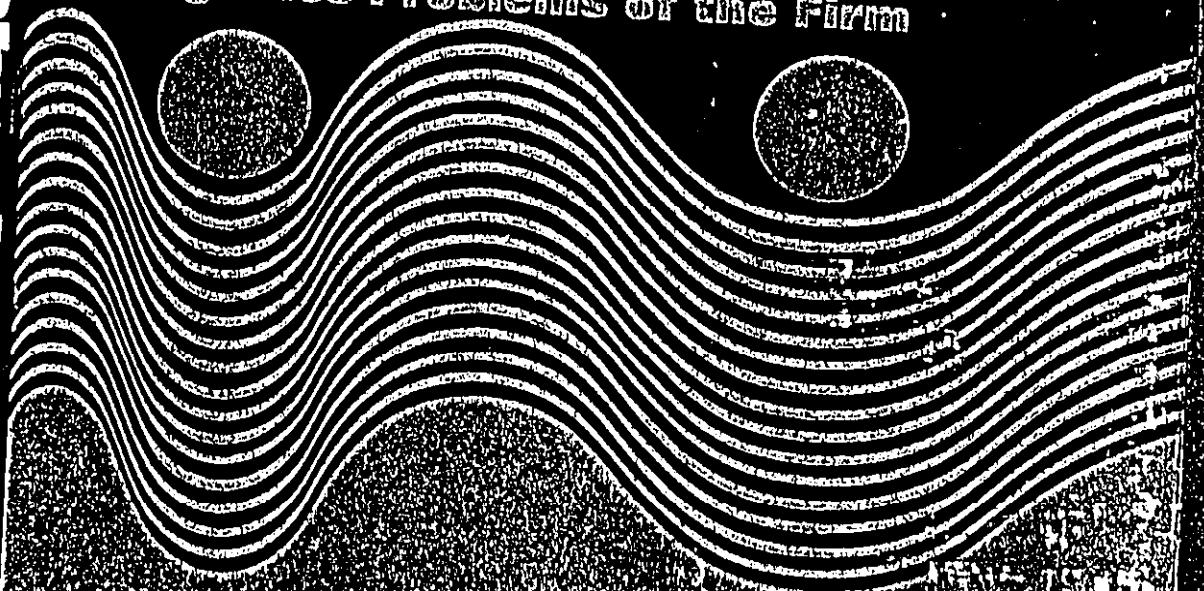
	FY 1995			
	PO1	PO2	PO3	PO4
Intra-SCF Test Conducted At:	39.4%	39.3%	39.7%	35.4%
Inbound SCF	43.5%	37.7%	37.1%	33.4%
Inbound Other	29.2%	31.6%	32.3%	27.0%
Outbound SCF	48.8%	47.2%	52.9%	45.8%
Outbound Other (a.m.)	50.2%	52.7%	47.6%	45.0%
Outbound Other (p.m.)	25.4%	27.5%	28.4%	24.8%
Inter-SCF Test Conducted At:	49.6%	43.4%	45.3%	40.3%
BMC	49.5%	40.6%	41.9%	32.5%
SCF	53.3%	49.7%	51.3%	49.0%
Other	46.0%	40.1%	42.5%	39.4%
Intra-BMC Test Conducted At:	57.7%	59.7%	60.2%	52.0%
BMC	42.0%	42.1%	40.2%	37.7%
Inbound SCF	64.2%	54.8%	61.4%	48.6%
Inbound Other	50.9%	66.3%	57.1%	47.8%
Outbound SCF	74.9%	72.1%	74.7%	67.2%
Outbound Other	56.3%	63.1%	67.5%	58.5%
Inter-BMC Test Conducted At:	64.1%	73.0%	66.3%	69.9%
BMC	68.9%	68.7%	65.5%	64.2%
SCF	67.5%	69.0%	59.9%	60.5%
Other	56.0%	61.4%	73.6%	77.2%

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Bowersox, Smykay, La Londe
Foreword by Wendell Smith

Physical Distribution Management

Revised Edition
Logistics Problems of the Firm



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LAM-11 p.2 of 5

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Edward W. Smykay / Bernard J. LaLonde

Graduate School of Business Administration, Michigan State University

Foreword by WENDELL R. SMITH

THE MACMILLAN COMPANY, NEW YORK

COLLIER-MACMILLAN LIMITED, LONDON

LAM 11, p. 3 of 5

ROUND-TRIP LOAD CWT	AVERAGE ROUND-TRIP LOAD (Pounds)
11,000	11,000
12,000	12,000
13,000	13,000
14,000	14,000
15,000	15,000
16,000	16,000
17,000	17,000
18,000	18,000
19,000	19,000
20,000	20,000
21,000	21,000
22,000	22,000
23,000	23,000
24,000	24,000
25,000	25,000

SOURCE: Previous data u
of Transporting Freight by C
modities—Middlewest Regio
April, 1967.

Pickup and Delivery Co
costs have service units a
(fuel). These costs are first
of cwt delivered in that si
from shipper records. Di
total cwt gives a cost per
in a specific shippment to
It is now necessary to kno
truck usually goes from an origin to a destination and back, line-haul costs
are one of the joint cost allocation problems in transportation. Because a
truck usually goes from an origin to a destination and back, line-haul costs
are generated in both directions. The usual way of allocating these costs is
to calculate a round-trip load factor. Thus, if 30,000 pounds are shipped in
one direction, and 10,000 in the other, the round-trip load factor is 20,000
(40,000 ÷ 2). The approximate line-haul cost per cwt is then found under
the 20,000-pound load factor (or 200 cwt), and in Table 7-2 is \$1.575 per
cwt mile.

Note that Table 7-2 refers to round-trip load factor. This is an example
shown in Table 7-2.
Note that Table 7-2 refers to round-trip load factor. This is an example
of one of the joint cost allocation problems in transportation. Because a
truck usually goes from an origin to a destination and back, line-haul costs
are generated in both directions. The usual way of allocating these costs is
to calculate a round-trip load factor. Thus, if 30,000 pounds are shipped in
one direction, and 10,000 in the other, the round-trip load factor is 20,000
(40,000 ÷ 2).

The lattice costs by the output. Similarly, the line-haul costs are analogous to
a truck trailer, and its unit cost depends upon how far it travels and the
amount of weight it carries. A table developed for various load factors is
involved is to consider it to be similar to ordinary factory accounting. The
distance and any weight. The simplest way to understand the basic economics
involved is to charge a lattice operation is determined by dividing
cost that must be charged to cover a lattice operation is determined by dividing
the lattice costs by the output. Similarly, the line-haul costs are analogous to
a truck trailer, and its unit cost depends upon how far it travels and the
amount of weight it carries. A table developed for various load factors is
shown in Table 7-2.

It is now possible to construct the line-haul out-of-pocket cost for any
average length of haul.

resulting from the application of the key cost to its average load factor and
a revenue recovery factor of \$80.85, initially the same as the revenue recovery
a new load factor times the new cost and key distance (250 miles) results in
the new load factor to cover a lattice operation is determined by dividing
per cwt mile of exactly one-half the key cost or \$1,575/cwt mile. Multiplying
distance, doubling the load factor to 462 (2 X 231 cwt) will result in a cost
plus the loads in each
same. When the loads in each
One-way costs are the same
same. When the loads in each
plus the inbound load must be
For example, if the outbound
the average round-trip load is \$1,575. For 300-mile actual
(300 miles X \$1.575/cwt mile)

By the same token, changes in load factor will affect cost scales. Recalling
cost scale can be constructed to recover out-of-pocket line-haul costs for any
costs, by ICC Formulas, are strictly linear with distance, and that a cost per
cost Variations by Weight. Thus far, it has been shown that the line-haul
\$0.014/cwt mile by 125 miles by 231 cwt.

For a haul of 125 miles (exactly one-half of the average length of haul),
revenue generation is \$80.85 (\$3.5 cwt X 231 cwt).
The cost recovery factor is \$40.42, which is exactly the result of multiplying
\$0.014/cwt mile by 125 miles by 231 cwt.

For a haul of 250 miles (exactly one-half of the average length of haul),
the required revenue to cover the cost is \$80.85 (250 miles X 231 cwt X
\$0.014/cwt mile). If the carrier sets his key price equal to his key cost, his
per cwt mile. It then follows that at the average length of haul of 250 miles,
From Table 7-1, the necessary recovery factor for line-haul costs is \$0.014
to recover at least this out-of-pocket costs to assure a sound pricing structure.
Cost Recovery Factor. It was stated earlier that the carrier must attempt
of course, this applies only to the given load factor of 231 cwt.

Length of haul from study results is \$1.75, exactly one-half the key cost.
the cost per cwt for a distance of 125 miles (exactly one-half the average
of by multiplying the cost per cwt mile by the given distance. For example,
length of haul from study results is \$1.75, exactly one-half the key cost.

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TABLE 7-2* OUT-OF-POCKET LINE-HAUL COSTS FOR VARIOUS ROUND-TRIP LOADS (Based upon a cost of \$.31499/vehicle mile)

Average Round-trip Load (pounds)	Cost in Cents per cwt mile	Average Round-trip Load (pounds)	Cost in Cents per cwt mile
10,000	.3150	26,000	.1212
11,000	.2864	27,000	.1167
12,000	.2625	28,000	.1125
13,000	.2423	29,000	.1086
14,000	.2250	30,000	.1050
15,000	.2100	31,000	.1016
16,000	.1969	32,000	.0984
17,000	.1853	33,000	.0955
18,000	.1750	34,000	.0926
19,000	.1658	35,000	.0900
20,000	.1575	36,000	.0875
21,000	.1500	37,000	.0851
22,000	.1432	38,000	.0829
23,000	.1370	39,000	.0808
24,000	.1312	40,000	.0787
25,000	.1260	41,000	.0768

One-way costs are the same as round-trip costs when the load in each direction is the same. When the loads in each direction are different, the average of the outbound load plus the inbound load must be computed to select the proper cost.

For example, if the outbound load is 30,000 pounds and the inbound load is 10,000, the average round-trip load is 20,000 pounds. The out-of-pocket line-haul cost per cwt. mile is \$.1575. For 300-mile actual haul, the out-of-pocket line-haul cost is \$.473/100 pounds (300 miles \times \$.1575 cwt. mile).

*SOURCE: Previous data were based upon approximations. Data here are from *Cost of Transporting Freight by Class I and Class II Motor Common Carriers of General Commodities — Midwest Region, 1965*, ICC Statement No. 4-67, Washington, D. C., April, 1967.

Pickup and Delivery Costs. As with line-haul costs, pickup and delivery costs have service units associated with time (drivers' wages) and distance (fuel). These costs are first collected from the books of account. The amount of cwt delivered in that specific pickup and delivery area is then collected from shipment records. Dividing the total pickup and delivery costs by the total cwt gives a cost per cwt. This cost was determined to be \$.17/cwt.

It is now necessary to know only the number of cwt picked up and delivered in a specific shipment to calculate its share of pickup and delivery cost. For example, if the shipment weight is 260 cwt, the pickup and delivery costs are \$44.20 (\$.17/cwt \times 260 cwt). In fact, Table 7-3, column 3, shows that the \$.17/cwt for pickup and delivery cost is based upon an average of 240 cwt picked up and delivered.

11465

THE URBAN
TRANSPORTATION
PROBLEM | J. R. Meyer,
J. F. Kain, M. Wohl

Harvard University Press, Cambridge, Massachusetts

1965

LAM-12, p. 1 of 5

Urban transportation, for a complex set of reasons, has become a concern of American life and public policy in the mid-twentieth century by a society which has solved many of its more basic problems, such as achieving a high general standard of living and in its more obvious or pressing problems of unemployment whatever the cause, it has become increasingly fashionable United States to say that "an urban transportation problem is explore a variety of ways, some quite exotic, to alleviate this "problem." It is the purpose of this study, by integrating reverse but relevant pieces of information, to help focus and examine a more rational context for decisionmaking services in our urban areas and that if this is accomplished in will then basic economic and technological forces that underly ing premises are likely to be possible to identify able agreements, basic economic and technological forces that reasonable discussion on appropriate goals or criteria in transportation policies. Debate on appropriate goals or criteria in particular study is heavily indebted to the other RAND urban report of 1960. It should be immediately emphasized that the summer of 1960. This book is one report of many developed as part of Corporation study of urban transportation problems which should improve decisionmaking in this area significantly.

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It is perhaps an example of excellence of the type of problem which has solved many of its more basic problems, such as achieving a high general standard of living a United States to say that "an urban transportation problem is explore a variety of ways, some quite exotic, to alleviate this "problem." It is the purpose of this study, by integrating basic economic and technological forces that underly ing premises are likely to be possible to identify able agreements, basic economic and technological forces that reasonable discussion on appropriate goals or criteria in transportation policies. Debate on appropriate goals or criteria in particular study is heavily indebted to the other RAND urban report of 1960. It should be immediately emphasized that the summer of 1960. This book is one report of many developed as part of Corporation study of urban transportation problems which should improve decisionmaking in this area significantly.

Type of facility and location

Rail transit lines	Chicago, Congress St., Milwaukee
Cleveland, Westside	Boson, Highland Branch
Philadelphia, Esplanade	Baltimore, Newark-Frankford
Pittsburgh-Columbia	South Jersey (proposed)
N.W. Bethesda	Washington, D.C. (proposed in 1962)
Powerhouse-Rockville	Express bus lines on mixed traffic expressway
Route 95	GWMP (Maryland)
Sumitomo Parkway	Washington, D.C. (proposed in 1962)
Hensson Creek	Highway routes (average distance to outer
Boulding	Washington, D.C.
Shirley Highway	Baltimore
Dulles Airport	Highway routes (average distance to outer
Highway 29	Highway routes (average distance to outer
Lengnath for highway and transit line-haul	Highway routes (average distance to outer
Figures 29, 30, and 31 provide information	Highway routes (average distance to outer
lengths for both cost analysis were	Highway routes (average distance to outer
occur because different route lengths were	Highway routes (average distance to outer
most relevant cases, both present and future	Highway routes (average distance to outer
employment in these present-day data, it app-	Highway routes (average distance to outer
out statistically examining detailed cost structures, both cost sharing rather is, high volume passenger	Highway routes (average distance to outer
butions and densities) and to categorize in quantitative form any changes	Highway routes (average distance to outer
in the relative positions of alternative technological systems which might	Highway routes (average distance to outer
data for different sizes of communities (in terms of geographic distribution and density)	Highway routes (average distance to outer
peak travel,	Highway routes (average distance to outer
Peak travel,	Highway routes (average distance to outer
Highway routes (average distance to outer	Highway routes (average distance to outer
St. Louis	Highway routes (average distance to outer
Boston	Highway routes (average distance to outer
Baltimore	Highway routes (average distance to outer
Washington, D.C.	Highway routes (average distance to outer
Philadelphia	Highway routes (average distance to outer

transit technologies and does not include co-

muter railroad operations.

In this configuration, it is vital to distinguish between cost and price.

Because of higher car occupancy during off-peak hours,

automobiles for vacation trips, and so forth, further economies would result from use and cost sharing rather is, high volume passengers

addition peak and off-peak, and accident costs would be small because of costs, and the same would true for automobile travel. For automobile

trips—both capital and operating—should be small compared to the peak-hour

out statistics is a very likely assumption, of course, and one had to validate with

out statistics both cost sharing detailled costs, and one had to validate with

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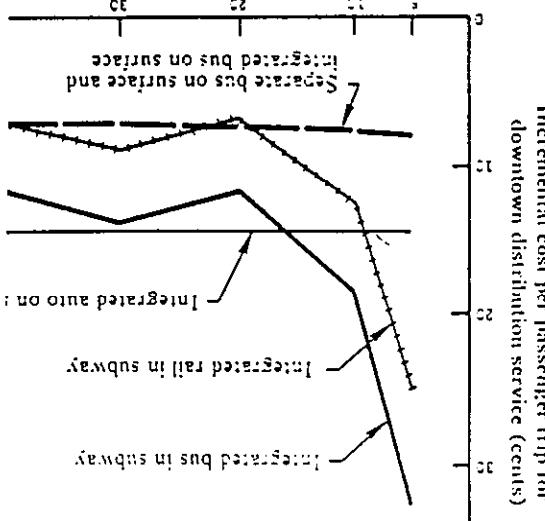
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p. 3 of 5
LA-M-12

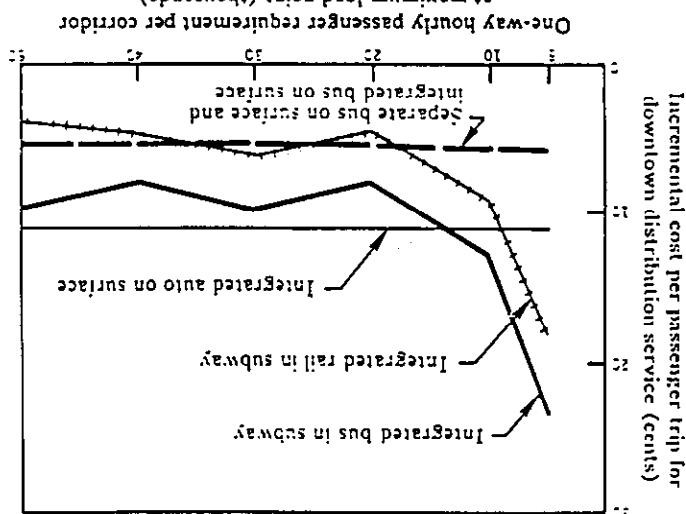
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Figure 43. Comparative costs of downtown distribution modes, 2-mile downtown route length.



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Figure 3. Comparative costs of distribution modes. 112-mile distribution route length.



Figures 42 through 46 display the results obtained in costing each of five types of downtown distribution modes on the basis of the cost of redistributions reported in the previous section. The three surface terms—integrated bus, separate feeder bus, and integrated automobile—each have unit costs which are identical for all practical purposes. By contrast, two types of surface bus service (integrated bus and separate feeder bus) have relatively high fixed costs which are subdivided among the total bus service. Thus production costs are high.

LAM-12, p. 5 of 5

DOWNTOWN DISTRIBUTION

287

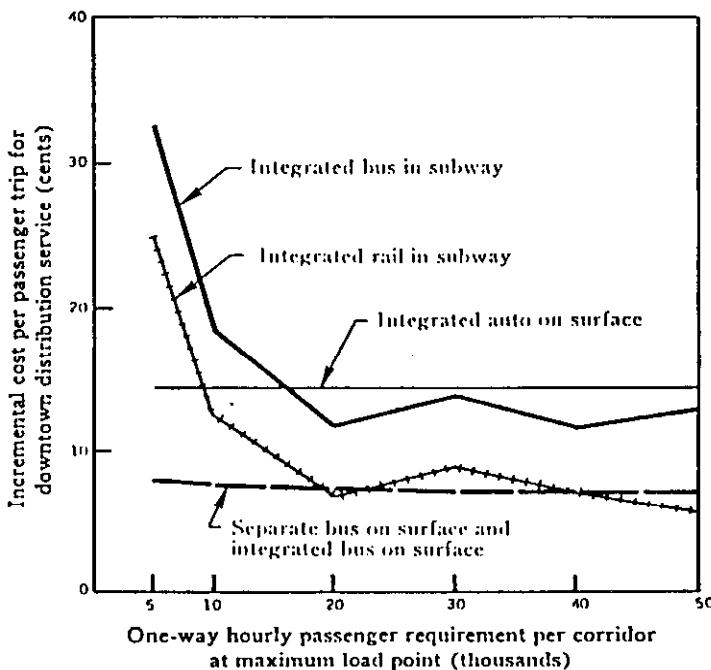


Figure 43. Comparative costs of downtown distribution modes, 2-mile downtown route length.

since fixed parking costs are spread over longer trip distances with route length increases. These relationships seemingly hold for all volume levels.

A clear distinction can be made between the cost relationships applicable above and below 20,000 passengers per corridor per hour. At corridor volumes below 20,000 an hour, the surface bus modes are the cheapest in downtown operations, particularly when compared with either bus or rail transit in subway on the longer downtown route lengths. Of the two surface bus modes, the integrated bus service generally would be the more desirable since passenger transfers would be avoided, less travel time would be involved, and no important cost differentials exist. Furthermore, even at the lowest volume ranges, the integrated automobile downtown service runs about 6 cents a trip higher than integrated bus for a 1½-mile downtown route, and about 8 cents a trip higher for a 4-mile route; in relative terms, the integrated bus service is generally 50 to 60 per cent less costly than integrated automobile for downtown service on surface streets.

Estimates of the travel times for the various modes are shown in Figure 47. (Bus passenger trip times were assessed as one-half of the one-

TRACS Estimate of Cubic Feet Fiscal Year 1996

PQ196 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
Intra-BMC

ACCOUNT= BOUND=.
53127

MAILCODE	CuFt	Percent	
	CuFt		
1st Class	88,278,818	8.37	
2nd Cl Period	124,891,547	11.84	
International	11,133,400	1.06	
PRI	67,564,941	6.40	
STD A	328,939,249	31.18	328,939,249
STD B - Other	147,624,723	13.99	
STD B - P	286,621,091	27.17	286,621,091

PQ296 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
Intra-BMC

ACCOUNT= BOUND=.
53127

MAILCODE	CuFt	Percent	
	CuFt		
1st Class	158,075,574	14.66	
2nd Cl Period	104,794,624	9.72	
International	7,226,067	0.67	
PRI	77,175,679	7.16	
STD A	287,632,518	26.68	287,632,518
STD B - Other	145,086,120	13.46	
STD B - P	298,053,459	27.65	298,053,459

PQ396 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
Intra-BMC

ACCOUNT= BOUND=.
53127

MAILCODE	CuFt	Percent	
	CuFt		
1st Class	200,185,973	16.22	
2nd Cl Period	127,996,043	10.37	
International	8,497,872	0.69	
PRI	61,323,674	4.97	
STD A	380,539,334	30.84	380,539,334
STD B - Other	150,069,556	12.16	

LAM-13

STD B - P	305,244,848	24.74	305,244,848
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PQ496 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types
Intra-BMC

ACCOUNT= BOUND=.

53127

MAILCODE	CuFt	Percent CuFt	
1st Class	228,145,303	17.73	
2nd Cl Period	147,604,149	11.47	
International	4,714,949	0.37	
PRI	76,709,871	5.96	
STD A	329,741,850	25.62	329,741,850
STD B - Other	165,936,836	12.89	
STD B - P	334,141,580	25.96	334,141,580

Four Quarters

Standard(A)	1,326,852,951
ratio	1.083976
Parcel Post	1,224,060,978

Source: Running of Postal Service SAS Model in Lib. Ref. H-82 and H-84, y96a11.

1 CHAIRMAN GLEIMAN: Dr. Merewitz, have you had an
2 opportunity to examine the packet designated Written
3 Cross-Examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

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

8 THE WITNESS: I'm afraid I have two slight
9 corrections.

10 CHAIRMAN GLEIMAN: Okay.

11 THE WITNESS: May I see a copy? I just don't know
12 the number of one of them. Thank you.

13 Number 51 of the Postal Service, I believe we got
14 our Latin phrases confused.

15 MS. DUCHEK: Excuse me, Dr. Merewitz, but I don't
16 think that's in the -- number 51 is in the package. I don't
17 believe that has been designated.

18 THE WITNESS: Let's see.

19 CHAIRMAN GLEIMAN: Ms. Duchek is correct in that
20 regard.

21 THE WITNESS: I'm looking at the package. I have
22 51 here.

23 MR. WELLS: That's a copy of the entire set of
24 answers.

25 THE WITNESS: Oh. I'm sorry.

1 MR. WELLS: This has not been designated.

2 THE WITNESS: Fifty-one has not been --

3 CHAIRMAN GLEIMAN: Let me tell you what has been
4 designated, and if the two corrections in question don't
5 relate to the interrogatories that have been designated,
6 then they won't be relevant here. USPS-FGFSA-T1-1 through
7 13 and 15 through 38. One of your corrections is in 51,
8 which is not designated. Do you remember the interrogatory
9 --

10 THE WITNESS: Yes, I do. It's not a Postal
11 Service interrogatory; it's another --

12 CHAIRMAN GLEIMAN: Well, those are the only
13 interrogatories that have been designated, Postal Service
14 interrogatories, so with that in mind, then, is it
15 reasonable to assume that the responses to 1 through 13 and
16 15 through 38 would be the same as those you previously
17 provided in writing?

18 THE WITNESS: Yes.

19 CHAIRMAN GLEIMAN: That being the case, I'm going
20 to provide the two copies of the designated written cross
21 examination of Witness Merewitz to the reporter and direct
22 that it be accepted into evidence and transcribed into the
23 record at this point.

24 [Designation of Written

25 Cross-Examination of Leonard

ANN RILEY & ASSOCIATES, LTD.
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Washington, D.C. 20005
(202) 842-0034

1 Merewitz, FGFSA-T-1, was received
2 into evidence and transcribed into
3 the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

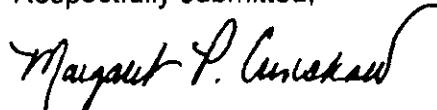
Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS LEONARD MEREWITZ
(FGFSA-T1)

<u>Party</u>	<u>Interrogatories</u>
United States Postal Service	USPS/FGFSA-T1-1-13, 15-38

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS LEONARD MEREWITZ (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory:</u>	<u>Designating Parties:</u>
USPS/FGFSA-T1-1	USPS
USPS/FGFSA-T1-2	USPS
USPS/FGFSA-T1-3	USPS
USPS/FGFSA-T1-4	USPS
USPS/FGFSA-T1-5	USPS
USPS/FGFSA-T1-6	USPS
USPS/FGFSA-T1-7	USPS
USPS/FGFSA-T1-8	USPS
USPS/FGFSA-T1-9	USPS
USPS/FGFSA-T1-10	USPS
USPS/FGFSA-T1-11	USPS
USPS/FGFSA-T1-12	USPS
USPS/FGFSA-T1-13	USPS
USPS/FGFSA-T1-15	USPS
USPS/FGFSA-T1-16	USPS
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USPS/FGFSA-T1-22	USPS
USPS/FGFSA-T1-23	USPS
USPS/FGFSA-T1-24	USPS
USPS/FGFSA-T1-25	USPS
USPS/FGFSA-T1-26	USPS
USPS/FGFSA-T1-27	USPS

<u>Interrogatory:</u>	<u>Designating Parties:</u>
USPS/FGFSA-T1-28	USPS
USPS/FGFSA-T1-29	USPS
USPS/FGFSA-T1-30	USPS
USPS/FGFSA-T1-31	USPS
USPS/FGFSA-T1-32	USPS
USPS/FGFSA-T1-33	USPS
USPS/FGFSA-T1-34	USPS
USPS/FGFSA-T1-35	USPS
USPS/FGFSA-T1-36	USPS
USPS/FGFSA-T1-37	USPS
USPS/FGFSA-T1-38	USPS

USPS/FGFSA-T1-1. Please refer to page 1 of your testimony, where you discuss your employment history at the Postal Rate Commission.

- (a) Please state each position you held and the years during which you held them.
- (b) During your service at the Commission did you familiarize yourself with any postal transportation issues? Please explain.
- (c) Please describe the extent to which you worked on or performed analyses on postal transportation issues.

RESPONSE:

- 1- (a) I was Special Assistant to Commissioner John Crutcher, 1986-1993.
- (b) The staff of the PRC was then small, so I was often assigned to teams in the group known as Technical Analysis and Planning (TAP) which made use of my economics and transportation training and knowledge. I was used by TAP doing cases as an economist on matter relating to postal volumes, transportation, Ramsey pricing, multi-product regulated firms and rigorous definitions of cross subsidy. I was recused from MC96-1, the DBMC Parcel Post case because I had been the Team Leader in developing evidence for the filing of that case when I worked for USPS. I made several presentation to the Commissioners on the subject of volumes in formal briefing sessions. I was also consulted on questions relating to direct marketing and transportation. In R87-1 I was on the team that analyzed the PS submission on purchased transportation, involving, among other things, translog cost functions and whether elasticities should be measured at the mean or at the extremes of the sample.

During these years I prepared two papers for refereed journals or books:
Merewitz and Zupan, "Franchise Bidding, Contracting Out and Worksharing in the Production of Postal Services: Can They Collect, Sort and Deliver", in Crew, M. and P. Kleindorger, Regulation and the Nature of Postal and Delivery Services (1993).
Haldi and Merewitz, "Costs and Returns from Delivery to Sparsely Settled Areas", in Crew, M. and P. Kleindorger, Managing Change in the Postal and Delivery Industries (1997)

- (c) Given my background at MVMA and my participation in MC86-1, Experimental Destination BMC Parcel Post Service, I was consulted on transportation issues. See response to part (b), above.

USPS/FGFSA-TI-2. In preparation for your testimony in this proceeding, please list all testimony or other documents (such as workpapers, library references, Commission Opinions and Recommended Decisions, etc.) on transportation issues from this and prior rate and classification cases that you reviewed.

2- I read the testimony of Witnesses Hatfield and Bradley in MC97-2, I reviewed worksheet 14.0.1 and others in the workpapers behind the CRA for 1995 and 1996. I reviewed the testimony of Witnesses Robers and Martin in R80-1 and R84-1, the PRC decisions in R80-1, R84-1 and R87-1, Library References PCR 17 and 20 from MC97-2, and other materials concerning C.S. 14. I reviewed Lib Ref H-82 and H-82 and the testimony and work papers of witnesses, Alexandrovich, Hatfield, Nieto, Bradley and Patelunas.

USPS/FGFSA-TI-3. Please refer to page 3 of your testimony.

- (a) Please explain why you relied on the Comprehensive Statement of Postal Operations rather than the Postal Service's Base Year workpapers for the transportation costs you cite at lines 5-8.
- (b) Are you aware of any differences between the two? Please explain in detail.
- (c) Are the figures you cite accrued costs or volume variable costs?
- (d) Are the intra-BMC figures you cite the same as those referred to as intra-BMC highway costs in the Base Year workpapers?

RESPONSE

3 (a) I originally listed the figures from the **Comprehensive Statement on Postal Operations** because I wished to compare highway transportation expenditures with the four other modes. I later excluded this exhibit from my testimony but the figures from 1996 remained.

- (b) Figures on purchased transportation, highway, from the worksheet 14.0.1 from Alexandrovich (USPS T-5) show \$1507 million in 1996. The comparable amount from the Comprehensive Statement on Postal Operations is \$1540. This amounts to difference of 3 parts in 150 or 2%. I have been told that both are accrual rather than one being on a cash basis.
- (c) The figures in the worksheet are attributable costs. Those in the Comprehensive Statement are accrued costs.
- (d) Yes

USPS/FGFSA-T1-4. Please define the following terms:

- (a) nonpreferential transportation system (as used on page 3, lines 12-13 of your testimony)
- (b) Inter B (as used on page 3, line 12 of your testimony).

RESPONSE

4. (a) The nonpreferential transportation system historically uses more highway and rail than air. It tends to have less frequent departures than the preferential system so that it allows larger loads to accumulate. As mentioned in the testimony the distinction between the pref and the nonpref transp system has tended to weaken in recent years.

- (b) Inter B stands for InterBMC.

USPS/FGFSA-T1-5. Please refer to page 4, lines 8-9 of your testimony.

- (a) Please define the term "foisting" as you use it there.
- (b) Please define the term "container capacity" as you use it.
- (c) Please define the term "container cost" as you use it.

RESPONSE

5. (a) foisting - to try to convince with not an entirely legitimate argument. I mean that Bradley wants to pretend that he has found the way purchased transportation responds to volume, when he has never studied volume at all.
- (b) container capacity - trailer, truck, anything which contains mail and has wheels. I did not mean standard container or piggyback transportation.
- (c) container cost - the contract cost for purchased transportation.

USPS/FGFSA-T1-6. Please refer to your testimony page 4, lines 8-18. which of the following best describes your understanding of Dr. Bradley's analysis:

- (a) an econometric analysis of how changes in container capacity correlate with container cost;
- (b) an econometric analysis of container capacity and expected output;
- (c) an econometric analysis of the sensitivity of contract cost to foot-miles of capacity.

Please explain.

RESPONSE

6. (c) best describes Bradley's analysis.

USPS/FGFSA-T1-7. Please provide a copy of Exhibit LAM-5 as referred to on page 5, line 1 of your testimony.

RESPONSE

7 There is no exhibit LAM-5.

USPS/FGFSA-TI-8. Please provide the electronic spreadsheets used to develop each of your exhibits.

RESPONSE

8. Please see Library Reference FGFSA-H-1

USPS/FGFSA-T1-9. Please specify the units of measure for the numbers that appear in Exhibits LAM-4b and LAM-6.

RESPONSE

9 - In the first panel, Standard A and B, volumes are in millions. This carries through the table, except for SCF Destination Entry and DDU destination Entry in 1996 for Standard A, which are in Billions.

USPS/FGFSA-T1-10 Please confirm that the cost figures for interBMC transportation and intraBMC transportation used throughout your testimony refer to the cost of highway contracts assigned to the interBMC and intraBMC contract accounts.

RESPONSE

10 - Confirmed.

USPS/FGFSA-T1 -11. Please refer to page 7 of your testimony. Please confirm that the figure 1990 on line 5 should be 1991.

RESPONSE

11 - Confirmed.

USPS/FGFSA-T1-12. Consider the following example. A mailer in Northern Virginia has two virtually identical mailings. Mailing A and Mailing B weigh the same, have the same number of pieces, and same presort and automation characteristics. Mailing A is directed toward addressees in the Washington, DC, area; Mailing B is directed to addressees in Los Angeles.

- (a) Is the workload the same for Mailing A and Mailing B? Please explain.
- (b) Now assume the mailer is offered a \$100 discount for each mailing if he enters that mail at the destination BMC. Other things (such as service and customer demand) being equal, which mailing is likely to be dropshipped, the Los Angeles mailing or the Washington mailing? Please explain fully.

RESPONSE

- 12 - (a) The workload in preparing the mailings should be the same.
(b) Mailing A is more likely to use DBMC rates, but, some mailers use DBMC rates throughout the country.

USPS/FGFSA-TI-13. Please refer to your discussion of transportation prices on pages 7 and 8 of your testimony and in Exhibit LAM-7.

(a) The price index used in your analysis is an index of the "growth in truck rental costs." Please state your source for this description of the data series.

(b) Please provide the United States Bureau of Labor Statistics definition of this price index.

RESPONSE

13 (a) "Growth in truck rental costs" was meant to develop the analogy of the concept of user cost as used by Dale Jorgenson and Robert Hall, "Tax Policy and Investment Behavior", American Economic Review, June, 1964. Owned and leased capital as well as those whose services are purchased at arm's length can be seen as absorbing analogous flows of resources.

(b) BLS definition:

Standard Industrial Classification, Major Group 42 - Motor Freight Transportation and Warehousing, 4213 - Trucking, except local.

Establishments primarily engaged in furnishing "over the road" trucking service either as common carriers or under special and individual contracts or agreement. This includes long-distance trucking, trucking (except local) and "over-the-road" trucking.

USPS/FGFSA-TI-15. Beginning on the last line of page 6 you state: "The result was a 13.7 per cent increase in real purchased highway services."

- (a) Are you saying that costs, adjusted for inflation, increased 13.7 percent from 1991 to 1996?
- (b) Are you saying that transportation capacity was increased, or that service increased, 13.7 percent?
- (c) If the answer to either a or b is no, please explain what the 13.7 percent figure purports to measure.

RESPONSE

- 15 - (a) Yes.
(b) Yes.
(c) N/A

USPS/FGFSA-TI-16. Please indicate where in the record you find support for your statement, on page 8, line 19 of your testimony, that TRACS "yields volume data for proper econometric analysis...."

RESPONSE

When there is weighting of mail subclasses reported in TRACS, before expansion, these data would be useful for proper econometric analysis of the relation between truck contract costs and actual volume.

USPS/FGFSA-T1-17. On page 10, lines 1-3 of your testimony, you cite two average capacity utilization figures: 56.7% for intra BMC and 69% for inter BMC. You state that these figures are "shown in LAM-9b". Please confirm that these figures are not shown in Exhibit LAM-9b. Please explain their derivation or correct them.

RESPONSE

17 - They are simple averages of the 56.76 and 69.0.

USPS/FGFSA-T1-18. Please indicate the source of the 49% spending increase cited on page 10, line 3.

RESPONSE

18 - See LAM-1. The change in total spending from 1992 to 1996 was 49%.

USPS/FGFSA-T1-19. Please refer to page 10, lines 5-7 of your testimony.

(a) Please explain what you mean by "real purchased transportation" on page 10, lines 6-7.

(b) Please explain the derivation of the 97% figure on line 6.

RESPONSE

19 - (a) Teal purchased transportation is the total expended on purchased transportation, divided by a price index or price relative. It is appropriate to measure purchased transportation in constant dollars of a particular year.

(b) The 97% is the average of Bradley's three proposed attribution levels of 97.43, 94.88 and 100. See worksheet 14.0.1, p. 2 of 3 Alexandrovich WP B-14.

USPS/FGFSA-T1-20. Please refer to page 12, line 2 of your testimony. Please explain why you believe that TRACS is "not a statistical system."

RESPONSE

20 - the testimony of Witness Nieto. TRACS was not designed to have optimal properties as the prime consideration. As I say in the next clause, it does collect data and those data have statistical properties. To base national estimates for allocating \$500 million on a system that makes 7.75 observations on average in on market each quarter is basing conclusions on a very thin reed.

USPS/FGFSA-T1-21. Please refer to page 12, lines 34 of your testimony. What forms are you referring to that are to be filled out by PW?

RESPONSE

For highway transportation, form TRACS 3S-Surface. They may presently largely be filled out by USPS data technicians but good practice would recommend that Price Waterhouse do some filling out of such forms, so that they can anticipate questions which arise and improve the forms, over time.

USPS/FGFSA-TI-22. Please refer to page 21, line 5 of your testimony, where you state that it is "efficient to have a high load factor."

- (a) Please define the term "load factor."
- (b) Please define the term "efficient" as you use it here.

RESPONSE

22 - (a) Load factor is basically use divided by capacity. A 100% load factor means full use of all capacity all of the time.

- (b) Efficient means using minimum resources to produce a given output or maximizing output for a given cost.

USPS/FGFSA-T1-23. Please define the terms "line haul" and "back haul" as you use them on page 21, line 14 of your testimony.

RESPONSE

23 - Line haul is the part of the trip which includes the major payload. Back-haul occurs after the major load has been delivered and the truck is returning to its base. Back-haul may include intermediate stops

USPS/FGFSA-TI-24. Is it your understanding that the Postal Service is required to pay for the backhaul on any one-way trip? Please explain.

RESPONSE

24 - It is my understanding that contracts for highway transportation cover complete round trips. I am not aware of any contract for one-way trips.

USPS/FGFSA-TI-25. Consider the following routing: BMC to SCF1 to SCF2 to AO to SCF2 to BMC. Which of these legs is the "line haul" and which is the "backhaul". Please explain.

RESPONSE

25 - Under the TRACS definitions, the legs originating at the BMC to SCF and AO facilities are outbound and would be part of the line-haul. The legs destinatating at the BMC would be inbound and part of the back-haul.

USPS/FGFSA-T1-26. Consider the following routing: BMC1 to BMC2 to BMC1. Which of these legs is the "line haul" and which is the "backhaul". Please explain.

RESPONSE

26 - For interBMC transportation there is no separation between inbound and outbound movements.

USPS/FGFSA-T1-27. Consider the following routing BMC to SCF to AO. Which of these legs is the "line haul" and which is the "backhaul". Please explain.

RESPONSE

27 - See response to USPS/FGFSA-T1-25.

USPS/FGFSA-T1-28. Please consider the following hypothetical. A truck shuttles back and forth between two facilities three times. From A to B on the outbound leg, the truck is always 50 percent full. From B to A the truck is empty on the first two trips but full on the third trip.

- (a) Please confirm that the average capacity utilization is 50% $((0.5 + 0.5 + 0.5)/3)$ on the outbound (A to B) movement.
- (b) Please confirm that the average capacity utilization is 33 percent $((0 + 0 + 1.00)/3)$ on the inbound movement (B to A).
- (c) Is it your understanding that the size of the truck was caused by the mail on the outbound movement? Please explain.
- (d) In your opinion, should the entire cost of the route in this example be distributed to the mail causing the peak? Please explain.
- (e) In your opinion, does the inbound peak volume cause 100 percent of the capacity cost to be incurred or 50 percent, the incremental capacity above and beyond what is needed to meet the outbound volume?

RESPONSE

- 28 - (a) The accuracy of the computation is confirmed.
(b) The accuracy of the computation is confirmed.
(c) No. The size of the truck was selected by USPS personnel on some undetermined basis. A smaller truck would have been adequate.
(d) No. I have not advocated strict peak-load costing
(e) The TRACS data shows that the outbound move consistently operates at about 50% capacity utilization and this is the largest consistent loading. Thus the outbound loading has much to do with the size of the vehicle contracted for. This utilization factor would need to be taken into account in assessing causation. The inbound runs do have more variation, and in causing more problems have a role in responsibility, but, they are not responsible for the size of the vehicle. Other measures are available to deal with large, one-time loads, such as an emergency or nonscheduled trip or contract, or, if the mail were deferrable, allowing some of the volume to wait for the next trip. The PS contract for purchased transportation do not appear to be designed to meet one-time peaks.

USPS/FGFSA-T1-29. Please refer to the discussion of preferential and nonpreferential transportation beginning on the bottom of page 25 of your testimony.

(a) Please confirm that your understanding of the increase in preferential mail on nonpreferential transportation is based on TRACS data. Please explain any nonconfirmation.

(b) Are you asserting that preferential mail or red tag service standards have resulted in better service for Periodicals distributed at BMCs? Why has this service improved?

(c) Would you agree that, as one way to provide better service to Periodicals sorted at BMCs, the frequency of some intra- and inter-BMC trips mail could be increased? Please explain any disagreement

(d) To the extent that Standard A and B mail gets more frequent transportation on the same trucks as "red tag" or other preferential mail, would you expect its service to be enhanced. Please explain.

RESPONSE

29 - (a) Not confirmed. TRACS data does show such an increase.

(b) I do not have the data to show the extent to which Periodicals are "distributed at BMCs", and therefore cannot state whether or not the service has improved.

(c) I do not know the extent to which Periodicals are sorted at BMCs. Increase in the frequency of transportation trips handling Periodicals could result in better service.

(d) Any more frequent transportation would not be in accordance with the published service standards for Standard A and B mail.

USPS/FGFSA-T1-30. Please refer to page 27, lines 7-20 of your testimony.

(a) Is it your understanding that the sample selection process in TRACS should seek to minimize variance in the absence of other considerations? Please explain.

(b) Please provide a formal, mathematical definition of the phrase "bias in data collection."

(c) What is the relationship between minimum variance and bias?

RESPONSE

30. (a) The purpose of sampling is to obtain the best estimate possible of some population characteristic. In TRACS, that characteristic is the distribution of transportation costs attributable to each type of mail. Usually, the best estimate of a population characteristic or parameter is defined as a minimum variance estimate, but not always.

The question includes the phrase, "in the absence of other considerations." Usually, the most crucial consideration is cost. With enough funding, very precise estimates can be obtained. Even a census can be made of the mail, were enough funds available. We assume that costs are fixed for the purpose of the discussion and that the most precise estimates are desired, given the financial constraints.

Precision is usually defined by a loss function. The most common such function in statistics is the squared difference of each point estimate (sampled observation) from the parameter. The sum of these squares is the variance divided by n or $(n-1)$ as appropriate. Minimum variance refers to the desirable trait in a parameter estimate that this loss function be minimized.

Other loss functions are possible, and some are occasionally used. One type that has become somewhat more common is some kind of bounded loss function, where the sum of squares is limited to a maximum such as twice or three times the standard deviation. This kind of loss function is used where occasional bizarre observations are likely and are suspected of being incorrect. An example might be errors in machinery. It appears that the Postal Service's approach is of the traditional sort, using the variance as an estimate of error. Thus, discussion will concentrate on the variance.

The advantage in minimizing a loss function lies in gaining increasing precision of the parameter estimate(s). A smaller variance suggests that the analysis is closer to the population parameter, that the confidence interval at a set Type I error level, often 95%, is the smallest. One almost always wants to obtain the most precise estimates. Thus, in most circumstances, the sample selection process in TRACS should seek to minimize variance.

There is one possible exception to this: that situation in which the minimum variance

estimate may not be acceptable: when it is biased. Bias means that, as the sample gets larger, the estimate approaches some value not equal to the population parameter. Thus the error has two components, a random error and a bias or the difference between the population parameter and the target estimate.

Some estimates can be minimum variance, while still biased, because the random error variance is so small that, even with bias, the total variance is minimal. Sometimes, these minimum variance biased estimates are acceptable; but sometimes they are not - it depends on the bias. If the estimates are biased and the bias is acceptable, then the minimum variance estimate is the best; but if the bias is not acceptable, then the estimate of choice would be the minimum variance unbiased estimate - the estimate that has been most commonly used in statistical analysis.

In terms of the TRACS sampling, except for the caveat about biased estimates, there is no logical reason to aim to produce anything other than the minimum variance estimate. With this estimate comes the smallest confidence interval for the allocation of transportation costs. Any other approach either produces less precision than required or, if the precision obtained is acceptable, wastes money by drawing too large a sample: an alternative sampling plan would produce the same precision for a lower cost.

(b) Bias in data collection can be summarized as the following:

$$\text{Expected value} = \text{Population Parameter} + \text{Random Error} + \text{Bias (Systematic Error)}$$

(c) As touched on briefly in Part (a), bias is a component of error. The error for an observation is made up of the random component and any bias component. The bias component serves to increase the total error. However, the fact that there is bias does not mean that the estimate fails the test of minimum variance. The variance is equal to the sum of squared error, which can be smallest even if there is bias.

The problem with biased minimum variance estimates is ensuring that the bias is acceptable, which is something that needs careful consideration.

USPS/FGFSA-T1-31. Please refer to your carpool example on pages 14-15. Assume the car in question has seating for 4 occupants (three passengers and the driver). Please state whether you agree or disagree with each of the following statements and explain your answers.

- (a) When the 4 seats are taken, additional adult passengers can be added to the laps of the occupants.
- (b) Assume one of the occupants is child. An adult can be seated on the child.
- (c) Assume all four seats are full with adults. It is appropriate to place babies on the laps or shoulders of the occupants.
- (d) Assuming three of the four seats are occupied, it is appropriate to fill the fourth seat with boxes of toys, books or other freight.

RESPONSE

31 - Passengers and freight are different. Adults cannot be stacked on top of children or on shelves. Freight can be stacked with the use of false bottoms, shelves and rigid containers.

- (a) It could be done, but not reasonable.
- (b) no.
- (c) no.
- (d) It could be done.

USPS/FGFSA-T1-32. How many TRACS highway tests have you personally observed? Please state the date and location of each such test.

RESPONSE

32 - None.

USPS/FGFSA-T1-33. Have you ever worked for United Parcel Service as a consultant or in any other capacity? If so, please provide the dates of such employment and describe the nature of such work in detail.

RESPONSE

33.- No.

USPS/FGFSA-T1-34. Please refer to Exhibit LAM-4b in your testimony. Please provide explicit citations for the Standard Mail (A) figures presented in this exhibit.

RESPONSE

- 34 - See LAM-4(Revised)
Standard A data - Lib. Ref. H-111, Appendix A, Table 4
Conversion factors - Lib. Ref. H-82, page 171

USPS/FGFSA-T1-35. Please confirm that a route with a 2400 cubic feet capacity vehicle which makes five trips a day at 100 miles each yields the same cubic foot miles as a route with a 1600 cubic feet capacity vehicle making five trips a day at 150 miles each.

RESPONSE

35 - Confirmed.

USPS/FGFSA-T1 -36. Please refer to page 28 of your testimony. Please provide a basis for the statement, "AOs and DUs have less dock activity per hour."

RESPONSE

36 - Except for New York, which is probably called a GMF (James A. Farley Post Office), most AOs and DUs have less dock activity per hour than BMCs. BMCs are larger than the other types of facility in the sense of amount of mail that passes through per day. Therefore, they need to have more dock activity.

USPS/FGFSA-T1-37. Please consider the following route trip:

BMC1 to SCF1 to SCF2 to BMC1

a. Would you consider the first leg of the route trip (BMC1 to SCF1) inbound or outbound?

b. Would you consider the second leg of the route trip (SCF1 to SCF2) inbound or out bound?

c. Would you consider the third leg of the route trip (SCF2 to BMC1) inbound or outbound?

RESPONSE

37 - The response is based in the TRACS definitions:

- a. Outbound.
- b. Outbound
- c. Inbound.

FGFSA/USPS-T1-38. On page 9, lines 19-20 of your testimony, you state "Several of the major changes of dropshipping should have had their impact by now." Please provide your estimate of the costs of postal transportation in the absence of destination entry discounts.

RESPONSE

38 - No such estimate has been made by me.

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

3 MS. DUCHEK: Yes, Mr. Chairman, I do. I have two
4 packets. To help Dr. Merewitz, I will describe what's in
5 these packets. Also I provided these to Mr. Wells and I
6 believe that they have examined them. It's interrogatories
7 that we did not receive in time for our designation that we
8 filed. USPS-FGFSA-T-1 39 through 50, 52 through 59, 61
9 through 65, and ANM-FGFSA-T-1 1 through 11.

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: Mr. Merewitz, have you had a
12 chance to review those additional interrogatories that the
13 Postal Service --

14 THE WITNESS: Yes. Very briefly. I need to
15 modify one of the ANM interrogatories. I unfortunately have
16 to see it. I didn't bring those along -- an oversight.

17 MS. DUCHEK: Mr. Chairman, I'm handing Dr.
18 Merewitz the two packets so that he can make the corrections
19 on the ones that go to the reporter.

20 CHAIRMAN GLEIMAN: Thank you.

21 THE WITNESS: Mr. Chairman, shall I make written
22 corrections?

23 CHAIRMAN GLEIMAN: I think if you could tell us
24 what those corrections are --

25 THE WITNESS: Okay.

1 CHAIRMAN GLEIMAN: -- and then if you could make
2 the written corrections. Do you need a writing implement?

3 THE WITNESS: No. I have a pen, thank you. Very
4 quickly.

5 MR. WELLS: I believe the ANM interrogatory is at
6 the back of the set that you have there.

7 THE WITNESS: Yes. Okay. It's ANM-11,
8 ANM/FGSFA-T1-11, part B. There's a typo. It reads, FACAT
9 weighting was used and was alternatively used and not used.
10 It should read FACAT weighting was alternatively used and
11 not used.

12 CHAIRMAN GLEIMAN: Can you make the correction in
13 there?

14 THE WITNESS: Yes.

15 MR. WELLS: What you want to do is strike the word
16 "used" --

17 THE WITNESS: I want to strike three words: "was
18 used and", so that the final will read, "FACAT weighting was
19 alternatively used and not used."

20 Shall I do that?

21 CHAIRMAN GLEIMAN: Yes, sir.

22 THE WITNESS: Shall I initial it?

23 CHAIRMAN GLEIMAN: You may if you wish, but I
24 think that the fact that we're on the record --

25 THE WITNESS: Okay.

1 CHAIRMAN GLEIMAN: -- is sufficient for our
2 purposes. If you could make it in the second copy.

3 Ms. Duchek, if I could ask you to retrieve the
4 corrected additional designated written cross examination
5 and provide it to the reporter.

6 Thank you.

7 The corrected additional designated written cross
8 examination -- excuse me -- the corrected additional written
9 cross examination of Witness Merewitz has been given to the
10 reporter, and I direct that it be accepted into evidence and
11 transcribed into the record at this point.

12 [Corrected Additional Designation
13 of Written Cross-Examination of
14 Leonard Merewitz, FGFSA-T-1, was
15 received into evidence and
16 transcribed into the record.]

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USPS/FGFSA-T1-39. Please refer to your revised testimony on page 7, line 8. Please confirm that the 13.1% should be 16.0% If you do not confirm, please explain the difference between the 13.1% figure on page 7 and the 16 percent figure on page 6 that was revised upwards from 13.1 percent in the original.

ANSWER:

Not confirmed. 13.1% is correct.

USPS/FGFSA-T1-4O. Please refer to page 7 of your revised testimony. Please reconcile the apparent conflict in the following two statements:

Lines 1-2: "The result was a 10.8 percent increase in real purchased highway transportation services." -

Lines 10-11: "So during this period there was a 18% real increase in the purchase of highway transportation services by the postal service."

ANSWER:

Both per cents should read 13.7 per cent.

USPS/FGFSA-T1-41. Please refer to page testimony where you state "FACCAT weighting is alternately used and not used."

- a. Please confirm that this statement was not in your original testimony.
- b. Please provide citations to the record of this proceeding which support your allegation that FACCAT weighting is not used.

ANSWER:

- a. confirmed
- b. See Lib. Ref. FGFSA-H-3. In the y96a11 set of runs, four cases were considered. In two cases the FACCAT weighting from TRACS was used. In the other two cases, such weighting was not used.

USPS/FGFSA-T1-42. Please refer to your response to USPS/FGFSA-T1-2, where you state that you reviewed "other materials concerning C.S.14." Please, list those materials.

ANSWER:

Lib. Ref H-84; Alexandrovich workpaper to USPS-T-5, workpaper B-14; cost segment 14 purchased transportation; worksheet 14.0.1 summary of transportation cost by account; worksheet 14.0.3 TRACS distribution keys; worksheet 14.1.2 pq4, 1996 Purchased Transportation Report; worksheet 14.1.2.1 pq3 1996 Purchased Transportation Report; worksheet 14.2.1 annual Purchased Transportation Report. Manual inputs.PQ4 through PQ1 1996; Worksheets 14.1.1, 14.1.1.1, 14.1.1.2 and 14.1.1.3.

USPS/FGFSA-T1-43. Please refer to your response to USPS/FGFSA-T1-5(b) Do you regard container capacity as a measure of cube or a measure of cube and miles?

ANSWER:

I used a measure of cube and miles for container capacity.

USPS/FGFSA-T1-44. Please refer to your response to USPS/FGFSA-T1-12(a). Is your use of the term "workload" in this response the same as your definition of "workload" on page 5, line 17 of your revised testimony? If not, please answer interrogatory USPS/FGFSA-T1-12(a) using the definition of "workload" as you use it on page 5, line 17 of your revised testimony.

ANSWER:

Question 12 is about work sharing. I use work load with regard to work sharing workload in part

- a. Work load for the Postal Service is greater from Northern Virginia to Los Angeles than to Washington, D.C.

USPS/FGFSA-T1-45. Please refer to your response to USPS/FGFSA-T1-16. Please explain specifically how TRACS data, should be weighted to yield "actual volume."

ANSWER:

Mail can be weighted according to density conversion factors.

USPS/IFGFS-A-T1-46. Please refer to your response to USPS/FGFSA-T1-18. Please confirm that the 40% change in total spending is for the six year period 1990-1996.

ANSWER:

confirmed.

USPS/FGFSA-T1-47. Please refer to your response to USPS/FGFSA-T1-20. Please provide a reference citation to the source of the figure "7.75 observations on average."

ANSWER:

Witness Nieto' response USPS T 2-16(a). FACCAT 3 Tests conducted "Inbound Other", i.e., not at SCF's or BMC's.

USPS/FGFSA-T1-48. Please refer to your response to USPS/FGFSA-T1-25.

- a. Please confirm that you consider BMC to SCF1 to be line-haul. If you do not confirm, please explain in detail.
- b. Do you consider SCF1 to SCF2 to be line-haul or back haul? Please explain your understanding of how TRACS would classify this leg.
- c. Do you consider SCF2 to AO to be line-haul or back haul? Please explain your understanding of how TRACS would classify this leg.
- d. Do you consider AO to SCF2 to be line-haul or beck haul? Please explain your understanding of how TRACS would classify this leg.
- e. Please confirm that you consider SCF2 to BMC to be back-haul. If you do not confirm, please explain in detail.

ANSWER:

I do not maintain that every contract for postal purchased transportation can be divided into line-haul (outbound) and back-haul (inbound). My understanding of TRACS is that any movement where the destination of the last segment of the trip is at a BMC is considered inbound for every segment of that trip. The TRACS definition, as set forth in Lib. Ref. PCR 17, page 188 is as follows: "In addition dreates the variable BOUND, indicating the direction (inbound or outbound) of the trip. If FACTYPE is equal to 'BMC' for the destination of the last segment n the trip, then BOUND equals '1' indicating an inbound trip, otherwise BOUND equals '2' indicating an outbound trip." In Inter-BMC transportation, the terms inbound and outbound do not arise.

USPS/FGFSA-T1-49. Please refer to your response to USPS/FGFSA-T1-26. Please answer the question as originally asked. In other words, please identify each of the legs as either line haul or back haul.

ANSWER:

All transportation in the Inter-BMC account would be considered "line haul", and there is no designation as "inbound" or "outbound", either by TRACS or me.

USPS/FGFSA-T1-50. Please refer to your response to USPS/FGFSA-T1-27.

- a. Please confirm that you consider BMC to SCF to be line-haul. If you do not confirm, please explain in detail.
- b. Do you consider SCF to AO to be line-haul or back haul? Please explain your understanding of how TRACS would classify this leg.

ANSWER:

For Intra-BMC transportation, the movements away from the BMC would be considered outbound, according to the TRACS methodology.

USPS/FGFSA-T1-52. Please confirm that the file contre-1.wb3, provided in library reference LAM-H-1 is identical to the file c:\myfiles\contr.wb3 named at the bottom of LAM4b. If you do not confirm, please provide the latter and explain any and all differences between the two files.

ANSWER

Not confirmed. The latter will be provided in Lib. Ref. FGFSA-H-4. It contains one panel, while the first was merely a stage in development and had several and has a different title.

USPS/FGFSA-T1-53. Please refer to LAM3.

- a. Please confirm that LAM3 was produced using the program c:\dkrerun1.wb3 as noted on page 3 of the exhibit.
- b. Please confirm that the program c:\dkrerun1.wb3 is identical to the file DKRERU-1.wb3 contained in library reference LAM-H-1.
- c. Please confirm that LAM3 contains output from a SAS program that you have not provided.
- d. If you do not confirm subpart (c) above, please explain in detail.
- e. If you confirm subpart (c) above, please provide the SAS program.

ANSWER:

- a. Confirmed
- b. Confirmed
- c. Not confirmed, see Library Reference FGFSA-H-3
- d. See answer to c
- e. Not applicable

USPS/FGFSA-T1-54. Please refer to LAM 4a.

- a. Please confirm that the file name (C:\dk.rerun1.wb3, sheet A) handwritten at the bottom of LAM 4a, page 6 is the file used to produce the library reference.
- b. Is it your understanding that this library reference is identical to the file DKRERU-1.WB3 provided in LAM-H-1? If they are not identical explain any differences.
- c. LAM 4a appears to be the output of a SAS program. Please provide the SAS program.

ANSWER

- a. Not confirmed, see Library Reference FGFSA-H-3
- b. The referenced file is provided in Lib. Ref. FGFSA-H-1.
- c. Library Reference FGFSA-H-3 includes the SAS Programs and Logs

USPS/FGFSA-T1-55. Please refer to the file intrae-1.wb3 contained in LR-LAM-H-1.

a. Please confirm that this file was used to generate LAM-H-1.

b. The file contains a reference to

C:\WINDOW...ttyGFS\hist\intra.erpp.wb3. Please provide this file.

ANSWER

a. Confirmed

b. See Library Reference FGFSA-H-4

USPS/FGFSA-T1-56. The file dropsh-1.wb3 in Library Reference LAM-H-1 contains what appears to be the source information for Exhibit LAM-6. Included in this file is a reference to the file dropship.incr.purch2.wb3. provide this file.

ANSWER

See Library Reference FGFSA-H-4

USPS/FGFSA-T1-57. Please refer to the file dropsh-1.wb3 In Library Reference LAM-H-1. In that file the number 50,354.1 appears as a measure of Bulk Rate Regular volume in FY 1991. The spreadsheet further indicates that this number was developed using the 1991 billing determinants. Please provide all source date and the actual calculation used to produce this number, and indicate the subclass and mail category of the source data and the units of measurement (e.g., pieces, weight).

ANSWER:

The number 50,354 million is not a measure of bulk rate regular volume in 1991. Instead, a careful reading of the table shows that this is the number of pieces "DS beyond SCF", or drop shipped beyond the SCF. This is derived from 1991 Billing Determinants. Please see the Workpapers to LAM-6 filed as a Library Reference.

USPS/FGFSA-T1-58. FOR ALL other numbers in dropsh-1.wb3 in Library Reference LAM-H-1 that are sourced to the 1996 and 1991 billing determinants, please provide the same information as requested in interrogatory USPS/FGFSA-T1-67.

ANSWER

This material is incorporated in LAM-6(rev)

USPS/FGFSA-T1-59. Please refer to dropsh-1.wb3 In Library Reference LAM-H-1.

- a. Please confirm that you developed volume of mail not dropshipped beyond the BMC for FY 1996. If not confirmed, please explain fully.
- b. Please confirm that this calculation includes the subtraction of single piece Standard A volume from bulk Standard A volume. If not confirmed, please explain fully.
- c. Is it your understanding that single piece volume is included in bulk volume? Please explain fully.

ANSWER

- a. Confirmed
- b. Confirmed for LAM 6, but corrected in LAM 6(rev)
- c. No

USPS/FGFSA-T1-61. Please refer to LAM-6.

- a. Please indicate whether the workload you refer to on page 2 includes any accounting for the distance the mail travelled in either 1991 or 1996
- b. Is it your understanding that transportation workload should not include a measure of distance travelled? Please explain fully.

ANSWER

- a. No
- b. I would like to include the measure of distance traveled, but the data was not readily available to me. These tend to be relatively stable over time, because of the large numbers involved. A change , like drop shipping, would have a perceptible effect on these numbers, but the change would not show up very much in the two major highway accounts I explored. Where Standard A mail goes over 400 miles to the destination postal facility, the Postal Service would likely route it by rail. Length of haul by truck should not change very much, because there is more drop shipping in short-haul than in long-haul mail. Standard A mail uses rail transportation as shown by the following:

TRACS Distribution Key - Freight Rail

	Standard A Mail	Parcel Post
PQ 1 1996	0.476	0.238
PQ2, 1996	0.517	0.200
PQ 3 1996	0.492	0.207
PQ 4 1996	0.526	0.196

See: Worksheet 14.0.3 and 14.0.7 in Alexandrovich Workpapers.

The amount spent by the Postal Service on purchased freight rail transportation in 1996 was \$187 million.

USPS/FGFSA-T1-62. Please refer to Library Reference LAM-H-1, file LAM13.wb3.

- a. Please explain where in your testimony this file is used.
- b. Please provide the source code noted in the spreadsheet as "Source: Running of Postal Service SAS Model in Lib. Ref. H-82 and H-84, y96all."

ANSWER

- a. Page 24, lines 1-2
- b. Case D in y96all, in Library Reference FGFSA-H-3

USPS/FGFSA-T1-63. Please refer to Library Reference LAM-H-1, file LAM3REV.wb3.

- a. Please explain where and how in your testimony this library reference is used.
- b. Please also provide the SAS code used to construct this file.

ANSWER

- a. See pages 14 and 25. I do not advocate use as the distribution key, but provide the information for the Commission and the parties. The data looks at outbound trips only.
- b. The SAS run in y96a11, documented in Library Reference FGFSA-H-3

USPS/FGFSA-T1-64. Please refer to Library Reference LAM-H-1, file LAM4B-1.wb3.

- a. Please confirm that this file underlies the calculations shown in Exhibit LAM-4b.
- b. Please confirm that the cubic feet of Standard A mail (136,980 and 395,797) in panel B are developed using a calculation that multiplies weight by cubic feet per pound.
- c. Please confirm that the calculation described is not included in the file provided.
- d. Please provide the explicit calculation of the numbers referred to in subpart (b) above.
- e. Please provide the units of measure (e.g., thousands, millions) for these two numbers and all other numbers shown in LAM4B-1.wb3.
- f. LAM4b-1.wb3 contains a reference to C:\myfiles\contr1.est.wb3, Please provide this file.

ANSWER

- a. Confirmed
- b. Confirmed, but see LAM-4b(rev) which modifies some numbers slightly
- c. The calculation is suggested by the footnote in the second panel to Lib. Ref. H-111, Appendix A, Table 4, and is fully documented in Library Reference FGFSA-H-4. Although the items addable were clearly labelled as "intraBMC" or "interBMC" in the table cited.
- d. Please see Workpaper 1 to LAM 4(b)(rev) filed in Library Reference FGFSA-H-4
- e. All items are clearly labelled in LAM-4b(rev).
- f. This is not a file, but rather merely directions for locating the material in the computer.

USPS/FGFSA-T1-65. Please refer to Library Reference LAM-H-1, file QURTPU-1.wb3

- a. Please confirm that this file was used to create LAM-2a
- b. Please confirm that this file (and LAM-2b) show only accrued costs for intra and inter BMC accounts.
- c. Please confirm that footnote (c) in LAM-2a and in the file on which it is based refers to nothing in the Exhibit or the file. Please explain footnote (c) fully.

ANSWER

- a. Confirmed
- b. Confirmed
- c. The second line of footnote (c) referred to columns in the original exhibit, but which were deleted from the final version. The reference can be ignored.

ANM/FGFSA-T1-1

Please refer to your testimony at p. 3, line 12. Explain the term "Inter-B" as used there.

Answer:

See errata filed January 26, 1998.

ANM/FGFSA-T1-2

Please refer to your testimony at p. 5, line 11. Please explain the meaning of the sentence "When those pieces are converted to pounds . . ."

Answer:

The sentence means that average weight per piece for the years 1991 and 1996 are applied to the number of pieces. The average figure come from parcel post date for 1991 Billing Determinants and 1996 Billing Determinants.

ANM/FGFSA-T1-3

Please refer to your testimony at p. 13. What does the "==" signify?

Answer:

See errata filed January 26, 1998.

ANM/FGFSA-T1-4

- (a) please refer to your Exhibit LAM4a. How are the date in LAM-4a generated?
- (b) Are these Postal Service data or your data? If you or someone working under your direction generated these data, please explain all assumptions that were made to generate those data.

Answer:

The data in LAM-4a are generated in the SAS program y96a12. This uses the preferred case of the four cases of y96a11. Therein four cases were considered based on two assumptions. One involves whether expansion to the size of truck was allowed and the second was whether postal service FACCAT weighting was used. The run we prefer involves no expansion to size of truck, but allows postal service FACCAT weighting. LAM-4a is merely illustrative because I do not recommend a distribution key in my testimony.

ANM/FGFSA-T1-5

Please refer to p. 15, line 9.

- (a) What does the (^) signify?
- (b) Complete the sentence on line 10 following the word "be".

Answer:

See errata filed January 26, 1998.

ANM/FGFSA-T1-6

Please refer to p. 23, line 17. What does the "(^)" signify?

Answer:

See errata filed January 26, 1998.

ANM/FGFSA-T1-7

Please refer to p. 24, line 2 and explain or define the term (y96812) as it appears there.

Answer:

Y96812 is a misprint as correct by the errata. The "8" is in fact "a". This refers to a series of SAS runs denominated y96a 1 through 12. TRACS methodology is used with TRACS data from the highway portion of L.R. H-84. In particular, y96a11 was run where we had four cases depending on whether we follow the TRACS methodology for a)expanding for the emptiness of the truck, and b) the weighting according to FACCAT multipliers. One of the four cases exactly replicated the Postal Service results given in L.R. H-82.

ANM/FGFSA-T1-8

Please refer to p. 25, line 2. What does the "[^]" signify?

Answer:

See errata filed January 26, 1998.

ANM/FGFSA-T1-9

Please refer to p. 25, lines 10-11, and provide a summary of all data which show DBMC mail on incoming runs.

Answer:

Please see the SAS run y96a14 which is a very slight refinement of run y96a11 which breaks out the LL mail code specifically. There we see the DBMC tallies were taken on in-bound runs, which is a logical contradiction. Destination BMC parcels are by definition delivered to the destination BMC by the mailer, and therefore would not require in-bound postal transportation to the BMC. See FGFSA Lib.Ref. H-2 and H-3. The percent of LL mail in each quarter of the Base Year are:

Quarter	Per cent
1	3.69
2	1.19
3	1.29
4	1.61

Please see attachment.

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Attachment to ANM/FGFSA 77-9

Y96A14

PQ136 Distribution Keys Using UCPS Estimates (Weighted) for 7 Mail Types (Y96A14)
Intra-BMC

ACCOUNT=53127 BOUND=.

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	88,278,818	8.37	5729557767	6.33	2,654,809
2nd Cl Period	124,891,547	11.84	9613303074	10.62	4,654,074
International	11,133,400	1.06	1308141550	1.44	766,851
PRI	67,564,941	6.40	4212865122	4.65	2,021,847
STD A	328,939,249	31.18	29704769386	32.80	13,500,225
STD B - Other	147,624,723	13.99	13418055092	14.82	6,198,784
STD B: KK	235,128	0.02	14,644,193	0.02	6,004
STD B: LL	82,969,140	7.86	6379178098	7.04	4,060,155
STD B: P	203,416,823	19.28	20181431027	22.28	9,760,831

ACCOUNT=53127 BOUND=1

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	20,672,835	4.31	2321363118	4.69	1,047,640
2nd Cl Period	45,310,222	9.45	3733287254	7.54	2,645,846
International	9,292,548	1.94	1200371574	2.42	743,050
PRI	28,587,189	5.96	2440343404	4.93	1,324,802
STD A	145,520,772	30.36	14800696665	29.07	7,648,366
STD B - Other	82,645,801	17.24	8261593354	16.67	3,650,395
STD B: LL	9,360,910	1.95	1827230845	3.69	190,970
STD B: P	137,931,117	28.78	14960043127	30.19	6,578,359

ACCOUNT=53127 BOUND=2

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	67,605,903	11.74	3108194649	8.31	1,607,169
2nd Cl Period	79,581,325	13.82	5880015821	14.34	2,009,020
International	1,840,852	0.32	107,769,975	0.26	23,801
PRI	38,977,752	6.77	1772521710	4.32	697,044
STD A	183,418,478	31.86	14904072720	36.34	5,051,859
STD B - Other	64,978,922	11.29	5156461738	12.57	2,548,389

STD B: KK	235,128	0.04	14,644,193	0.04	6,004
STD B: LL	73,608,229	12.79	4551947252	11.10	3,869,177
STD B: P	65,485,706	11.37	5221387900	12.73	3,190,472
PQ196 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types (Y96A14) Inter-BMC					

ACCOUNT=53131

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	44,123,204	10.91	15484843174	10.78	6,172,798
2nd Cl Period	81,834,057	20.24	31257757763	21.77	12,363,136
International	2,487,590	0.62	1490888317	1.04	586,562
PRI	17,898,802	4.43	4702268166	3.28	1,990,627
STD A	117,152,259	28.98	42789279675	29.80	16,872,683
STD B - Other	38,954,485	9.64	14076023582	9.80	5,573,028
STD B: KK	160,092	0.04	89,475,665	0.06	35,164
STD B: LL	9,570,149	2.37	2354271304	1.64	918,636
STD B: P	92,115,388	22.78	31335819784	21.82	12,346,868
PQ296 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types (Y96A14) Intra-BMC					

ACCOUNT=53127 BOUND=.

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	158,075,574	14.66	12170408971	11.78	5,024,565
2nd Cl Period	104,794,624	9.72	8158829071	7.90	4,323,791
International	7,226,067	0.67	359,701,528	0.35	169,757
PRI	77,175,679	7.16	7356662325	7.12	2,854,217
STD A	287,632,518	26.68	26763563774	25.90	12,129,784
STD B - Other	145,086,120	13.46	16303965181	15.78	6,491,671
STD B: KK	739,461	0.07	24,524,708	0.02	1,932
STD B: LL	62,141,400	5.76	7793588988	7.54	2,459,270
STD B: P	235,172,598	21.01	24404008810	23.62	10,609,849

ACCOUNT=53127 BOUND=1

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	48,751,999	10.26	4416717034	8.69	1,673,000
2nd Cl Period	32,610,180	6.86	3044493332	5.99	1,806,872
International	5,103,725	1.07	240,439,561	0.47	116,676
PRI	31,897,998	6.71	4923375952	9.69	1,730,344
STD A	138,512,049	29.14	13235046928	26.05	6,812,165
STD B - Other	64,469,322	13.56	8035284859	15.82	3,521,726
STD B: LL	2,980,304	0.63	603,959,525	1.19	192,407
STD B: P	151,059,278	31.78	16297752863	32.08	7,690,800

ACCOUNT=53127 BOUND=2

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	109,323,576	18.14	7753691936	14.76	3,351,566

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Attachment

2nd Cl Period	72,184,443	11.98	5114335739	9.73	2,516,920
International	2,122,343	0.35	119,261,967	0.23	53,081
PRI	45,277,501	7.22	4,754,700	0.05	1,932
STD B: LL	59,161,096	9.82	7189629463	13.68	2,266,863
STD B: P	84,113,320	13.96	8106255947	15.43	2,919,049

PQ296 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types (Y96A14)
Inter-BMC

ACCOUNT=53131

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	46,653,570	12.70	13846373020	9.73	5,570,718
2nd Cl Period	80,880,902	22.02	30268342063	21.28	12,231,756
International	3,594,831	0.98	1481418730	1.04	584,356
PRI	3,913,647	1.07	1352583569	0.95	543,263
STD A	107,203,006	29.19	44760050053	31.47	18,026,765
STD B - Other	38,812,574	10.57	16576125728	11.65	6,631,726
STD B: KK	254,500	0.07	129,625,393	0.09	52,109
STD B: LL	3,987,299	1.09	1252277656	0.88	503,043
STD B: P	81,998,645	22.32	32583168005	22.91	12,996,491

PQ396 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types (Y96A14)
Intra-BMC

ACCOUNT=53127 BOUND=.

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	200,185,973	16.22	23081485454	15.73	9,255,931
2nd Cl Period	127,996,043	10.37	14576209232	9.93	5,515,732
International	8,497,872	0.69	733,841,747	0.50	282,263
PRI	51,323,674	4.97	6333739331	4.32	2,736,899
STD A	380,539,334	30.84	46928475704	31.97	21,141,370
STD B - Other	150,069,556	12.16	16617253168	11.32	6,342,247
STD B: KK	647,262	0.05	86,586,396	0.06	35,431
STD B: LL	80,261,151	6.50	9804223397	6.73	3,614,228
STD B: P	224,336,436	18.18	28524923792	19.44	12,887,678

ACCOUNT=53127 BOUND=1

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	92,922,439	18.00	13895703592	22.30	5,519,690
2nd Cl Period	49,179,203	9.53	5066051011	8.13	1,877,207
International	6,038,150	1.17	636,681,679	1.02	229,042
PRI	15,433,095	2.99	2691949704	4.32	1,261,975
STD A	145,849,125	28.26	16008113868	26.97	7,126,464
STD B - Other	68,777,468	13.32	7901110873	12.68	2,852,563
STD B: KK	558,958	0.11	65,398,057	0.10	26,813
STD B: LL	10,131,862	1.96	802,521,727	1.29	347,094
STD B: P	127,277,823	24.66	14457776293	23.20	6,811,193

ACCOUNT=53127 BOUND=2

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	107,263,534	14.95	9165781862	10.88	3,736,241
2nd Cl Period	78,816,840	10.96	9510158221	11.26	3,638,525
International	2,459,722	0.34	97,160,068	0.12	53,221
PRI	45,890,579	6.39	3641789628	4.31	1,474,924
STD A	234,690,210	32.70	30120361836	35.67	14,014,906
STD B - Other	81,292,087	11.33	8716142315	10.32	3,489,684
STD B: KK	88,304	0.01	21,190,339	0.03	8,618
STD B: LL	70,129,289	9.77	9081701670	10.76	3,267,134
STD B: P	97,058,613	13.52	14067147499	16.66	6,076,486

PQ396 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types (Y96A14)
Inter-BMC

ACCOUNT=53131

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	76,510,853	17.45	22455490444	14.81	6,915,491
2nd Cl Period	87,079,950	19.86	30949152535	20.41	12,106,750
International	2,759,686	0.63	1069983191	0.71	415,218
PRI	13,427,428	3.06	2130122745	1.40	845,761
STD A	126,775,711	28.91	47400188193	31.25	18,544,129
STD B - Other	54,136,977	12.35	18439071337	12.16	7,212,158
STD B: KK	696,132	0.16	273,035,374	0.18	106,757
STD B: LL	7,857,498	1.79	2167360528	1.43	849,379
STD B: P	69,261,469	15.79	26785185940	17.66	10,468,737

PQ496 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types (Y96A14)
Intra-BMC

ACCOUNT=53127 BOUND=.

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	228,145,303	17.73	15893784288	13.23	6,674,465
2nd Cl Period	147,604,149	11.47	12170093949	10.13	5,387,968
International	4,714,949	0.37	415,945,438	0.35	202,339
PRI	76,709,871	5.96	5870606904	4.89	2,421,315
STD A	329,741,850	25.62	35290490815	29.37	14,615,200
STD B - Other	165,936,836	12.89	17280980183	14.38	7,999,721
STD B: KK	1,632,598	0.13	27,247,575	0.02	8,964
STD B: LL	97,095,245	7.54	9866343596	8.21	5,060,797
STD B: P	235,413,737	18.29	23338632334	19.42	10,040,676

ACCOUNT=53127 BOUND=1

MAILCODE	CuFt	Percent CuFt	CFM	Percent CFM	Cost
1st Class	100,874,507	17.51	5806280499	11.88	2,411,407
2nd Cl Period	48,704,981	8.45	3028212424	6.19	1,176,646
International	2,784,802	0.48	203,984,831	0.42	96,078
PRI	16,263,847	2.82	1436461861	2.94	546,615
STD A	140,091,574	24.32	11498454046	23.52	4,687,564

STD B - Other	97,891,202	16.99	9416421447	19.26	3,994,554
STD B: KK	839,579	0.15	19,361,783	0.04	6,479
STD B: LL	9,649,860	1.67	788,797,963	1.61	323,458
STD B: P	159,048,434	27.61	16685969183	34.13	6,850,706

ACCOUNT=53127 BOUND=2

MAIL.CODE	CuFt	Percent	CFM	Percent	Cost
		CuFt		CFM	
1st Class	127,270,796	17.90	10087503790	14.15	4,263,058
2nd Cl Period	98,899,168	13.91	9141881525	12.83	4,211,322
International	1,930,147	0.27	211,960,607	0.30	106,262
PRI	60,446,024	8.50	4434145043	6.22	1,874,700
STD A	189,650,276	26.68	23792036769	33.38	9,927,636
STD B - Other	68,045,634	9.57	7864558736	11.03	4,005,167
STD B: KK	793,019	0.11	7,885,792	0.01	2,486
STD B: LL	87,445,385	12.30	9077545633	12.74	4,737,339
STD B: P	76,365,303	10.74	6652663151	9.33	3,189,970

PQ496 Distribution Keys Using USPS Estimates (Weighted) for 7 Mail Types (Y96A14)
Inter-BMC

ACCOUNT=53131

MAILCODE	CuFt	Percent	CFM	Percent	Cost
		CuFt		CFM	
1st Class	46,767,993	11.35	11804511502	7.82	4,780,606
2nd Cl Period	81,093,558	19.68	27500403034	18.21	10,881,324
International	4,049,914	0.98	1264393611	0.84	497,138
PRI	11,598,070	2.81	2278952524	1.51	932,834
STD A	136,138,797	33.04	56720452873	37.56	22,529,272
STD B - Other	52,479,171	12.74	21716844032	14.38	8,551,703
STD B: KK	137,004	0.03	90,455,225	0.06	35,911
STD B: LL	15,871,843	3.85	4325207039	2.86	1,689,155
STD B: P	63,875,009	15.50	25298068042	16.75	10,037,073

ANM/FGFSA-T1-10

Please refer to p. 25, line 15. What does "****" mean?

Answer:

See errata filed January 26, 1998.

ANM/FGFSA-T1-11

At page 27 of your testimony you state that your exercise "follows the TRACS methodology except for three items." Please identify the three items.

Answer:

- a. An error in PERCONT was corrected. PERCONT is a variable equal to the percent of the container containing items of the same item type (L.R. PCR.17, Pt.3) mail code in question. An "item" is a term of art in IOCS and TRACS terminology. It contains mail but does not have wheels. It could be a sack, a tray, half-tray or parcel.
- b. FACCAT weighting ~~was used and~~ was alternatively used and not used.
- c. TRACS expands to the size of the truck in the course of several "expansions". This expansion is the key element which is equivalent to costing each leg. I believe it is theoretically incorrect to follow this procedure so I retain cubic feet unloaded only, without expansion to the size of the truck.. Expansion to the size of the rigid container, while objectionable, is less objectionable.

See

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

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, we can begin with oral
5 cross examination. Only the Postal Service has requested
6 cross examination of the witness. Does anyone else care to
7 cross examine the witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, Ms. Duchek, whenever
10 you're ready.

11 MS. DUCHEK: Thank you, Mr. Chairman.

12 CROSS-EXAMINATION

13 BY MS. DUCHEK:

14 Q Mr. Merewitz, would you turn to page 3 of your
15 testimony, please, at the top, lines 2 to 3.

16 A Page 3, lines 2 and 3?

17 Q Yes.

18 A Yes.

19 Q There, you state that the Florida Gift Fruit
20 Shippers asked you to look at purchased transportation from
21 1998 to 1996, correct?

22 A No. 1988.

23 Q I'm sorry, I misspoke, 1988 to 1996, correct?

24 A Correct.

25 Q Now, if I examine your Exhibit LAM-1, I believe it

1 starts with 1989 and there are no 1988 costs included; is
2 that correct?

3 A LAM-1?

4 Q Yes.

5 A It starts with '89, you say?

6 Q Yes.

7 A No. My copy starts with '84.

8 Q I'm sorry, I was looking at page 1A, begins with
9 '89, correct?

10 A Correct.

11 Q Okay. And if you go back to the previous page,
12 just LAM-1 --

13 A Yes.

14 Q -- you have the years '84, '85, and then you skip
15 again to 1989, correct?

16 A Yes.

17 Q So there are no 1988 costs in either 1 or 1A.

18 A Correct.

19 Q And if I'm not mistaken, in the rest of your
20 exhibits, there are no 1988 volumes or costs either; is that
21 correct?

22 A I don't know. I tried to make my exhibits as
23 complete as possible. Sometimes I wasn't able to get data.
24 But I will accept that, subject to check, that there are no
25 -- you've apparently looked at it.

1 Q Okay. That's fine. Is there some reason you
2 looked at other years and not at 1988?

3 A No. You'll notice that '86 and '87, I was unable
4 to get data as well. I looked back to get a perspective. I
5 didn't include every year except when I did study a
6 particular period.

7 Q Okay. So for 1988, you did not have data
8 available; is that what you're saying?

9 A Correct.

10 Q Mr. Merewitz, you consider that you are familiar
11 with transportation economics, do you not?

12 A Yes.

13 Q Do you know what a mode shift is?

14 A I think I do.

15 Q Would you explain your understanding?

16 A The transportation modes are air, railroad, truck,
17 and when there's a shift from one mode to the other, it
18 means some of the traffic moves from, say, air to rail.

19 Q Okay. So a movement -- similarly, a movement of
20 traffic from rail to highway would be a mode shift as well,
21 correct?

22 A Correct.

23 Q And wouldn't a movement of traffic from rail to
24 highway cause an increase in the cost of highway costs over
25 time?

1 A A movement of traffic from rail to highway.

2 Q Highway, correct.

3 A Yes, it would.

4 Q Okay. Does your testimony address rail costs?

5 A Yes.

6 Q Where is that? I'm asking about your testimony.

7 I know that there is a later interrogatory response where
8 you discuss rail, but do you address rail in your testimony?

9 A I had some exhibits that ended up being
10 incomplete, so I didn't make them final exhibits. But I did
11 look at rail while I was -- not very intensively. It was
12 mainly the two highway contracts, 53127 and 53131.

13 Q Did the Florida Gift Fruit Shippers ask you not to
14 look at rail costs?

15 A No. Definitely not.

16 Q Are you familiar with Postal Service freight rail
17 transportation from this brief review you said that you did?

18 A Yes.

19 Q Okay. Are you aware that freight rail costs
20 increased less than 2 percent from 1991 to 1996?

21 A I was not aware, but it doesn't surprise me.
22 We're in an era of very little upward fluctuation in
23 transportation prices as shown by my intense look at the
24 trucking price index.

25 Q So you accept, subject to check, that 2 percent

1 figure?

2 A Is that expenditures or real expenditures? That
3 is, is it dollars paid or dollars paid corrected for price
4 index?

5 Q I believe it's dollars paid freight rail -- let me
6 rephrase it.

7 Would you accept, subject to check, that freight
8 rail dollars paid increased less than 2 percent from 1991 to
9 1996?

10 A Yes.

11 Q Okay.

12 A Subject to check.

13 Q Thank you.

14 Switching gears a little bit, Mr. Merewitz, do you
15 have any information about the average haul of mail on intra
16 -- i-n-t-r-a -- BMC highway contracts in 1991?

17 A Average length of haul. No.

18 Q In 1996?

19 A I have some information.

20 Q Would you turn now to your response to USPS
21 Florida Gift Fruit Shippers-T1-12, please.

22 A Surely. I'm there.

23 Q In line with your answer, Mr. Merewitz, let's
24 assume that mailers who drop ship tend to drop ship their
25 shorter haul mail. You with me?

1 A Yes.

2 Q Other things being equal, wouldn't that mean that
3 on average, the intra -- i-n-t-r-a -- BMC mail still in the
4 system has a longer average length of haul after the advent
5 of drop shipping than before?

6 A I thought about that and I don't think it's very
7 large because of one factor, and that is that as far as I
8 can tell, the larger lengths of haul that remain in Postal
9 transportation are covered by rail. So you may see some
10 reduction, but I don't think it would be very large. \$187
11 million is spent on freight transportation.

12 Q We'll get to that \$187 million later.

13 A Okay.

14 Q Let me see if I understand what you just said.
15 You said you don't think it would be very large. By it, I
16 assume you're saying that the intra-BMC mail still in the
17 system after drop shipping would not have a very large
18 length of haul; is that correct?

19 A No. That's not correct. The long-haul stuff
20 would still be there. Sears puts in 20 million pieces at a
21 time at Greensboro, South Carolina, a big plant, printing
22 plant, and those go by rail and other entry points
23 throughout the country.

24 Q Okay. But I'm asking specifically about intra-BMC
25 highway mail still in the system, assuming that mailers drop

1 ship their shorter haul mail, for that intra-BMC mail still
2 in the system, wouldn't it have a longer average length of
3 haul after drop shipping than before?

4 A I don't know.

5 Q Even though you don't know, assume that, if you
6 would, to be the case. If that is the case and other things
7 being equal, wouldn't that increase costs?

8 A I'm not at all sure in an environment where we
9 have 30 percent empty in one direction, 45 percent empty in
10 the other direction on the trucks.

11 Q But I asked other things being equal. I'm asking
12 you to ignore that variable. If your mail that remains in
13 the system has a longer average length of haul, then
14 wouldn't that tend to increase the costs?

15 A I really don't know and I don't think that it has
16 a different length of haul.

17 Q Would you turn to page 11 of your testimony, lines
18 18 to 19, please.

19 A Yes.

20 Q I'm sorry, I think it's lines 19 to 20 I would
21 like you to focus on.

22 A Okay.

23 Q Actually, through line 21. Let me read you the
24 quote I'm examining.

25 A Okay.

1 Q "Although TRACS, a measurement system designed by
2 Price Waterhouse, has been in use in rate cases since R90-1,
3 it has never been tested or examined or evaluated on the
4 record."

5 With that statement in mind, would you also at the
6 same time look at your response to USPS Florida Gift Fruit
7 Shippers T-1-2.

8 A I'm there. I haven't read it through yet, but --

9 Q Take your time to read through it because I'm not
10 there yet. Now I am.

11 A Okay. Yes.

12 Q And in that response, you talk about the
13 testimonies and various documents you reviewed in
14 preparation for your testimony in this proceeding.

15 A Yes.

16 Q In preparation for your testimony in this
17 proceeding, did you read any material from Docket Number
18 R90-1?

19 A Yes, I did.

20 Q Your answer doesn't list --

21 A That's right.

22 Q -- what those materials are.

23 A That's right.

24 Q Did you read the testimony of Witness Rogerson,
25 *Cathy*
 Kathy Rogerson on behalf of the Postal Service?

1 A I only looked at it to the extent that it appears
2 in the opinion and recommended decision.

3 Q Were you aware from the opinion and recommended
4 decision that Ms. Rogerson presented testimony on behalf of
5 the Postal Service in that docket specifically on TRACS?

6 A Oh, yes, I was aware of that.

7 Q Did you -- excuse me. I guess from what you've
8 said, then, you did not read her volume of written and oral
9 cross examination in Docket Number R90-1?

10 A I'm aware of the testimony.

11 Q That wasn't my question, Mr. Merewitz. Did you
12 read her volume of written and oral cross examination in
13 Docket Number R90-1?

14 A Not very extensively.

15 Q So you did look at it, yes or no?

16 A Yes.

17 Q It's a large volume, is it not?

18 A I don't remember.

19 Q Would you accept subject to check that the volume
20 of Witness Rogerson's written and oral cross examination is
21 roughly 600 pages? I have it here if you would like to take
22 a look at it.

23 A Yes. In that case, I did not look at it. I don't
24 remember looking at a 600-page document.

25 Q Okay.

1 A But I do know that the Library References related
2 to TRACS came out very slowly whereas I know from having
3 been a COTR on statistical studies that certain documents
4 have to be available to satisfy the quality control of the
5 Postal Service.

6 Q Were you aware that Witness Rogerson also
7 testified on TRACS as a rebuttal witness in Docket Number
8 R90-1?

9 A No.

10 Q Were you aware that the Postal Service in Docket
11 R90-1 filed numerous library references on TRACS at the
12 beginning of the proceeding?

13 A I'm aware of the little by little release of
14 matters that explain TRACS, yes.

15 Q Mr. Merewitz, that was not my question. My
16 question was are you aware that the Postal Service filed in
17 Docket Number R90-1 numerous library references on TRACS at
18 the beginning of the proceeding?

19 A I'll accept -- was I aware of that or --

20 Q Yes.

21 A I was aware that some documents relating to TRACS
22 were filed.

23 Q And did you review those in preparation for your
24 testimony in this case?

25 A I have no quarrel with the volume of filed

1 material. The question is the quality and did it speak to
2 issues that I needed to understand TRACS. I looked over
3 certain titles, I spent many hours in the Postal Service
4 library, and I looked harder at volumes that I thought would
5 be helpful to me.

6 Q So do you recall whether you reviewed specifically
7 any of the library references on TRACS that were filed in
8 Docket Number R90-1? If you don't recall, that's fine; I'm
9 just asking if you recall.

10 A No, but I do recall having to go to MC96-3 and
11 perhaps MC96-2 for additional material on TRACS that wasn't
12 covered in R90 and MC95-1.

13 Q Did you review any TRACS material from Docket
14 Number R94-1?

15 A Again, I don't know, don't know it that way. I
16 looked at all -- every TRACS library reference I could get
17 my hands on. I know that.

18 Q So apparently, you did look at some materials that
19 aren't listed in your response to T1-2?

20 A That's right. I've been working on this since
21 December 1996.

22 Q Okay. Are you aware in Docket Number R94-1 that
23 Witness Barker responded to TRACS-related questions in that
24 proceeding?

25 A I'm sorry, Ms. Duchek, I missed the docket number.

1 Q R94-1, Postal Service Witness Barker.

2 A Yes, I've looked at some of his workpapers.

3 Q Did you look at any of his responses to
4 interrogatories in that proceeding?

5 A No, I don't believe I did.

6 Q So then you wouldn't be aware that Witness Barker
7 was asked by the Florida Gift Fruit Shippers Association
8 about the allocation of empty space costs in TRACS in Docket
9 Number R94-1?

10 A No, I wouldn't.

11 Q Did you read Joseph Ball's Docket Number R94-1
12 testimony on behalf of the Florida Gift Fruit Shippers?

13 A Yes, I did.

14 Q So you are aware that a portion of his testimony
15 discussed TRACS?

16 A Yes.

17 Q And you just indicated a minute ago that you did
18 look at some TRACS documentation from Docket Number MC96-3?
19 That would be the special services reform case.

20 A Yes, but why was it only presented then after it
21 had been around since R90, TRACS had been around? These
22 were basic documents that one needed to interpret --

23 Q And is it your testimony that those basic TRACS
24 documents were not filed by the Postal Service in Docket
25 R90-1?

1 A It is my testimony that a reasonable consultant
2 trying to understand TRACS would have some gaps, certainly
3 in the library references provided in R90-1.

4 Q Can you specifically identify what those gaps
5 were?

6 A Oh, yes. Any definitive discussion of the
7 sampling system, including estimated variances, my
8 understanding is that TRACS data technicians used some kind
9 of workbook, perhaps a handheld thing. There is an acronym
10 in the Postal Service that I am not remembering. CODES,
11 C-O-D-E-S, and that is -- and the material underlying those,
12 the directions to the people who are taking the data at the
13 offices came out later, but it had to exist earlier because
14 they had -- they were taking data. Form S-3, for example,
15 surface, how to fill that out, what the definitions of the
16 variables were.

17 Q Dr. Merewitz, then let me backtrack on one issue.
18 Do I understand correctly then that you are saying in Docket
19 No. R90-1, the Postal Service did not file anything
20 explaining the sampling system for TRACS?

21 A I know that the materials filed later were much
22 more fulsome and explanatory, and that I needed to have my
23 knowledge work cumulatively. In looking at the documents
24 that were available in R90, I couldn't -- and I discussed
25 with others, basic questions about TRACS that we couldn't --

1 couldn't answer.

2 Q So you are not saying the Postal Service didn't
3 file that in R90, you are just saying that, in your view,
4 the explanations that were filed in later cases were better?

5 A Well, with extensive effort on my part, I could
6 not -- could not understand TRACS. I do not have a record
7 in my mind, docket by docket, but I know that the later
8 material was much more expansive, and I couldn't understand
9 it with the earlier material.

10 Q Did you read the testimony of James Orlando on
11 behalf of the Postal Service in Docket No. R84-1?

12 A Quite a while ago, I did, yes.

13 Q So you are aware then that that testimony dealt
14 with ^{the} Postal Service's purchased transportation, procurement
15 and operations?

16 A Yes.

17 Q Would you turn to your Exhibit LAM-6, please?

18 A Okay.

19 COMMISSIONER LeBLANC: That was 6 or 26, Ms.
20 Duchek?

21 MS. DUCHEK: Six.

22 COMMISSIONER LeBLANC: Thank you.

23 MS. DUCHEK: If there is an LAM-26, we don't have
24 it.

25 THE WITNESS: Nor do I.

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1 [Laughter.]

2 MS. DUCHEK: Please.

3 BY MS. DUCHEK:

4 Q Do you have that in front of you, Dr. Merewitz?

5 A Yes.

6 Q Okay. The numbers in the top panel are pounds of
7 Standard A mail either entered upstream or at the
8 destination BMC, is that correct?

9 A By the way, we are all looking at the revision of
10 13 February?

11 Q Yes.

12 A Okay. The numbers in the upper panel are pounds.
13 No, the first line is pieces but, basically, you are right,
14 the rest of them are pounds.

15 Q I'm sorry. I meant starting with -- I guess then
16 it would be the second line. Those are pounds of Standard A
17 mail either entered upstream or at the destination BMC,
18 correct?

19 A No, I believe they are -- okay. Okay. Either
20 nationwide distribution or BMC distribution, but not SCF or
21 DDU.

22 Q Right. By upstream, I assume -- by upstream, I
23 think we are using -- you are saying nationwide and I am
24 saying upstream, but we mean the same thing.

25 A Right.

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1 Q Everything excluding DDU or destination SCF entry,
2 correct?

3 A Correct.

4 Q Can you explain to me briefly how the total 1991
5 pounds for Standard A were developed?

6 A Okay, I'll try. I have a work paper on that. May
7 I refer to that?

8 Q Yes, please. Or you could look at the billing
9 determinants if you want. I have copies of the page here.

10 A There are generally two approaches. You can
11 either take the nationwide and BMC if you can find them that
12 way, BMC entry, and simply add those, or you can take the
13 total and subtract off SCF entry and DDU entry. In this
14 case if you look at my work paper 2 it's all spelled out
15 there.

16 Q I think you explained -- I mean, one way to do it
17 would be to take the total and back out Destination SCF and
18 DDU entry; correct?

19 A Right.

20 Q Okay. Would you accept subject to check that the
21 pounds entered at the DBMC rate are the pounds that
22 qualified for the DBMC discount? And that's for 1991.

23 A Yes.

24 Q Okay. Would you further accept subject to check
25 that the DBMC discount went into effect on February 3, 1991?

1 A Yes.

2 Q So that's well into the second quarter of FY 1991;
3 correct?

4 A Yes.

5 Q Would you also accept subject to check that the
6 other destination entry discounts, that is, Destination SCF
7 and DDU, also went into effect on February 3, 1991?

8 A Yes.

9 Q So doesn't this mean that your 1991 numbers
10 assumed that all mail from October 1, 1990, to February 2,
11 1991, was either entered upstream or nationwide to use your
12 term or at the Destination BMC?

13 A No, these numbers come from the billing
14 determinants, 35 billion pieces were entered nationwide, 36
15 billion, and another 6 billion were entered at the BMC.

16 Q At the Destination BMC.

17 A Correct.

18 Q But don't the billing determinants mean that the
19 figures shown for Destination BMC for entry there are the
20 ones that actually qualified for the DBMC discount?

21 A Qualified by being deposited at the Destination
22 BMC, and therefore obviating inter-BMC transportation.

23 Q Well, they qualified because they received the
24 discount. I mean, they qualified -- let me rephrase that.
25 They qualified because they were deposited at the

1 Destination BMC --

2 A Yes.

3 Q And they received the discount because they
4 qualified; correct?

5 A Correct.

6 Q Well, Dr. Merewitz, doesn't your 1991 volume for
7 Standard A or Third Class at that point underestimate the
8 amount of volume entered at SCFs or DDUs?

9 A The only purpose for mentioning it was to see how
10 much transportation they were using at the time, and the
11 ones that were delivered to the BMC meant a little bit less
12 transportation. The ones that delivered to the SCF even
13 less transportation. And then I compared that with '96 when
14 a great phenomenon happened between those two times of
15 work-sharing.

16 Q But, Dr. Merewitz, to accept your 1991 figures,
17 you would have to assume that there was no volume entered at
18 the Destination SCF or DDU from October 1, 1990, to February
19 3, 1991. You're using Destination SCF DDU figures and DBMC
20 figures from the billing determinants which are volumes
21 which paid the discounted rates because they qualified for
22 the discount. The discounts did not go into effect until
23 February 3, 1991. Obviously there had to have been volumes
24 that were entered at the DSCF or DDU or Destination BMC
25 prior to February 3, 1991, even though they didn't receive

1 the discount, because it wasn't in effect. Isn't that
2 correct?

3 A Yes.

4 Q So to accept your figures you have to assume that
5 there was no volume entered at the DSCF or DDU prior to
6 February 3, 1991, and that's simply not correct.

7 A Well, I'd have to think about that more. I think
8 perhaps I answered hastily. These are the numbers that come
9 from the billing determinants. They're Postal Service
10 figures. There was more drop shipping in '96. That's the
11 only point I'm making.

12 Q So the only point you are making is that in 1996,
13 there was more drop shipping than in 1991, but you still
14 don't know, do you, from the billing determinants, the
15 volumes that actually were drop-shipped between October 1
16 and February 3rd, 1991? Correct?

17 A I would have to think more about that.

18 Q Dr. Merewitz, I'd be perfectly happy if you would
19 think about that, and get us a response in writing.

20 CHAIRMAN GLEIMAN: Mr. Wells, can you help us with
21 that? See that Mr. Merewitz responds to that one in
22 writing?

23 MR. WELLS: That's fine.

24 CHAIRMAN GLEIMAN: Ms. Duchek, if it's not too
25 disruptive to your cross examination, I think we are about

1 ready for a break.

2 MS. DUCHEK: Actually, it would be fine.

3 CHAIRMAN GLEIMAN: Thank you. We will come back
4 at five of the hour.

5 [Recess.]

6 CHAIRMAN GLEIMAN: Ms. Duchek, whenever you are
7 ready, we can proceed.

8 MS. DUCHEK: Thank you, Mr. Chairman, I am.

9 BY MS. DUCHEK:

10 Q Dr. Merewitz, we are still on Exhibit 6, and this
11 is revised, 13 February 1998, and while we are on that, I
12 just wanted to confirm that I actually have -- I think I do
13 -- the correct revised one. In all the materials that flew
14 back and forth over the past couple of weeks, there was one
15 version we had of LAM-6 that showed, under the 1996 column,
16 the first line, it showed a standard A figure of 33056.2,
17 but the correct version is the one I think I now have,
18 36945.2; correct?

19 A Correct.

20 Q Because that is a derived number, and that is
21 supposed to match, I think it's about line 10 --

22 A Yes.

23 Q -- in that same column, 36945.2.

24 A Correct.

25 Q Okay. So those numbers are supposed to match, so

1 I do have the correct version?

2 A That's right.

3 Q Okay. Would you please turn to page 2 of your
4 revised exhibit.

5 A Yes.

6 Q Six. And I'm on line 6, the line that states
7 pounds divided by pieces, parcel post.

8 A Correct.

9 Q Okay. Dr. Merewitz, are your numbers reversed?
10 In other words, the 1991 weight number of 5.1447, shouldn't
11 that actually be the 1996 figure? And isn't the 1996 figure
12 of 5.2688 actually the 1991 figure?

13 A This would not be the first time I made a mistake,
14 but I will check that.

15 Q Okay. I'd appreciate it. And for now -- and I
16 understand you are accepting this subject to check because
17 you have to check it, but let's assume I'm right and you
18 reversed those two numbers, then your line 10 on that page
19 would understate the 1991 DBMC pounds and overstate the 1996
20 DBMC pounds; isn't that correct? If those numbers are
21 reversed?

22 A It's a 2.5 percent change.

23 Q But which way does it go?

24 A All right, we have a lower weight in '96. That
25 would mean more pounds saved -- I'm sorry.

1 Q Less pounds saved.

2 A Lower pounds saved. Yes, I think it would,
3 perhaps. I do math very poorly under pressure. But I will
4 accept that, subject to check.

5 Q Okay. So you would accept, subject to check, that
6 if the numbers in line 6 are reversed, that you have over
7 --line 10 overstates 1996 DBMC pounds and understates 1991;
8 subject to check?

9 A Yes.

10 Q Okay. Would you look at, on that same page, line
11 1 under the 1996 column? I believe that is supposed to
12 represent parcel post pieces or volumes; is that correct?

13 A Correct.

14 Q And the figure is 212.8; correct?

15 A Yes.

16 Q Okay. And can you confirm for me that those
17 parcel post volumes were taken from RPW?

18 A RPW or CRA, which should be the same.

19 Q Correct. Are you aware that RPW includes both
20 Alaska Bypass and OMAS, O-m-a-s, volumes? I believe OMAS
21 stands for Official Mail Accounting System.

22 A Official Mail Accounting System.

23 COMMISSIONER LeBLANC: That's not what we had in
24 mind, but we'll take it, okay?

25 [Laughter.]

1 THE WITNESS: Well, that means that the numbers
2 include -- if the Postal Service mailed some parcels, that
3 they are in the number there.

4 BY MS. DUCHEK:

5 Q In the RPW number?

6 A Yes.

7 Q And the Alaska -- would you accept also that the
8 Alaska Bypass volumes are also in the RPW number?

9 A I don't know about that.

10 Q Would you accept, subject to check, that they are?

11 A Yes.

12 Q On that same page, again focusing on the 1996
13 column, the DBMC volumes on line 7, those are in pieces
14 also; correct? Line 7 is DBMC pieces?

15 A In pieces, millions of pieces, yes.

16 Q Right. 96.41; correct?

17 A Correct.

18 Q And am I correct that you took that number from
19 the 1996 billing determinants?

20 A Probably.

21 Q Okay. Are you aware that the billing determinants
22 do not include either Alaska Bypass or OMAS volumes?

23 A Wait a minute. Let's check. I believe I have a
24 work paper on this, don't I?

25 Q If you'd like, Dr. Merewitz, I have the 1996

1 billing determinants here. I can show --

2 A Well, what I'm trying to find out is what I used.

3 Q That's fine.

4 A I have a work paper 4, shows that I obtained the
5 '91 data from the CRA, page 13.

6 Q Well, I'm asking about the '96 data.

7 A Yes.

8 Q Line 7, the DBMC pieces, 96.41, where that figure
9 came from.

10 A I will accept, subject to check, that it came from
11 the billing determinants.

12 Q And would you also accept, subject to check, that
13 page H -- section H.1, page 2 of 10 of the 1996 billing
14 determinants, contains a footnote stating that the DBMC
15 volumes exclude Alaska Bypass and OMAS pieces? I can show
16 you that page if you'd like.

17 A No, I'll accept it, subject to check.

18 Q Again, Dr. Merewitz --

19 A If OMAS volumes are excluded, where are they in
20 the billing determinants?

21 Q Dr. Merewitz, luckily for me I'm not the witness
22 today, so I don't have to testify about the billing
23 determinants. Again, we are just focusing on what's in the
24 DBMC in line 7, 1996 figures.

25 A Okay.

1 Q And again, I'm asking you just to accept this
2 subject to check. I understand that you may want to look at
3 the billing determinants and determine where the OMAS
4 figures are, but for my purposes, that's really not relevant
5 right now. So if the RPW used in line 1 for the 212.8
6 figure includes Alaska Bypass and OMAS and the billing
7 determinants used for line 7 under the 1996 column exclude
8 Alaska Bypass and OMAS -- again I'm asking you to accept
9 this subject to check -- doesn't that mean that you have
10 overstated total parcel post volumes and overstated the DBMC
11 volumes?

12 A No, I don't think so because you would want to
13 look at line 7 in '91. The real relevant thing is what that
14 included in 1991 and how it compares to '96.

15 Q I understand that we are talking about the
16 comparison here, Dr. Merewitz, that's what your exhibit
17 shows. I'm only asking about 1996. I'm only saying that if
18 you -- line 1 in the 1996 column includes Alaska Bypass and
19 OMAS from RPW, and line 7, DBMC from the billing
20 determinants, excludes them, then in that -- in the 1996
21 figures you have overstated total parcel post volume and
22 understated DBMC volumes; correct; in the 1996 column?

23 A I will accept that subject to check, but you have
24 to think of the whole purpose of the exhibit, which is to
25 compare the transportation needs in '96 versus '91, and I

1 left out the DBMC -- that is I left out the ones that are
2 delivered to the BMC avoid for the postal service inter-BMC
3 transportation, ER, and therefore this is a conservative --I
4 would believe that this small Alaska Bypass and OMAS volumes
5 are swamped by the effect I mentioned.

6 Q Dr. Merewitz, I'd like you now to turn to your
7 work paper 5 that you supplied us, which supports LAM-6, and
8 I have copies of it here that I'd be happy to pass out if
9 you don't have that in front of you.

10 A Yes.

11 Q In fact, if there is no objection from Mr. Wells,
12 it might be helpful to have that entered into the record as
13 a cross examination exhibit.

14 MR. WELLS: Would you repeat what it is you want?

15 MS. DUCHEK: It's work paper 5 that Dr. Merewitz
16 gave us, supporting LAM-6. I can show you the page.

17 MR. WELLS: I have no objection.

18 MS. DUCHEK: Mr. Chairman, I also have copies that
19 I will pass out to the Commission, if they are interested,
20 so they can follow along, but to speed this up, can I only
21 mark Cross-Examination Exhibit on the two copies that I give
22 to the reporter?

23 CHAIRMAN GLEIMAN: That would be fine.

24 MS. DUCHEK: Thank you.

25 Mr. Chairman, I'm going to hand two copies to the

1 reporter of Work Paper 5 supporting LAM-6, which was
2 supplied by Dr. Merewitz. I have marked it USPS/FGFSA-XE-1,
3 and I ask that it be entered into the record as evidence.
4 At the same time I will also pass out copies to Dr.
5 Merewitz's counsel and the Commissioners.

6 CHAIRMAN GLEIMAN: Without objection, the cross
7 examination exhibit will be admitted into evidence and
8 transcribed into the record at this point.

9 [Cross-Examination Exhibit
10 USPS/FGFSA-XE-1 was received into
11 evidence and transcribed into the
12 record.]

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Workpaper 5 Supporting LAM-6
Weight of Standard A Mi

lbs	millions	
310.9	no DE	basic lb rate
34.3	BMC DE	
94.2	no DE	nonlet min rate
2.1	BMC DE	
212.9	no DE	let
12	BMC DE	
695.9	no DE	lb 3/5
729	BMC DE	
245.5	no DE	nonlet min rate
269.1	BMC DE	
473	no DE	let
360	BMC DE	
79.1	no DE	lb ECR
346.8	BMC DE	
51.8	no DE	nonlet min rate
169.2	BMC DE	
104.9	no DE	let
310.8	BMC DE	
1.3	no DE	lb HD
0.6	BMC DE	
1.1	no DE	nonlet min rate
1.7	BMC DE	
1.1	no DE	let
1.2	BMC DE	
19.8	no DE	lb Saturation
1.4	BMC DE	
26.2	no DE	nonlet min rate
18.5	BMC DE	
18.7	no DE	let
9.8	BMC DE	
4602.9		TOTAL

1 THE WITNESS: May I step down, Mr. Chairman, and
2 confer with my attorney?

3 CHAIRMAN GLEIMAN: Let's take a five minute
4 break -- less if counsel wishes.

5 [Recess.]

6 THE WITNESS: Thank you, Mr. Chairman.

7 CHAIRMAN GLEIMAN: That was a short five minutes.

8 MS. DUCHEK: Thank you, Mr. Chairman.

9 BY MS. DUCHEK:

10 Q Dr. Merewitz, would you look at the third line
11 from the bottom on Work Paper 5, which is saturation letter
12 nondestination entry, the 18.7 figure.

13 Do you see that?

14 A Yes.

15 Q Okay. Also, would you look at the seventh line
16 from the bottom, the saturation pound rate nondestination
17 entry. You have 19.8, correct? Do you see that number?

18 A Yes.

19 Q Would you accept subject to check that the 18.7
20 actually should be 18.8 and that the 19.8 should actually be
21 29.8 and that those numbers are shown on Section G-2, page 3
22 of 3 of the 1996 billing determinants.

23 I have the page, if you would like to check that.

24 A Yes, I would.

25 Q From the billing determinants.

1 A Yes, I would, please.

2 [Pause.]

3 THE WITNESS: Thank you.

4 BY MS. DUCHEK:

5 Q Dr. Merewitz, to help you out, we have underlined
6 and put check marks next to the two numbers I am referring
7 to.

8 A All the other numbers are right, I presume.

9 Yes, I see it.

10 Q Okay, thank you, Dr. Merewitz --

11 A That is 0.2 percent.

12 Q That's correct -- well, I'll accept that subject
13 to check, I guess -- although I understand, Mr. Chairman, I
14 can't testify so that -- would you turn, please, Dr.
15 Merewitz, to your response to USPS FGFSA-28.

16 A Yes.

17 Q And specifically I'd like you to review subpart
18 (e), please. Do you have that, Dr. Merewitz?

19 A Which one -- 28?

20 Q Yes. USPS FGFSA-T1-28, subpart (e).

21 A Yes, I have it.

22 Q Okay. I am specifically looking at the part of
23 your answer which states, "TRACS data shows that the
24 outbound move consistently operates at 50 percent capacity
25 utilization."

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1 Do you see that section?

2 A Yes, I do.

3 Q Just for purposes of clarification, are you saying
4 that because the average load factor is higher on outbound
5 legs, then the capacity of the truck ~~as~~ ^{is} determined by the
6 outbound legs?

7 A Would you repeat that, please?

8 Q Are you saying that because the average load
9 factor is higher on outbound legs, then the capacity of the
10 truck is determined by the outbound legs?

11 A I'm sorry, I don't understand the question.

12 I thought you used a "because" there and then I
13 never heard the rest.

14 Q Okay, let me repeat it again.

15 A Okay.

16 Q I am specifically focusing on your statement in
17 FGFSA-28(e) that says "TRACS data shows that the outbound
18 move consistently operates at 50 percent capacity
19 utilization" and I am just trying to get clarification of
20 that portion of your sentence.

21 Is what you are saying there that the capacity of
22 the truck is determined by the outbound legs because the
23 average load factor is higher on those outbound legs?

24 A Yes.

25 Q Would you please look at your response to

1 USPS/FGFSA-24, please.

2 A Yes?

3 Q And there you state that it is your understanding
4 or that you are not aware that there are any one-way trips
5 on contracts, correct?

6 A I am not aware of any but the Postal Service is
7 very large, I have learned from my 20 years in postal
8 matters -- but there are some one-way trips.

9 By and large they are round-trips.

10 Q But you are saying that it is possible that there
11 are one-way trips?

12 A Yes.

13 Q And in fact, are you aware that Ms. Nieto
14 testified on written cross examination that there were
15 one-way trips.

16 A The question is how large a phenomenon is it.

17 Q Would you now turn to page 13 of your testimony,
18 please?

19 Do you have that, Dr. Merewitz?

20 A Yes.

21 Q I am specifically looking at your first sentence
22 on line 14 where you state, and I quote, "I am informed that
23 the Postal Service never stacks freight higher than six
24 feet."

25 A Yes.

1 Q Who informed you of this?

2 A I don't recall. I think it may have been
3 discussions with Gift Fruit Shippers people.

4 Q Okay. Are you aware that Witness Nieto testified
5 in written cross examination that there were four intra-BMC
6 TRACS tests in which a portion of the truck was vertically
7 used up to 96 inches, two inter-BMC TRACS tests in which the
8 entire truck was vertically used up to 96 inches, and one
9 inter-BMC TRACS test in which a portion of the truck was
10 used vertically up to 96 inches?

11 A Ms. Duchek, would you tell me how many tests?

12 Q Four intra-BMC TRACS tests, two inter-BMC TRACS
13 tests, and one inter-BMC TRACS test in which the truck was
14 used, portions or the entire truck was used up to 96 inches.

15 A Yes. You have mentioned a total of seven tests
16 and my understanding in intra alone there were 12,000 tests
17 and in inter there was a similar order of magnitude number.

18 Q Were you aware of this interrogatory response, Dr.
19 Merewitz?

20 A I read Ms. Nieto's interrogatory responses, yes.

21 Q So you are saying that because the number of TRACS
22 tests in which the truck was stacked beyond six feet was
23 small that that is the equivalent of your statement that the
24 Postal Service never stacks freight higher than six feet?

25 A I would say that .06 percent is very small, but

1 perhaps my word "never" was indiscreet.

2 Q Okay, thank you, Dr. Merewitz, and also did you
3 just say that there -- for something there was 12,000 TRACS
4 tests. Isn't that correct figure 1,200?

5 A No, I believe it was 12,000.

6 Q Dr. Merewitz, I take it from your testimony you
7 are critical of or at least somewhat critical of Dr.
8 Bradley's variability analysis, are you not?

9 A Yes.

10 Q But you didn't provide any alternative estimates
11 of the volume variability of highway contracts in your
12 testimony, correct?

13 A No. No, you are not correct. Basically what an
14 econometrician does is to work with data, cross sectional
15 data, to answer a question what would happen in the future
16 for prediction purposes -- what would happen if volume
17 changed, and one checks one's results by looking at the real
18 world and over the period '91 through '96 transportation
19 declined about -- needs declined about 4 percent and postal
20 spending on highway transportation increased about 14 or 16
21 percent, so even if we would say that there was no change in
22 transportation needs and this was a period of great
23 acceptance of drop shipping and work sharing, there is --
24 the volume was constant and costs went up, so there is no
25 peri passus or one-to-one relationship as volume goes up 10

1 percent, costs go up 10 percent.

2 Q Mr. Merewitz, I understand your criticism of Dr.
3 Bradley's analysis, but perhaps you misunderstood my
4 question. I didn't ask you to explain that; I asked you if
5 you presented in your testimony any alternative estimates of
6 the volume variability of highway contracts.

7 Now, as an estimate, I'm talking about the types
8 of percentages that Dr. Bradley presented. For example, you
9 know, intra-~~PES~~^{SCF} is 80 percent volume variable. I'm not
10 saying that's Dr. Bradley's number, but that's just an
11 example. You did not present that type of estimate in your
12 testimony, did you?

13 A Well, there is an implication that transportation
14 costs are not variable with volume, zero percentage
15 variability.

16 Q But you did not present that estimate in your
17 testimony. I'm not asking about implications; I'm asking if
18 you provided an alternative analysis, an estimate of volume
19 variability in your testimony?

20 A Well, for one thing, I'm stating it right now, but
21 for the other, in economics, which I have practiced for
22 about 30 years, you look at small data and you look at the
23 big picture. I looked at the big picture, and it's greatly
24 at variance with the other picture and the other picture
25 uses the wrong -- really doesn't at all study -- Bradley

1 doesn't at all study the relationship between cost and
2 volume of mail. He studies the relationship between cost
3 and capacity on the trucks. Then he says that I leave it to
4 TRACS to get the relationship between capacity and volume,
5 but capacity and volume very loosely -- there's always this
6 30 or 50 percent excess capacity as we've documented in my
7 exhibits.

8 So I think what I have done amounts to a study,
9 certainly evidence that the variability on -- is very close
10 to zero.

11 Q So all purchased highway transportation costs, or
12 almost all, since you said close to zero, purchased highway
13 transportation costs should be distributed to the classes
14 and subclasses of mail based on the non-cost criteria of the
15 act?

16 A I think they should be institutional costs. These
17 schedules are maintained for service quality as well as for
18 volume. They exist so that the mail can get there on time.
19 There is first class mail and priority mail on these
20 supposedly non-pref runs from BMCs -- between BMCs and
21 within BMC service areas. So I would say that, yes, you
22 have to put that in institutional cost.

23 Q Mr. Merewitz, would you turn to your Exhibit
24 LAM-4 (b), please.

25 A Yes. I am there.

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1 Q Do you have it, Mr. Merewitz?

2 A Yes.

3 Q Okay. In that exhibit, you compare cubic feet for
4 Standard A to cubic feet for parcel post, correct?

5 A Not really. Both of those are in, but the burden
6 of the exhibit is not to compare the two.

7 Q Well, maybe I stated that wrong. You basically
8 derive a ratio, don't you?

9 A A ratio between parcel post and Standard A, yes.

10 Q And Standard A is in the numerator and parcel post
11 is in the denominator, correct?

12 A Correct. Correct.

13 Q Isn't it correct that your parcel post numbers,
14 which are in the denominator, come from the Postal Service's
15 Form 12 system?

16 A I'm sorry, I didn't hear the question.

17 Q Isn't it correct that your parcel post numbers
18 come from the Form 12 -- let me rephrase that.

19 The parcel post numbers which are in the
20 denominator of your ratio come from the Postal Service's
21 Form 12 system?

22 A Well, we have footnote (b). Are we looking at
23 intra-BMC? Footnote (b) is panel A. So looking at panel C
24 in the bottom, in this case, panel C is the important
25 summary panel. It's called Summary. Looking from panel A,

1 we see that 92965 is the sum of parcel post and DBMC, both
2 from a certain Postal document, Library Reference H135,
3 standard mail parcel post volume in cubic feet data
4 distributed by weight and zone and BMC ASF. That's where I
5 got them.

6 Q Okay. And could you accept, subject to check,
7 that that's what I'm referring to, is the Postal Service's
8 Form 12 system?

9 A Yes.

10 Q Mr. Merewitz, are you familiar with the Form 22
11 density system?

12 A Essentially no.

13 Q Okay.

14 A I have heard of it.

15 Q Well, do you know which system is the basis for
16 the density factors used in TRACS?

17 A I believe the TRACS conversion from pounds which
18 they measured to cubic feet done on page 2188 of the
19 relevant library reference does refer to a form which is now
20 discontinued. It may well be Form 22.

21 Q Okay. Would you accept subject to check that
22 TRACS does use the Form 22 density system?

23 A Yes.

24 Q Okay. Now, you have indicated on LAM-4(b) that
25 the cubic feet used for Standard A is developed using the

1 TRACS density for Standard A; is that correct?

2 A Yes.

3 Q Okay. So if you have accepted subject to check
4 that the TRACS density is from the -- for Standard A is from
5 the Form 22 system, then you have the Form 22 system density
6 for Standard A in your ratio and the Form 12 density for
7 parcel post in your ratio, correct? So you have two
8 different density methodologies in this ratio, correct?

9 A I don't know. But density is density. I would
10 guess that the mail can be measured and determined once for
11 all how many pounds per cubic foot.

12 Q Mr. Merewitz, in Exhibit LAM-4(b), is it not
13 correct that the Standard A data are based on mail flow
14 models from Library Reference -- Postal Service Library
15 Reference H-111?

16 A Yes, they are.

17 Q And is it your understanding that in these mail
18 flow models found in Postal Service Library Reference H-111,
19 a single piece of Standard A mail can show up on multiple
20 flows?

21 A No.

22 Q So you don't think it can?

23 A I don't think so with the accounting system of
24 inter-BMC and intra-BMC and inter-SCF.

25 Q Well, Mr. Merewitz, would you accept subject to

1 check that if you add up the mail across all the flows in
2 Library Reference H-111, you get total pounds of about 2.2
3 times the pounds of mail in the system as measured by RPW?

4 A For which class are you talking about?

5 Q It's the total, total mail across all flows for
6 Standard A. I'm sorry. You get ~~a~~ total pounds of about 2.2
7 times the Standard A pounds as measured by RPW.

8 A I looked at the flows and they were
9 non-intersecting. I added up column 15 of Table A --
10 Appendix A, Table 4 or (d) -- Appendix A, Table 4.

11 Q On Exhibit 4(b) --

12 A And even 2.2 -- the ratio I found was four, and
13 even if it were 2.2, it's still -- 4.1 is still twice that
14 and TRACS is showing a one to one ratio and here we see a
15 ratio if -- it might be two. I think it's four, you think
16 it's two, but both of them contradict TRACS.

17 Q In your Exhibit 4(b), --

18 A I'm there.

19 Q -- what did you use for the parcel post pounds?
20 Aren't those from RPW?

21 A The count? What did I use -- you mean volume,
22 pieces?

23 Q Pounds.

24 A Oh. Pounds?

25 Q Yes.

1 A Well, parcel post is in panel A of the exhibit,
2 and I used --

3 Q Actually, cubic feet --

4 A Correct.

5 Q -- if that helps you, rather than pounds. I
6 misspoke.

7 A Correct.

8 Q Are those from RPW?

9 A Those are from the library reference as stated
10 there, H-135. It's right in the title, parcel post volume
11 in cubic feet data.

12 Q Okay. Would a single piece of parcel post appear
13 in multiple mail flows?

14 A What's an example of a mail flow?

15 Q Well, let's follow an intra-BMC piece through the
16 system, intra, i-n-t-r-a.

17 A I'm sorry, inter?

18 Q Intra, i-n-t-r-a.

19 A Okay.

20 Q Let's suppose it has entered at a post office.

21 A Yes.

22 Q It then travels on a truck from the post office to
23 the associate office.

24 A Yes.

25 Q Okay? Then let's say it goes on another truck

1 from the associate office to the SCF.

2 A The originating SCF?

3 Q Yes. Yes.

4 A Okay.

5 Q And then on another truck from the SCF to the BMC,
6 and then back through the system? Doesn't that mean --

7 A And then back through the system?

8 Q Yes.

9 A You are returning this parcel?

10 Q Let's just stop it at the BMC.

11 A Well, you want to get it to the customer, don't
12 you?

13 Q At some point. I am just trying to demonstrate
14 that a single piece of mail can show up several times on the
15 mail flow diagrams from Library Reference H-111.

16 A Yes, but --

17 Q A single piece of parcel post could, under the
18 scenario I have posited.

19 A Yeah, but a post office to AO, that's, I believe,
20 intra-SCF, AO to SCF is intra-SCF. SCF to BMC, I guess you
21 mean originating BMC, is intra-BMC. The people who designed
22 the accounting system thought of these issues.

23 Q Right. So even before it gets to the customer,
24 it's already been on two mail flows; right? Intra-SCF and
25 then the BMC?

1 A Yes.

2 Q Dr. Merewitz, what I am trying to get at here is
3 in your Exhibit 4-B, I don't believe you adjusted the parcel
4 post pounds from RPW to make them comparable to the standard
5 A pounds from the mail flow where a piece can show up and be
6 counted several times. All I'm trying to get at here is we
7 have a numerator from the mail flow models and a denominator
8 from RPW; correct?

9 A A numerator from the mail -- what are the mail
10 flow models, please?

11 Q Library Reference H-111, Postal Service Library
12 Reference H-111.

13 A That's drop-shipped savings in periodicals and
14 standard mail. Is that --

15 Q That is the source, is it not, of your standard A
16 pounds, Library Reference H-111?

17 A What do you mean by a mail flow model? I mean I
18 know the title and I consulted it, but is that a particular
19 type of model?

20 Q It's what you used from Library Reference H-111;
21 correct?

22 A Yes.

23 Q So your numerator, which is standard A, is from
24 Library Reference H-111, the mail flow models; correct?

25 A I still don't know what a mail flow model is, but

1 I guess I'll accept subject to check that 111 is a mail flow
2 model.

3 Q And your denominator for parcel post is from RPW;
4 correct?

5 A Parcel post. No, it's from the Library Reference.

6 Q Well, Library Reference H-135; correct?

7 A Correct.

8 Q Okay. Are you aware that in -- are you aware in
9 Library Reference H-111 whether this is only for mail
10 carried on purchased transportation, or whether it includes
11 something else?

12 A Drop-ship savings. It's the savings to the Postal
13 Service from the client or customer delivering it, doing the
14 work-sharing, and some of that could be what we call VSD,
15 vehicle service drivers.

16 Q So it could include postal-owned transportation?

17 A Yes, but the point of this exhibit is to compare
18 the cubic feet, not -- we don't care where -- who pays for
19 it and where -- the postal pays for it and then the
20 ratepayers pay for it, you bet, but we don't care what stage
21 it's at, we're just seeing whether TRACS gives us reasonable
22 data compared with other postal systems, and we have a four
23 to one or a three to one difference.

24 Q What's the relationship, to your knowledge,
25 between TRACS and vehicle service drivers?

1 A TRACS does not cover -- TRACS only covers
2 purchased transportation, all modes, air, rail, freight
3 rail, passenger rail, water, highway, of course.

4 Q Also, Dr. Merewitz, Postal Service Library
5 Reference H-111, I believe it's Appendix A, Table 4, from
6 which you derived the figures in 4-B, are pounds for the
7 test year; is that correct?

8 A Appendix A, Table 4?

9 Q Right. Of Library Reference H-111. I have a copy
10 of that page if you will give me a minute to find it, if
11 you'd like to see it.

12 A Yes, I would, please.

13 MS. DUCHEK: Mr. Chairman, I'll hand out a copy to
14 the Commissioners and to Dr. Merewitz and his counsel, and I
15 guess for clarity's sake, I should ask that it be entered as
16 a cross examination exhibit designated USPS-FGFSA-XE-2.

17 CHAIRMAN GLEIMAN: Do you have any objection, Mr.
18 Wells?

19 MR. WELLS: I haven't seen it yet, Mr. Chairman.
20 No objection. It would be nice if we could see
21 these in advance.

22 [Cross-Examination Exhibit
23 USPS/FGFSA-XE-2 was marked for
24 identification.]

25 THE WITNESS: Yes.

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1 CHAIRMAN GLEIMAN: I don't disagree with you, Mr.
2 Wells, that it would be nice to see these things in advance,
3 especially when they involve requests to do calculations and
4 the like, but here we are today, so if --

5 MS. DUCHEK: Mr. Chairman, I am not requesting
6 computations. It is my understanding -- and Dr. Merewitz
7 and Mr. Wells are free to correct me if I'm wrong -- that
8 this was the source for Dr. Merewitz's numbers in Exhibit
9 4-B.

10 CHAIRMAN GLEIMAN: I think that we will let Dr.
11 Merewitz respond to that, whether that was the source or
12 not. If that is your -- would you like -- you have marked
13 this as Cross-Examination Exhibit?

14 MS. DUCHEK: Yes, I have.

15 CHAIRMAN GLEIMAN: USPS --

16 MS. DUCHEK: FGFSA-XE-2.

17 CHAIRMAN GLEIMAN: And you wish me to do what with
18 it?

19 MS. DUCHEK: Enter it into -- transcribe it into
20 the record as a cross examination exhibit.

21 CHAIRMAN GLEIMAN: That is so ordered.

22 [Cross-Examination Exhibit
23 USPS/FGFSA-XE-2 was received into
24 evidence and transcribed into the
25 record.]

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Appendix A, Table 4
Total Test Year Pounds Transported on Each Mail Flow
 (all figures are in thousands)

Total Test Year Pounds		10,050,172		1/							
[2]	[3]	[4]	[5]	[6]	[12]	[13]	[14]	[15]			
Flow Number	Origin	Percent of Volume Entered at Origin	Pounds Entered at Origin	Additional Pounds from Combining Flows	Pounds Processed	Type of Transportation	Proportion of Volume from the Origin	Total Pounds Transported on Each Flow			
1	OAO	4.61%	462,892	0	7/ 462,892	Intra-SCF	1.22%	5,670			
2	OAO	4.61%	462,892	0	7/ 462,892	Intra-SCF	37.78%	174,902	(a)		
3	OAO	4.61%	462,892	0	7/ 462,892	Intra-SCF	38.39%	177,708	(b)		
4	OAO	4.61%	462,892	0	7/ 462,892	Intra-BMC	12.95%	59,954	(c)		
5	OAO	4.61%	462,892	0	7/ 462,892	Intra-BMC	9.65%	44,660	(d)		
6	OSCF	11.46%	1,152,038	177,706	8/ 1,329,744	Intra-BMC	32.49%	432,052	(e)		
7	OSCF	11.46%	1,152,038	177,706	8/ 1,329,744	Intra-BMC	43.62%	580,018	(f)		
8	OSCF	11.46%	1,152,038	177,706	8/ 1,329,744	Inter-SCF	23.14%	307,701	(g)		
9	OSCF	11.46%	1,152,038	177,706	8/ 1,329,744	Inter-SCF	0.75%	9,975			
10	OBMC	17.48%	1,757,191	639,970	9/ 2,397,161	Inter-BMC	100.00%	2,397,161	(h)		
11	DBMC	29.20%	2,934,850	2,873,873	10/ 5,808,722	Intra-BMC	96.86%	5,626,328	(i)		
12	DBMC	29.20%	2,934,850	2,873,873	10/ 5,808,722	Intra-BMC	3.14%	192,394			
13	DSCF	36.13%	3,631,404	6,106,931	11/ 9,740,335	Intra-SCF	100.00%	9,740,335			

Row 1/ From Appendix B, Table 2.

Column [2] See Table 3 of this Appendix.

Column [3] Origin of each flow. See Table 3 of this Appendix for a detailed description of each flow.

Column [4] See Table 1 of this Appendix.

Column [5] Equals Column [4] * Row 1/.

Column [6] When flows merge, all pounds from previous flows must be accounted for. This column adds pounds from previous flows that merge into the current flow.

Row 7/ The OAO is the first point from which flows can originate. Therefore, no pounds are added from previous flows, because there are no previous flows.

Row 8/ In Flows 6 - 9, the OSCF-originating flows, the Total Pounds Transported on Flow 3 (Column 15, row (b)) must be added, since they flow into the OSCF.

Row 9/ In Flow 10, the OBMC-originating flow, the Total Pounds Transported on Flows 4 and 7 (Column 15, rows (c) and (f)) must be added, since they flow into the OBMC.

Row 10/ In Flows 11 and 12, the DBMC-originating flows, the Total Pounds Transported on Flows 5, 6, and 10 (Column 15, rows (d), (e), and (h)) must be added, since they flow into the DBMC.

Row 11/ In Flow 13, the DSCF-originating flow, the Total Pounds Transported on Flows 2, 8, and 11 (Column 15, rows (a), (g), and (i)) must be added, since they flow into the DSCF.

Column [12] Equals Column [5] + Column [6].

Column [13] See Docket No MC95-1, USPS-T-9 Table 2, page 8

Column [14] See Table 3 of this Appendix.

Column [15] Equals Column [12] * Column [14]

1 MS. DUCHEK: Thank you. Actually, I believe this
2 may already be evidence of record, because I believe it was
3 part of Witness ~~Mark~~^{Marc} Smith's supplemental testimony, but I
4 thought it would be clearer if it was in the record at this
5 point while Dr. Merewitz discussed it.

6 CHAIRMAN GLEIMAN: Do I take it that your pending
7 question is was this the source of the numbers, or --

8 MS. DUCHEK: That certainly can be my pending
9 question, Mr. Chairman.

10 CHAIRMAN GLEIMAN: Well, I didn't mean to put
11 words in your mouth, but you indicated that that was what
12 the purpose was, and there was silence, and I just would
13 like to move things along.

14 MS. DUCHEK: Thank you.

15 BY MS. DUCHEK:

16 Q Dr. Merewitz, my understanding is this was the
17 source for your numbers in Exhibit 4-B; is that not correct?

18 A Yes.

19 Q Thank you. Now the question then was would you
20 please confirm that these -- the pounds on this page that I
21 have given you, which are the source for your Exhibit 4-B,
22 are for the test year?

23 A I have a lot of doubts about that. I am going
24 through and I am seeing tables, Appendix C, Table 8 is base
25 year, several others that are marked are also base year. I

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1 think we have base year in here and then later is a
2 translation into test year costs, but if you look at
3 Appendix B, Table 6, you see base year data and Appendix B,
4 Table 5 is also base year data. So this Library Reference
5 is an amalgam of both.

6 Q Okay, maybe I misspoke, Dr. Merewitz. I am only
7 asking specifically about the page I handed you.

8 A Yeah.

9 Q Appendix A, Table 4, which you confirmed was the
10 source --

11 A Yes.

12 Q -- for your Exhibit 4-B is entitled Total Test
13 Year Pounds Transported on Each Mail Flow, is it not?

14 A Yes, it is.

15 Q And are you questioning that those are test year
16 pounds on that particular page?

17 A Well, I doubt that they would know -- the Postal
18 Service would know the detail of the particular flows in the
19 test year. I could see much easier that they would know
20 them, for instance, intra-BMC, entered at say flow number
21 four, you would know that in the base year.

22 Q So are you saying these are base year numbers?

23 A I'm saying that I don't know at this point.

24 Q Okay. The ratio we are talking about in Exhibit
25 4(b), if I understand correctly, is compared to the ratio of

1 Standard A cubic feet to parcel post cubic feet in TRACS, is
2 that correct?

3 A No.

4 Q Would you explain?

5 A I'm sorry. Would you repeat the question?

6 Q The ratio that we were just talking about, in your
7 Exhibit 4(b), --

8 A Yes.

9 Q -- the one that you derived, is compared to the
10 ratio of Standard A cubic feet to parcel post cubic feet in
11 TRACS, correct?

12 A Correct.

13 Q Okay. Can you confirm that the pounds in Library
14 Reference H-111, the page we were just talking about, does
15 not include single piece Standard A?

16 A No, I can't confirm that.

17 Q Do you know?

18 A Well, the title of the Library Reference, "Drop
19 Ship Savings in Periodicals and Standard Mail A," I don't
20 see that single piece Standard mail has been excluded.

21 Q Would you accept, subject to check, that Appendix
22 A, Table 4, that we have been talking about, does not
23 include single piece Standard A?

24 A I don't have any basis for accepting it. The
25 title of the document leads me not to accept it.

1 Q Do you know whether the TRACS cubic feet ratio
2 does include single piece Standard A?

3 A I believe mail codes cover all the mail classes.

4 Q Also, can you confirm that the TRACS ratio does
5 not include mail moving on Postal-owned transportation?

6 MR. WELLS: Would you clarify what you mean by the
7 TRACS ratio?

8 MS. DUCHEK: What we were just speaking of a few
9 moments ago, Mr. Wells. We talked about how the ratio that
10 Dr. Merewitz derived -- he used the ratio that he derived in
11 4(b) to compare it to a TRACS ratio of Standard A cubic feet
12 to parcel post cubic feet.

13 MR. WELLS: Very well. Thank you.

14 THE WITNESS: In any case, I believe single piece
15 is a very small part of the 71 billion pieces in Standard A.
16 I think it is in the millions. And I think, if I am right,
17 it is being proposed to be eliminated in this rate case.

18 BY MS. DUCHEK:

19 Q Dr. Merewitz, I think I had another question
20 pending. Does the TRACS -- would you confirm that the TRACS *ratio*
21 does not include mail moving on Postal-owned transportation?

22 A I believe that is correct.

23 Q Dr. Merewitz, I would now like to ask you a
24 question about your Workpaper 1 that you supplied us in
25 support of Exhibit 4(b), which we have just been talking

1 about.

2 MS. DUCHEK: And, again, Mr. Chairman, I will mark
3 this as a cross-examination exhibit and ask that it be
4 entered into the record and --

5 THE WITNESS: This is Workpaper 1 to 4(b)?

6 MS. DUCHEK: Yes, that's correct.

7 THE WITNESS: No, 6. Okay.

8 MS. DUCHEK: No, for 4(b). And ask that it be
9 entered into the record and pass copies out. I'll mark it
10 as USPS/FGFSA-XE-3.

11 [Cross-Examination Exhibit
12 USPS/FGFSA-XE-3 was marked for
13 identification.]

14 MS. DUCHEK: Mr. Chairman, and I would ask that
15 this be entered into evidence, Cross-Examination
16 Exhibit-XE-2. I had just asked that that be transcribed
17 because I believe it is already evidence as part of Witness
18 Smith for the Postal Service's testimony.

19 MR. WELLS: It's XE-3, isn't it?

20 CHAIRMAN GLEIMAN: She was just referring to the
21 previous cross-examination exhibit, which was treated
22 differently than --

23 MR. WELLS: Oh, I thought it had already been.

24 CHAIRMAN GLEIMAN: -- No. 1 and now No. 3.

25 Without objection, the Cross-Examination Exhibit No. 3 is

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1 admitted into evidence and transcribed into the record.

2 [Cross-Examination Exhibit

3 USPS/FGFSA-XE-3 was received into
4 evidence and transcribed into the
5 record.]

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USPS/POSA/6-3

Workpaper 1 for LAM 4b(rev)
LAM 4b - Backup on Standard (A)

Flow #	Intra BMC	
	lbs.	cu. ft.
	thous	thous
Row 4	59,954	
Row 5	44,660	
Row 6	432,052	
Row 7	580,016	
Row 11	5,626,328	0.056583 CF/lb
Total:	6,743,010	381,540

Source: L.R. H-111, Dropship Savings in
 Periodicals and Standard Mail
 App A: Table 4

LAM 4b - Backup on Standard (A)

Flow #	Inter BMC	
	lbs.	cu. ft.
	thous	thous
10	2,397,161	
		0.056583 CF/lb

Total: **2,397,161** **135,639**
 Source: L.R. H-111, Dropship Savings in
 Periodicals and Standard mail
 App A : Table 4

1 BY MS. DUCHEK:

2 Q Dr. Merewitz, if you compare your Workpaper 1 with
3 Cross-Examination Exhibit 2, which is the Appendix A, Table
4 4, mail flows from Library Reference H-111, --

5 A I'm sorry. What is the second thing I am
6 comparing it to?

7 Q Okay. The Cross-Examination Exhibit No. 2, which
8 we were just discussing, which was the Appendix A, Table 4,
9 mail flows from Library Reference H-111.

10 A Okay.

11 Q Can you confirm for me that on the top section of
12 Workpaper 1, you have flow numbers, rows 4, 5, 6, 7 and 11,
13 correct?

14 A Correct.

15 Q Can you confirm for me by looking at the page from
16 Library Reference H-111, that you have left out a flow from
17 your Workpaper 1? Shouldn't -- specifically, you should
18 have the inter-BMC mail flow, which I believe is line 12 on
19 the page, from Library Reference H-111.

20 A It looks like you're right, it may be in the
21 total. But, yes.

22 Q Thank you. Dr. Merewitz, would you now look at
23 page 8 of your testimony, please?

24 A If I included that, the ratio would be higher than
25 4.1 and, therefore, the divergence from TRACS would be

1 greater. What is --

2 Q Page 8 of your testimony, please.

3 A Page 8 of my testimony. Okay. I'm there.

4 Q The top paragraph of that page, you discuss
5 service standards, and I believe you are asserting there
6 that there is a causal relationship between transportation
7 and service standards, is that correct?

8 A Well, it goes the other way, between service
9 standards and transportation, yes.

10 Q Okay. Are you also saying that there is a causal
11 relationship between actual service provided and
12 transportation?

13 A I am not saying it here, no. The basic thing I am
14 saying is that since we find a lot of pref. mail, First
15 Class and Priority, on these runs, that they are there not
16 only to handle volume, they are -- as I say on line 6, they
17 are 50 percent and 30 percent empty, they are there to have
18 a truck in time to make the service standard at the dispatch
19 of value and to get to the next Postal Service facility in
20 time.

21 Q Would you turn to page 12 of your testimony,
22 please?

23 A I guess it is summed on line 6, "Volume alone does
24 not drive capacity." Page 12?

25 Q Yes. Lines 7 and 8.

1 A Yes.

2 Q There you are specifically noting that during
3 TRACS data collection, a truck is never stopped on the road
4 for sampling.

5 A Yes.

6 Q Are you recommending that TRACS data collection be
7 modified so that trucks are routinely stopped en route?

8 A No, quite the contrary, I am being empathetic with
9 your problem. I worked for the Postal Service 14 years, and
10 I know that delivering the mail is the highest priority. So
11 one of the virtues of the TRACS system is that it measures
12 only at unloading. But this leads -- the ratios in which it
13 measured did lead to some bias in the runs, inbound,
14 outbound, that it looked at. If it wanted to be purely
15 random, it could stop trucks en route and see what is in
16 them. I am not at all suggesting they do that.

17 Q Okay.

18 A Again perhaps I should not use the word "never,"
19 but I think it's pretty close to never.

20 Q Dr. Merewitz, would you please turn to your
21 response to USPS/GFSA-61(b), please?

22 A 61(b).

23 Q The first sentence, I'm paraphrasing, but I
24 believe you're stating there that data measuring the
25 distance traveled are not readily available; is that

1 correct?

2 A That's correct.

3 Q Why did you use the word "readily"? In fact,
4 they're not available at all, are they?

5 A I couldn't say that. I mean, the Postal Service
6 has engaged Christensen Associates and others to do mail
7 characteristics studies, and for their management needs
8 these studies have been done from time to time which see
9 what kind of container mail arrives in, how it's made up,
10 the makeup of the mail, and where it's entered. From these
11 studies one could infer some length of haul if one really
12 tried.

13 Q But you have not done that in your testimony in
14 this proceeding; correct?

15 A Not other than to note that (a) Standard A mail is
16 very definitely present on rail freight, 51 percent, and (b)
17 that my knowledge of the transportation industry and
18 efficient transportation is the long hauls go for rail,
19 especially when they're not time-sensitive, and that fits
20 the description of Standard A mail, Third Class or Standard
21 A mail, that's going over 400 miles.

22 Q Okay. But, Dr. Merewitz, so you don't have the
23 data to measure the distance traveled, yet in your second
24 sentence of the response to 61(b) you state these tend to be
25 relatively stable over time because of the large numbers

1 involved, so how can you say that the distance traveled
2 tends to be relatively stable over time when you don't have
3 any data which show you what the distance traveled is?

4 A Well, if you exclude all those over 400 miles, you
5 know that the big ones are not going to get into the average
6 very much at all. And my experience of 16 years of postal
7 experience directly and perhaps over 20 is that postal data
8 benefits from the law of large numbers, and numbers in the
9 CRA change very little from year to year, and because
10 they're such huge numbers, especially when you're talking
11 about Standard A, 71 billion pieces, and that's the base
12 year, not the test year. So -- and with trucks going with
13 70 and 50 percent load factors, I don't think it adds to
14 costs a great deal that there's some more traffic in the
15 short-haul area.

16 Q Dr. Merewitz, in your experience at the Postal
17 Service, did you work for Postal Operations or work in
18 Postal Operations, I should say?

19 A One of my superiors, my direct boss, Steve Miller,
20 came from Postal Operations.

21 Q But at the time you worked for Mr. Miller, wasn't
22 he in Finance?

23 A Yes.

24 Q Did you ever work in Postal Procurement?

25 A No.

1 Q I'm still focused on your response to 61(b), Dr.
2 Merewitz, and I guess I'd summarize up to this point that
3 you're assuming certain things and making some deductions,
4 but you don't have data on distance traveled; correct?

5 A No, and it's sort of suspicious. The Postal
6 Service used to publish this data in the CRA, and they
7 stopped in about '93. But I don't think that if you -- I
8 don't deny that if you get the same 2.2 cents per piece
9 you're going if you're on Long Island, take that piece from
10 Nassau into Suffolk, or into a short haul like Manhattan and
11 get the Destination SCF entry, whereas you're not likely to
12 truck it across the country. But the Postal Service isn't
13 trucking it across the country either.

14 Q That sort of brings me to my next question about
15 subpart (b). Dr. Merewitz, you state, and you've mentioned
16 it several times, where Standard A mail goes over 400 miles
17 to the destination postal facility, the Postal Service would
18 likely route it by rail. Again, is your basis for this
19 statement just your assumption that that's so?

20 A Well, look, is spending \$187 million, that comes
21 from the work papers, that's almost as much as in these two
22 accounts we're talking about, which are about \$200 million.
23 Fifty-one percent of the mail is by weight is Standard A
24 mail. And they're not taking it 60 miles.

25 I happen to know from reading Postal Alert in the

1 Postal Bulletin that the postmasters of the country are
2 advised when Donnelly, R. R. Donnelly produces a
3 20-million-piece mailing about sales in Sears, something
4 like that, and the mail gets on rail cars, double-deck rail
5 cars. There's a rail -- among railroaders there's a mail
6 committee. They sell to the Postal Service. The Postal
7 Service and UPS are neck and neck to be their largest
8 clients.

9 Q But you're not saying, are you, that 400 or some
10 other -- 400 miles or some other number is a magical number
11 which determines whether the procurement is for highway or
12 rail transportation, are you?

13 A This is a rule of thumb in the transportation
14 industry that things over 400 miles would definitely
15 consider rail.

16 Q Okay.

17 A Rail is cheaper for long hauls.

18 Q And is that rule of thumb for the transportation
19 industry published anywhere, to your knowledge?

20 A Yes.

21 Q And where would that be?

22 A Various writings by John Meyer of Harvard.

23 Q Has John Meyer written on postal matters to your
24 knowledge?

25 A Well, to the extent that postal is freight, he's

1 written a lot on freight?

2 Q But not specifically on Postal Service purchased
3 transportation, to your knowledge?

4 A I can't give you any citations on postal.

5 Q Dr. Merewitz, again in subpart (b) a few lines
6 down I'm focusing on the sentence, "Length of haul by truck
7 should not change very much because there is more drop
8 shipping in short haul than in long haul."

9 Do you see that sentence?

10 A Yes.

11 Q I want you to assume we have two shipments of
12 equal size. One shipment moves 100 miles; the other moves
13 1,000 miles. So the average length of haul for the two
14 shipments would be 1,100 divided by 2; correct? Because one
15 shipment is 100 and the other is 1,000.

16 A No, I don't think so, because you wouldn't find a
17 1,000 mile on truck.

18 Q Just assume that you did, for the sake ~~or of~~
19 argument.

20 A I think it's Mr. Ginsburg who's talking about the
21 futility of answering hypotheticals in the news recently,
22 but it's a far shot, 1,000 miles.

23 CHAIRMAN GLEIMAN: Dr. Merewitz, you know, we do
24 allow hypotheticals, you know, and maybe they don't make
25 sense, and maybe they do, but you've got to answer the

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1 hypothetical unless it's on a subject matter that's
2 unrelated to what we're discussing here today. I wouldn't
3 expect them to ask you anything about what's happening at
4 the court house or the grand jury, but 1,000-mile trucking
5 trips are fair game today.

6 MS. DUCHEK: Thank you, Mr. Chairman.

7 BY MS. DUCHEK:

8 Q Just assume, Dr. Merewitz, we have one shipment of
9 100 miles, the other of 1,000. You add them together. You
10 get 1,100. You divide by 2, so your average length of haul
11 is 550. And I understand you don't accept my hypothetical,
12 but assuming that, the average length of haul is 550;
13 correct?

14 A Yes.

15 Q Okay. Now suppose we drop the first shipment, so
16 all that's left is the 1,000-mile shipment. So your average
17 length of haul then rises to 1,000 miles under that
18 hypothetical; correct?

19 A Yes.

20 Q The last line of your response on that page to No.
21 61(b) you state the amount spent by the Postal Service on
22 purchased freight rail transportation in 1996 was \$187
23 million.

24 A Yes.

25 Q Did you say earlier the source of those numbers

1 was the transportation work papers?

2 A Work Paper 14, Work Paper B-14, to the CRA.

3 Q Okay. Would you accept subject to check that the
4 \$187 million includes rail plant load and rail empty
5 equipment?

6 A Oh, definitely. I mean, when R. R. Donnelly loads
7 something, it's plant load.

8 Q And rail empty equipment?

9 A That's the part of doing business by rail, yes,
10 returning empty equipment. That's why I spent so much time
11 on return trips in my testimony.

12 Q But isn't it correct that rail plant load costs
13 are not distributed using TRACS data?

14 A That's neither here nor there. The point is those
15 large shipments would not be in there changing the average
16 for length of haul for Standard A mail by truck. They would
17 be changing the average and affecting the average for length
18 of haul of any Standard A mail, but it wouldn't be on the
19 truck. It would be in inter-BMC and intra-BMC, the two
20 accounts I'm studying.

21 Q So you're not aware whether rail plant load costs
22 are distributed using TRACS?

23 A I think it sounds familiar that they're not, but I
24 don't think it's relevant to this question.

25 Q Would you accept subject to check that the freight

1 rail component that the TRACS data are applied to distribute
2 \$143 million?

3 A But again, that third class mail is still on the
4 rail plant load, and therefore it's not affecting the
5 average length of haul of highway.

6 Q But you have no reason to dispute the fact that
7 TRACS does not distribute the rail plant load, correct?

8 A Correct.

9 Q Did you review the distribution keys for freight
10 rail for FY '91?

11 A No. I did for '93 and '95.

12 Q Would you accept subject to check that the
13 distribution keys for freight rail for FY '91 indicate that
14 the TRACS freight rail distribution percentages for third
15 class or Standard A increased from approximately 43 percent
16 in FY '91 to approximately 50 percent in base year '96?

17 A This is for Standard A?

18 Q Yes.

19 A Rail.

20 Q TRACS freight rail distribution percentages.

21 A Yes. That doesn't surprise me at all.

22 Q Okay. And would you also accept subject to check
23 that the TRACS freight rail distribution percentages for
24 parcel post decreased from approximately 23 percent in FY
25 '91 to approximately 21 percent in base year '96?

1 A First of all, it's all we have, but I don't trust
2 the TRACS data, to be a little blunt. But from 23 to 21 --I
3 can quote you examples of TRACS jumping around 25 percent
4 from quarter to quarter. Twenty-three to 21 is not a big
5 change.

6 Q But Mr. Merewitz, if you don't trust the TRACS
7 data, and I guess you mean specifically the freight rail
8 distribution key, why is it cited in your response to 61(b)
9 to illustrate your argument?

10 A I am recommending that the Commission cannot use
11 TRACS data. It does measure something and it gives us some
12 indication. It's not definitive, it's not useful for
13 ratemaking, but frankly, it's all we have in looking at --
14 and in gross terms, I think perhaps there is some truth in
15 it, in other words, pounds on various modes of
16 transportation, and whether a mode of transportation uses --
17 or whether a mail code uses a mode of transportation or not.
18 But for allocating space, it's suspect, as I've shown.

19 CHAIRMAN GLEIMAN: Ms. Duchek, could you give me a
20 sense of how much longer you think your cross examination is
21 going to go?

22 MS. DUCHEK: Mr. Chairman, I think maximum another
23 30 minutes.

24 CHAIRMAN GLEIMAN: Well, we're going to take a
25 break for lunch now and come back at quarter after one,

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1 quarter after one, 1:15.

2 [Whereupon, at 12:15 p.m., the hearing was
3 recessed, to reconvene at 1:15 p.m., this same day.]

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1 AFTERNOON SESSION

2 [1:18 p.m.]

3 Whereupon,

4 LEONARD MEREWITZ,

5 the witness on the stand at the time of the recess, having
6 been previously duly sworn, was further examined and
7 testified as follows:8 CHAIRMAN GLEIMAN: Ms. Duchek, whenever you're
9 ready.

10 MS. DUCHEK: Thank you, Mr. Chairman.

11 CROSS-EXAMINATION [resumed]

12 BY MS. DUCHEK:

13 Q Mr. Merewitz, did the Florida Gift Fruit Shippers
14 ask you not to look at plant load highway costs?

15 A No.

16 Q Did the Florida Gift Fruit Shippers ask you not to
17 look at plant load rail costs?

18 A No.

19 Q So are you aware what the trend is between '91 and
20 '96 in plant load highway costs or plant load rail costs?

21 A No, I'm not.

22 Q Mr. Merewitz, would you please turn to your
23 response to Alliance of Non-Profit Mailers, number 9,
24 please.

25 A I'm sorry, I need a copy. I don't have it with

1 me. Can someone help me?

2 Q We can give you that, Mr. Merewitz.

3 A Thank you.

4 Which number?

5 Q Number 9.

6 A Yes. I'm there.

7 Q Okay. If you look at the first line of your
8 answer, Mr. Merewitz, please see the SAS run Y96A14, which
9 is a very slight refinement of the run Y96A11, which breaks
10 out the LL mail codes specifically.

11 A Yes.

12 Q Am I correct that Y96A11 was one of the runs you
13 provided to us, I believe in what's now designated as
14 FGSFAH-3, that library reference.

15 A H-3?

16 Q Yes.

17 A Let me check.

18 Q Okay.

19 A Yes.

20 Q Okay. And in Y96A14, is that in that library
21 reference as well or is what you're saying in this response
22 that this attachment is based on that and it's just a slight
23 refinement of what you've given us?

24 A Yes, it's the very same model. Three items were
25 added together in Postal Service TRACS work, namely parcel

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1 post, bulk small parcel, which was a classification which
2 never took off, and destination BMC.

3 In Y96A11, I didn't break them out. All I did was
4 break it out and you could check that the three distribution
5 key elements add up to the ones in Y96A11, but all the same
6 assumptions and same SAS code was used.

7 Q Okay. In looking at your testimony and your
8 response to ANM Number 9, would it be a fair
9 characterization of your testimony to state that you believe
10 that the existence of DBMC mail on inbound runs is evidence
11 of a problem in TRACS?

12 A Yes. DBMC mail should have already gotten to its
13 destination BMC and should not be going either inter-BMC or
14 intra-BMC inbound.

15 Q And you believe this shows a problem with TRACS,
16 correct?

17 A Yes.

18 Q Okay. Let me give you a fairly simple
19 hypothetical example. A truck is routed in two trips. The
20 first trip goes from the BMC to an SCF. Now, under TRACS,
21 that would be outbound, correct?

22 A It all depends on what the final end of the
23 contract trip is.

24 Q Okay. Well, let me get to the second part of the
25 trip, the second trip. First trip, BMC to SCF; second trip,

1 SCF-1 to SCF-2, then to another BMC.

2 A Yes.

3 Q Okay. So the first trip from BMC to SCF would be
4 outbound in TRACS, would it not?

5 A Not to my understanding.

6 Q Well, for the purposes of this hypothetical, would
7 you assume that that his how TRACS would treat it?

8 A No. I have evidence to the contrary in one of my
9 interrogatory responses. I cite the definition of inbound
10 and outbound.

11 Q Well, I think, if you'll check, you'll find that
12 TRACS does treat that as outbound. But nonetheless, assume
13 that BMC to SCF, to SCF-2, then to BMC -- suppose a TRACS
14 test is conducted at the second SCF.

15 MR. WELLS: I believe you named three SCFS. BMC
16 to SCF --

17 MS. DUCHEK: Two, Mr. Wells. BMC to SCF-1 is trip
18 one. Second trip is SCF-1 to SCF-2 and then let's say to
19 BMC-2.

20 MR. WELLS: Right.

21 MS. DUCHEK: Does that make it clearer?

22 MR. WELLS: Well, BMC-2 is the same BMC.

23 MS. DUCHEK: It doesn't matter for -- it can be or
24 it doesn't have to be for purposes of this hypothetical.

25 MR. WELLS: If it's going to be an intra-BMC,

1 that's -- okay.

2 MS. DUCHEK: Okay. If it's easier for Mr.
3 Merewitz, we'll make it the same BMC because it doesn't
4 matter.

5 THE WITNESS: Well, one is in one account and one
6 is in the other account.

7 BY MS. DUCHEK:

8 Q It doesn't matter for purposes of my hypothetical,
9 which I think you will see in a moment, Mr. Merewitz.

10 Suppose a TRACS test is conducted at SCF-2.

11 Further suppose that for purposes of TRACS, this is
12 considered inbound. If there is a piece of DBMC mail tested
13 at SCF-2 which is inbound, is that piece of mail incorrectly
14 recorded?

15 A Well, you have asked me to assume something that I
16 know to be false. That kind of hypothetical I can't -- and
17 you've asked me a lot of things subject to check. I would
18 ask that you accept subject to check that I have stated a
19 definition right from the TRACS documentation which says
20 that any contract trip which ends in a BMC is an inbound
21 trip.

22 Q And this is a second trip that goes from SCF-1 to
23 SCF-2 and a BMC. So that is an inbound trip, correct?

24 A Correct. The same BMC that you started from or
25 different?

1 Q Yes, the same one.

2 A Okay.

3 Q But it's a second trip.

4 A Yes.

5 Q So that would be inbound under TRACS, correct?

6 A Yes.

7 Q Okay. Now again suppose a TRACS data collector is
8 at this second SCF.

9 A Yes.

10 Q And if that data collector observes a piece of BMC
11 mail, is that piece of mail incorrectly recorded?

12 A Yes, because if it were destination BMC mail, it
13 wouldn't be at an SCF, it would be at the destination BMC.

14 Q Suppose a piece of DBMC mail gets misrouted and
15 suppose it turns up in a TRACS test at a BMC, the TRACS data
16 collector observes this piece of DBMC mail. Should the data
17 collector record that as DBMC mail?

18 A Again we are talking about things that don't
19 really -- aren't numerically relevant. I don't deny that
20 there is some misrouting in the Postal Service; I don't
21 think there is much; not to attain 3.69 percent in quarter
22 one.

23 Q But if it's numerically insignificant, then that's
24 no evidence of a problem in TRACS; correct? Because it's
25 not significant?

1 A What number is not significant?

2 Q I don't know. You just said it was numerically
3 insignificant, the existence -- I suppose what you are
4 saying is the existence of DBMC mail that might be
5 misrouted?

6 A I don't think we are talking about 4 percent
7 misrouted parcels, that that's very likely in the Postal
8 Service that I know.

9 Q Let's go back to my hypothetical about the
10 misrouted DBMC piece of mail, regardless of whether its
11 existence is significant or insignificant. Data collectors
12 there at the BMC -- it's a TRACS test and there's a DBMC
13 piece of mail that is a DBMC piece of mail, but should not
14 be there. Should the data collector ignore the piece?

15 A No.

16 Q So the data collector should record it as a DBMC
17 piece; correct?

18 A But it shouldn't be there in the first place.

19 Q Dr. Merewitz, am I characterizing your testimony
20 correctly when I state that you believe that the treatment
21 of empty space in TRACS creates a bias?

22 A Yes.

23 Q And in your view, as I understand it, that bias
24 means that parcel post costs are too high; is that correct?

25 A Yes.

1 Q Dr. Merewitz, you have been able to successfully
2 replicate the TRACS distribution keys for intra- and
3 inter-BMC; correct?

4 A I have been able to?

5 Q You have been able to.

6 A Yes. Yes.

7 Q Okay. Do you have a copy of the table which was
8 faxed to you and your counsel on Monday? I have additional
9 copies if you do not.

10 A I will try to find my copy.

11 Q Okay.

12 A It would be faster if you gave me a copy.

13 Q Okay.

14 MS. DUCHEK: Also, Mr. Chairman, I will pass this
15 out again to Dr. Merewitz and his counsel, to the
16 Commissioners, I will give two copies to the reporter, and I
17 ask that this be entered into evidence as Postal Service
18 Cross-Examination Exhibit 4.

19 THE WITNESS: I have my copy now. Mine is labeled
20 XE-1. Should I cross -- well, okay.

21 CHAIRMAN GLEIMAN: Mr. Wells, do you have any
22 objection to us moving this into evidence?

23 MR. WELLS: No, Your Honor, this was distributed
24 earlier.

25 CHAIRMAN GLEIMAN: Then I will direct that

1 USPS/Florida Gift Fruit Shippers Cross-Examination Exhibit
2 No. 4 be admitted into evidence and transcribed into the
3 record at this point.

4 [Cross-Examination Exhibit
5 USPS/FGFSA-XE-4 was received into
6 evidence and transcribed into the
7 record.]

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USPS/FGFSA-XE/~~4~~

All Costs and Volumes in Thousands	Including Empty Space Allocation (ESA)					Excluding Empty Space Allocation (ESA)				
	1996Q1	1996Q2	1996Q3	1996Q4	1996	1996Q1	1996Q2	1996Q3	1996Q4	1996
Intra BMC										
Parcel Post Distribution Factors	31.71%	29.66%	26.75%	28.83%		34.32%	29.63%	27.66%	28.70%	
Volume Variable Costs	\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225		\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225	
Parcel Post Volume Variable Cost	\$ 17,444	\$ 17,809	\$ 14,660	\$ 21,399	\$ 71,313	\$ 18,880	\$ 17,791	\$ 15,159	\$ 21,303	\$ 73,133
Inter BMC										
Parcel Post Distribution Factors	23.39%	23.72%	19.21%	19.63%		24.12%	23.52%	18.01%	18.35%	
Volume Variable Costs	\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832		\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832	
Parcel Post Volume Variable Cost	\$ 11,648	\$ 12,787	\$ 10,067	\$ 14,690	\$ 49,192	\$ 12,012	\$ 12,680	\$ 9,438	\$ 13,732	\$ 47,861
Total Inter & Intra BMC Parcel Post Cost					\$ 120,505					\$ 120,994
Difference with and without ESA										\$ 489
Parcel post volume										212,828
Change in Unit Parcel Post Cost										\$ 0.00230
Sources:	Distribution Factors: Including ESA from Library Reference FGFSA-H-3, Y9611d Excluding ESA from Library Reference FGFSA-H-3, Y9611b Volume Variable Costs: USPS Witness Alexandovich, USPS-T-5, Workpaper B14.1.2 Parcel Post Volume Variable Costs = Volume Variable Costs x Parcel Post Distribution Factor Volume: USPS Library Reference H-2, FY 1996 Cost and Revenue Analysis									
Note:	All Costs and Volumes in Thousands									

1 BY MS. DUCHEK:

2 Q And, Dr. Merewitz, the only change between what I
3 gave to you and what was faxed to you and your counsel on
4 Monday is that it was marked No. 1 on Monday, and I have
5 penciled over and made it No. 4.

6 A Are you still referring in the second note to
7 Y9611D?

8 Q The footnote that says including ESA from Library
9 Reference FGFSA-H-3?

10 A Yeah.

11 Q Y9611D? That's correct.

12 A That's Y96A, A11.

13 Q Oh. Okay. Thank you.

14 A That's true in the next footnote.

15 Q In the next as well, rather than Y9611B, it should
16 be Y96A11B. Thank you.

17 A Correct.

18 Q The first section of that table shows the 1996
19 parcel post volume variable costs broken out separately for
20 intra- and inter-BMC, including the TRACS empty space
21 allocation; correct?

22 A What do you mean by the empty space allocation?
23 The ones that the Postal Service did?

24 Q No, the ones that are taken from your Library
25 Reference H-3, which I believe you said you had replicated

1 our
2 or distribution keys from TRACS.

3 A Are you talking about 11D or 11B?

4 Q 11B, the first line.

5 A Including empty space -- yes, that's correct.

6 Q Yes, okay. And the second section of the table
7 shows 1996 parcel post volume variable costs broken out
8 separately again for intra- and inter-BMC, excluding the
9 TRACS empty space allocation; correct? And that would be
10 from your Library Reference Florida Gift Fruit Shippers H-3
11 Y96A11B as in Boy.

12 A No, it's incorrect to -- I did four cases in
13 Y96A11. Case D followed all the Postal Service assumptions
14 about what you call empty space allocation and weighting,
15 FACCAT weighting. Y9611B -- Y96A11B used part of the Postal
16 Service assumptions; that is we expanded for empty space in
17 the containers and the items. We didn't expand for empty
18 space in the truck.

19 Q That's correct. And maybe you misunderstood what
20 I'm saying.

21 A The point I'm making is that that's not in any
22 case my ideal model.

23 Q I understand that, but -- well --

24 A And I don't rely on it in my testimony.

25 Q Actually I don't understand it, but I -- you --
26 but that was from Y96A11B, you excluded the empty space

1 allocation; correct?

2 A One of the two empty space allocations.

3 Q Right. The expansion to truck size; correct?

4 A Right.

5 Q Okay. If you look at that, compare those two
6 tables -- and actually the summation is in the final column
7 of the table -- it shows, does it not, that excluding the
8 TRACS empty space allocation, as you have presented in
9 Y96A11B, actually slightly increases total parcel post
10 costs; correct?

11 A Yes, subject to the fact that it's based on TRACS
12 data which I don't accept, and B, that it is still using the
13 incorrect expansion for empty space in the containers and
14 items.

15 Q And would you also confirm that the final column
16 of that table shows that the total parcel post per piece
17 increase, excluding empty space, is actually a little over
18 two-tenths of a cent?

19 A You mean the sum of the two, both intra- and
20 inter-BMC?

21 Q That's correct.

22 A Giving us \$489,000 spread over 212 million pieces?

23 Q That's correct.

24 A Well, I follow your calculation, but I don't --
25 this is nothing that I am making any conclusions on in my

1 testimony.

2 Q You agree that the calculation reveals a figure of
3 two-tenths of a cent; correct?

4 A Yes.

5 MS. DUCHEK: I have no further questions.

6 COMMISSIONER HALEY: Very well. Thank you, Ms.
7 Duchek. Any questions from others here? If not, then we
8 have the Commission. Any questions from the Commission?

9 CHAIRMAN GLEIMAN: No questions from the
10 Commissioners.

11 COMMISSIONER HALEY: No questions from the
12 Commission.

13 CHAIRMAN GLEIMAN: If there is no follow-up and no
14 questions from the Commissioners, that brings us to
15 redirect. Would you like some time with your witness?

16 MR. WELLS: I would like just a couple of minutes.

17 CHAIRMAN GLEIMAN: Okay. Take whatever time you
18 need.

19 [Recess.]

20 CHAIRMAN GLEIMAN: Whenever you're ready, sir.

21 MR. WELLS: A limited redirect, Your Honor.

22 REDIRECT EXAMINATION

23 BY MR. WELLS:

24 Q Dr. Merewitz, you were asked by Ms. Duchek if
25 there is a movement of volume from rail to highway. You

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1 were asked whether or not that would increase the highway
2 cost and I believe your response was that it would increase
3 the highway cost.

4 A Yes.

5 Q Yes? If there is a movement of volume from rail
6 to highway, how would that increase highway costs?

7 A Well, I think I misspoke. I don't think that it
8 is at all clear that highway costs would increase with the
9 excess capacity on highway and with my conclusion being that
10 highway costs are zero percent variable.

11 I don't think that we could say that costs would
12 increase by such a modal shift.

13 Q In any event, until the intermodal transfer
14 exceeds the present empty capacity, there would be no
15 increase in costs?

16 A Yes. As I say, given the empty capacity there
17 would be no increase in highway purchase transportation
18 costs.

19 MR. WELLS: That's all I have, Mr. Chairman.

20 CHAIRMAN GLEIMAN: Is there any recross?

21 MS. DUCHEK: No, Mr. Chairman, we have none.

22 CHAIRMAN GLEIMAN: That being the case, I want to
23 thank you, Dr. Merewitz. We appreciate your appearance here
24 today and your contributions to the record.

25 If there is nothing further, you are excused.

1 THE WITNESS: Thank you.

2 [Witness excused.]

3 CHAIRMAN GLEIMAN: Our next witness is Gary
4 Andrew, appearing today on behalf of the Recording Industry
5 Association of America, et al.

6 Mr. Andrew is under oath already so we don't have
7 to swear him in again.

8 Whereupon,

9 GARY M. ANDREW,

10 a witness, was called for examination by counsel for the
11 Recording Industry Association of America, and the
12 Advertising Mail Marketing Association and, having been
13 previously duly sworn, was examined and testified as
14 follows:

15 CHAIRMAN GLEIMAN: Whenever you and your witness
16 are ready, you can proceed.

17 MR. WIGGINS: Thank you, Mr. Chairman.

18 DIRECT EXAMINATION

19 BY MR. WIGGINS:

20 Q Mr. Andrew, I have put in front of you two copies
21 of a document that is styled RIAA, et al, T-1, captioned
22 Direct Testimony of Gary M. Andrew.

23 Was that prepared by you or under your direction
24 or supervision?

25 A Yes, sir.

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1 Q Do you have any corrections to the text as it was
2 filed?

3 A Yes, I do.

4 Q Could you recite those, please?

5 A Page 11, the revision here was there were two
6 extraneous lines at the beginning of the original, page
7 11 -- strike those two lines, and the revised page that you
8 have in this document has that correction made.

9 The next revision is on page 23 at line 9. What
10 was "convective condition" should be changed to "convection
11 cycle" and on line 11 "was convention cycle" should be
12 "convection cycle" and at the end of line 11, which was
13 "connective cycle" should be changed to "convection
14 cycle" -- so in all four cases should read "convection
15 cycle".

16 Page 24, at line 10, I was provided 1996 and 1997
17 parcel data. Originally it just read 1996.

18 On page 25 at line 7, which is item 2 in the
19 table, column 3 was 512.877. It should be 512,877.

20 Q And those corrections have been made in the
21 document that you have in front of you, is that correct?

22 A That is correct.

23 Q And with those changes, Dr. Andrew, would your
24 testimony today on the stand and under oath be the same as
25 what is reflected in that document?

1 A Yes, it would.

2 MR. WIGGINS: Mr. Chairman, I am going to hand the
3 reporter two copies of the corrected version of the
4 testimony and I would ask that they be admitted into
5 evidence in the proceeding.

6 CHAIRMAN GLEIMAN: Are there any objections?

7 Hearing none, Dr. Andrew's testimony and exhibits
8 are received into evidence, and I direct that they be
9 transcribed into the record at this point.

10 [Direct Testimony and Exhibits of
11 Gary M. Andrew, RIAA, et al., -T-1,
12 was received into evidence and
13 transcribed into the record.]

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RIAA, et al.-T-1

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

Direct Testimony
of
GARY M. ANDREW
Senior Consultant
L. E. Peabody & Associates, Inc.

On Behalf Of
RECORDING INDUSTRY ASSOCIATION OF AMERICA
And
ADVERTISING MAIL MARKETING ASSOCIATION

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Due Date: December 30, 1997

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LIST OF EXHIBITS

<u>ITEM (1)</u>	<u>TITLE (2)</u>
Appendix A	Statement of Qualifications
Exhibit_(RIAA, et al.-1A)	Summary of Historical Difference in Revenue for Parcels and Flats -- Standard (A) Commercial Mail Per Piece
Exhibit_(RIAA, et al.-1B)	Excerpts from LR-MCR-13 in MC95-1
Exhibit_(RIAA, et al.-1C)	Forms 1,2, and 3 from LR-PCR-38 in MC97-2
Exhibit_(RIAA, et al.-1D)	AMMA Crum Cross-Examination Exhibit 1
Exhibit_(RIAA, et al.-1E)	Bibliography on the Physics of Granular Materials
Exhibit_(RIAA, et al.-1F)	Summary of Parcel Density Based on Data Provided By RIAA, et al.
Exhibit_(RIAA, et al.-1G)	Graph of the Cube/Density Relationship for a Parcel Weighing 0.77 Pounds

RIAA, et al.-T-1

**DIRECT TESTIMONY
OF
GARY M. ANDREW**

I. INTRODUCTION

1 My name is Gary M. Andrew. I am Senior Consultant with the firm of L. E. Peabody &
2 Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria,
3 Virginia 22314. I have, on numerous prior occasions, presented evidence before the Interstate
4 Commerce Commission (now the Surface Transportation Board) and state agencies on the subjects
5 of measurement and optimization of economic systems. I presented evidence before the Postal
6 Rate Commission ("PRC") in Docket No. R90-1, Postal Rate and Fee Changes, 1990 ("R90-1")
7 related to the proper measurement of the United States Postal Service's ("USPS") attributable
8 costs. In PRC Docket No. R94-1, Postal Rate and Fee Changes, 1994, I submitted evidence on
9 rate design and its impact on third class bulk mailers. My qualifications and experience are
10 detailed in Appendix A to this statement.

11 I have been requested by the Recording Industry Association of America and the Advertising
12 Mail Marketing Association, (hereinafter referred to collectively as "RIAA, et al.") to review the
13 testimony of the witnesses for the USPS related to the USPS' proposed surcharge of 10 cents per
14 piece for parcels ("surcharge") in Standard (A) mail. In particular, I have reviewed the testimony,
15 workpapers, library references, and responses to interrogatories of USPS' Witnesses Crum,
16 Moeller, Bradley, Daniel, and Smith as that material relates to the development of the surcharge

1 for parcels. Finally, where additional data was required, I have relied on publicly available data
2 and material furnished by RIAA, et al.

3 The balance of my testimony is organized under the following topical headings:

4 II. Purpose of the Testimony

5 III. Summary and Findings

6 IV. Analysis of Revenues for Parcels and Flats

7 V. Mail Processing Costs

8 VI. Transportation Costs

1

II. PURPOSE OF THE TESTIMONY

2

RIAA, et al. asked me to examine all data, analyses and assumptions used by the USPS in PRC Docket No. R97-1 to support the surcharge on Standard (A) parcels. Furthermore, I was asked to examine any available data and theory not presented by the USPS that might indicate if the surcharge is justified based on the cost and revenue differential between parcels and other nonletter mail (i.e., flats). Finally, I was asked to restate the USPS' proposed surcharge based on the maximum surcharge warranted.

8

My analyses are divided into two major categories. My first analysis examined the revenue per piece generated by an average parcel and an average flat. Using the same averaging methods that were used by Witness Crum to develop costs and using Witness Crum's Revenue, Piece and Weight ("RPW") tables, I have developed the differential in revenues, without the surcharge, between parcels and flats.

13

My second analysis was the examination of the data and analyses developed in support of the surcharge by Witness Crum (USPS-T-28) and used by Witness Moeller (USPS-T-36). The USPS' support contains errors and relies upon data obtained through sampling procedures that contain significant bias. I have corrected the errors and bias and used the more reliable estimates.

1

III. SUMMARY AND FINDINGS

2 Based on a thorough review of the testimony submitted by USPS, the support for that
3 testimony and the data made available to me, I conclude that the 10 cents per piece surcharge for
4 Standard (A) parcels is not justified. The results of my analyses are summarized below.

- 5 1. The USPS' analysis shows a cost differential between the average flat mail and average
6 parcel mail in the Standard(A) Class of 33.4 cents per piece;
- 7 2. The USPS' analysis ignores that, on average, parcels weigh 8.35 ounces while flats weigh
8 3.32 ounces. This difference in weight contributes to the difference in revenue between
9 parcels and flats. The USPS' conclusions and recommendations ignore the 24.6 cents per
10 piece that parcel revenues exceed flat revenues;
- 11 3. The variability for mail processing costs as determined by Witness Bradley is improperly
12 applied by Witness Crum. This error overstates the difference in costs between parcels
13 and flats for mail processing by 2.3 cents per piece;
- 14 4. The USPS' analysis contains errors in the sampling procedures which impacts the
15 allocation of costs to parcels. This error overstates the difference in costs between parcels
16 and flats for transportation and vehicle service driver costs by 3.3 cents per piece; and,
- 17 5. The maximum surcharge for parcels that can be justified using Witness Crum's
18 methodology and available data is 3.2 cents per piece (33.4 cents per piece less the
19 revenue differential of 24.6 cents per piece, the overstatement in mail procession costs of
20 2.3 cents per piece and the overstatement of transportation and vehicle service drivers
21 costs of 3.3 cents per piece); and,
- 22 6. Although the surcharge warranted based on the cost and revenue differential equals 3.2
23 cents per piece, RIAA, et al. has asked me to identify the surcharge that could be applied
24 to parcels which would not alter the base rates proposed by USPS' Witness Moeller for
25 Standard (A) Commercial Regular and Enhanced Carrier Route ("ECR") mail. The
26 surcharge to avoid adjustment to Witness Moeller's base rates equals 8.9 cents per piece.

1 **IV. ANALYSIS OF REVENUES FOR PARCELS AND FLATS**

2 The evidence submitted by the USPS in support of the 10 cents per piece surcharge on all
3 Standard (A) parcels only considers the difference between the USPS calculated costs of parcels
4 and of flats. Neither Witness Crum (USPS-T-28) nor Witness Moeller (USPS-T-36) consider the
5 additional revenue generated by Standard (A) parcels when compared with Standard (A) flats.
6 This difference in revenue is due, in large part, to the significant difference in the average weight
7 of parcels and flats.¹⁴ This additional revenue should be a direct offset against any alleged
8 difference between parcels and flats because, to the extent that current revenues offset cost
9 differences, no surcharge is warranted.

10 I have computed the average additional revenue per piece generated by parcels over flats;
11 identified the primary source of the additional revenue, and determined that the additional revenue
12 has been stable over the past four years (where data are available). These results are discussed
13 in the following sections:

- 14 A. Computation of Revenues for Parcels and Flats
15 B. Sources of Difference in Revenue
16 C. Revenue Difference Over Time

¹⁴ Witness Crum does make adjustments in costs to reflect the differences between parcels and flats due to the level of dropshipping and presortation.

1 A. COMPUTATION OF REVENUES FOR PARCELS AND FLATS

2 The method that I have used for computing the average revenues generated by parcels and
3 flats is analogous to the method used by the USPS to develop average costs per piece for each of
4 these two shapes. Witness Crum (USPS-T-28 at pages 10 through 12 and Exhibit K) computes
5 the average cost of a Standard (A) parcel in 1996 by aggregating the costs distributed to parcels
6 for the four subclasses in Standard (A) mail (Commercial/Non-Profit versus ECR/Other) and
7 dividing by the total number of parcels in these four subclasses in 1996. A similar calculation of
8 aggregate costs of flats divided by the aggregate number of flats yields the average cost of a
9 Standard (A) flat. Witness Crum then calculates the difference of these two averages and makes
10 adjustments to account for the differences in dropshipping and presortation between flats and
11 parcels.

12 In an analogous manner, I computed the average revenues for parcels and flats by aggregating
13 the revenues generated by each shape over the four subclasses of Standard (A) mail and dividing
14 the total revenues by the total number of pieces of the respective shape.^{2/} The results of these
15 calculations are shown in Table 1 below.

^{2/} My revenue analyses are restricted to Base Year 1996 revenues because the USPS, in Witness Moeller's responses to PSA/USPS-T36-4, PSA/USPS-T36-5 and redirected PSA/USPS-T26-1, has stated that data are not available to compute both revenues and costs by shape for the 1998 Test Year After Rates ("TYAR98"). Likewise, I have maintained all costs at Base Year levels. I used the cost levels in USPS-T-28K Tables 3 (series), i.e., I did not multiply the cost difference by the test year/base year wage rate adjustment factor of 1.053 as Witness Crum did at USPS-T-28 page 11. Witness Crum's adjustment of 7.3 cents per piece for dropshipping and presortation (USPS-T-28K Table 7) is restated at the Base Year cost level and equals 6.9 cents per piece (7.3 cents per piece ÷ factor of 1.053 ratio of test year to base year).

Table 1
Standard (A) Average Revenue Per Piece by Shape
(Cents per Piece)

<u>Item</u>	<u>Commercial</u>	<u>Non-Profit</u>	<u>Standard (A)</u>
(1)	(2)	(3)	(4)
1. Parcel	44.18¢	26.08¢	43.37¢
2. Flat	<u>19.04</u>	<u>15.50</u>	<u>18.77</u>
3. Difference	25.14¢	10.58¢	24.60¢
(Line 1-Line 2)			

18 For Standard (A) parcels the average revenue equals 43.4 cents per piece. The average
19 revenue for Standard (A) flats equals 18.8 cents per piece. The difference in the average revenue
20 between parcels and flats equals 24.6 cents per piece. The 24.6 cents per piece of additional
21 revenue generated by parcels over flats must be considered in the development of a surcharge that
22 uses the cost difference method presented by Witness Crum.

23 Average revenues computed from the actual 1996 Revenue, Pieces and Weight ("RPW") do
24 not require any adjustment. The average revenues reflect the mix of dropshipping and
25 presortation that actually occurred in 1996. These revenues and differences can be compared with
26 the adjusted average cost differences developed by Witness Crum and corrected in Sections V and
27 VI below.

B. SOURCES OF DIFFERENCE IN REVENUE

3 The primary difference in the revenue generated by parcels versus flats is caused by the
4 difference in average weight per piece. The average weight per piece for parcels and flats are
5 shown in Table 2 below.

Table 2
Standard (A) Average Weight Per Piece by Shape
(Ounces per Piece)

<u>Shape</u> (1)	<u>Commercial</u> (2)	<u>Non-Profit</u> (3)	<u>Standard (A)</u> (4)
1. Parcel	8.45	6.29	8.35
2. Flat	<u>3.39</u>	<u>2.46</u>	<u>3.32</u>
3. Difference (Line 1-Line 2)	5.06	3.83	5.03

Sources:

Column (2): USPS-T-28K, Table 1, Controlled to GFY RPW; (Weight x 16 ounces) ÷ Pieces.

Column (3): USPS-T-28K, Table 2, Controlled to GFY RPW; (Weight x 16 ounces) ÷ Pieces.

Column (4): USPS-T-28K, Tables 1 plus Table 2, Controlled to GFY RPW;
(Weight x 16 ounces) ÷ Pieces.

23 The average weight of a Standard (A) parcel equals 8.35 ounces while the average flat weighs
24 3.32 ounces. At the 1996 rates these weight differences account for a portion of the difference
25 in revenue.

1 **C. REVENUE DIFFERENCE OVER TIME**

2 The difference in average revenue per piece generated by parcels versus flats has been
3 steadily increasing over the past four years. The difference in average revenue per piece between
4 parcels and flats is displayed graphically in Exhibit ____ (RIAA, et al.-1A). The data for
5 Standard (A) Commercial mail is the only data available for multiple years; however, the two (2)
6 subclasses for Standard (A) Commercial parcels comprise 95.5% of the total Standard (A) parcels.
7 Therefore, I conclude that the 24.6 cents per piece premium paid by parcels over flats in 1996 is
8 consistent with the trend since 1993.

1

V. MAIL PROCESSING COSTS

2 A substantial portion of the total cost difference between parcels and flats of 33.4 cents per
3 piece^{3/} as developed by Witness Crum is associated with cost segment 3.1, mail processing. The
4 mail processing component of Witness Crum's estimates of cost by shape contains four separate
5 sets of costs^{4/}:

- 6 1. Management Operating Data System ("MODS") Office Cost Pools;
7 2. Bulk Mail Center ("BMC") Cost Pools;
8 3. Non-MODS Offices Aggregate Costs; and,
9 4. Remote Encoding Costs.

10 In Witness Crum's analysis, the four cost groups were distributed between letters, flats and
11 parcels based on Library Reference LR-H-106. A summary of the mail processing costs
12 developed by Witness Crum, on an aggregate and per piece basis, by shape of mail is summarized
13 in Table 3 below.

^{3/} These are the 1996 costs developed in USPS-T-28K Table 3 and reduced by the 1996 value for the dropship and presort discount cost difference of 6.9 cents per piece (7.3 cents per piece from USPS-T-28K Table 7 divided by the test year/base year wage rate adjustment factor 1.053).

^{4/} Witness Crum's (USPS-T-28), Exhibit K, Table 3, line 3.1 (Also known as LR-H-108). The components of mail processing costs are shown in the tables on pages II-1, III-1, and IV-1 of LR-H-106.

-11-
(REVISED)

RIAA, et al.-T-1

Table 3
Summary of Witness Crum's Mail Processing Costs by Shape

Item (1)	Aggregate Costs (000) (2)	No. of Pieces (000) (3)	Cost Per Piece (cents) (4)
1. Letters	\$1,726,169	41,865,345	4.12¢
2. Flats	1,417,869	28,692,335	4.94
3. Parcels	<u>278,593</u>	<u>982,647</u>	<u>28.35</u>
4. Total	\$3,422,631	71,540,328	4.78¢

Source:

Column (2): USPS-T-28K Table 3 line C.S.3.1 Total.

Column (3): USPS-T-28K Table 3 line Distribution Key 1 Volume of Mail.

Column (4): Column (2) divided by Column (3).

In total, mail processing costs equal \$3.42 billion for 71.54 billion pieces or an average mail processing costs of 4.78 cents per piece. Witness Crum's mail processing costs for parcels equals 28.35 cents per piece while the mail processing costs for flats equals 4.94 cents per piece. The difference between flats and parcels, as shown by Witness Crum, equals 23.41 cents per piece.^{5/}

^{5/} 28.35 cents per piece for parcels less 4.94 cents per piece for flats.

1 For purposes of my analysis, I have accepted the mail processing costs utilized by Witness
2 Crum for MODS⁶/ office costs, BMC costs, and remote encoding costs. However, the procedures
3 relied on by the USPS' witnesses to develop Non-MODS costs are in error and misstate the
4 allocation of costs between letters, flats and parcels.

5 In developing his analysis, Witness Crum has relied on USPS Witness Bradley (USPS-T-14)
6 and USPS Witness Smith (USPS-T-45) to determine the variability (i.e., attribution) of mail
7 processing costs and the separation of costs between letters, flats and parcels (i.e., distribution).
8 In utilizing these attribution/distribution factors, Witness Crum has relied on inaccurate data
9 related to the Non-MODS office aggregate costs.

10 My explanation of the error in the USPS' analysis and my restatement of mail processing
11 costs are discussed under the following topics:

- 12 A. Witness Bradley's Non-MODS Office Volume Variability
- 13 B. Witness Smith's Distribution of Non-MODS Office Variable Costs
- 14 C. Restatement of Mail Processing Costs.

⁶/ A "MODS" office is a post office with a Management Operating Data System installed. A Non-MODS office is a post office without an installed Management Operating Data System.

1 A. WITNESS BRADLEY'S
2 NON-MODS OFFICE VOLUME VARIABILITY

3 Witness Bradley states:

4 There is currently no system for recording hours and piece-handlings for individual
5 activities in non-MODS offices. Because detailed information about the activities taking
6 place in non-MODS offices is not available, the average or system variability from
7 MODS offices will be applied to the overall mail processing costs for non-MODS
8 offices. (USPS-T-14, page 90)

9 In other words, Witness Bradley assumed that the overall average variability for MODS
10 offices of 78.7 percent^{7/} was applicable to the costs in Non-MODS offices. The variability
11 percentage has a direct impact on the cost differential between flats and parcels because the higher
12 the variability, the higher the cost per piece and, therefore, the greater the absolute difference
13 between the costs distributed to flats and parcels.

14 The use of the above described chain of computations as part of the determination of the
15 difference between the unit costs of flats and the unit costs of parcels is clearly flawed. Witness
16 Crum identifies a similar flaw in another's analysis but not his own. In his response to
17 NDMS/USPS-T28-35 he notes that "Parcels can be delivered by a rural carrier or a city carrier,
18 but not both. That mix might be very different by subclass." However, Witness Crum ignores
19 or fails to identify, the similar flaw in his own analysis, namely, the mix of costs and variabilities
20 may be very different between MODS and Non-MODS Offices as well as the mix of flats and
21 parcels.

^{7/} Bradley Exhibit USPS-14B, page 2 of 2.

1 The implicit and unsupported assumption that is made in the use of the MODS system average
2 variability in all Non-MODS cost pools is that the mix of costs in the Non-MODS offices and the
3 variabilities of these costs must remain the same and the relative magnitudes of the cost pools are
4 equal. This may produce a proxy for overall variability, but certainly should not be used as the
5 basis for determining the difference between the costs of flats versus parcels.

6 **B. WITNESS SMITH'S DISTRIBUTION
7 OF NON-MODS OFFICE VARIABLE COSTS**

8 USPS Witness Smith distributes the mail processing variable costs by subclass and shape in
9 LR-H-146 and, with adjustment, in LR-H-106. The problems with Witness Smith's distribution
10 are twofold. First, the volume variable costs for Non-MODS offices are computed by multiplying
11 the attributable cost for each Non-Mods cost pool by the "system variability" developed by
12 Witness Bradly.^{8/} The "system variability" was derived from MODS-offices and there is no
13 evidence presented by the Postal Service to show that this system variability is applicable to Non-
14 MODS-offices, even in the aggregate.

15 Second, the accuracy of the estimate of the variable cost by shape is dependent upon
16 computing the variable costs at the cost pool level (i.e., attributable cost in each cost pool
17 multiplied by the volume variability of the respective cost pool). The set of cost pools in MODS
18 offices can differ in four ways from the set of cost pools in Non-MODS offices: (1) different
19 number of pools; (2) different composition of pools; (3) different relative sizes of pools; and, (4)

^{8/} LR-H-146 Program listing page 0101 and 0111.

1 different variabilities of the costs in the pools. However, the single MODS office system average
2 variability was used for every Non-MODS office cost pool. This causes loss of individual and
3 proper weighting of the distribution key by cost pool variability. The resulting distributed costs
4 are by shape (letter, flats and parcels) of the Non-MODS offices in LR-H-106 and the contribution
5 to the alleged difference between the costs of parcels and flats are therefore meaningless.

6 **C. RESTATEMENT OF MAIL PROCESSING COSTS**

7 I corrected for the unproven contribution to the parcel-flat cost differential of mail processing
8 costs in Non-MODS offices by making one adjustment. For each subclass, the Non-MODS office
9 costs were aggregated and redistributed to shape proportional to the number of pieces.^{2/} The
10 volume variable costs for MODS offices, BMC's, and remote encoding costs have been accepted
11 as developed by Witness Smith and utilized by Witness Crum.

12 This procedure allows the total volume variable costs to remain unchanged but prevents the
13 variable costs of the Non-MODS office from contributing to the difference between costs of
14 parcels and the costs of flats. My restatement of mail processing costs is summarized in Table 4
15 below:

^{2/} This step is included in RIAA, et al.-LR-1, Spreadsheet 108_new.xls sheets BrCrt, BrOth, NpCrt, and NpOth at lines 3.1a and 3.1aa. Spreadsheet CSTshpMOD1.xls sheets Adj.Letter, Adj.Flatest, and Adj.Parcelcost contain the source of the Non-MODS costs per NDMS/USPS-T28-11.

Table 4
Restatement of Mail Processing
Costs to Current Non-MODS Office Costs

	<u>Item</u> (1)	<u>Aggregate Costs (000)</u> (2)	<u>No. of Pieces (000)</u> (3)	<u>Costs Per Piece^{1/}</u> (4)
1.	Letters	\$1,835,648	41,865,345	4.38¢
2.	Flats	1,334,194	28,692,335	4.65
3.	Parcels	<u>252.789</u>	<u>982.647</u>	<u>25.73</u>
4.	Total	\$3,422,631	71,540,328	4.78¢

Sources:
Column (2) and Column (3): RIAA, et al.-LR-1; spreadsheet 108_new.xls, page All, line 3.1 Total and line Distribution Key 1, Volume of Mail, respectively.
Column (4): Column (2) ÷ Column (3).

16 Based on my restatement, the overall average cost for mail processing remains the same (i.e.,
17 4.78 cents per piece). The restated costs equal 4.65 cents per piece for flats and 25.73 cents per
18 piece for parcels.¹⁰

19 The difference in mail processing costs between flats and parcels based on Witness Crum's
20 analysis and my restatement is summarized in Table 5 below:

10/ In this analysis the mail processing cost of letters increase from 4.12 cents per piece to 4.38 cents per piece. This difference does not impact the calculation of the parcel surcharge.

Table 5
Summary of Mail Processing Cost For Parcels and Flats

	<u>Item</u> (1)	<u>Witness Crum^{1/}</u> (2)	<u>Restated^{2/}</u> (3)
1.	Parcels	28.35¢	25.73¢
2.	Flats	<u>4.94</u>	<u>4.65</u>
3.	Difference (Line 1 - Line 2)	23.41¢	21.08¢
4.	Net Change (Line 3, Column (2) minus Line 3, Column (3))	xxx	2.33¢

The result of removing the impact of the unsupported assumption regarding costs in Non-MODS offices is that 2.33 cents of the 33.4 cents that Witness Crum alleges is the additional costs of parcels above flats may actually be due to difference in the mix of costs between MODS and Non-MODS facilities. To correct for his unsupported assumption, I have reduced the difference by 2.33 cents.

1

VI. TRANSPORTATION COSTS

2 In the USPS' study of the costs of Standard (A) mail by shape, transportation costs incurred
3 by highway and railroad movements and vehicle service drivers are distributed to letters, flats and
4 parcels based on the distribution of cubic feet ("cube") of mail in each respective shape.^{11/}
5 However, unlike weight, the cubic feet of the mail flows is not measured by any of the ongoing
6 data collection systems of the USPS. In the study used by Witness Crum to support the ten cent
7 per piece parcel surcharge, the cubic feet of each shape is estimated by dividing the total weight
8 of the shape by the average density of the shape.^{12/} In this proceeding, the average density of
9 letters and the average density of flats were based on a specific study performed as part of PRC
10 Docket No. MC95-1, while the average density of parcels was based on a study conducted for
11 PRC Docket MC97-2 utilizing a completely different methodology.^{13/}

12 The average density of parcels determined by the density study in PRC Docket No. MC95-1
13 equals 14.9 pounds per cubic foot. In the current proceeding, Witness Crum uses the average
14 density for parcels of 8.1 pounds per cubic foot, the same density estimated in LR-PCR-38 of
15 MC97-2. This revised parcel density is only 54% of the parcel density estimated in MC95-1.
16 In the following sections, I will demonstrate that the method used to estimate the density of
17 parcels in PRC Docket MC97-2 (as shown in LR-PCR-38 in that proceeding) has a built in bias
18 toward selection of samples with low densities.

^{11/} USPS-T-28, Exhibit K, Table 3 lines C.S.8a, C.S.14.1b and C.S.14.1c.

^{12/} USPS-T-28, Exhibit K, Table 3, Distribution Keys, line 4.

^{13/} USPS-T-28, Exhibit K, Table 3, Distribution Keys, line 3; and response to RIAA/USPS-T28-8.

1 Because of concerns over the discrepancies between the two studies, I performed two analyses
2 to evaluate the USPS' studies. First, I reviewed recent research in the physics of granular
3 materials to determine if the method of sample selection used in LR-PCR-38 results in a bias in
4 average density. Second, I gathered actual data from mailers of large numbers of parcels.

5 My review and analyses are discussed below under the following headings:

- 6 A. MC95-1 Estimates of Densities for All Shapes
- 7 B. MC97-2 Estimate of Density for Parcels
- 8 C. Physics of Granular Material
- 9 D. Data from Current Mailers
- 10 E. Correction of Cube Distribution Key
- 11 F. Conclusions

12 **A. MC95-1 ESTIMATES OF**
13 **DENSITIES FOR ALL SHAPES**

14 Library Reference MCR-13 in MC95-1 describes the sampling procedure used to obtain the
15 estimates of average densities of letters, flats, and parcels. Exhibit (RIAA, et al.-1B) contains
16 excerpts of the instructions for selection of the sample and measurement of weight and cube.

17 In the MC95-1 study, a sample consisted of weighing a container of known volume (and tare
18 weight) containing pieces of a given shape (letters, flats or parcels). This procedure is a
19 straightforward approach that approximates the actual packing behavior of the mail in
20 transportation and, therefore, measures the effective density of the shapes as that mail is

1 transported. The resulting estimates of average density by shape for Standard (A) mail using the
2 sampling procedure in MC95-1 are shown in Table 6 below:

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<u>Item</u> (1)	<u>Pounds/Cubic Foot</u> (2)
1. Letters	28.4
2. Flats	20.7
3. Parcels	14.9

Source: MC95-1, LR-MCR-13 page 1 (Bates 3); and
supplement page labelled "P&DC Density by
Class and Shape"; line = OBS 10

14 The estimates in MC95-1 were not disaggregated by subclass. Witness Crum chose to use
15 the estimates of density from MC95-1 for letters and flats but not parcels.

16 **B. MC97-2 ESTIMATE OF**
17 **DENSITY FOR PARCELS**

18 Library Reference PCR-38 in MC97-2 describes the research used to obtain estimates of the
19 characteristics of Standard (A) mail parcels. Forms numbered 1, 2 and 3, included as Exhibit ____
20 (RIAA, et al.-1C), contain instructions for selecting, measuring the dimensions, and weighing
21 each sample. Several problems occur when individual parcels are selected and measured by the
22 method described on these forms.

1 The first problem is the variation in interpretation of instructions on how to measure a parcel
2 that is not strictly rectangular in shape. Witness Crum admits that such variation is possible.
3 Tr.17/8047-8050. Misinterpretation of the instructions may result in an overstatement of the cube
4 and an understatement of the estimate of density. For example, in the parcel described in an
5 exhibit^{14/} used in the cross examination of Witness Crum, mismeasurement of the width results
6 in a downward bias of 24% in the estimate of the density as shown below.

Table 7
Example of Measurement Bias for Parcels

	<u>Item</u> (1)	Length (inches) (2)	Width (inches) (3)	Height (inches) (4)	Weight (ounces) (5)	Density (lb./cubic ft.) ^{1/} (6)
	1. Correct	5.125	5.875	1.250	10.5	30.13
	2. Width Error	5.125	7.750	1.250	10.5	22.84
	3. Difference	0.000	(-1.875	0.000	0.0	7.29
	4. Percent	xxx	xxx	xxx	xxx	24% ^{2/}

1/4 [Column(5) ÷ 16 ounces/pound] ÷ [(Column(2) x Column(3) x Column(4)) ÷ 1728 inches/cubic foot]

$\frac{2}{3}$ Line 3 ÷ Line 1

As shown in Table 7 above, when the density is calculated using the apparent longest width, the density equals 22.84 pounds per cubic foot. If the correct shape is recorded, the density equals 30.13 pounds per cubic foot. This indicates a bias of 24 percent toward less dense parcels. Similarly, any upward rounding of any dimension will result in an analogous bias in the resulting estimate.

^{14/} See AMMA-XE-1, Tr.17/8053 which is included here as Exhibit (RIAA, et al.-1D).

1 The second flaw in the methodology used in LR-PCR-38 was the method of selecting a parcel
2 from a container of non-identical pieces. The instructions on Form 3 of Exhibit ____ (RIAA, et
3 al.-1C) read:

4 After superficially looking at the mailing, select the most common piece in the mailing.
5 Roughly estimate the pieces of this type as a percentage of the total mailing. Sample this
6 piece first and record the estimate and sample information in the first row of the table.
7 Continue sampling the most common pieces in the mailing in the order of their
8 occurrence until you have sampled a total of five (5) pieces. If there are fewer than five
9 different piece types, sample only one of each type and record the estimate and sample
10 in the appropriate line of the table.

11 A superficial look will only encounter the parcels in the upper portion of the container, i.e.,
12 the parcels on top. The next section of my testimony will present evidence that shows that such
13 a procedure will bias the observed sample to less dense parcels.

14 Third, a problem also occurs when you compare a sample unit from MC97-2 (a single parcel)
15 with a sample unit from MC95-1 (a container of many parcels). Any comparison of sample sizes
16 must consider this difference.

17 In summary, the estimated density for all Standard (A) parcels using the MC97-2 method is
18 8.1 pounds per cubic foot and is only 54 percent of the estimate obtained using the very practical
19 method of MC95-1. This large discrepancy, when considered with the evidence in the next
20 section, points to the serious downward bias of estimated density when using the methods of
21 MC97-1 to sample parcels, measure their dimensions, and estimate the average density.

1 C. PHYSICS OF
2 GRANULAR MATERIAL

3 Recent research^{15/} in the physics of granular materials provides both experimental and
4 theoretical evidence that non-connected objects of dissimilar size in a container that is subjected
5 to vibrations will separate. In the mail stream, a container of mixed parcels has dissimilar sizes
6 and the vibration is supplied by transportation and handling of containers. The objects with the
7 larger volume will move towards the top and the objects with lesser volume will move towards
8 the bottom of the container. There are two phenomena operating that cause this separation. The
9 first is a convection cycle that occurs within the container caused by the vibration. The second
10 is a trapping effect that occurs when a larger volume object reaches the top of the convection cycle
11 and is trapped or unable to ride the down portion of the convection cycle.

12 The trapping phenomena is independent of density; however, in the case of Standard (A) mail,
13 the maximum weight of a parcel is 16 ounces. The pieces with the larger cube at a given weight
14 will always tend to separate to the top. These are the less dense pieces as can be seen from the
15 RIAA, et al. study data summarized in Exhibit __ (RIAA, et al.-1-F), line 23 versus line 20. The
16 parcel on line 23 has a weight of 0.770 pounds, a cube of 86.13 cubic inches (13.00 x 6.625 x
17 1.00) and a resulting density of 15.449 pounds per cubic foot. The parcel on line 20 has the same
18 weight, but has a cube of 53.79 cubic inches (5.313 x 6.000 x 1.688) and a resulting density of
19 24.737 pounds per cubic foot. Since the density is inversely related to the volume for fixed

^{15/} Exhibit __ (RIAA, et al.-1E) contains a bibliography of papers describing this research. These articles have been included in Library Reference RIAA, et al.-LR-1.

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(REVISED)

RIAA, et al.-T-1

1 weight^{16/}, the less dense items will have higher volumes for the same weight. The physics of
2 granular materials predicts the large volume parcels will appear on the top of a container and,
3 given the one pound weight limitation on Standard (A) mail, these large parcels will have lower
4 than average density. Therefore, the sampling scheme used in LR-PCR-38 in MC97-2 will tend
5 to be biased toward less dense pieces and the results should not be used. The use of the density
6 estimates from this biased study will shift costs from letters and flats to parcels.

7 D. DATA FROM CURRENT MAILERS

8 Because of the discrepancies between the density of parcels developed in MC95-1 and
9 MC97-2, I was requested by RIAA, et al. to gather actual data from the parcel shippers
10 represented by these organizations. I was provided 1996 and 1997 parcel data from 14 mailers.
11 These mailers represent both large and small companies mailing diverse types of parcels (e.g.,
12 Compact Disks ("CD"), checks, film, and cosmetics). Table 8 below summarizes the pieces and
13 weight for the mailers providing parcel data to me and compares the data I received to the USPS'
14 total population of Standard (A) parcels:

^{16/} Exhibit __ (RIAA, et al.-1G) shows the cube - density relationship for a given weight of 0.770 pounds.

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(REVISED)

RIAA, et al.-T-1

Table 8
Comparison of RIAA, et al.
Parcel Data to USPS Data

Item (1)	<u>RIAA, et al</u> ^{1/} (2)	<u>USPS</u> ^{2/} (3)	<u>Percent</u> ^{3/} (4)
1. No. of Pieces (millions)	325,189	982,647	33.1%
2. Weight (millions of pounds)	<u>231.411</u>	<u>512.877</u>	<u>45.1</u>
3. Average weight per piece - (pounds) ^{4/}	0.712	0.522	136.4%

^{1/} Exhibit ____ (RIAA, et al-1F)
^{2/} Witness Crum, USPS-T-28K Table 3, Distribution Keys line 1 and line 2
^{3/} Column(2) ÷ Column(3)
^{4/} Line 2 ÷ Line 1

14 The data provided to me by RIAA, et al. represents 33 percent of the number of parcel pieces
 15 handled by the USPS and 45 percent of the parcel weight handled by the USPS. The RIAA, et al.
 16 parcels have an average weight of 0.71 pounds per piece (i.e., 11.4 ounces) while the USPS
 17 parcels an average weight of 0.52 pounds per piece (8.3 ounces).

18 The RIAA, et al. parcel data has an average density of 29.9 pounds per cubic foot.^{17/} This
 19 is significantly higher than the average parcel density calculated by the USPS in MC95-1
 20 (14.9 pounds per cubic foot) or MC97-1 (8.1 pounds per cubic foot). However this differential
 21 is due, in part to the difference in weight. One method to correct this difference in weight is to
 22 adjust the density for the weight differential. This adjustment for weight yields an average density
 23 of 21.92 pounds per cubic foot.^{18/} This adjusted density estimate for parcels is still 2.71 times

^{17/} Exhibit ____ (RIAA, et al.-1F), line 40

^{18/} 29.90 pounds per cubic foot x (0.522 ounces per piece ÷ 0.712 ounces per piece)

1 larger than the estimate obtained in MC97-2 of 8.1 pounds per cubic foot and used by Witness
2 Crum in the current proceeding.

3 **E. CORRECTION OF**
4 **CUBE DISTRIBUTION KEY**

5 Based on the discussion above, the reasons why the parcel densities developed in MC97-2 are
6 biased and unreliable are:

- 7 1. The time period is different than the time period for letter and flats;
8 2. The sampling methodologies are different between MC95-1 and MC97-2;
9 3. The sampling methodology in MC97-2 is shown to be biased by the laws of physics; and,
10 4. The data from parcel shippers demonstrate the bias in the MC97-2 data.

11 Therefore, I have concluded that the parcel densities derived using MC97-2 should not be
12 used. The value for the density of parcels that is in the record in this proceeding and comparable
13 to the estimated densities used for letters and flats is the parcel density estimated in the supplement
14 to LR-MCR-13 in MC95-1.¹²⁹ While this parcel density is less than shown in the RIAA, et al.
15 data, I believe it is superior to the data in MC97-2.

16 The estimate of parcel density for all Standard (A) developed in MC95-1 is 14.9 pounds per
17 cubic foot. I have corrected the bias in Witness Crum's USPS-T-12 K by using 14.9 pounds per
18 cubic foot for parcels in the parcel column of line "3. Density of Mail" in each of the four (4)

¹²⁹ All three density estimates (letters, flats, and parcels) were developed using the same time period and the same methodology.

1 subclasses of Standard (A) mail.^{20/} The changes in unit costs that result from correcting for these
 2 bias are shown in Table 9 below.

Table 9 Transportation and Delivery Service Unit Costs Corrections for Parcel Density (cents/piece)							
	<u>Cost Segment</u> (1)	<u>USPS-T-12^{1/}</u>			<u>Corrected</u>		
		<u>Flat</u> (2)	<u>Parcel</u> (3)	<u>Difference</u> (4)	<u>Flat</u> (5)	<u>Parcel</u> (6)	<u>Difference</u> (7)
10	1. C.S.8 Vehicle Service Drivers	0.30¢	1.76¢	1.46¢	0.32¢	1.09¢	0.77¢
11	2. C.S.14 Transportation	<u>0.71</u>	<u>7.08</u>	<u>6.37</u>	<u>0.78</u>	<u>4.56</u>	<u>3.78</u>
12	3. Total	xx	xx	7.83¢	xx	xx	4.55¢

^{1/} Sources: Columns (2), (3) and (4) from LR-H-108: Revby96.xls, Sheet "All". Columns (5), (6), and (7) from LR-H-108: Revby96.xls with parcel density set to 14.9 in each of the four subclasses.

16 The difference in transportation and delivery service costs between parcels and flats was
 17 calculated by USPS to equal 7.83 cents per piece. When the parcel density is corrected, the
 18 difference in these costs equals 4.55 cents per piece. The net change in the difference between
 19 parcels and flats equals 3.28 cents per piece (7.83 cents per piece minus 4.55 cents per piece).

^{20/} In EXCEL Workbook Revby96.xls dated 11/3/97, the following cells were revised to equal 14.9: BrCrt!F76, BrOth!F76, NpCrt!F76, and NpOth!F76 (See RIAA, et al.-LR-1, Spreadsheet 108_new.xls).

1 F. CONCLUSIONS

2 Based on my above analyses, the average density for parcels (i.e., pounds per cubic foot) is
3 understated. The correct density for parcels should be based on the MC95-1 data of 14.9 pounds
4 per cubic foot. Utilizing this value to distribute volume variable costs between letters, flats and
5 parcels, I have restated Witness Crums costs. Correcting for the bias in the estimate of the
6 average density of parcels results in a decrease of 3.28 cents in the difference between the average
7 cost of a parcel with respect to the average cost of a flat in Standard (A) mail.

APPENDIX A
Page 1 of 3

**STATEMENT
OF
QUALIFICATIONS**

My name is Gary M. Andrew. I am a Senior Consultant with the economic consulting firm of L.E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, Virginia 22314.

I received a Bachelor of Arts degree in Mathematics from DePauw University in 1961, the Bachelor of Science in Management Science from Case Institute of Technology in 1961, and the Doctor of Philosophy degree from Case Institute of Technology in 1966. My major field of study was operations research, with a minor in statistics. I also completed every advanced course in statistics and econometrics at Case Institute of Technology offered between 1961 and 1964.

At Case Institute of Technology, I taught courses in statistics, sampling and operations research, and worked in the Case Operations Research Group and the Case Statistical Laboratory on research projects in theoretical and applied statistics, including transportation problems. I was a member of a research team that developed one of the first digital computer simulations of railroad operations for a division of the C&O Railroad.

From 1964 to 1971, I taught courses and advised students and persons in business in theoretical and applied statistics, sampling, and operations research in the School of Business Administration and the Department of Statistics at the University of Minnesota, Minneapolis, Minnesota. During this period, I consulted with several railroads, truckers, airlines, and shippers

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and presented testimony before the Interstate Commerce Commission in numerous rate, abandonment and merger cases. I have also published articles and consulted on work sampling procedures. My consultations have included pricing decisions for several firms.

In 1971, I became Director of Planning and Analysis at the University of Colorado and, in June 1974, I was promoted to Vice Chancellor for Administration in charge of all support activities on the Boulder Campus. My responsibilities included estimation, justification, and cost control for over \$50 million in construction for the University during my tenure. I also had responsibility for both the United States Postal Service installation on the Boulder campus and the private mail system for the four campuses. I was on the Graduate Faculty of the School of Business and continued my consulting practice in statistical sampling and estimation procedures in addition to my administrative responsibilities at the University of Colorado.

In September of 1978, I resigned my administrative position at the University of Colorado to devote full time to consulting and other business interests. I formed Infomap, Inc., a computer mapping and software firm specializing in the geographical display of statistical data, developed this company and sold it to Rand McNally and Company in 1983. I worked as Director of Internal Consulting for Rand McNally until 1986.

For 30 years, I have worked with the firm of L.E. Peabody & Associates, Inc. as a consultant on various special projects. In January 1988, I joined the firm as a Senior Consultant. My work with L.E. Peabody & Associates, Inc. has included the development of mathematical models of economic systems, statistical sampling procedures and statistical models for analyzing

APPENDIX A
Page 3 of 3

the relationship between costs and volumes in large data bases. I have, on numerous occasions, presented testimony in rate proceedings as an expert witness in mathematical modeling. I presented testimony on costing models before the Postal Rate Commission in Docket No. R90-1, Postal Rates and Fee Changes, 1990, and testimony in Docket No. R94-1, Postal Rate and Fee Changes, 1994.

I am a member of the American Statistical Association and the Institute for Operations Research and the Management Sciences. I have published papers on statistics in recognized professional journals, and have won awards for work in economics and statistics including the Carlton Prize in Economics at Case Institute of Technology.

I was a reviewer of and contributor to The Guidelines for the Presentation of the Results of Sample Studies, Statement No. 71-1 (Interstate Commerce Commission, February 1971).

1 CHAIRMAN GLEIMAN: Dr. Andrew, have you had an
2 opportunity to examine the packet of designated written
3 cross examination that was made available earlier today?

4 MR. WIGGINS: He has not, Mr. Chairman. May we
5 quickly do that?

6 CHAIRMAN GLEIMAN: You certainly may.

7 MR. WIGGINS: Thank you.

8 [Pause.]

9 CHAIRMAN GLEIMAN: That's just a duplicate copy.

10 THE WITNESS: Yes, but 32 and 33 weren't
11 designated.

12 MR. WIGGINS: Don't worry about it.

13 THE WITNESS: Okay.

14 CHAIRMAN GLEIMAN: If these questions were asked
15 of you today, would your answers be the same?

16 THE WITNESS: Yes.

17 CHAIRMAN GLEIMAN: That being the case, Mr.
18 Wiggins, if I could have your assistance -- provide two
19 copies to the court reporter and I will direct that they be
20 accepted into evidence and transcribed into the record at
21 this point.

22 [Designation of Written
23 Cross-Examination of Gary M.
24 Andrew, RIAA, et al.-T-1, was
25 received into evidence and

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF RECORDING INDUSTRY ASSOCIATION OF AMERICA,
INC.

WITNESS GARY M. ANDREW
(RIAA-T1)

<u>Party</u>	<u>Interrogatories</u>
Parcel Shippers Association	USPS/RIAA-T1-5-7, 9-18, 23-25, 27
United States Postal Service	USPS/RIAA-T1-1-31

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
RECORDING INDUSTRY ASSOCIATION OF AMERICA,
INC.
WITNESS GARY M. ANDREW (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory:</u>	<u>Designating Parties:</u>
USPS/RIAA-T1-1	USPS
USPS/RIAA-T1-2	USPS
USPS/RIAA-T1-3	USPS
USPS/RIAA-T1-4	USPS
USPS/RIAA-T1-5	PSA, USPS
USPS/RIAA-T1-6	PSA, USPS
USPS/RIAA-T1-7	PSA, USPS
USPS/RIAA-T1-8	USPS
USPS/RIAA-T1-9	PSA, USPS
USPS/RIAA-T1-10	PSA, USPS
USPS/RIAA-T1-11	PSA, USPS
USPS/RIAA-T1-12	PSA, USPS
USPS/RIAA-T1-13	PSA, USPS
USPS/RIAA-T1-14	PSA, USPS
USPS/RIAA-T1-15	PSA, USPS
USPS/RIAA-T1-16	PSA, USPS
USPS/RIAA-T1-17	PSA, USPS
USPS/RIAA-T1-18	PSA, USPS
USPS/RIAA-T1-19	USPS
USPS/RIAA-T1-20	USPS
USPS/RIAA-T1-21	USPS
USPS/RIAA-T1-22	USPS
USPS/RIAA-T1-23	PSA, USPS
USPS/RIAA-T1-24	PSA, USPS
USPS/RIAA-T1-25	PSA, USPS
USPS/RIAA-T1-26	USPS

Interrogatory:

USPS/RIAA-T1-27
USPS/RIAA-T1-28
USPS/RIAA-T1-29
USPS/RIAA-T1-30
USPS/RIAA-T1-31

Designating Parties:

PSA, USPS
USPS
USPS
USPS
USPS

**RESPONSE OF RECORDING INDUSTRY
ASSOCIATION OF AMERICA, ET AL. WITNESS ANDREW
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/RIAA et al.-T1-1

On page 23 of your testimony, you discuss the physics of granular materials. Please provide a dictionary definition of the term "granular" and "granule".

RESPONSE

granule: a small particle; esp: one of numerous particles forming a larger unit.

granular: consisting of or appearing to consist of granules.

Merriam-Webster Dictionary 1975

USPS/RIAA et al.-T1-2

Please refer to the scientific articles regarding physics of granular materials provided in Library Reference RIAA-LR-1.

- a. Please confirm that the focus of investigation by Duran, et. al. was on disks and/or beads. If not confirmed, please explain.
- b. Please confirm that the MRI observations by Ehrichs, et. al. were on convection in a column of poppy seeds. If not confirmed, please explain.
- c. Please confirm that the experimental observations discussed by Jager, Nagel and Behringer included pyrex spheres, poppyseeds, sand and brass spheres. If not confirmed, please explain.
- d. Please confirm that the experimental observations reported by Jaeger and Nagel in "Physics of the Granular State" concerned sandpiles, cereals, and disks. If not confirmed, please explain.
- e. Please confirm that the model developed by Jullien and Meakin used spheres. If not confirmed, please explain.

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- f. Please confirm that the experimental observations of Knight, et. al. used glass beads. If not confirmed, please explain.
- g. Please confirm that the simulation by Rosato, et. al. was based on disks. If not confirmed, please explain.
- h. Do you have any reason to doubt the veracity of Jaeger and Nagel's statement (p. 1524) that "...flow characteristics of granular material are determined by the geometrical packing of constituent particles."? If so, please explain fully.
- i. Do you have any reason to doubt the veracity of Jaeger and Nagel's statement (p. 1527) that "[f]aceted grains are much more likely to interlock."?

RESPONSE

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Not confirmed. The correct spelling of the lead author is Jaeger. The paper is a survey of several articles and includes experiments with the objects listed as well as other work in the field.
- e. Confirmed with the understanding that this was a computer simulation and the physical objects were not actually observed.
- f. Confirmed.
- g. Confirmed with the understanding that this was a computer simulation and the physical objects were not actually observed.
- h. No.

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- i. The passage to which the question refers is misquoted. The statement by Jaeger and Nagel is as follows: "Because faceted grains are more likely to interlock than smooth ones, it is plausible that a minimum fraction of rough material is required to bridge the flow region and start a propagating front."

I have no reason to doubt the veracity of any of the material presented on page 1527.

USPS/RIAA et al.-T1-3

Are you a physicist? Please provide evidence on any degrees, honorary or otherwise, conferred upon you in the field of physics.

RESPONSE

No.

USPS/RIAA et al.-T1-4

In the field of granular physics, how many articles, authored or coauthored by you, have been published in scientific journals? Please provide copies of all such articles.

RESPONSE

None.

USPS/RIAA et al.-T1-5

Are you aware of any studies or experimental observations of the flow characteristics, convection or trapping which occurs when faceted objects of a size and shape similar to those found in the mailstream are subjected to vibrations similar to those normally supplied by

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transportation and handling of mail containers? If so, please provide complete documentation of those studies or experiments.

RESPONSE

My personal experience with loose, heterogeneous materials in containers is such that as a trained and experienced practitioner of statistical sampling, I know that pieces selected from the top of such a container cannot be assumed to be a random sample of the entire container.

USPS/RIAA et al.-T1-6

Please provide your understanding of the term "convection" that you use on page 23 of your testimony.

RESPONSE

A description of the convection phenomenon appears in the article by Knight, et al. ("Vibration-Induced Size Separation in Granular Media: The Convection Connection") on page 3729, beginning on line 13 of the lefthand column, including Figure 2.

The friction of the loose objects with the sides of the container causes these objects to have a downward flow. The objects near the middle vertical column of the container have an upward flow. However, larger objects tend to get trapped when they reach the top of the cycle and do not continue the downward flow with the smaller objects.

**RESPONSE OF RECORDING INDUSTRY
ASSOCIATION OF AMERICA, ET AL. WITNESS
ANDREW TO INTERROGATORIES OF THE UNITED
STATES POSTAL SERVICE**

USPS/RIAA et al.-T1-7

Please refer to page 7 of your testimony.

- a. Please explain in detail what logic or rationale you use to suggest that it is appropriate to compare costs that have been adjusted by the differing level of presort for parcels versus flats with revenues that have not been adjusted by the differing level of presort of parcels versus flats.
- b. Is it your testimony that Standard Mail (A) that is more deeply dropshipped and/or finely presorted pays the same rate as identical mail that is less deeply dropshipped and/or less finely presorted?

RESPONSE

- a. By relying on the actual data from the 1996 Revenue, Pieces and Weight ("RPW") to compute average revenues, the actual mix of dropshipping and presortation and its impact on revenues has been considered. No further adjustment to the average revenues is necessary.
- b. No.

USPS/RIAA et al.-T1-8

Please confirm that your analysis is predicated on Base Year 1996 and not Test Year 1998 data.

RESPONSE

Confirmed, because the Postal Service could not provide data to make the Test Year 1998 analysis. (See USPS' Witness Moeller's responses to interrogatory

PSA/USPS-T36-4; interrogatory PSA/USPS-T26-1 redirected from Witness Seckar; and interrogatory PSA/USPS-T36-6 redirected from Witness Mayes).

USPS/RIAA et al.-T1-9

Please refer to page 9 of your testimony. Please confirm that you have done no analysis examining the varying levels of dropship and presort over time for the data contained in Exhibit RIAA, et. al.-1A. Please also confirm that you have done no analysis examining the impact of any rate changes over that time period.

RESPONSE

Both confirmed, however, as I explained in my response to interrogatory USPS/RIAA, et al.-T1-7 above, the average revenues that are shown in Exhibit RIAA, et al.-1A reflect both the varying levels of dropship and presort and the associated changes in rates over the noted time period. Stated differently, the revenues shown in Exhibit RIAA, et al.-1A reflect the revenue impact of both different levels of dropship/presort and changes in actual rates over time.

USPS/RIAA et al.-T1-10

Please confirm that the parcel density numbers you cite on page 27, line 22 of your testimony are based on survey data not statistically stratified for Standard Mail (A) parcels and on samples of only 42 containers of mail. Please explain any different understanding you might have.

RESPONSE

I did not participate in the Postal Service's study that produced the supplement to LR-MCR-13 which contained the 14.9 pounds per cubic foot average density; therefore,

I cannot attest to the details of the design. Based on my reading of the available records, my training and experience in sampling, I understand the following:

- a. The sample size was 42 sampling units;
- b. Each sampling unit was a container (e.g., hamper) containing many parcels of mail. The items in the container are known as sampling elements which are comparable to the samples observed in MC97-2 and reported in LR-PCR-38;
- c. One should not confuse and attempt to compare the sampling unit used in R94-1 and reported in LR-MCR-13 with the sampling element of LR-PCR-38 in MC97-2;
- d. The type of sampling used in R94-1 is called cluster sampling (c.f. Cochran, Sampling Techniques Wiley 1963);
- e. Cluster sampling as used in R94-1 is much more efficient for measuring the density of mail in transit than to sample the individual elements as was the case in the study reported in LR-PCR-38 in MC97-2;
- f. Measuring the density of items in the container (the cluster) is subject to much less measurement error than measuring the individual pieces of mail (sampling elements). Furthermore, the packing that takes place in a container reflects the true cube of the contents in the transportation process, where measurement of individual pieces does not;
- g. Stratified sampling is a less efficient method in this environment than cluster sampling.

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USPS/RIAA et al.-T1-11

Please refer to pages 24-26 of your testimony and Exhibit RIAA, et al.-1F. Please also refer to the CD/ROM version of LR-PCR-38 presented in Docket No. MC97-2. Are you aware that the Check Boxes and CD Boxes which appear to dominate your "study" have the first and third highest densities of the ten Standard Mail (A) parcel types sampled for the study presented in MC97-2?

RESPONSE

Yes. These categories of mail also represent the first and third highest number of pieces of the ten Standard (A) parcel types sampled for the study presented in MC97-2. In my testimony I have adjusted the weight to reflect this fact (see page 25, lines 22-23 of my direct testimony).

USPS/RIAA et al.-T1-12

Is it your testimony that the data provided by RIAA, et al. and summarized in Exhibit RIAA, et al.-1F is statistically representative of:

- a. the total Standard (A) parcel population?
- b. of all Standard (A) mailers?
- c. of all Standard (A) products?
- d. If you answer yes to any of these, please explain your answer and provide the sample design, sampling weights, and other supporting data.

RESPONSE

(a-d) The data presented in Exhibit RIAA, et al.-1F are representative of the 325 million parcels tabulated there. These data constituted 33% of the parcels in Standard (A) mail. The numerical results of this exercise were used only as one of three indications of uncorrected bias in the Postal Service's methodology to estimate of densities of Standard (A) mail. I use the results of Postal Service's previous R94-1 study of density in my analysis.

USPS/RIAA et al.-T1-13

Please refer to page 25, lines 14 and 15, of your testimony. Please confirm that the pieces underlying the RIAA data (representing 33 percent of total pieces and 45 percent of total weight) may have a significantly different profile than pieces not in the RIAA data in terms of:

- a. mailers,
- b. products,
- c. piece weights,
- d. piece dimensions,
- e. number of pieces,
- f. total weight,
- g. volumes,
- h. densities, and
- i. total cube.
- j. For any part above that you cannot confirm, please provide all analyses indicating that the profile of the RIAA pieces is similar to that of the non-RIAA pieces.

RESPONSE

(a-j) Not confirmed. I have not been provided the detailed information necessary to categorize the profile of "pieces not in the RIAA data". Without this information, I am unable to form an opinion regarding whether pieces not in the RIAA data may/may not have a significantly different profile in terms of the parameters noted as items (a-i) of this interrogatory.

USPS/RIAA et al.-T1-14

Please confirm that the RIAA, et al. parcel average weight is 137% of the USPS parcel average weight (11.4 ounces/8.3 ounces). Do you have any reason to believe that the RIAA, et al. parcel sample is statistically different than the USPS parcel population? Please explain your answer.

RESPONSE

I cannot say whether the weight for the RIAA et. al. parcels is "statistically" different from the USPS parcel population, however, the adjustment that I made at page 25, lines 22-23 recognizes this difference.

USPS/RIAA et al.-T1-15

Please refer to page 25, line 21 of your testimony. As you have provided "one method to correct this difference in weight", please indicate other possible methods. Please explain the merits and faults of your "one method" and other possible methods.

RESPONSE

I did not consider other possible methods. The merit of this adjustment is that the overall weight bias is removed.

USPS/RIAA et al.-T1-16

Please refer to page 25, footnote 18, of your testimony. Please confirm that each and every parcel in the RIAA, et al. sample has the exact same proportion of 0.522 ounces per piece/0.712 ounces per piece to linearly adjust its density to account for the difference in weight. Please explain your answer.

RESPONSE

Not confirmed. Each and every individual parcel in the RIAA, et al. sample does not have the exact proportion of 0.522 ounces per piece to 0.712 ounces per piece. The proportional relationship between the RIAA, et al. data and the USPS data that was developed in Table 8 of my testimony and is based upon the average weight per piece for all pieces in each data set. The adjustment was made on the aggregate weight.

USPS/RIAA et al.-T1-17

Please refer to the 1996 parcel data from 14 mailers, page 24, line 10, of your testimony.

- a. How were the data "provided?" Please indicate time frames, formats, data elements, software, etc. for the data provided.
- b. What was asked for from each mailer?
- c. How many mailers were asked for data?
- d. How many mailers provided data that were not summarized in Exhibit RIAA, et al.-1F?
- e. Please confirm that all data are from 1996?
- f. Did you or someone under your supervision have to process, clean, scrub, etc. the data for use in your testimony? If yes, please explain the processing steps.

RESPONSE

- a. The data were provided via fax and via telephone over a 4 week period in November and December, 1997.
- b-d. The data were provided to me by counsel for RIAA, et al. I was not provided the detail of what was asked of each mailer, including the number of mailers asked. I utilized all data provided to me, except as noted below.
- e. Not confirmed. Mailers for at least one group of products reported data for 1997, not 1996.
- f. Yes. The data were transferred from a hard copy into a computer worksheet. Data for pieces that weighed more than 1.00 pound per piece were omitted because these pieces could not be mailed Standard (A).

USPS/RIAA et al.-T1-18

Please confirm that data are missing from Exhibit RIAA, et al.-1F, column 10, lines 1, 4, 6, and 8, and column 11, line 27. If confirmed, please provide the data or explain why the data are missing.

RESPONSE

Not confirmed. The data provided contained a range of weights for identical shapes and, to be conservative, I used the lighter weight for all pieces. The empty position is to indicate this selection of the lower weight which is conservative for purposes used in my statement.

USPS/RIAA et al.-T1-19

Please provide the Number of Pieces, Weight (pounds), and Volume (lbs./cu. ft.) data from Exhibit RIAA, et al.-1F to allow us to calculate and validate other data that you provide.

RESPONSE

This information is available subject to protective conditions.

USPS/RIAA et al.-T1-20

Please provide data supporting your assumption that the density of film in Exhibit RIAA, et al.-1F, line 27, is 18.

RESPONSE

See my response to USPS/RIAA, et al.-T1-19.

USPS/RIAA et al.-T1-21

Please refer to Exhibit RIAA, et al.-1F of your testimony. Please explain how 14 mailers provided parcel data yet there are greater than 14 distinct observations in Mailer, column 1, of the referred exhibit.

RESPONSE

Certain mailers provided data for more than one product type. To prevent identification of mailers by their competitors, I did not identify the products together under one mailer.

USPS/RIAA et al.-T1-22

Please refer to page 23 of your testimony. Please describe what you mean by a "convective condition", a "convection cycle", and a "connective cycle".

RESPONSE

On page 23, line 9 of my testimony, "convective condition" should read "convection cycle". On page 23, line 11, "connective cycle" should read "convection cycle". Please see my response to USPS/RIAA, et al.-T1-6.

USPS/RIAA et al.-T1-23

Please refer to pages 23-24 of your testimony and explain your reason for stating that the physics of granular materials imply that less dense pieces move to the top of a container. Assuming that this theory applies to mail, is it your testimony that larger Standard Mail (A) parcels have a lower average density than smaller Standard Mail (A) parcels? Please provide any data to support this claim including nationally representative surveys you have conducted or commissioned.

RESPONSE

Please refer to pages 23-24 of my testimony in which I develop my reasoning for stating that "the physics of granular materials predicts the large volume parcels will appear on the top of a container and, given the one pound weight limitation on Standard (A) mail, these large parcels will have a lower than average density." Given the physics of granular materials, one might expect that a larger number of large volume parcels with a lower than average density would be located at the top of a hamper containing a mix of Standard (A) mail. Sampling such a hamper from the top as shown in LR-PCR-38 in MC97-2 produces biased results.

USPS/RIAA et al.-T1-24

Please refer to Tr. 11/5357 (response of witness Bradley to OCA/USPS-T14-1) and Tr. 12/6319 (response of witness Degen to OCA/USPS-T12-31).

- a. Please explain why you believe MODS variabilities are not a good means to estimate non-MODS variabilities.
- b. Is it your testimony that the lack of the MODS work-hour and volume reporting system in a given facility means that flats and parcels are handled in identical or identically costly ways? If your answer is yes, please provide support for your contention.

RESPONSE

- a. The Postal Service is not using MODS variabilities to estimate individual non-MODS variabilities. The procedure simply applies the system average variability for MODS offices to all non-MODS cost pools. This masks any mix differences in the use of resources with differing variabilities. In the particular case of parcels which apparently use a higher proportion of manual activity, this can make a large difference because manual activity tends to have lower volume variabilities than, for example, automated operations. When the single value system average volume variability from MODS offices is used for all cost pools in non-MODS offices, the mail that uses resources with actual lower variability will likely be assigned costs larger than are appropriate.
- b. No.

USPS/RIAA et al.-T1-25

Please explain how the Standard Mail (A) parcel versus flat cost differential would change from your proposal if all non-MODS costs were completely ignored.

RESPONSE

The cost differential between parcels and flats in my analysis would not change if non-MODS costs were completely ignored. My position is that the methodology used

by the USPS will not support any cost differential between flats and parcels associated with non-MODS sources.

USPS/RIAA et al.-T1-26

Please confirm that the volume variability assumptions for mail processing implicit in current rates is 100 percent. If not confirmed, please state your understanding fully. What impact do you believe using this assumption would have on the stated cost difference between parcels and flats in Standard Mail (A) as compared to estimates in the current case? Please explain why did you not use this as the default assumption for non-MODS offices.

RESPONSE

Confirmed. I did not look for an alternative method for finding possible differences between parcel costs and flat costs due to non-MODS costs.

USPS/RIAA et al.-T1-27

Please refer to page 21, lines 3 and 4 of your testimony. Please confirm that misinterpretation or tabulation error could also result in an overstatement of estimated density.

RESPONSE

Not confirmed. Based upon Exhibit RIAA, et al.-1D and Table 7 of my testimony there are only two outcomes that can be calculated. One outcome is the correct estimate of density based upon the correct width of 5.875 inches (Table 7, Column 3, Line 1). The other outcome is the incorrect estimate of density based upon the overstated width of 7.750 inches (Table 7, Column 3, Line 2). Thus, this measurement error would always produce an understatement of estimated density.

USPS/RIAA et al.-T1-28

Interrogatory USPS/RIAA et al.-T1-5 asked about your familiarity with "studies or experimental observations of the flow characteristics, convection or trapping which occurs when faceted objects of a size and shape similar to those found in the mailstream are subjected to vibrations similar to those normally supplied by transportation and handling of mail containers," and asked for you to provide information regarding such studies or experiments. Your response to this interrogatory spoke only about your "personal experience with loose, heterogeneous materials in containers." Please provide a direct and more responsive answer to the original interrogatory.

RESPONSE

I know of no published studies of the nature you describe.

USPS/RIAA et al.-T1-29

Please see your testimony at page 5, lines 7-9. Suppose that it was concluded that shape was the sole reason for the cost difference between flats and parcels, and that weight played no role. However, the difference in weight between the two shapes resulted in a revenue difference which exactly equalled the cost difference. Under those circumstances, would you oppose a shape-based rate element? If not, why not.

RESPONSE

I cannot respond without investigating the data assumptions and analysis upon which these two conclusions were based.

USPS/RIAA et al.-T1-30

Please see your testimony at page 4, lines 18-22, which is point 5 in your "summary and findings" section.

- a. Is this finding explained elsewhere in your testimony? If so, please identify where this finding is discussed.
- b. Is it your testimony that the only surcharge that can be "justified" is one that results in revenues equal to costs?
- c. Please confirm that if revenue equals costs there is no contribution from that group of pieces.
- d. Is it your testimony that parcels, as a group, should make no contribution?
- e. Is it "unjustifiable" that parcels make some positive contribution?
- f. If you believe contribution from parcels is justifiable, what level of contribution would you recommend: higher than the average per piece contribution for the subclass, lower than average, or about the same? Please explain your answer.

RESPONSE

- a. No.
- b. It is my testimony that in developing any surcharge the USPS should consider not only the cost differential between flats and parcels but also their revenue differential.
- c. Confirmed, if costs are defined as volume variable costs.
- d. No.
- e. No.

- f. I do not have an opinion on this matter. It is my testimony that the maximum surcharge that can be justified using Witness Crum's methodology and available data is 3.2 cents per piece.

USPS/RIAA et al.-T1-31

Please see your testimony at page 11, lines 1-2. Explain the meaning of these two lines, and how they relate to Table 3.

RESPONSE

These two lines at page 11 of my testimony should be deleted.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross examination for Witness Andrew, Mr.
3 Reiter?

4 MR. REITER: Yes, I do, Mr. Chairman.

5 CROSS-EXAMINATION

6 BY MR. REITER:

7 Q Dr. Andrew, I am handing you a copy of your
8 responses to Postal Service Interrogatories USPS/RIAA-T-1-32
9 and 33, which were filed today.

10 Dr. Andrew, if you were asked those questions
11 orally today, would your answers be the same?

12 A Yes.

13 MR. REITER: Mr. Chairman, I will hand two copies
14 of these answers to the reporter and ask that they be
15 entered into evidence as additional written cross
16 examination of Witness Andrew.

17 Mr. May, on behalf of Parcel Shippers, also
18 requested that they be entered into the record.

19 CHAIRMAN GLEIMAN: Thank you. We appreciate your
20 assistance in that regard.

21 I direct that the additional designated written
22 cross examination of Witness Andrew be accepted into
23 evidence and transcribed into the record at this point.

24 [Additional Designation of Written
25 Cross-Examination of Gary M.

1 Andrew, RIAA, et al.-T-1, was
2 received into evidence and
3 transcribed into the record.]

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

Postal Rate and Fee Changes, 1997)
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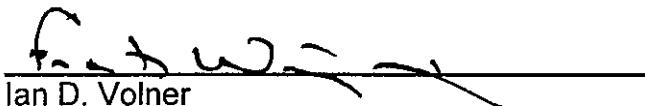
Docket No. R97-1

RESPONSE OF RECORDING INDUSTRY ASSOCIATION OF
AMERICA, ET AL. WITNESS ANDREW TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/RIAA-T-1-32-33)

The Recording Industry Association of America ("RIAA") hereby provides the responses of witness Gary M. Andrew to the following interrogatories of the United States Postal Service, filed on February 13, 1998: USPS/RIAA-T1-32-33.

The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,



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February 19, 1998

**RESPONSE OF THE RECORDING INDUSTRY ASSOCIATION
OF AMERICA ET AL. WITNESS ANDREW TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE**

USPS/RIAA et al.-T1-32

Please refer to your response to USPS/RIAA et al.-T1-7. Table 3 in Exhibit K of witness Crum's testimony (USPS-T-28) shows the estimated actual cost per piece for Standard Mail (A) flats and parcels in fiscal year 1996. As repeated on page 11 of USPS-T-28 and referenced in your testimony, the cost difference between parcels and flats is 40.3 cents. To compare costs to revenues, you adjust the cost difference to 33.4 cents. (See page 4, lines 19-20 of your testimony). Your response states that you do not make any similar adjustment to average revenues because "[b]y relying on the actual data from the 1996 Revenue, Pieces and Weight ("RPW") to compute average revenues, the actual mix of dropshipping and presortation and its impact on revenues had been considered."

- a. Please confirm your understanding that the actual mix of dropshipping and presortation is reflected in actual 1996 revenue data. If you cannot confirm, please explain.
- b. Please confirm that the estimated costs used by witness Crum to calculate the 40.3-cent cost difference reflect actual 1996 cost data. If you cannot confirm, please explain.
- c. Please confirm that your rationale for making the adjustment to costs traces back to page 12, lines 9-10 of witness Crum's testimony, where he states: "Standard Mail (A) flats are somewhat more finely presorted and deeply dropshipped than parcels." If you cannot confirm, please explain.
- d. Please confirm that one of the reasons that parcels cost more than flats is that they are less finely presorted and less deeply dropshipped. If you cannot confirm, please explain.

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- e. Please confirm that one of the reasons that parcels bring in more revenue than flats is that they are less finely presorted and less deeply dropshipped. If you cannot confirm, please explain.
- f. Please confirm that you make no adjustment to revenues because you believe that the actual mix of dropshipping and presorting is reflected in actual 1996 revenue data, while you do make an adjustment to costs because you believe that the actual mix of dropshipping and presorting and its impact on costs is not reflected in actual 1996 cost data. If you confirm, please explain the logic of making an adjustment to actual costs without making an equivalent adjustment to actual revenue. If you do not confirm, please explain fully.

RESPONSE

- a. Confirmed.
- b. Not confirmed. Actual costs are not recorded by shape across the four subclasses that witness Crum combines. The estimated costs used by witness Crum are modelled costs developed with a series of assumptions and special studies shown in the sidenotes of Table 3 of Exhibit 28K (USPS-28K).
- c. Confirmed. However, if Mr. Crum had not made such an adjustment, I would have done so.
- d. Confirmed to the extent that costs in this question refer to the estimated costs used by witness Crum.
- e-f. Not confirmed. I do not have the information available and the Postal Service has not provided the information to demonstrate to what extent, if any, the additional revenue per piece generated by parcels (above flats) is due to less, or less deep,

-3-

dropshipping and less, or less, fine presortation. The interactions between the significant weight differences of parcels and flats and the complex rate structures in Standard (A) Mail can easily cause the revenue differences between flats and parcels to behave in counter intuitive directions. For example, flats that are more deeply dropshipped can actually generate higher revenue than a less deeply dropshipped mix, depending on the weight distribution.

USPS/RIAA et al.-T1-33

- Please refer to your response to USPS-RIAA et al.-T1-24 and the response of witness Bradley to OCA/USPS-T14-1, Tr. 11/5357 referenced in that question. Your response states that witness Bradley's "procedure simply applies the system average of variability for MODS offices to all non-MODS cost pools." You criticize this approach for "mask[ing] any mix differences in the use of resources with differing variabilities."
 - a. Please confirm that witness Bradley's interrogatory response breaks the non-MODS activities down by cost pool and applies the cost-pool specific variabilities from the MODS analysis. If you cannot confirm, please explain.
 - b. Please refer to witness Bradley's response cited above and confirm that when the volume variable costs for the non-MODS offices are combined, one gets virtually the same result as the MODS system variability. (77.9% vs. 78.6%). If you cannot confirm, please explain.
 - c. Please confirm that this negates the notion that the mix of costs in the non-MODS offices are different from MODS offices and thus the relative magnitude of the cost pools are different. If you cannot confirm, please explain fully.
 - d. In light of the additional analysis presented by witness Bradley in the cited interrogatory response, please explain fully why the "system" variability from MODS offices cannot be accurately be (sic) applied to the non-MODS offices.

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RESPONSE

a. Confirmed.

b. Confirmed.

c-d. Not confirmed. There are two fundamental problems with application of the system average volume variability developed in the MODS cost pool to the non-MODS cost pools. Witness Bradley's response to OCA/USPS-T14-1 does not address either problem.

First, there is an implicit assumption made "that variabilities from activities in MODS offices would serve as good proxies for the variabilities for similar activities in the non-MODS offices." (OCA/USPS-T14-1, page 2) This assumption is based on witness Moden's non-quantitative descriptions of the similarity between non-MODS and MODS offices. However, there are no additional data to support the proposition that the "similar activities" necessarily have similar variabilities. Furthermore, there are additional assumptions required before the calculations proposed by witness Bradley can be made. (OCA/USPS-T14-1, page 3)

Second, the method used in LR-H-146 to implement witness Bradley's variability was not the method used in the response to OCA/USPS-T14-1. As documented in my testimony (pages 14 and 15, including footnote 8) the MODS system average variability is applied in LR-H-146 to each of the non-MODS cost pools. Different types of mail use

-5-

different mixes of resources from these cost pools and the use of the system average variability at the cost pool level creates significant distortions.

The example in the attached table illustrates the nature and source of this distortion. Consider a system of two cost pools and two shapes (products) as shown in lines 1 and 2 of the table. Only one unit of each shape is produced. Line 1 represents a manual cost pool in MODS with accrued costs of \$1,000 of which 30% (or \$300) are volume variable. The distribution key for the manual related volume variable cost distributes 30% of these costs to Shape A and 70% of these costs to Shape B.

Line 2 of the attached table represents a machine cost pool with accrued costs of \$500 of which 90% (or \$450) are volume variable. The distribution key for the machine related volume variable costs distributes 65% of these costs to Shape A and 35% of these costs to Shape B.

Line 3 of the table shows the total accrued, volume variable, and distributed costs for the MODS cost pools. Line 4 of the table computes the MODS system average volume variability of 50% ($\$750/\$1,500$). Line 5 of the table shows the difference in volume variable cost per unit between Shape A and Shape B. Shape A costs \$15.00 more than Shape B when the specific cost pool volume variability is used at each respective cost pool.

-6-

The bottom half of the attached table demonstrates what occurs if system average volume variability percentages are used in each cost pool and all other conditions are held constant. This change is recognized by adjusting Column (3), Line 6 and Line 7 to reflect the overall system average variability of 50% (Line 4, Column (3)). The difference between Shape A and Shape B has changed to Shape A being \$125 less than Shape B (Line 10, Column (7)) versus the prior calculation that Shape A costs more than Shape B.

This demonstrates the critical point that was overlooked in the implementation in LR-H-146 where witness Bradley's MODS system average variability was applied to each non-MODS cost pool. The impact of the interaction between individual cost pool variabilities and distribution key can distort the differences between shapes. Therefore, the non-MODS component of volume variable costs should not be permitted to contribute to the difference in costs between parcels and flats.

**Illustrative Example of Distortion Caused by
the Use of MODS System Average Variability
in Non-MODS Cost Pools**

MODS Costs with Pool Level Variabilities

Cost Pools (1)	Accrued Costs (2)	Volume Variability		Distribution of Volume Variable Costs			
		(percent) (3)	(dollars) (4)	Keys (percent) Shape A (5)	Shape B (6)	Costs (dollars) Shape A (7)	Shape B (8)
1. Manual	\$ 1,000	30%	\$ 300	30%	70%	\$ 90.0	\$ 210.0
2. Machine	\$ 500	90%	\$ 450	65%	35%	\$ 292.5	\$ 157.5
3. MODS Total	\$ 1,500		\$ 750			\$ 382.5	\$ 367.5
4. MODS System Average		50%					
5.	Cost Difference (Shape B - Shape A)					\$ (15.00)	

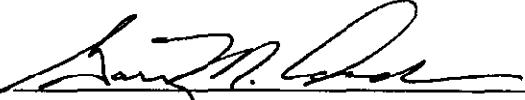
Non-MODS Costs with MODS System Average Variabilities

Cost Pools (1)	Accrued Costs (2)	Volume Variability		Distribution of Volume Variable Costs			
		(percent) (3)	(dollars) (4)	Keys (percent) Shape A (5)	Shape B (6)	Costs (dollars) Shape A (7)	Shape B (8)
6. Manual	\$ 1,000	50%	\$ 500	30%	70%	\$ 150.0	\$ 350.0
7. Machine	\$ 500	50%	\$ 250	65%	35%	\$ 162.5	\$ 87.5
8. Non-MODS Total	\$ 1,500		\$ 750			\$ 312.5	\$ 437.5
9. Non-MODS System Average		50%					
10.	Cost Difference (Shape B - Shape A)					\$ 125.00	

[For ease of illustration 1) All characteristics of the MODS and the Non-MODS Cost Pools were held constant except the Volume Variability at the Cost Pool level and 2) Only one unit of each shape is considered.]

DECLARATION

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



GARY M. ANDREW

Dated: 2-18-98

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.



N. Frank Wiggins

DATE: February 19, 1998

DC1:67457

1 MR. REITER: Thank you.

2 CHAIRMAN GLEIMAN: Anyone else have any additional
3 written cross examination?

4 [No response.]

5 CHAIRMAN GLEIMAN: Only one participant, the
6 Postal Service, requested oral cross examination of the
7 witness.

8 Does any other participant wish to cross examine
9 Witness Andrew?

10 [No response.]

11 CHAIRMAN GLEIMAN: If not, then Mr. Reiter, when
12 you are ready.

13 MR. REITER: Thank you, Mr. Chairman.

14 CROSS-EXAMINATION

15 BY MR. REITER:

16 Q Good afternoon, Dr. Andrew.

17 A Good afternoon.

18 Q I am Scott Reiter. I will be asking you a few
19 questions on behalf of the Postal Service.

20 In your testimony you compare the estimated cost
21 differences between flats and parcels in Standard A with the
22 revenue difference, is that correct?

23 A That is correct.

24 Q There were at least two sets of cost numbers that
25 you could have used to make this comparison. One was the

1 estimated cost for Standard A flats and parcels for FY 1996
2 and the second was those costs as adjusted by Witness Crum
3 to remove the effect of differences in drop shipment and
4 presort levels, is that correct?

5 A Yes.

6 Q And on the revenue side, you only had estimated
7 actual revenues for FY 1996, is that correct?

8 A Yes.

9 Q That is because there was no adjustment made to
10 those costs and I believe you also indicated in your
11 interrogatory answer that you did not have information to
12 make any adjustment to those costs, is that correct?

13 A That is correct.

14 Q So all you have is unadjusted revenue on the
15 revenue side. I just want to ask you a very simple question
16 about that.

17 Why, given the fact that you only had unadjusted
18 revenue did you choose to compare the revenue with the
19 adjusted costs rather than to compare the unadjusted revenue
20 with the unadjusted costs?

21 A Because it's not clear that there is an adjustment
22 necessary in the revenue.

23 Q I understand that, and given the fact that you
24 don't believe -- and there exists no adjustment to the
25 revenue, why did you not compare the unadjusted revenue to

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1 the unadjusted costs rather than to the adjusted costs?

2 A Because the costs required an adjustment to
3 reflect, as Mr. Crum has said and as I would agree, the
4 depth of sortation and the -- or the depth of drop shipping
5 and the fineness of sortation.

6 Q So that when you make that adjustment, you remove
7 from those costs the effects of the differences in drop
8 shipment and presortation levels, is that correct?

9 A There is an attempt to do that, yes.

10 Q Now, on the revenue side, I believe you indicated
11 in one of your Interrogatory answers that you agreed that
12 the revenue reflect the mix of drop shipment and
13 presortation, is that correct?

14 A The revenue numbers reflect what was -- what
15 occurred in 1996.

16 Q And that would include the differences in drop
17 shipment and presortation levels that existed in that year?

18 A That is correct.

19 Q Do you agree with that?

20 A Yes.

21 Q Thank you. So you compared costs with the effect
22 of the differences due to drop shipment and presortation
23 levels with revenues that removed that effect, with revenues
24 that contained that effect, is that correct then?

25 A I am not sure that there is an effect in the

1 revenue side. You are making an assumption. All the
2 questions regarding this subject made an assumption that
3 there is an obvious effect on the revenue, and also the
4 questions in the Interrogatories assumed a direction in that
5 difference.

6 Q So you know neither the amount nor the direction
7 of any possible revenue effect -- any possible effect on
8 revenues of drop shipment and presortation level
9 differences, is that what you are saying?

10 A That is correct.

11 Q Okay. Given that situation, you still had a
12 choice, and that is to compare those unadjusted revenues
13 with either adjusted or unadjusted costs, isn't that
14 correct?

15 A Would you repeat the question, please? I'm sorry,
16 I can hardly hear you.

17 CHAIRMAN GLEIMAN: I think this is a good time for
18 me to jump in and ask both of you to pull the mikes a little
19 closer and maybe speak up a little bit.

20 MR. REITER: Okay. Does that help? Is that a
21 little better?

22 THE WITNESS: Yes.

23 MR. REITER: Okay. Good. I will talk right into
24 it. Obviously, they were turned up yesterday and turned
25 back down today.

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1 BY MR. REITER:

2 Q My question was, given your belief that you don't
3 have information about the amount or direction of the effect
4 on revenues of differences in presortation and drop
5 shipment, you still had a choice of which set of cost
6 figures to compare the given revenues to, the unadjusted or
7 the adjusted, and you chose to compare them to the adjusted,
8 and that is the subject of my question. Is it correct that
9 that is what you did?

10 A That's correct.

11 Q So even though you don't know what the effect of
12 presortation and drop shipment levels are in revenues, I
13 think you agreed that whatever it is, it is reflected in
14 those revenues, correct?

15 A Yes.

16 Q And would you not also agree that whatever the
17 effect, and I believe in this case it is known or at least
18 attempted to be estimated, whatever the effect of drop
19 shipment and presort levels on costs is removed from the
20 unadjusted costs, isn't that correct?

21 A They are adjusted, that is correct.

22 Q But yet are contained in the unadjusted costs?

23 A That's correct.

24 Q Reflected.

25 A Reflected in there.

1 Q So why would you not, to make an apples to apples
2 comparison, compare revenues that reflect the effect,
3 whatever it is, of drop shipment and presortation with costs
4 that reflect the levels of drop shipment and presortation?

5 A On the revenue side, it is not clear that the
6 direction or magnitude of the drop shipping and the fineness
7 of presortation has -- you have no idea what the impact is.

8 Q You don't know what it is?

9 A Well, from the data that was available, it is
10 impossible to determine that impact.

11 Q I understand that, you don't know the amount or
12 the direction, but I think you agree that whatever it is, it
13 is reflected in those revenue figures, is that right?

14 A Yes.

15 Q And which of the two sets of cost figures also
16 reflect the level of drop shipment and presortation, the
17 adjusted or the unadjusted?

18 A The unadjusted.

19 Q So aren't apples to apples, the unadjusted
20 revenues, which is all you had, and the unadjusted costs?

21 A No, because I didn't have the true costs, all we
22 had were modeled costs that were in the analyses.

23 Q Let me show you something to pursue that. I have
24 copies of Table 3 of Exhibit K of Witness Crum's testimony,
25 as well as the base year CRA costs from Witness

1 Alexandrovich's testimony. I would like to show you these,
2 and I have copies for everyone else.

3 If you look first at the base year, Dr. Andrew, we
4 did a simple calculation there. We took total Third Class
5 mail costs and subtracted out single piece, since we are
6 looking here at the other subclasses, and the number shown
7 there is 7 million -- I guess it is actually 7,092,588,000,
8 do you see that?

9 A Yes, sir.

10 Q And those are the actual estimated base year costs
11 for the subclasses we are looking at here, do you agree with
12 that?

13 A Yes.

14 Q Now, you if you look at Table 3 of Exhibit K of
15 Witness Crum's testimony, there is a number we circled,
16 which is the total attributable costs for those same
17 subclasses. Does that show the same number, 7,092,588,000?

18 A In the aggregate, yes.

19 Q And isn't that the total of the costs that we are
20 talking about comparing here?

21 A That is correct.

22 Q So, those are the actual estimated 1996 costs for
23 these subclasses, correct?

24 A For all three shapes and all four subclasses.

25 Q So if you are making a comparison, once again,

1 between those actual estimated costs for those subclasses
2 and the revenues, wouldn't the apples to apples comparison
3 be unadjusted revenues and these unadjusted costs?

4 A This number that you have just asked me to verify
5 is the aggregate. Again, it is not the disaggregate to the
6 parcels, flats and letters.

7 Q And what difference does that make?

8 A It makes a lot of difference in terms of whether
9 they are actual costs or modeled costs. These are --

10 Q The model costs add up to the actual estimated CRA
11 costs though, do they not?

12 A They do.

13 Q So why would you adjust them to remove the effect
14 of presortation and drop shipment for purposes of comparing
15 revenues that include the effects of those two things?

16 A Well, again, the adjustment was not made in the
17 aggregate costs, it was made in the cost differences. And,
18 again, you are -- it would still total up to this -- to the
19 same amount after the adjustments, because the adjustments
20 were made all the way across. So you are going to wind up
21 with 7,092,588,000.

22 Q After the adjustments?

23 A Yes, sir, if they are made consistently across.

24 Q Let's look at this from the other side. Suppose
25 that you had the data you needed to make an adjustment to

1 revenue to reflect different levels of presortation and drop
2 shipment, would you have gone ahead and make that
3 adjustment?

4 A Yes.

5 Q And which set of costs would you have compared
6 that figure to?

7 A The one that I have compared this to.

8 Q You would have compared the adjusted revenues to
9 the unadjusted costs?

10 A No.

11 Q You would have compared them to the adjusted
12 costs?

13 A That's correct.

14 Q What if the adjustment in revenues that you were
15 able to compute if you had the data amounted to
16 approximately the same as the difference in costs, what
17 conclusion would that lead you to draw, hypothetically?

18 A Hypothetically, if the -- be more precise, please,
19 in the hypothetical.

20 Q I believe your adjustment to costs was
21 approximately 7 cents, is that right?

22 A That's correct, 6.9.

23 Q Suppose you had the data to make the same kind of
24 adjustment to revenues and it came out to approximately 7
25 cents, hypothetically, what would your conclusion then be,

1 regarding cost difference between flats and parcels?

2 A That one was cancelling the other.

3 Q Okay, thanks. Would you look at your response to
4 Postal Service Interrogatory 30, please. We asked you there
5 about your statement on page 4 of your testimony that "the
6 maximum surcharge for parcels that can be justified using
7 Witness Crum's methodology and available data is 3.2 cents
8 per piece."

9 Does this number, 3.2 cents per piece, represent
10 the difference between the average cost and the average
11 revenue for parcels?

12 A It represents the average cost adjusted minus the
13 average revenues per piece.

14 Q If a surcharge of 3.2 cents were applied, would
15 this result in flats and parcels having the same cost
16 coverage?

17 A They would have the same contribution as flats,
18 but they would not have the same cost coverage.

19 Q Could you explain the difference?

20 A Contribution is a constant in this, or would be a
21 constant in this case, but you have a higher base on -- a
22 slightly higher base on the cost. So if you -- but you
23 never get down to that level of detail, in terms of the
24 contribution or the cost coverage, that's computed at the
25 subclass level, and the contributions in terms of dollars or

1 cents per piece would be the same for flats and parcels.

2 Q I probably should have said implicit cost coverage
3 or contribution, but just so I am sure I understand you, as
4 a result of applying a 3.2 cent per piece surcharge, the
5 implicit cost coverages for flats and parcels would be the
6 same as that; correct?

7 A The contribution would be the same.

8 Q In absolute terms?

9 A In absolute terms.

10 Q And you didn't investigate what the percentage
11 cost coverage would be then?

12 A I did not.

13 Q Thank you. Now I'd like to ask you some questions
14 about the application of costs incurred at non-MODS offices.
15 I understand that you have a disagreement with the Postal
16 Service's approach on this matter, but my questions to you
17 on this, except for purposes of discussing your opinion on
18 the matter, I simply want to ask you about the particular
19 methodology you chose to adjust Witness Crum's work to
20 account for your viewpoint regarding the non-MODS office's
21 analysis.

22 You say that on page 15 of your testimony, you
23 made one adjustment to account for your view on this. If I
24 am correct, the one adjustment you made was to use only the
25 data from BMCs and MODS' offices and to disregard the data

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1 from non-MODS offices; is that correct?

2 A I did not disregard it. It came into the
3 equations, but it came in in such a manner that it had no
4 impact on the per-unit cost difference between parcels and
5 flats in standard A mail. There's a big difference between
6 the two.

7 Q And what did you do with the data from non-MODS
8 offices?

9 A For non-MODS offices, the distribution key was per
10 piece.

11 Q If that's the case, then isn't that assuming that
12 shape has no influence on cost?

13 A That is correct. In that environment, because of
14 the problems with non -- the application of MODS system
15 average to the individual MODS pools, and that is
16 demonstrated in the Table C attached to my response to your
17 question T-1 on 33, dash 33.

18 Q Would you now look at your response to our
19 question 29, please. You said there that you couldn't
20 respond to our question without more information. I want to
21 ask the same thing a little differently, and ask you to make
22 some hypothetical assumptions.

23 Assume that it was universally agreed and the
24 Commission recognized that shape was the sole reason for a
25 cost difference between flats and parcels, and that weight

1 played no role; however, parcels weigh more on average than
2 flats, and the pound rate results in additional revenue from
3 parcels; and that additional revenue exactly equalled the
4 additional cost of parcels.

5 Given this hypothetical, would you oppose a
6 shape-based rate differential?

7 A Yes.

8 Q Would your answer be the same if the pound rate
9 were eliminated or reduced?

10 A If it were significantly reduced, then it would be
11 a different story. Let me make sure I understand where we
12 are going.

13 Q Sure.

14 A You're saying that if we have irrevocable proof
15 that the flat and the parcel, any difference in them is
16 strictly shape, then you go with the next assumption that
17 there is a weight difference, so you have destroyed your
18 hypothetical. There is a weight difference, it's a huge
19 difference.

20 Q But we are also assuming that the additional
21 revenue due to that equalled the difference in cost?

22 A But you have destroyed the initial hypothetical.

23 Q So the hypothetical was that shape was the sole
24 reason for the difference in cost, and I was asking whether
25 in that situation if you could reduce or eliminate the

1 effect of the pound rate, you would still oppose a
2 shape-based rate difference?

3 A No, I don't -- I'd like to hear that back, the
4 original question seems to have changed, or maybe it was my
5 understanding of it.

6 Q Okay, I'll try it again.

7 Everyone agrees that shape is the sole reason for
8 the cost difference between flats and parcels. However,
9 parcels do weigh more on average, and there was a pound rate
10 which resulted in additional revenue from parcels, but that
11 additional revenue equalled the difference in cost. In that
12 situation, I think you said you would still oppose a
13 shape-based rate differential, and so then I asked you if
14 your answer would be the same if the pound rate were reduced
15 or eliminated.

16 A As a logician -- I'm not a logician, but the logic
17 that I've had, you've changed the hypothetical in midstream
18 and you can't do that and expect me to answer consistently.

19 Q Perhaps what I should have said was that shape was
20 the sole difference -- the sole reason for the difference at
21 any given weight. Does that help you?

22 A At any given weight?

23 Q Yes.

24 A That would help.

25 Q Okay. And in that circumstance, would you oppose

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1 a shape-based rate differential, hypothetically?

2 A With the way the accounting has been done, I --
3 yes, I would, because it's -- I believe it's impossible,
4 with the data available, to break the two pieces apart.
5 They are confounded in the statistical sense.

6 Q Which is why I asked you to assume that, but
7 that's fair enough.

8 A You can't.

9 Q Thank you.

10 MR. REITER: That's all I have, Mr. Chairman.

11 Oh, maybe not.

12 CHAIRMAN GLEIMAN: Too late.

13 [Laughter.]

14 MR. WIGGINS: "Gotcha," I think is the technical
15 legal phrase, Mr. Chairman.

16 [Laughter.]

17 CHAIRMAN GLEIMAN: Mr. Reiter, we will give you
18 another chance, simply because you were willing to help Mr.
19 May with the additional designated recross.

20 MR. REITER: That's fair. Thank you.

21 BY MR. REITER:

22 Q All right, I'm going to try one more question on
23 the non-MODS offices, just to clarify.

24 I understand you said that you did not disregard
25 the non-MODS data, but if you had totally disregarded that

1 data, wouldn't you have come out the same place that you
2 did, anyway?

3 A That is correct.

4 Q And doesn't that mean, in effect, that for every 1
5 percent increase in volume, mail processing costs at
6 non-MODS offices go up zero? Isn't that essentially what
7 would be the effect of either disregarding the non-MODS data
8 or doing what you did, which has the same effect?

9 A Repeat the first part of the question, please.

10 Q Sure. As a result of your methodology, which I
11 think you just agreed has the exact same effect as if you
12 had disregarded the non-MODS costs, isn't that in essence
13 saying that if mail processing costs at non-MODS offices --
14 I'm sorry; that if you have a 1 percent increase of volume,
15 mail processing costs at non-MODS offices do not go up at
16 all?

17 A That is not so. The reason it has no impact is it
18 comes in at the same -- it being the MODS or non-MODS costs,
19 comes into each unit of flat and parcels at the same amount,
20 so that when you subtract one from the other, they cancel.
21 But the money is still there. So if you raise the level of
22 flats or the level of parcels in terms of volumes, you will
23 get an increase in the volume variable demand on those cost
24 pools.

25 Q Thank you.

1 MR. REITER: Now I have no more questions, Mr.
2 Chairman.

3 CHAIRMAN GLEIMAN: Nobody was counting, but that
4 was two more.

5 Is there any follow-up cross examination questions
6 from the bench? There doesn't appear to be any. That
7 brings us to redirect. Mr. Wiggins, would you like a couple
8 of minutes?

9 MR. WIGGINS: I have no redirect, Mr. Chairman.

10 CHAIRMAN GLEIMAN: If there is no redirect, then I
11 want to thank you, Dr. Andrew. We appreciate your
12 appearance here today and your contributions to our record.
13 If there is nothing further, you are excused.

14 [Witness excused.]

15 CHAIRMAN GLEIMAN: Our next witness is Dr. John
16 Stapert, who is appearing on behalf of the Coalition of
17 Religious Press Associations.

18 Mr. Feldman, if you would introduce your witness,
19 and then I will swear him in.

20 MR. FELDMAN: Thank you, Mr. Chairman. We are
21 calling Dr. John Stapert to the stand.

22 CHAIRMAN GLEIMAN: Dr. Staper, could I ask you to
23 raise your right hand? I feel funny when I do this to you;
24 I don't know why.

25 Whereupon,

1 DR. JOHN STAPERT,
2 a witness, was called for examination by counsel for the
3 Coalition of Religious Press Associations and, having been
4 first duly affirmed, was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. FELDMAN:

7 Q For the record, would you state your full name,
8 please.

9 A John Charles Stapert.

10 Q And Dr. Stapert, did you prepare a document
11 entitled Direct Testimony of Dr. John Stapert on Behalf of
12 the Coalition of Religious Press Associations?

13 A I did.

14 Q If you wrote that testimony today, would it be the
15 same?

16 A Yes, it would.

17 MR. FELDMAN: Mr. Chairman, I am then going to
18 hand the reporter two copies of a document of Dr. Stapert's
19 direct testimony, CRPA-T-1, and ask that it be transcribed
20 and entered into the record.

21 CHAIRMAN GLEIMAN: Are there any objections?
22 Hearing none, Dr. Stapert's testimony and exhibits are
23 received into evidence and I direct that they be transcribed
24 into the record at this point.

25 [Direct Testimony and Exhibits of

1 Dr. John Stapert, CRPA-T-1, was
2 received into evidence and
3 transcribed into the record.]
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CRPA-T-1

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

POSTAL RATE AND FEE CHANGES, 1997 : Docket No. R97-1

DIRECT TESTIMONY OF
DR. JOHN STAPERT
ON BEHALF OF
COALITION OF RELIGIOUS PRESS ASSOCIATIONS

COALITION OF RELIGIOUS PRESS ASSOCIATIONS

American Jewish Press Association
Associated Church Press
Association of State Baptist Papers
Catholic Press Association
Episcopal Communicators
Evangelical Press Association
General Commission on Communication, United Methodist Church
Seventh-day Adventist Publishers

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December 29, 1997

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1 AUTOBIOGRAPHICAL SKETCH
2

3 My name is John C. Stapert. On a half-time basis, I am executive director of the
4 Associated Church Press, a responsibility I have held since September 1990.

5 Prior to my work for the Associated Church Press, I served for seventeen years
6 as editor and publisher of *The Church Herald*, a magazine which serves the members of
7 the Reformed Church in America. I was also among the founding editors of *Perspec-*
8 *tives*, a theological journal established in 1986; I served that publication as managing
9 editor from 1986 - 1994. These two publications were (and remain) members of both
10 the Associated Church Press and the Evangelical Press Association.

11 Representing the religious press, I was a member of the United States Postal
12 Service's Mailers' Technical Advisory Committee (MTAC) from 1978 - 1990. I
13 brought testimony before the Postal Rate Commission on behalf of the Coalition of Re-
14 ligious Press Associations in R87-1, R90-1, R94-1, and MC95-1.

15 My education is that of a clergyman and a research psychologist, with subse-
16 quent study in clinical psychology. I earned a B.A. in psychology at Hope College in
17 Holland, Michigan, (1963), an M.Div. at Fuller Theological Seminary in Pasadena,
18 California, (1966), and M.A. and Ph.D. degrees in psychology at the University of Il-
19 linois (1968, 1969).

20 I have taught psychology at the college level, including the teaching of research
21 design and statistics. On a part-time basis, I worked in psychiatric medicine at the Psy-
22 chiatric-Medical Unit in Grand Rapids, Michigan, 1991 - 1994. In mid-1994 I relocated
23 to Arizona where I now maintain a part-time clinical practice in Scottsdale.

1 ||INTRODUCTION, SCOPE, AND PURPOSE

2 || My name is John C. Stapert, and I am the coordinator of the eight-member Coa-
3 ||lition of Religious Press Associations (CRPA). A brief autobiography accompanies this
4 ||testimony. CRPA is a broadly ecumenical and interfaith group whose members share a
5 ||commitment to contribute to the moral and ethical fiber of this nation. Appendix A
6 ||provides a summary of the postal activities of the associations which have come togeth-
7 ||er for the purpose of assisting the Commission in evaluating the proposed postal rates
8 ||for preferred-rate, Periodicals-class and Standard-A-class mailers.

9 || Taken individually, the periodicals in CRPA are small. More than half have cir-
10 ||culations of 20,000 or fewer. Three-quarters have circulations under 50,000. Despite
11 ||these small circulations, many CRPA periodicals seek to serve readerships spread
12 ||across the United States; this means thin distributions rather than dense distributions of
13 ||copies. Thus in many instances CRPA's members are not in a position to take advan-
14 ||tage of postal discounts designed for high-density periodicals.

15 || Yet the aggregate circulation of CRPA's member periodicals is substantial. The
16 ||American Jewish Press Association's periodicals reach 4.5 million readers. The Asso-
17 ||ciated Church Press's members have a combined, per-issue circulation in excess of 8.4
18 ||million. The Catholic Press Association's publications go to 26.5 subscribers. The
19 ||Evangelical Press Association's subscribers approximate 20 million. Southern Baptist
20 ||papers count a per-issue circulation of 1.7 million. The total yearly circulation of Sev-
21 ||enth Day Adventist periodicals is 46.2 million copies. Methodist conference papers'
22 ||aggregate circulations exceed 24 million pieces.

23 || The purposes of this testimony are (a) to represent the interests of the small,

1 || non-profit, periodicals mailer in the postal rate-setting proceedings, (b) to assist the
2 || Commission in understanding the impact of higher rates and deteriorating service on
3 || non-profit, Periodicals-class and Standard-A-class mailers, and (c) to call the Commis-
4 || sion's attention to serious concerns about the dependability of the Postal Service's data
5 || in the area of preferred-rate, Standard A mail.

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1 MAILING COST TRENDS FOR NON-PROFIT MAGAZINES AND NEWSPAPERS

2 The Commission is aware of the phasing schedule of annual postal-rate increases
3 for preferred-rate mailers. While the congressional action that created these increases
4 was taken totally apart from any Rate Commission action, nevertheless preferred-rate
5 mailers have experienced a rate increase each October 1 for several years. The reality
6 of this annual rate increment makes nonprofit mailers more financially vulnerable to
7 general postal-rate increases.

8 With the implementation in January 1996 of the Commission's recommendations
9 of MC95-1, preferred-rate mailers were required to prepare their mail according to the
10 then-new rules. Preferred-rate mailers did not become eligible for any of the MC95-1
11 rate discounts, however, until MC96-2 was settled and implemented six months later,
12 in July 1996.

13 These mail-classification developments caused confusion and cost money among
14 preferred-rate mailers. Some attempted to comply with mail-preparation requirements,
15 even though they were not initially eligible for appropriate discounts. Many searched
16 for computer software that would enable them to comply with mail-preparation re-
17 quirements, but no commercial-software vendor had an up-and-running system avail-
18 able. As a consequence, during the first nine [calendar] months of 1996, much of the
19 preferred-rate mail was entered at the basic-presort rate, which cost the mailers more in
20 postage.

21 Postal Service witness O'Hara, questioned for ABP by Mr. Strauss, acknowl-
22 edged that smaller-circulation periodicals experienced rate increases as a consequence
23 of MC95-1: "In terms of titles, I understand that probably the smaller titles, especially

1 || the titles that are not geographically concentrated, would have been more likely to be
2 || among the periodicals getting a rate increase" (Tr. @321).

3 || This left most religious periodicals in the worst of all mailers' positions after
4 || MC95-1. Encountering new mail-preparation requirements, they swallowed increased
5 || costs. But even those publications with distribution densities great enough to qualify for
6 || mail-preparation discounts did not receive those discounts until six months later, with
7 || the settlement of MC96-2.

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1 || **VALUE OF SERVICE**

2 || Criterion 2 for the setting of postal rates and fees is "the value of the mail serv-
3 || ice actually provided each class or type of mail service to both the sender and the re-
4 || cipient, including but not limited to the collection, mode of transportation, and priority
5 || of delivery;" (39 USCS § 3622).

6 || The Postal Service explicitly acknowledges in this proceeding that as service de-
7 || teriorates, the value of a periodical declines. USPS witness O'Hara, questioned by Mr.
8 || Bergin for McGraw-Hill, testified, "I suppose that if the level of service deteriorates
9 || that could have an effect on the economic value as it would show up in the price elastic-
10 || ity. People might not be as willing to retain their previous levels of usage or nearly
11 || their previous levels of usage after a rate increase if the service standard had fallen. So
12 || it certainly could show up in the economic value of service..." (Tr. @362-363).

13 || CRPA members have noted a distinct decline in the value of the Postal Service's
14 || service over the past few years. Some have suffered tangible harm as a consequence.

15 || In Catholic, Episcopalian, Jewish, Methodist, and Southern Baptist circles, a
16 || common vehicle for communication is the regionally mailed tabloid newspaper. Many
17 || of these papers are weeklies, with printing and mailing scheduled for delivery on Fri-
18 || day (Thursday for the Jewish papers). Saturday delivery (Friday for the Jewish papers)
19 || is acceptable. But Monday delivery the next week is not acceptable; the paper loses a
20 || substantial portion of its value if Bible studies (which are dated according to religious
21 || seasons and holidays) and schedules of local events do not arrive before the weekend.

22 || The *United Methodist Reporter* (UMR) in Dallas, Texas, prints local-edition pa-
23 || pers for many United Methodist conferences around the nation. Local editors prepare

1 ||the editorial material and send it to Dallas where the pages are assembled and the pa-
2 ||pers are printed. From Dallas, the papers are mailed in a timely fashion. But UMR has
3 ||suffered from deterioration of postal service. During 1997, its circulation manager
4 ||tracked those customers who called to complain about poor delivery of their papers.
5 ||This amounted to 19 percent of his customer base. UMR in turn set up subscriber-serv-
6 ||ice reporters in its major zip codes who would call their local editors and report when
7 ||they got delivery. UMR's tracking revealed only a 64 percent on-time delivery rate for
8 ||the customers who called. Furthermore, UMR lost its Bristol, Tennessee/Virginia cus-
9 ||tomer because the Postal Service could not get before-Sunday delivery to the Virginia
10 ||customers.

11 ||The Postal Service is requesting higher rates. But the value of the service actual-
12 ||ly provided to small-circulation, preferred-rate periodicals has declined. In face of this,
13 ||any rate increase for Periodicals-class mail should be kept to a minimum.

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1 || MAIL PROCESSING COSTS FOR PERIODICALS-CLASS

2 || The Postal Service's rate request is based, in part, on its tabulation of mail pro-
3 || cessing costs. As the testimony of MPA *et al* (including CRPA) witness Christopher M.
4 || Little makes clear, mail-processing costs are wildly out of control (MPA-T-1).

5 || ABP *et al* (including CRPA) witness Keith Crain echoes witness Little's testimo-
6 || ny. He calls attention to overestimated costs for handling periodicals. And he docu-
7 || ments the Postal Service's denial of any "automation refugee" problem.

8 But there is a problem. I join with witnesses Little and Crain in calling on the
9 || Commission to do what it can to urge the Postal Service to reverse its escalating mail-
10 || processing costs and to revise its method of assigning costs. (A return to the methodol-
11 || ogy used in R94-1 (by implication, R90-1) might be preferable to the methodology used
12 || in the instant case.)

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1 || UNTRUSTWORTHY DATA FOR STANDARD-A MAIL COSTS

2 Earlier in this testimony I referred to the period of confusion in the wake of re-
3 classification. Unfortunately, the Postal Service gathered rate-making data for non-
4 profit, Standard-A mail during this time period, making the data suspect.

5 The Postal Service was aware of this problem. USPS witness Talmo, being
6 cross-examined by Mr. Joel Thomas, representing ANM, agreed that the timing of
7 data-collection "might skew these figures" (Tr. @7930).

8 Admittedly, there is seldom an optimum time for collecting cost data for all
9 classes and subclasses of mail in the system. Postal Service witnesses must live with the
10 realities of a less-than-ideal set of real-life data. But the Commission should be aware
11 that flawed data may underlie the Service's rate request for non-profit, Standard-A
12 mail. CRPA is aware of studies and analyses being conducted by ANM witness Dr.
13 John Haldi which promise to shed light on this problem in more detail.

14 I urge the Commission to note the problematic nature of the Postal Service's
15 non-profit, Standard-A costs and to seek a more solid empirical foundation if any sig-
16 nificant rate increase is to be recommended.

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1 ||REVENUE REALITIES

2 ||As my autobiographical sketch mentions, I am a practicing clinical psychologist.
3 ||Sometimes in this capacity I meet people whose perception of reality is significantly
4 ||distorted. They carry unjustified fears, and they view life in gloom-and-doom terms.
5 ||One of best things I can do for them is to provide a dose of reality. Often, the therapeutic
6 ||value of this imposition of reality is considerable; the true realities are much less
7 ||awful than the imaginations of these patients.

8 ||In R97-1, the Postal Service's revenue requirement reminds me of such patients.
9 ||Despite forecasts to the contrary, the Postal Service enjoyed a large surplus in fiscal
10 ||1997. At the December 9, 1997, monthly meeting of the Postal Service Board of Governors
11 ||in Costa Mesa, California, the Postmaster General announced net income of
12 ||\$1.3 billion for the year. During the past three years, Mr. Runyon said, "we have improved
13 ||the equity of the Postal Service by \$4.7 billion..." (Source: *Postal News*, December 9, 1997, copy attached as Appendix B).

15 ||Two days later at a meeting of the Mailers Technical Advisory Committee,
16 ||Richard Porras, Postal Service Vice President-Comptroller, provided similar information
17 ||with more detail. The Postal Service's plan had called for a FY97 surplus of \$55
18 ||million, but the actual surplus was \$1.264 billion. Income had been underestimated,
19 ||and expenses had been overestimated in every category. Porras also reported that Postal
20 ||Service revenue is currently growing faster than expenses (3.08% vs. 3.03% per year).

21 ||CRPA is aware that under the Commission's understanding of the statutes, the
22 ||Postal Service has the exclusive right to determine its revenue requirement. But CRPA
23 ||encourages the Commission to prompt disclosure, on the record, of the Postal Service's

1 || rapidly improving financial health and of the Service's prospect—even under current
2 || rates—for continued robust surpluses.

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1 APPENDIX A

2 DESCRIPTION OF COALITION MEMBERSHIPS
3 COALITION OF RELIGIOUS PRESS ASSOCIATIONS (CRPA)

5 **American Jewish Press Association**

6 The American Jewish Press Association (AJPA) represents more than 175 mem-
7 ber periodicals with a combined readership of 4.5 million. Between 65 and 70 percent
8 of AJPA's members are not-for-profit, and they send their periodicals as Periodicals-
9 class, preferred-rate mail.

10

11 **Associated Church Press**

12 The Associated Church Press (ACP) has 157¹ member periodicals located in
13 thirty-three states and the District of Columbia. Their combined per-issue circulation
14 exceeds 8.4 million. ACP member periodicals produce 130,000,000 issues per year.
15 Fully 60 percent of the ACP's members have circulations of 16,500 or fewer, and an
16 additional 22 percent have circulations between 16,500 and 50,000 per issue. Thus,
17 although a few ACP members have large circulations, more than 82 percent of the
18 ACP's member periodicals have circulations of 50,000 or fewer. All but a few ACP
19 members are not-for-profit. The ACP's members are primarily magazines and newspa-
20 pers that use Periodicals-class mail, but some members use Standard A mail—both at
21 preferred rates.

22

23 1. One member, a news service with 20,000,000 subscribers—mostly electronic—has been excluded from the
24 ACP's figures because its use of the Postal Service is relatively small and because the inclusion of its data signifi-
 cantly distorts the general picture of ACP members.

1 || **Association of State Baptist Papers**

2 || The Association of State Baptist Papers (ASBP) consists of thirty-nine Baptist
3 || state papers ranging in circulation from 2,000 to nearly 300,000 and with a combined
4 || per-issue circulation of 1.7 million. Most of these papers are weeklies. Twenty-two of
5 || the thirty-nine have circulations of 20,000 or fewer. The average circulation is between
6 || 40,000 - 45,000 per issue. ASBP publications place nearly 80,000,000 copies of their
7 || newspapers the mail stream each year, all at nonprofit rates in Periodicals or Standard-
8 || A class. These Baptist papers are the principal means through which more than 14 mil-
9 || lion Southern Baptist Church members are informed of their mission work and benev-
10 || olent ministries.

11 ||
12 || **Catholic Press Association**

13 || The Catholic Press Association (CPA) includes some 600 Catholic newspapers,
14 || magazines, and newsletters in the United States with a combined per-issue circulation
15 || of 24.3 million. The average circulation per publication is just under 43,000 per issue.
16 || Almost all CPA members are not-for-profit. Many of the CPA's newspaper-members
17 || are diocesan (locally circulated), but most of the CPA's 250 U.S. magazines are mailed
18 || nationwide.

19 ||
20 || **Evangelical Press Association**

21 || The Evangelical Press Association (EPA) consists of approximately 300 member
22 || periodicals and 100 individual writers. The periodicals have a combined, per-issue cir-
23 || culation of approximately 20 million. EPA members are located in thirty-five states and

1 ||the District of Columbia. The EPA's circulation profiles resemble those of other religi-
2 ||ous press associations: Well over half have circulations of 20,000 or fewer per issue;
3 ||three-quarters have circulations of 50,000 or fewer. All but a few EPA members are
4 ||not-for-profit. Its members primarily use Periodicals-class mail, but some members use
5 ||Standard A-class—both at preferred rates.

6

7 ||**Episcopal Communicators**

8 The Episcopal Communicators Association's membership is 178 individuals,
9 most of whom are editors, writers, or public-information officers of various Episcopal
10 dioceses or institutions. Their publications are all not-for-profit and use either Periodi-
11 cals- or Standard-A-class mail.

12

13 ||**Seventh Day Adventist Press**

14 The Seventh-day Adventist Publishers (SAP) are comprised of two North Amer-
15 ican facilities: Review and Herald Publishing Association in Hagerstown, Maryland,
16 and Pacific Press Publishing Association in Nampa, Idaho. They jointly produce sixty-
17 five Adventist periodicals. The most prominent publications are the *Adventist Review*
18 with a weekly circulation of 45,000 (mailed Periodicals class) and an additional month-
19 ly distribution of 300,000 (mailed Standard A class); *Signs of the Times* with a monthly
20 circulation of 216,000; *Liberty* magazine with a bimonthly circulation of 300,000; and
21 *Ministry*, which is mailed monthly to 16,000 Adventist clergy and additionally to
22 70,000 non-Adventist clergy bimonthly. The total yearly circulation of SAP periodicals
23 is 46.2 million copies; 39.5 million are mailed Periodicals class and 6.7 million are

1 || mailed Standard A class, and all qualify for preferred rates.

2 ||

3 || **United Methodist Church, Commission on Communication**

4 The United Methodist Church's Commission on Communication produces the In-
5 interpreter, mailed eight times annually to 280,000 United Methodists; it goes to all pas-
6 tors and to key lay people in all fifty states and the District of Columbia. El Interprete,
7 a Spanish-language publication, goes to 4,500 Methodist homes six times a year. A Ko-
8 rean-language publication circulates six times a year to 4,500 households. These and
9 other Methodist materials are produced in and mailed from Nashville, Tennessee, the
10 denomination's headquarters.

11 The United Methodist Commission on Communication also represents some 60
12 annual conference (i.e. geographically regional) publications whose circulations range
13 from 2,500 to 45,000. Publication frequencies range from weekly to monthly, but the
14 combined annual volume of these regional Methodist publications exceeds 24 million
15 pieces.

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POSTAL NEWS

December 9, 1997

FCR IMMEDIATE RELEASE
Contact: Roy Betts
(202) 268-3207
Release No. 128
Internet: <http://www.usps.gov>

POSTMASTER GENERAL MARVIN RUNYON PROCLAIMS 1997 ANOTHER BANNER YEAR: ANNOUNCES COMPREHENSIVE HOLIDAY MAILING PLANS

COSTA MESA, Calif. — Postmaster General Marvin Runyon today made it official: The U.S. Postal Service's net income for Fiscal Year 1997 was \$1.3 billion, representing the third year in a row that the agency has exceeded the billion-dollar mark.

"During these past three years, we have improved the equity of the Postal Service by \$4.7 billion, while substantially increasing capital investment in the future of the mail," Runyon said in remarks at the monthly meeting of the Postal Service Board of Governors held in Costa Mesa. "We are looking forward to continued success this year."

Runyon credited postal employees across the nation for the Postal Service's success. "They have raised the bar on service, held the line on expenses, and met every challenge with grace and professionalism."

Runyon also outlined an aggressive plan to move the millions of letters during the holiday season. Runyon said it was "one of the most comprehensive holiday plans" in the Postal Service's history.

"Unique to this holiday mailing season, many mailers, taking a lesson from the strike against UPS, now recognize the importance of diversifying their mailings," Runyon said. "They have shifted portions of their business to the Postal Service, and we are paying close attention to meeting their expectations."

Runyon noted that the Postal Service has activated its computerized 24-hour National Operations Center, which is linked to similar facilities at all ten postal area offices. The center can track transportation, weather conditions, and the flow of mail across the nation during the busiest time of year for the Postal Service.

-more-

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The Postal Service projects that Americans will mail more than 5 billion cards and letters this month, a 2.5 percent increase over last year. On average, the Postal Service receives about 95 million cards and letters a day during the fall. This month, that figure is expected to rise to 150 million a day.

The busiest mail day this holiday season is expected to fall on Monday, December 15, when the Postal Service expects to cancel some 280 million letters.

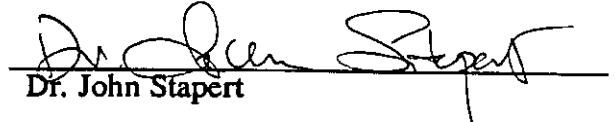
To handle the increased mail volume, a special transportation network has been created with 100 additional leased aircraft to fly Priority Mail and Express Mail shipments during the two weeks before Christmas. More than three-quarters of a million square feet of additional work space has been added across the country to handle parcels and large mailings. And, the Postal Service is hiring more than 40,000 seasonal workers to keep service levels high.

Runyon indicated that more than 25 million Americans will visit post offices during the first three and a half weeks of this month. "To ensure that household customers are well-served, the Postal Service is extending office hours in thousands of locations across the country," he said.

-30-

DECLARATION

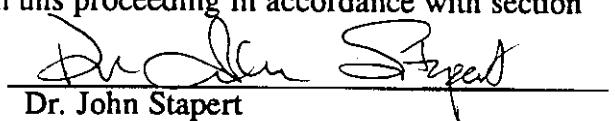
I declare under penalty of perjury that the foregoing is true and correct. Executed on December 29, 1997.



Dr. John Stapert

CERTIFICATE OF SERVICE

I hereby certify that I have this 29th day of December, 1997, served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Dr. John Stapert

1 CHAIRMAN GLEIMAN: Dr. Stapert, have you had an
2 opportunity to examine the packet of designated written
3 cross examination that was made available earlier today?

4 THE WITNESS: Yes, I have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if the questions were asked
6 of you today, would your answers be the same as those you
7 previously provided in writing?

8 THE WITNESS: They would be the same.

9 CHAIRMAN GLEIMAN: That being the case, I am going
10 to provide two copies of the designated written cross
11 examination to the reporter, and ask that they be -- direct
12 that they be accepted into evidence and transcribed into the
13 record at this point.

14 [Designation of Written
15 Cross-Examination of Dr. John
16 Stapert, CRPA-T-1, was received
17 into evidence and transcribed into
18 the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

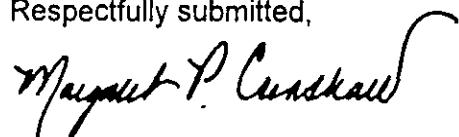
Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF COALITION OF RELIGIOUS PRESS ASSOCIATIONS
WITNESS DR. JOHN STAPERT
(CRPA-T1)

<u>Party</u>	<u>Interrogatories</u>
United States Postal Service	USPS/CRPA-T1-1-3, 8-12

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
WITNESS DR. JOHN STAPERT (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/CRPA-T1-1

USPS/CRPA-T1-2

USPS/CRPA-T1-3

USPS/CRPA-T1-8

USPS/CRPA-T1-9

USPS/CRPA-T1-10

USPS/CRPA-T1-11

USPS/CRPA-T1-12

Designating Parties:

USPS

USPS

USPS

USPS

USPS

USPS

USPS

**RESPONSES OF COALITION OF RELIGIOUS PRESS ASSOCIATIONS
WITNESS STAPERT TO INTERROGATORIES OF THE
UNITED STATES POSTAL SERVICE
(USPS/CRPA-T1-1-3)**

USPS/CRPA-T1-1

Please refer to page 10, line 12 where you quote PMG Runyon's statement that "over the past three years 'we have improved the equity of the Postal Service by \$4.7 billion'. Also refer to the financial statements in the 1997 Annual Report of the United States Postal Service, a copy of which is attached.

- (a) Confirm that despite recent improvements, the level of the Postal Service's equity (net capital deficiency) remained negative as of the end of FY 1997 at a minus \$1.4 billion. If you do not confirm please explain you (sic) answer.
- (b) Please provide your understanding of negative equity.

Response:

- (a) Confirmed that, according to the financial documents provided with the interrogatory, the Postal Service's recent financial improvements reduced its negative equity (net capital deficiency) to a level of approximately \$1.4 billion at the end of FY 1997.
- (b) My understanding of this negative equity is that the past three years of healthy operational surpluses have nearly eliminated debts that have accumulated over a period of some twenty years.

USPS/CRPA-T1-2

On page 10, line 15 of your testimony you contrast the \$55 million net income that was reflected in the Postal Service's FY 97 plan to the actual FY 97 income of \$1.3 billion. You also state on line 18 that "income had been underestimated, and expenses had been overestimated in every category" and that "Porras also reported that Postal Service revenue is currently growing faster than expenses (3.08% vs. 3.03% per year)." Please also refer to the Testimony of William P. Tayman, Exhibit USPS-T-9A, and the responses of witnesses Tayman and McDonald to DMA/USPS-T9-27.

- (a) Please confirm that the FY 97 net income estimated by the Postal Service in this

Docket was \$636 million, not \$55 million. If you do not confirm please explain fully.

(b) Please confirm that a discussion of the variances from the FY 97 \$636 million net income estimated in this Docket is more relevant to this rate proceeding than to the FY 97 variance from the \$55 million plan. If you do not confirm please explain why?

(c) Please provide a copy of the source of your statement on page 10 line 19 that "Postal Service revenue is currently growing faster than expenses (3.08% vs. 3.03% per year. Please confirm that as reflected in the 1997 Annual Report of the United States Postal Service, operating expenses grew faster (3.3%) than operating revenue (3.2%). If you do not confirm please explain why?

(d) Please confirm that as reflected in the 1997 Annual Report of the United States Postal Service, total expenses (\$57.067 billion versus \$54.977 billion) grew by 3.8% and total revenue (\$58.331 billion versus \$56.544 billion) grew by 3.2%. If you do not confirm please explain why?

(e) Have you analyzed the causes of the difference between the FY 97 estimated net income used in this Docket and actual FY 97 income? If your answer is yes please discuss the major difference and provide the results of your analysis.

(f) Is it possible that some of the differences between FY 97 actual net income and the estimate used by the Postal Service in this Docket may not carry forward into the test year requirement was developed? (i.e. may not impact test year net income)? If your answer is other than yes, please explain why?

(f) Please confirm that in their responses to DMA/USPS-T9-27, witnesses Tayman and McDonald identified several significant variances which favorably impacted FY 97 results which will not impact the test year. If you do not confirm please explain your answer fully.

Response:

(a) True, the FY 97 net income estimated by the Postal Service in this Docket was \$636 million, which is higher than the Postal Service's FY 97 plan of \$55 million, but which is only about half of the actual, publicly reported outcome of \$1.3 billion.

(b) Both the variance from the FY 97 \$636 million net income estimated in this Docket and the variance from the Postal Service's \$55 million plan may be relevant to this rate proceeding. The absolute value of the net income is relevant as well. In any

event, the actual FY 97 outcome of \$1.3 billion net income exceeded both the estimate provided for this proceeding and the Postal Service's plan.

(c) I have no copy of a document to provide. The representation that Postal Service income is growing faster than expenses was based on public statements made orally at the Mailers' Technical Advisory Committee (MTAC) meeting on December 11, 1997, by Richard Porras, Postal Service Vice President-Comptroller. However, the Postal Service indicated at that MTAC meeting that Mr. Porras's overhead transparencies would be attached to the *minutes* of that meeting. When those *minutes* with the transparencies become available I would be happy to provide a copy.

(d) While according to the Statement of Operations provided with the interrogatory total expenses (\$57.067 billion versus \$54,977 billion) grew by 3.8%, I note that operating expenses (\$54.873 billion versus \$53.113 billion) grew by just over 3.3%. A significant contributing element in the Postal Service's total (rather than operating) expenses was \$258 million in POD workers' compensation expense. Unfortunately, the explanatory "Note 3" which might shed light on the nature of this expense was not included with the Statement of Operations provided with the interrogatory.

Total revenue, again according to the Statement of Operations provided with the interrogatory (\$58.331 billion versus \$56.544 billion), grew by 3.2%. This percentage would be fractionally higher if one attended specifically to operating income (rather than total income).

(e) No.

(f) This subpart of the interrogatory seems garbled. But in principle it seems possible that some of the differences between FY 97 actual net income and the estimate used

by the Postal Service in this Docket may not carry forward into the test year requirement.

(g) Let us agree that this second "sub-part (f)" should be identified as sub-part (g).

Confirmed.

CRPA
USPS/~~NEES~~-T2-3

On page 10, line 21 of your testimony you state that "CRPA is aware that under the Commission's understanding of the statutes, the Postal Service has the exclusive right to determine its revenue requirement". Please state whether this awareness is based on any source other than the Commission's written opinions and recommended decisions.

Response:

I do not understand the alpha-numerical label at the head of this interrogatory, but I recognize the quotation from my testimony, CRPA-T1.

The awareness derives from a general understanding of the Commission's written opinions and recommended decisions, and not from any other source.

USPS/CRPA-T1-8. Please refer to your testimony at page 2, line 23 through page 3, lines 1-5. You state that one of the purposes of your testimony is "to assist the Commission in understanding the impact of higher rates and deteriorating service on non-profit, Periodicals-class and Standard-A-class mailers...." Please also refer to page 6, lines 13-14: "CRPA members have noted a distinct decline in the value of the Postal Service's service over the past few years. Some have suffered tangible harm as a consequence." Besides the single example given in your testimony of United Methodist Reporter, do you have any quantified documentation, other than anecdotal, of decline in service for religious periodicals? Identify all communications received from your members relating poor service, including date, time, and form of communication.

Response:

My testimony was based upon anecdotal evidence, widespread among religious periodicals, but unfortunately not accompanied by date-and-time information. The form of communication has typically been oral, occurring at conferences and conventions of religious press associations. Some oral reports have reached me via telephone. The experience of religious periodicals seems comparable to that of ABP, McGraw-Hill, and NNA members, who have also testified to inconsistent service.

USPS/CRPA-T1-9. Please refer to your testimony at page 7, lines 11-13: "The Postal Service is requesting higher rates. But the value of service actually provided to small-circulation, preferred-rate periodicals has declined. In face of this, any rate increase for Periodicals-class mail should be kept to a minimum."

- (a) Please confirm that the value of service is only one consideration in setting rates.
- (b) Please confirm that the level of attributable costs must also be considered in setting periodical rates before the remaining eight pricing criteria can be applied.

Response:

- (a) Confirmed.
- (b) Confirmed, with the caveat that "the level of attributable cost" is not the absolute beginning-point for postal rates. The Postal Service's costing methodology plays a role in the process of rate-setting as well. And in the instant docket, the costing methodology is being challenged.

USPS/CRPA-T1-10. Please refer to your testimony at page 8, lines 2-10. After suggesting there is a problem with mail processing costs, you state, parenthetically: "(A return to the methodology used in R94-1 (by implication, R90-1) might be preferable to the methodology used in the instant case.)" Do you have any objective scientific data which would demonstrate the superiority of the previous costing methodology over the proposed methodology, or is your statement based on your understandable desire to retain a previous methodology that had a more favorable result with regard to small-circulation periodicals?

Response:

Not being an economist, I cannot offer the type of data ("objective, scientific") which you request. My concerns over the calculation of mail-processing costs arise from the surprisingly and inexplicably large rise in such costs, together with a decline in productivity.

USPS/CRPA-T1-11. Please refer to your response to USPS/CRPA-T1-1b and the testimony of William P. Tayman, Exhibit USPS 9L.

- (a) Confirm that equity was positive as recently as FY 1987 and that most of the negative equity to which you have referred accumulated over the five year period FY 90-94, not over the past 20 years as you stated.
- (b) Please confirm that a negative equity of \$1.4 billion means that the Postal Service's liabilities are greater than its assets by that amount. If you do not confirm please explain your answer. When reviewing the financial statements of a business or other entity such as the Postal Service, would you consider negative equity to be an indicator of financial health or weakness? Please explain your answer fully.

Response:

- (a) Confirmed.
- (b) Confirmed. I consider both the absolute amount of negative equity and the trend of negative equity (whether it is growing or shrinking) to be relevant indices. Both positive equity and positive changes in equity suggest business health, whereas negative equity or a negative change in equity suggests weakness.

USPS/CRPA-T1-12. Please refer to your response to USPS/CRPA-T1-2. Part (b) of that interrogatory asked you to confirm that the variances from the FY 97 \$636 million net income estimated in this Docket are more relevant to this rate proceeding than variances from the FY 97 \$55 million plan. You answered that both variances may be relevant but did not answer the question as to their relative value. Please confirm that variances from the rate case estimate of \$636 million net income would be more relevant to this proceeding than variances from the plan. If you do not confirm please why (sic) explain why.

Response:

Within the context of this proceeding, variances from the rate-case estimate of \$636 million FY 97 net income are more relevant than are variances from the Postal Service's FY 97 plan of \$55 million net income. However, at some point the activities of this proceeding must engage the realities of actual Postal Service financial activity and experience. My purpose in citing the Postal Service's highly favorable financial experience in FY 97, relative to its FY 97 plan, was to foster an engagement with that reality.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross examination for Witness Stapert?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that moves us along to
5 oral cross examination, and it appears that no one has
6 requested oral cross examination. Is there anyone who
7 hasn't requested it previously who wishes to cross examine
8 today?

9 [No response.]

10 CHAIRMAN GLEIMAN: There doesn't appear to be any
11 questions from the bench. No cross examination, no
12 questions from the bench, can't be any redirect. And, Dr.
13 Stapert, we want to thank you. We appreciate your
14 appearance here today, and your contributions to the record,
15 and if there is nothing further, you are excused, sir.

16 THE WITNESS: Thank you.

17 [Witness excused.]

18 CHAIRMAN GLEIMAN: I think before we call our next
19 witness, who will be Dr. Haldi, representing the Alliance of
20 Non-Profit Mailers, we will take 10 and then we will try and
21 run straight through and see how long we can -- how early we
22 can finish up today.

23 [Recess.]

24 CHAIRMAN GLEIMAN: Our last witness today I think,
25 hope, is Dr. John Haldi, presenting testimony on behalf of

1 the Alliance of Non-Profit Mailers. Dr. Haldi is already
2 under oath in these proceedings. Mr. Levy, if you want to
3 proceed with his testimony.

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

5 Whereupon,

6 DR. JOHN HALDI,
7 a witness, was called for examination by counsel for the
8 Alliance of Non-Profit Mailers and, having been previously
9 duly sworn, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. LEVY:

12 Q Dr. Haldi, are you the same individual whose name
13 appears on a document marked ANM-T-1 bearing a date of
14 December 30th, 1997?

15 A Yes, I am.

16 Q Is that, in fact, your prefilled testimony
17 concerning rates for non-profit Standard A mail for the
18 Alliance of Non-Profit Mailers?

19 A It is, subject to some errata which have been
20 filed.

21 Q Do you have two copies of ANM-T-1 before you?

22 A Yes, I do.

23 Q Have you had a chance to review them?

24 A Yes, I have.

25 Q Do you have any changes you wish to call to the

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1 Commission's attention compared to the versions that were
2 originally filed?

3 A Yes, I do.

4 Q Would you please recite them.

5 A Yes, I will, please.

6 At page 41, the first change I would make -- note
7 is not even in the errata, which I believe have been passed
8 out but not circulated to the whole list, on line 2, strike
9 the words in line 2 of page 41 that say "this testimony" and
10 substitute the words "my revised Exhibit 1." Then on line
11 2, strike the number 49 and substitute the number 108.
12 That's also on line 2. On line 4, strike the number 11 and
13 insert the number 31. On line 6, strike the number 20 and
14 insert the number 49 in lieu thereof. On line 8, also on
15 line 10, change the number 18 to the number 29. On line 11,
16 change the number 5 to the number 13. And that's all the
17 changes on page 41, and those changes reflect the revised
18 Exhibit 1 which was submitted on February the 9th of this
19 year.

20 Then on page 46, there's a small change to lines
21 12 and 13. Where it did read "all the different modes of
22 Postal transportation: air, highway, rail and water,"
23 change it to read "all the different modes of Postal
24 transportation except water; i.e. air, highway and rail."
25 And that change conforms to a previously filed interrogatory

1 response.

2 Those changes have all been made in the two copies
3 of the testimony I have before me.

4 Q With those changes, do you adopt the two copies of
5 ANM-T-1 that you have before you as your testimony?

6 A Yes, I do.

7 Q Was that document prepared by you or under your
8 supervision?

9 A Yes, it was.

10 MR. LEVY: Mr. Chairman, with that, I would hand
11 the two copies of ANM-T-1 to the reporter and ask that they
12 be transcribed into the record and admitted into evidence.

13 CHAIRMAN GLEIMAN: Are there any objections?

14 [No response.]

15 CHAIRMAN GLEIMAN: Hearing none, Dr. Haldi's
16 testimony and exhibits are received into evidence and I
17 direct that they be transcribed into the record at this
18 point.

19 [Direct Testimony and Exhibits of
20 Dr. John Haldi, ANM-T-1, was
21 received into evidence and
22 transcribed into the record.]

23

24

25

ANM-T-1

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

POSTAL RATE AND FEE CHANGES, 1997) Docket No. R97-1

TESTIMONY OF
DR. JOHN HALDI
CONCERNING RATES FOR NONPROFIT STANDARD MAIL (A)
ON BEHALF OF
ALLIANCE OF NONPROFIT MAILERS

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Nonprofit Mailers

December 30, 1997

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1

AUTOBIOGRAPHICAL SKETCH

2 My name is John Haldi. I am President of Haldi Associates, Inc., an
3 economic and management consulting firm with offices at 680 Fifth
4 Avenue, New York, New York 10019. My consulting experience has
5 covered a wide variety of areas for government, business and private
6 organizations, including testimony before Congress and state legislatures.

7 In 1952, I received a Bachelor of Arts degree from Emory
8 University, with a major in mathematics and a minor in economics. In 1957
9 and 1959, respectively, I received an M.A. and a Ph.D. in economics from
10 Stanford University.

11 From 1958 to 1965, I was assistant professor at the Stanford
12 University Graduate School of Business. In 1966 and 1967, I was Chief of
13 the Program Evaluation Staff, U.S. Bureau of Budget. While there, I was
14 responsible for overseeing implementation of the Planning-Programing-
15 Budgeting (PPB) system in all non-defense agencies of the federal
16 government. During 1966 I also served as Acting Director, Office of
17 Planning, United States Post Office Department. I was responsible for
18 establishing the Office of Planning under Postmaster General Lawrence

1 O'Brien. I established an initial research program, and screened and hired
2 the initial staff.

3 I have written numerous articles, published consulting studies, and
4 co-authored one book. Included among those publications are (i) an article
5 "The Value of Output of the Post Office Department," which appeared in
6 *The Analysis of Public Output* (1970); (ii) a book, *Postal Monopoly: An*
7 *Assessment of the Private Express Statutes*, published by the American
8 Enterprise Institute for Public Policy Research (1974); (iii) an article,
9 "Measuring Performance in Mail Delivery," in *Regulation and the Nature*
10 *of Postal Delivery Services* (1992); and (iv) an article "Cost and Returns
11 from Delivery to Sparsely Settled Rural Areas" in *Managing Change in the*
12 *Postal and Delivery Industries* (1997; with L. Merewitz).

13 I have testified as a witness before the Postal Rate Commission in
14 Docket Nos. MC96-3, MC95-1, R94-1, SS91-1, R90-1, SS86-1, R84-1,
15 R80-1, MC78-2 and R77-1. I also have submitted comments in Docket No.
16 RM91-1.

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PURPOSE AND SUMMARY OF TESTIMONY

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The purpose of this testimony is to analyze the unusually large
increase in the average cost of nonprofit non-ECR mail that the Postal
Service (i) contends occurred between FY95 and FY96, (ii) carries forward
to the Test Year in this case, and (iii) reflects in extraordinarily large rate
increases for several rate categories of nonprofit mail.

7

In Section I, I show that the Postal Service has proposed
disproportionate rate increases for nonprofit non-ECR mail, compared with
the corresponding commercial rate category, and that the disparity is due to
differences in costs attributed by the Postal Service to nonprofit and
commercial mail.

12

In Section II, I show that these disparities in reported costs cannot be
explained by trends in presort condition, shape, automation, dropship entry,
weight, or any other cost-causing characteristic of nonprofit mail since the
last omnibus rate case.

16

In Section III, I discuss the likelihood, covered in more detail in the
separate testimony of Time/Warner witness Halstein Stralberg, that the
labor costs attributed by the Postal Service to nonprofit mail may be

1 inflated by the phenomenon of “automation refugees” — workers rendered
2 surplus by automation, but remaining on the Postal Service payroll and
3 reassigned to manual operations.

4 In Section IV, I identify several nonsensical IOCS tallies for
5 Nonprofit Standard (A) Mail, and explain why these obviously erroneous
6 tallies cast doubt on the integrity of the overall IOCS system, and should be
7 eliminated from the nonprofit cost base.

8 In Section V, I explain why the Postal Service’s failure to calibrate
9 or synchronize its cost and volume data has inflated the unit cost
10 attributable to nonprofit Standard (A) Mail. Specifically, a significant
11 volume of the Standard (A) mail for which nonprofit mailers pay
12 commercial rates appears to be reported in the RPW system as commercial
13 mail, but reported in the IOCS system as nonprofit mail. I also explain how
14 the Commission should correct for this error.

15 Finally, in Section VI, I explain why the TRACS system tends to
16 attribute an inflated share of the costs of purchased transportation to
17 nonprofit mail, and how the Commission can mitigate this error.

1

I. INTRODUCTION

2 **The Disproportionately Large Rate Increases** 3 **Proposed for Nonprofit Regular Mail**

4 In this docket, the Postal Service has proposed rates for Nonprofit
5 Standard Mail (A) Regular (Bulk Nonprofit ("BNP") Other) mail that
6 increase sharply, while proposing only a small overall increase in rates for
7 the corresponding commercial rate subclass (Standard Mail (A) Regular,
8 former Bulk Regular Rate ("BRR") Other).¹ The letter rates proposed by
9 the Postal Service for Standard Mail (A) Regular illustrate the deviation
10 between nonprofit and commercial rates in this docket. As can be seen
11 from Table 1, letter rates within the Presort Category exhibit the sharpest
12 contrast; Nonprofit Standard Mail (A) Regular letters up 19 percent,
13 Standard Mail (A) Regular letters down slightly. On a percentage basis,
14 the changes in rates proposed for Automation letters, a fairly homogeneous
15 category, also deviate significantly (except for carrier route automation
16 letters).

¹ At the same time, the Postal Service proposes downward revisions for Nonprofit ECR rates, while rates proposed for the commercial rate ECR subclass increase modestly.

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Table 1

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Standard Mail (A) Regular
Postal Service Proposed Letter Rates

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7

NONPROFIT RATE COMMERCIAL RATE

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PRESORT CATEGORY

	Old Step 6	New Step 6	Percent Change	Existing	Proposed	Percent Change
Basic Presort Letter	13.8	16.5	19.57%	25.6	24.7	-3.52%
3/5 Presort Letter	12.0	14.3	19.17%	20.9	20.9	0.00%

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AUTOMATION CATEGORY

Basic Auto Letter	10.5	12.4	18.10%	18.3	18.9	3.28%
3-digit Auto Letter	10.1	11.2	10.89%	17.5	17.6	0.57%
5-digit Auto Letter	8.8	9.5	7.95%	15.5	16.0	3.23%
Cr Rte Auto Letter	8.5	9.2	8.24%	14.6	15.7	7.53%

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**The Cause Of the Disproportionate Rate Increases:
Disproportionate Increases in Attributable
Costs Reported By the Postal Service**

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22
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Markups. Under the Revenue Forgone Reform Act, the markup on each Nonprofit Standard Mail (A) subclass is set at one-half the markup of the corresponding Standard Mail (A) subclass. Consequently, when proposed Nonprofit Standard Mail (A) rates deviate from the corresponding Standard Mail (A) rate category, it follows that the deviation is not caused by differential treatment with respect to the markup.

26
27

Costs. In theory, a deviation in direction and magnitude of proposed changes in the Standard Mail (A) rates and the Nonprofit Standard Mail (A)

1 rates should reflect an underlying deviation in costs, and in FY96,
2 nonprofit costs did indeed show an abnormal increase. This is confirmed
3 by the data in Table 2, which show average unit costs for Standard Mail (A)
4 and Nonprofit Standard Mail (A) Regular (formerly third-class bulk) since
5 1992.

6 In Table 2, the most critical comparisons for purposes of this
7 testimony are between columns 1 and 2, and for FY95 and FY96. From
8 FY95 to FY96, the unit cost for Bulk Regular Rate (BRR), "other" (the
9 predecessor to Standard Mail (A) Regular) declined modestly, by 0.1 cent.²
10 At the same time, from FY95 to FY96 the unit cost for Bulk Nonprofit
11 (BNP) "other" (the predecessor to Nonprofit Standard Mail (A) Regular)
12 increased by an abnormally large amount, 0.8 cent.³ Considered together,
13 these two changes narrowed the difference in unit cost between BRR
14 "other" and BNP "other" by 0.9 cents.

15 FY96 was unusual in the following respect. From FY92 through
16 FY95, whenever the average unit cost for BRR "other" increased or
17 decreased, the unit cost of BNP "other" also increased or decreased,

² This small decline is reflected by the modest proposed changes in rates for Standard Mail (A) Regular shown in Table 1.

³ The 0.8 cent increase in unit cost represented an increase of almost 8 percent in one year. As can be seen from Table 1, some of the proposed letter rates magnify this increase in unit cost.

1 whereas in FY96 the unit cost for BRR "other" decreased slightly while
2 BNP "other" skyrocketed upward.

3 The unusually large increase in unit costs in FY96 carries through to
4 Base Year 1996, which is then rolled forward to Test Year 1998. That is,
5 the relationship between Nonprofit Standard Mail (A) Regular and Standard
6 Mail (A) Regular rates is preserved more or less unaltered by the
7 transformations that take place in the Postal Service models. This
8 testimony focuses, therefore, on the extraordinary increase in the unit cost
9 of BNP "other" mail between FY95 and FY96, both in absolute amount and
10 in comparison to BRR "other."

1

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Table 2

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Third Class/Standard Mail (A)
Average Unit Cost
(cents)

6

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Fiscal Year	BRR <u>Other</u> (1)	BNP <u>Other</u> (2)	BRR Carrier <u>Route</u> (3)	BNP Carrier <u>Route</u> (4)
1992	15.3	10.8	6.9	5.0
1993	14.6	10.4	6.1	4.9
1994	14.2	10.2	6.1	4.5
1995	14.7	10.4	6.4	4.4
1996	14.6	11.2	6.4	4.8

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Source: USPS, Cost and Revenue
Analysis Report, Statistics by Class
of Mail, p. 12.

1 **II. THE INABILITY OF CHANGES IN THE PROFILE**
2 **OF STANDARD MAIL (A) OTHER, 1995-1996 TO**
3 **EXPLAIN THE REPORTED INCREASE IN**
4 **ATTRIBUTABLE COSTS**

5 As a first step, the profile of Nonprofit Standard Mail (A) was
6 investigated, to ascertain whether any significant changes had occurred in
7 the mix; *i.e.*, to see whether an influx of more expensive, difficult-to-handle
8 pieces might have caused the unit cost to increase. In addition, changes in
9 the profile of Standard Mail (A) Regular were examined to see if they
10 would account for the disparate change in unit cost. Between FY95 and
11 FY96, the volume of Nonprofit Standard Mail (A) Regular increased by
12 less than 1.0 percent (0.75 percent), and the profile, or "mix," generally can
13 be described as fairly stable. However, the changes that did occur
14 surprisingly increased the share of less expensive mail and reduced the
15 share of more expensive mail. To anticipate the results that follow, from a
16 detailed analysis of the billing determinants no change is discernable that
17 would explain the sharp increase in the unit cost of Nonprofit Standard
18 Mail (A) Regular between FY95 and FY96, especially when the unit cost of
19 the corresponding commercial subclass declined slightly.

1 **Presort Condition**

2 In FY96, the share of **3/5-Digit presort Nonprofit Standard**
3 **Mail (A)** Regular presort mail increased slightly, by 1.4 percent, from
4 66.7 to 68.1 percent. The share of Nonprofit **Basic (Required)** presort
5 experienced a corresponding decline, from 33.3 to 31.9 percent; see Table
6 3. This change in the mix of Nonprofit Standard Mail (A) Regular, while
7 slight, is in the direction of less costly mail. It does nothing to explain the
8 surge in unit cost in FY96.

9 Standard Mail (A) Regular experienced a similar, but slightly
10 smaller, shift to 3/5-Digit presort. The year-to-year change does nothing to
11 explain the disparate movement in cost and rates as between Standard
12 Mail (A) Regular, Standard Mail (A) and Nonprofit Standard Mail (A)
13 Regular. It is worth noting, however, that Regular rate has a somewhat
14 higher percentage of 3/5-Digit presort mail (80.8 versus 68.1 percent).
15 Thus, Nonprofit Standard Mail (A) Regular had more Basic presort mail,
16 which required more sortation, including manual sortation.⁴

⁴ This is pertinent to the issue of mail processing productivity and automation refugees, discussed in Section III, *infra*.

1

2 Table 3

3

4 Standard Mail (A) Regular
5 Distribution by Presort Level
(percent)

5

		<u>FY95</u>	<u>FY96</u>	<u>Change</u>
6	NONPROFIT			
7	Basic (Required)	33.4%	31.9%	-1.5%
8	3/5-Digit	66.6	68.1	+1.4%
9	COMMERCIAL			
10	Basic (Required)	20.3	19.2	-1.1
11	3/5-Digit	79.7	80.8	+1.1

12

13

Source: FY95 and FY96 Billing Determinants

14

15

Shape

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In FY96, the share of letter-sized Nonprofit Standard Mail (A)

17

Regular Basic (Required) presort mail increased by 1.1 percentage points.

18

In the 3/5-Digit presort category, the share of letter-sized Nonprofit

19

Standard Mail (A) Regular also increased slightly, by 0.5 percentage

20

points; see Table 4. Clearly, the share of more expensive-to-process flats

21

did not increase. Thus, the slight change in the mix of shapes within

22

Nonprofit Standard Mail (A) Regular does not account for the sharp

23

increase in unit cost in FY96.

1 Within Standard Mail (A) Regular, the share of letter-sized mail
2 within the Basic (Required) presort level increased by 1.8 percentage
3 points. At the 3/5-Digit level, however, letter-sized mail showed a decrease
4 of 1.0 percentage points. Overall, the share of non-letters in Standard
5 Mail (A) Regular increased slightly, while the share of Nonprofit Standard
6 Mail (A) Regular non-letters decreased slightly. Consequently, changes in
7 shape do nothing to help explain why Nonprofit Standard Mail (A) Regular
8 costs shot up in FY96, while costs of the corresponding commercial
9 subclass declined slightly.

1

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Table 4

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Standard Mail (A) Regular
Distribution by Shape
(percent)

6

	NONPROFIT	<u>FY95</u>	<u>FY96</u>	<u>Change</u>
7	Basic (regular)			
8	Letters	83.7%	84.8%	+1.1%
9	Non-letters	16.31	15.21	-1.1%
10	3/5-Digit			
11	Letters	80.9	81.4	+0.5
12	Non-letters	19.1	18.6	-0.5
13	Total			
14	Letters	81.8	82.0	+0.2
15	Non-letters	18.2	18.0	-0.2
16	COMMERCIAL			
17	Basic (regular)			
18	Letters	69.1	71.7	+1.8
19	Non-letters	30.9	28.3	-1.8
20	3/5-Digit			
21	Letters	60.8	59.8	-1.0
22	Non-letters	39.2	40.2	+1.0
23	Total			
24	Letters	62.5	62.1	-0.4
25	Non-letters	37.5	37.9	+0.4

26

27
28

Source: FY95 and FY96 Billing Determinants

1 **Automation**

2 In FY96, the percentage of prebarcoded Nonprofit Standard
3 Mail (A) Regular letter-shaped mail increased in both Basic (Required)
4 and the 3/5-Digit presort categories, by 4.8 and 10.5 percent, respectively;
5 see Table 5. The percentage of prebarcoded nonprofit flats also
6 increased in both the Basic (Required) and the 3/5-Digit presort categories,
7 by 3.17 and 5.59 percent, respectively. It would have been desirable for
8 nonprofit mailers to have prebarcoded an even higher percentage of their
9 mail. Nevertheless, the surge in unit costs in FY96 is not explained by the
10 gradually expanding base of prebarcoded letters and flats.

11 Within Standard Mail (A) Regular, the percent of prebarcoded letters
12 increased by 9.4 percent, about the same increase (9.02 percent) as
13 Nonprofit Standard Mail (A) Regular letters. Prebarcoded flats increased
14 6.4 percent, versus 5.3 percent for nonprofit flats.⁵

15 **Reclassification effect.** On July 1, 1996, an unusual event occurred
16 that created a potentially significant difference between Standard
17 Mail (A) and Nonprofit Standard Mail (A): Reclassification. Changes
18 resulting from Docket No. MC95-1 became fully effective on July 1.

⁵ Significantly, Standard Mail (A) "commercial" mailers prebarcode a higher percentage of both letters and flats than do Nonprofit mailers. This is pertinent to the issue of mail processing productivity and automation refugees, discussed in Section III, *infra*.

1 However, while mail make-up changes became mandatory for all mailers,
2 new rate discounts applied only to Standard Mail (A). They did not apply
3 to Nonprofit Standard Mail (A). Thus, new mail make-up requirements
4 were imposed on nonprofit mailers without corresponding discounts.
5 Reclassification for nonprofit mail was still pending at the time. The
6 Governors' decision in Docket No. MC96-2 was not made until August 5,
7 1996, and rate changes did not become effective for Nonprofit Standard
8 Mail (A) until October 6, 1996, after the end of FY 1996.

9 The extent to which Standard Mail (A) Regular mailers increased
10 their prebarcoding efforts in anticipation and because of reclassification
11 changes is not known. However, reclassification was undertaken because it
12 was expected to have a major impact. Docket No. MC95-1 was filed on
13 March 24, 1995 and *commercial rate mailers had up to 15 months* to
14 anticipate and prepare for reclassification, which became effective on July
15 1, 1996. Docket No. MC96-2 was not filed until April 4, 1996, so
16 *nonprofit mailers had only 6 months* to anticipate and prepare for
17 reclassification, which became effective on October 6, 1996.⁶

⁶ In some cases nonprofit mailers were given only four months notice when they were told their mail would have to conform to Standard Mail (A) preparation requirements on July 1 without any corresponding discounts.

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Table 5

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Standard Mail (A) Regular
 Share of Automation Discount Mail
 (percent)

6

	<u>NONPROFIT</u>	<u>FY95</u>	<u>FY96</u>	<u>Change</u>
7	Letter Automation Discount			
8	Basic (Required) Presort	10.3%	15.2%	+ 4.9%
9	3/5-Digit Presort	39.8	50.3	+10.5
10	All letters	29.8	38.8	+ 9.0
11	Flat Automation Discount			
12	Basic (Required) Presort	3.5	6.7	+ 3.2
13	3/5-Digit Presort	40.9	46.5	+ 5.6
14	All Flats	29.7	35.0	+ 5.3
15	<u>COMMERCIAL</u>			
16	Letter Automation Discount			
17	Basic (Required) Presort	17.6	30.5	+12.9
18	3/5-Digit Presort	52.2	63.5	+8.2
19	All letters	46.8	56.2	+9.4
20	Flat Automation Discount			
21	Basic (Required) Presort	7.6	9.9	+2.3
22	3/5-Digit Presort	64.1	69.5	+5.5
23	All Flats	54.6	61.0	+6.4

24

25
26

Source: FY95 and FY96 Billing Determinants

1 **Dropship Entry**

2 A very small percent of Nonprofit Standard Mail (A) Regular Basic
3 (Required) presort mail is drop shipped to BMCs and SCFs. In FY96, the
4 drop ship share climbed almost imperceptibly, by 0.2 percent; see Table 6.
5 The share of nonprofit 3/5-Digit-presort mail drop shipped to BMCs and
6 SCFs increased by 2.2 percent, from 22.8 to 25.0 percent. Year-to-year, the
7 drop ship profile was changed only slightly. The surge in unit cost for
8 Nonprofit Standard Mail (A) Regular in FY96 is not explained by the small
9 increases in drop shipment that did occur.

10 Within Standard Mail (A) Regular, the percent of mail that is drop
11 shipped increased by 2.2 percent, in tandem with Nonprofit Standard
12 Mail (A) Regular, which also showed an overall average increase of 2.2
13 percent. The one significant feature here is that Standard Mail (A) Regular
14 mailers drop ship somewhat more of their mail than do Nonprofit Standard
15 Mail (A) Regular mailers — 41.3 versus 25.0 percent.⁷

⁷ This is pertinent to the issue of mail processing productivity and automation refugees, discussed in Section III, *supra*.

Table 6

Standard Mail (A) Regular
 Proportion Drop Shipped to BMC and SCF
 (percent)

		<u>FY95</u>	<u>FY96</u>	<u>Change</u>
5	NONPROFIT			
6	Basic			
7	BMC	0.9%	1.0%	+0.1%
8	SCF	<u>2.2</u>	<u>2.3</u>	<u>+0.1</u>
9	Total drop shipped	3.1	3.3	+0.2
10	3/5-Digit:			
11	BMC	13.3	15.9	+2.6
12	SCF	<u>19.3</u>	<u>19.3</u>	<u>0.0</u>
13	Total drop shipped	32.6	35.2	+2.6
14	All Nonprofit Regular			
15	BMC	9.2	11.2	+2.0
16	SCF	<u>13.6</u>	<u>13.8</u>	<u>+0.2</u>
17	Total drop shipped	22.8	25.0	+2.2
18	COMMERCIAL			
19	Basic			
20	BMC	3.1	4.4	+1.3
21	SCF	<u>1.0</u>	<u>1.6</u>	<u>+0.6</u>
22	Total drop shipped	4.1	6.0	+1.9
23	3/5-Digit			
24	BMC	34.0	34.7	+0.7
25	SCF	<u>14.0</u>	<u>15.0</u>	<u>+1.0</u>
26	Total drop shipped	48.0	49.7	+1.7
27	All Regular Rate Mail			
28	BMC	27.7	28.9	+1.2
29	SCF	<u>11.4</u>	<u>12.4</u>	<u>+1.0</u>
30	Total drop shipped	39.1	41.3	+2.2

Source: FY95 and FY96 Billing Determinants. Percentages are based on volume drop shipped.

1 **Weight**

2 The average weight of Nonprofit Standard Mail (A) Regular scarcely
3 changed between FY95 and FY96; see Table 7. The average weight of
4 Standard Mail (A) Regular declined slightly, by 3.6 percent. This change in
5 weight may have been a small contributing factor in restraining costs for
6 Standard Mail (A) Regular.

7

8 **Table 7**

9 **Standard (A) Regular Mail**
10 **Average Weight**
11 **(ounces)**

	<u>FY95</u>	<u>FY96</u>	<u>Change</u>
NONPROFIT	1.07	1.08	+0.01
COMMERCIAL	2.23	2.15	-0.08

16 Source: CRA
17

18 **Conclusion**

19 As noted at the outset, nothing in year-to-year changes in the billing
20 determinants explains why the unit cost of Nonprofit Standard Mail (A)
21 Regular has increased sharply, while the corresponding unit cost of
22 Standard Mail (A) Regular declined by a slight amount. Both are handled
23 in the same manner, and mail processing cost models assume the same
24 productivity (or lack thereof) for both.

1 **III. MAIL PROCESSING PRODUCTIVITY AND**
2 **THE AUTOMATION REFUGEE PROBLEM**

3 Since billing determinants do not provide any insight concerning the
4 sharp increase in unit cost of Nonprofit Standard Mail (A) Regular, a
5 detailed analysis of the attributable costs is required. Attributable costs for
6 each cost segment in FY95 and FY96 are shown in Table 8.

7 Total costs were up 8.7 percent, while volume was up only 0.8
8 percent. Unit cost was up on average by 0.81 cents, or 7.8 percent,
9 reflecting the small increase in volume concurrent with the large increase in
10 total cost.

11 In absolute amount, the biggest increase by far was for clerks and
12 mailhandlers, \$37,478,000. The second largest increase was purchased
13 transportation, \$11,449,000. Without piggybacks, these two direct cost
14 segments accounted for almost 60 percent of the total year-to-year increase.
15 With piggybacks, they account for over three-fourths of the total increase.
16 That is, the increase in mail processing and transportation cost accounts for
17 over 0.60 cents of the total 0.81 cents increase in unit cost. Consequently,
18 the focus of inquiry is on these two cost segments.

1 The unusual increase in mail processing cost for Nonprofit Standard
2 Mail (A) Regular can be explained by at least three different hypotheses.

- 3 • Nonprofit Standard Mail (A) Regular was handled at
4 lower productivity in FY96.
5 • IOCS tallies of Nonprofit Standard Mail (A) Regular
6 are overstated.
7 • Integrity of the Postal Service data systems that report
8 Standard Mail (A) volume and costs eroded
9 significantly during FY96.

10 The first hypothesis is discussed in this section. The other two
11 hypothesis are discussed in Sections IV and V, respectively. Transportation
12 cost is discussed separately in Section VI.

13 **The Lower Productivity Hypothesis**

14 As indicated in Tables 5 and 6, nonprofit mailers barcode and drop
15 ship a lower percentage of their mail than do regular rate mailers, and thus a
16 larger portion of nonprofit mail must be handled manually. In other words,
17 a lower percentage of Nonprofit Standard Mail (A) Regular qualifies for
18 worksharing discounts, which means that less of it bypasses the Postal
19 Service network.

20 The increase in unit cost for Nonprofit Standard Mail (A) Regular is
21 consistent with hypotheses that (i) the Postal Service has “automation
22 refugees” and (ii) productivity has declined and continues to decline in

1 areas where mail is not handled by automation or mechanization. That is,
2 the Postal Service has an excess of displaced clerks and mailhandlers who
3 are kept busy (at reduced productivity rates) processing mail that is not
4 automated and does not (or can not) take advantage of drop-shipment to
5 bypass the Postal network.

6 Under changing conditions, such as those being experienced by the
7 Postal Service as it gradually automates mail processing, the IOCS is
8 capable of producing odd, counterintuitive and **incorrect** results, as
9 explained in greater detail by witness Stralberg.⁸ For example, mail that is
10 handled manually, at constant productivity, will have an increasing
11 proportion of direct handling tallies. In turn, the higher ratio of direct
12 tallies will cause an increase in the share of "not handling" tallies and costs
13 assigned to manually sorted mail.⁹ In other words, without any cost-driving
14 change in manually sorted mail, total costs (and unit costs) may
15 nevertheless be deemed to have increased.

⁸ TW-T-1

⁹ As automation has progressed, the share of "not handling" tallies has increased substantially, with a corresponding decline in the share of direct tallies. With yet further automation, the day may come when direct tallies represent only fewer than 25 percent of all tallies, and by then (if not before) a better way of estimating costs will become a necessity.

1 The sharp increase in mail processing cost, *relative to direct carrier*
2 *costs*, is also fully consistent with the hypothesis that the Postal Service has
3 excess mail processing labor, or “automation refugees,” coupled with lower
4 mail processing productivity. That is, costs are not increasing across-the-
5 board, but only in the mail processing area.

6 Finally, rates for the Basic and 3/5-Digit presort categories show the
7 greatest rate increase, along with the Automation Basic category; see
8 Table 1.¹⁰ These are the categories that require the greatest amount of
9 handling. The higher-than-average rate increases reflect higher-than-
10 average cost increases, which reflect productivity changes below average
11 (*i.e.*, a decline in productivity).

12 This hypothesis identifies an unfortunate and potentially serious
13 consequence of automation. Namely, to the extent that it explains the sharp
14 increase in the unit cost of nonprofit mail, it means that nonprofit mail is a
15 victim (along with periodicals) of being allocated too large a share of “not
16 handling” tallies and/or inefficient management. The Commission and the
17 Postal Service need to find a better way of distributing the increasing
18 proportion of “not handling” tallies that, seemingly, are an inevitable
19 byproduct of automation.

¹⁰ Exhibits USPS-29A and B indicate that nonprofit letters contained a higher proportion of “non-upgradable” letters than regular rate.

1

Table 8

**Nonprofit Standard Mail (A) Regular Costs
By Cost Segment
FY95 and FY96
(\$,000)**

<u>6</u>	<u>Segment</u>	<u>FY95</u>	<u>FY96</u>	<u>Change</u>	<u>Percent</u>
7	Postmasters	5,689	5,788	99	1.7%
8	Supervisors & Technicians	53,037	57,827	4,790	9.0
9	Clerks & Mailhandlers	405,102	442,580	37,478	9.2
10	Clerks CAG-K Offices	152	91	-61	-40.0
11	City Delivery Carriers-Office	120,441	118,204	-2,237	-1.8
12	City Delivery Carriers-Street	73,047	77,914	4,867	6.6
13	Vehicle Service Drivers	4,798	5,080	282	5.8
14	Special Service Messengers	0	0	0	0.0
15	Rural Carriers	57,530	61,886	4,356	7.3
16	Custodial & Maintenance Services	38,495	42,454	3,959	10.2
17	Motor Vehicle Services	2,102	2,394	292	13.9
18	Miscellaneous Operating Costs	212	238	26	12.3
19	Purchased Transportation	39,486	50,937	11,451	29.0
20	Building Occupancy	21,806	23,567	1,761	8.0
21	Supplies and Services	26,775	32,698	5,923	22.0
22	Research & Development	0	0	0	0.0
23	Administrative & Regional Operation	52,831	61,251	8,420	16.0
24	General Management Systems	0	0	0	0.0
25	Other Accrued Expenses	<u>60,094</u>	<u>61,810</u>	<u>1,716</u>	2.8
26	Total	961,597	1,044,659	83,162	8.7%
27	Volume (000)	9,230,806	9,300,466	69,660	0.8%
28	Average Cost (cents)	10.42	11.23	0.81	7.8%
29					
30					
31	Source: CRA.				

1 **IV. ANOMALOUS IOCS TALLIES FOR**
2 **NONPROFIT STANDARD MAIL (A)**

3 Mail processing costs for each subclass reflect the IOCS tallies of
4 clerks and mailhandlers recorded for that subclass. Accordingly, the
5 FY96 IOCS tallies for Nonprofit Standard Mail (A) Regular were
6 analyzed to see whether any reason for the unusually large increase in
7 cost could be ascertained; *i.e.*, whether any reason existed to challenge
8 the accuracy of the tallies.

9 **Total tallies.** In FY96, 2,568, IOCS tallies were recorded for
10 Nonprofit Standard Mail (A). Of these 2,393 were for Nonprofit
11 Standard Mail (A) Regular, and 175 were for Nonprofit Standard
12 Mail (A) ECR; see Table 9. Direct mail processing accounted for most
13 of the tallies (2,533 out of 2,568). The focus of investigation here is the
14 2,362 direct mail processing tallies for Nonprofit Standard Mail (A)
15 Regular.

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Table 9

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IOCS Tallies for Nonprofit Standard Mail (A)
FY96

		Direct Mail Processing <u>Tallies</u> (1)	Admin/ Window Service <u>Tallies</u> (2)	Total (3)
10	Regular	2,362	31	2,393
11	ECR	<u>171</u>	<u>4</u>	<u>175</u>
12	Total	2,533	35	2,568
13		<hr/>		

14

15

Source: LR-H-23.

16

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Form of nonprofit mail handled. When mail is being handled at the time a tally is taken, the tally indicates whether the clerk was handling a single piece of mail, an item,¹¹ or a container.¹² This distribution is shown in Table 10.

¹¹ An item could be a bundle, a con-con, pallet, pouch, sack, or tray.

¹² A container is rolling stock, such as a hamper, APC or OTR.

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Table 10
IOCS Tallies for Nonprofit Standard Mail (A) Regular
FY96

		No. of <u>Tallies</u>	Percent
7	Single Piece	1,517	64.2%
8	Item	824	34.9
9	Container	<u>21</u>	<u>0.9</u>
10	Total	2,362	100.0%

11

12
13

Source: LR-H-23.

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16
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Shape is always recorded (i) for a single piece of mail, (ii) when a top piece is sampled from an item such as a bundle or tray, and (iii) when all pieces in an item or container have the same shape. The rows of Table 11 show the shape and the columns show what the clerk was handling at the time the tally was taken.

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Table 11

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IOCS Tallys for Nonprofit Standard Mail (A) Regular
By Shape and Item
FY96

	<u>Shape</u>	<u>Single Piece (1)</u>	<u>Item (2)</u>	<u>Container (3)</u>	<u>Total (4)</u>	<u>Percent (5)</u>
9	Card	24	17	0	41	1.74%
10	Letter	980	605	13	1,598	67.65
11	Flat	485	194	7	686	29.04
12	IPP	21	7	0	28	1.19
13	Parcel	7	1	1	9	.38
14	Total	1,517	824	21	2,362	100.00%

15

16

17

Source: LR-H-23.

18

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Analysis of weight. For individual pieces, the IOCS tally

assertedly shows the weight of the piece being handled at the time the

tally is taken. For items, when all pieces are identical, the tally shows

the weight of a representative piece; when not identical, the top-piece

rule is followed.¹³ For containers, the tally indicates the weight of a

typical piece if all mail in the container is identical.¹⁴ Thus, in all

¹³ "Weight will only be recorded for an item tally if the tally contains identical mail or is subject to the Top Piece rule..." See written response of USPS Degen to oral questions of ANM (filed October 28, 1997).

¹⁴ "If the contents of the container are identical mail, then the weight of the representative piece selected for question 22 and 23 responses is

1 instances where weight is recorded, it is supposed to be for a single
2 piece of mail.

3 Table 12 shows the recorded weight for each of the 2,362
4 Nonprofit Standard Mail (A) Regular tallies. As shown there, 7 tallies
5 record a weight in excess of 16 ounces, which is the maximum weight
6 permitted within Standard Mail (A). For these 7 tallies, the recorded
7 shape is also shown for informational purposes. Clearly, something is
8 wrong with these 7 tallies. Either the weight is in error, or the tally has
9 been misrecorded as being Nonprofit Standard Mail (A). In response to
10 a hypothetical question about a piece of Standard Mail (A) whose
11 weight exceeded 16 ounces, witness Degen responded as follows:¹⁵

12 The F-45 handbook (LR-H-49) contains no specific
13 instructions for the disposition of such a tally. Mail class
14 is recorded in question 23b. The question 23b instructions
15 indicate that the Third-Class/Standard Mail (A) categories
16 apply to mailpieces weighing less than 16 ounces. Weight
17 is recorded in question 23g. The instruction to question
18 23g (LR-H-49, p. 131) are simply to record the weight in
19 pounds and ounces, rounded to the nearest ounce, for
20 mailpieces weighing more than 4 ounces. *It cannot be*
21 *determined from the hypothetical whether the mail class*
22 *was misidentified or the weight was incorrectly entered.*
23 (Emphasis added)

recorded. Otherwise, no weight is recorded for the container.” Id.

¹⁵ Written response of USPS witness Degen to oral questions of ANM (filed October 28, 1997).

1 In addition to the tallies that recorded weight in excess of 16
2 ounces, another 35 tallies recorded weight between half a pound and 16
3 ounces; see Table 13. To have so many heavyweight tallies in a
4 subclass with an average weight of only 1.1 ounces (see Table 7) seems
5 unusual, especially the three letter-shaped tallies, one of which was
6 reported to weigh between 15 and 16 ounces.

7 In conclusion, at a minimum, all tallies in excess of 16 ounces are
8 clearly in error, and these tallies should be disregarded when computing
9 the cost of Nonprofit Standard Mail (A) Regular. At the same time, the
10 existence of such tallies requires explanation. One possibility is that
11 these heavier weight pieces were entered as Standard Mail (B) by well-
12 known, widely-recognized nonprofit organizations, and the tally was
13 reflexively (but incorrectly) recorded as Nonprofit Standard Mail (A).
14 In any event, the fact that these anomalous tallies survive the editing
15 process suggests that the IOCS tallies have serious reliability problems
16 and confirms that misidentification of nonprofit mail is occurring.

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Table 12

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**Nonprofit Standard Mail (A) Regular
Distribution of Mail Processing Tallys
By Item and Weight**

		Single Piece <u>Tallies</u>	Item <u>Tallies</u>	Container <u>Tallies</u>
9	No Weight recorded	0	29	0
10	Up to 1 oz.	940	533	12
11	1 up to 2 oz.	282	141	5
12	2 up to 3 oz.	115	65	1
13	3 up to 4 oz.	106	22	2
14	4 up to 5 oz.	0	0	0
15	5 up to 6 oz.	37	19	0
16	6 up to 7 oz.	9	2	0
17	7 up to 8 oz.	0	0	0
18	8 up to 9 oz.	9	5	0
19	9 up to 10 oz.	0	0	0
20	10 up to 11 oz.	11	2	0
21	11 up to 12 oz.	0	0	0
22	12 up to 13 oz.	4	0	0
23	13 up to 14 oz.	0	0	0
24	14 up to 15 oz.	0	1	1
25	15 up to 16 oz.	1	1	0
26			
27	2.5 up to 3.0 lbs.	1	IPP	0
28	3.0 up to 3.5 lbs.	0		letter 0
29	4.0 up to 4.5 lbs.	0		flat 0
30	4.5 up to 5.0 lbs.	1	IPP	1 flat 0
31	6.0 up to 7.0 lbs.	1	flat	0
32	over 15 lbs.	0		1 parcel 0
33	Total	1,517	824	21
34			
35	Source: LR-H-23.			
36				

Source: LR-H-23.

2

Table 13

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Nonprofit Standard Mail (A) Regular
Distribution of Mail Processing Tallies
In Excess of 8 Ounces, by Shape

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	<u>Letters</u>	<u>Flats</u>	<u>Parcels and IPPs</u>	<u>Total</u>
8 up to 9 oz.	1	9	4	14
9 up to 10 oz.	0	0	0	0
10 up to 11 oz.	1	8	4	13
11 up to 12 oz.	0	0	0	0
12 up to 13 oz.	0	2	2	4
13 up to 14 oz.	0	0	0	0
14 up to 15 oz.	0	1	1	2
15 up to 16 oz.	1	1	0	2
Total	3	21	11	35

17

18

1 **V. MISREPORTING BY THE IOCS OF STANDARD MAIL (A)**
2 **ENTERED BY NONPROFIT MAILERS**

4 In ordinary manufacturing establishments, data on costs of
5 production and volume manufactured tend to be produced concurrently.
6 Postal Service data systems, however, do not work this way.

7 **Revenue/volume data.** For Standard Mail (A) revenues are
8 collected through accounting records, while detailed volume data are
9 captured by the PERMIT system (formerly the PERMIT/BRAVIS
10 system). This system collects data provided by mailers on Form 3602
11 when they enter bulk mail.

12 **Cost data.** Aggregate mail processing costs are likewise
13 determined from accounting records. Data for determining costs of
14 processing individual subclasses, including bulk mail, are derived
15 through the In-Office Cost System ("IOCS"), which is a stratified
16 random sample of mail processing facilities throughout the country.
17 The IOCS functions independently of the PERMIT system.

1 **Need for synchronization.** Because the two systems for
2 recording volumes and costs function independently, it is essential that
3 they be properly synchronized.

4 In its generic form, the problem is as follows: Whenever a piece
5 of mail bears postage markings for one subclass or rate category, no
6 way exists for an IOCS tally clerk to know whether the mail was
7 actually entered in another subclass or rate category. IOCS tallies must
8 be able to identify accurately the subclasses of mail *in the same manner*
9 as the volumes and revenues are recorded. *When entry data (Form*
10 *3602s) and envelope markings do not coincide, the IOCS will attribute*
11 *costs to one subclass, while the volumes and revenues will be recorded*
12 *in another subclass.¹⁶*

13 The subclass that is credited with extra volumes but no extra
14 costs (tallies) will have a lower unit cost, while the subclass that is
15 assigned the extra cost (tallies) but gets no credit for the corresponding
16 volume will have a higher unit cost.

¹⁶ This situation occurred in Docket No. R94-1, with respect to In-County Publications. Through a programming error, IOCS tallies distributed costs to In-County publications, while revenues and volumes from those same publications were recorded under **Regular rate** publications. The result was a sharp increase in the unit cost of In-County publications. The Postal Service may also have problems of this nature with respect to the various rate categories of First-Class Mail.

1 **Non-Synchronization of Nonprofit Volumes**
2 **and Costs Within Standard Mail (A)**

3 When a qualified nonprofit organization enters nonprofit bulk
4 mail, it is duly recorded as such on a Form 3602-N for Permit Imprint
5 mail or 3602-PN for metered or precancelled stamp mail. Evidencing of
6 postage on all such mail will indicate "Nonprofit."¹⁷ Thus, should it be
7 the subject of a random tally under the IOCS, the tally (and cost) would
8 be charged appropriately to nonprofit mail. At the same time, as a
9 convenience to nonprofit mailers, the Postal Service has for many years
10 and on a systematic basis allowed qualified nonprofit organizations to
11 enter mail at the old Bulk Regular Rate ("BRR") under their nonprofit
12 permit. Prior to 1991, nonprofit mailers had little incentive or need to
13 use the regular rate, and qualified nonprofit organizations seemingly
14 made little use of the commercial rate prior to 1991. Consequently,
15 integrity of the Postal Service's data systems was not threatened or
16 undermined if and when a nonprofit organization occasionally entered a
17 mailing at the regular rate during those earlier years.

18 In 1990, Congress enacted P.L. 101-509 which prohibited
19 qualified nonprofit organizations from including in mail entered at

¹⁷ Distinctive nonprofit stamps or meters may be used, but most nonprofit mail is believed to be entered with a preprinted indicia.

1 special nonprofit rates any offers for unrelated travel or insurance or
2 financial services (e.g., credit cards). Subsequently, in late 1993,
3 additional eligibility restrictions were placed on nonprofit bulk mail
4 when Congress enacted P.L. 103-123, known as the Revenue Forgone
5 Reform Act.¹⁸ The Postal Service issued Publication 417, the first
6 Postal Service handbook explaining new restrictions under the Revenue
7 Forgone Reform Act, on or about October 1, 1995 (significantly, at the
8 beginning of FY96, the Base Year in this docket). Also, during FY96
9 the Postal Inspection Service undertook rigorous enforcement of the new
10 regulations.¹⁹ As a result of the aforementioned changes in law and
11 administrative enforcement in FY96, three different but related
12 situations exist where mail originated by nonprofit organizations may be
13 recorded as regular rate for purposes of counting volume and revenues,
14 but recorded as nonprofit mail if subject to an IOCS tally.

15 First, on an after-the-fact basis, various mailings by a number of
16 nonprofit organizations are known to have been assessed the difference
17 between (i) the postage originally paid at nonprofit rates when the mail

¹⁸ Codified at 39 U.S.C. §3626(j)(1)(D), on May 5, 1995.

¹⁹ The USPS Inspector General Semiannual Report to Congress, FY 1997, Volume 1, cites 79 Revenue Investigations against nonprofit organizations during the six-month period October 1, 1996 to March 31, 1997.

1 was entered as nonprofit mail (and bore evidence of its status as
2 nonprofit mail), and (ii) the regular rate postage which the Postal
3 Service subsequently deemed to be applicable. Although some of these
4 assessments were reduced or withdrawn on appeal, many nonprofit
5 organizations subsequently paid such assessments on mailings entered
6 during FY96. The following questions thus arise:

- 7 • When assessments were collected, to which
8 revenue account were they credited? Regular rate
9 or nonprofit rate?
10 • Were the original 3602-Ns or 3602-PNs withdrawn
11 (canceled), and an amended 3602-R or 3602-PR
12 filed so as to credit the revenues and volumes to
13 regular rate mail?

14 Mail in this first group clearly must have had nonprofit evidence
15 of postage paid, since it was entered and delivered as nonprofit mail. If
16 such mail were the object of an IOCS tally, then inevitably the tally (and
17 the associated cost) would and should have been assigned to nonprofit
18 mail, as the tally clerk could not possibly have known whether a
19 particular piece of mail subsequently would be assessed additional
20 postage.²⁰ However, if a revised or amended Form 3602 were filed, the
21 volume would have been transferred to Standard Mail (A) in the

²⁰ This first case is speculative to the extent that ANM has been unable to ascertain from the Postal Service what adjustments (if any) are made to the data entry systems following collection of assessments.

1 PERMIT system so the costs would have been changed to Nonprofit
2 Standard Mail (A) but the volume credited to Standard Mail (A).

3 Second, on other occasions nonprofit organizations may have
4 prepared a mailing using nonprofit evidence of postage, only to have the
5 Postal Service demand payment of the full regular rate before allowing
6 the mail to be entered. In such cases, a revised 3602-R or 3602-PR
7 (rather than a 3602-N or 3602-PN) would be filled out, thereby assuring
8 that the PERMIT system will credit the volume and revenue to Standard
9 Mail (A) rather than Nonprofit Standard Mail (A). However, since the
10 mail was prepared for submission as a nonprofit mailing, the evidence
11 of postage payment will be nonprofit. Should such mail be the object of
12 an IOCS tally, inevitably and necessarily it will be recorded as nonprofit
13 mail. Once again, Standard Mail (A) will be credited with the volume,
14 while Nonprofit Standard Mail (A) will be charged with the cost. This
15 instance differs from the prior one in that the outcome is not speculative;
16 i.e., this situation is known to have occurred, and is not speculative.

17 Third, as nonprofit organizations became aware of the various
18 types of solicitations that could not be included in nonprofit mail as a
19 result of the 1990 and 1993 enactment of nonprofit eligibility
20 requirements, many nonprofit organizations began entering mail of this
21 kind at commercial rates, accompanied by a Form 3602-R or 3602-PR.

1 To the extent that the envelope had nonprofit permit (indicia) or some
2 other nonprofit evidencing of postage, (e.g., stamps or metered), but
3 were submitted a Form 3602-R or 3602-PR, the integrity of the Postal
4 Service's data systems was (and continues to be) systematically
5 undermined.²¹ Like the second situation discussed above, it is also
6 known to have occurred. It is not speculative.

7 The initial cost and volume data are primary inputs to many other
8 modeling efforts, including the roll-forward model. When these
9 fundamental data become unsynchronized, the results of the extensive
10 modeling efforts relied upon by the Commission and the Postal Service
11 for rate making become unreliable.

12 **Empirical Evidence of Mail Entered at Commercial Rates
13 with Nonprofit Evidence of Postage Payment**

14 To investigate the extent to which the sharp increase in Nonprofit
15 Standard Mail (A) Regular unit costs may have resulted from revenue
16 and cost data being "out of sync," the Alliance of Nonprofit Mailers has
17 undertaken a survey of nonprofit organizations. A summary of the

²¹ Form 3602-N or 3602-PN is used to enter nonprofit bulk mail. Commercial rate mailers use either Form 3602-R or 3602-PR. To help distinguish clearly between the two, the discussion will refer to Form 3602-N for nonprofit mail and Form 3602-R for commercial mail.

1 results of that survey follow. Additional details are contained in Exhibit
2 my revised Exhibit 1
1 ANM-T-1. Of 108 responses received as of the date this testimony—
3 was prepared:

- 4 • 31 organizations paid commercial rates and used
5 regular rate indicia.
- 6 • 49 organizations paid commercial rates and used
7 nonprofit evidencing of postage.
- 8 • 29 organizations entered nonprofit mail at nonprofit
9 rates and with nonprofit markings, but later were
10 assessed regular rates. Of those 29 mailings, at
11 least 13 organizations were certain that they filed a
12 corrected USPS Form 3602-R.

13 The responses come from all major geographic areas of the
14 United States, which indicates that the phenomenon of using nonprofit
15 evidencing on Standard Mail (A) is indeed widespread.

16 **Estimate Volume and Inflation of Nonprofit Cost**
17 **From Misidentifying Mail As Nonprofit**

18 The total volume of bulk mail for fiscal years 1980-1996 is
19 reproduced in Table 14. From 1980 to 1992, the volume of nonprofit
20 mail grew from 7,964 to 11,999 million pieces. This growth of 4,035
21 million pieces represents a compound annual growth rate of
22 approximately 3.5 percent over the 12-year period. Since 1992, the
23 growth of nonprofit bulk mail has been almost stagnant, while

1 commercial rate bulk mail has grown remarkably, by almost 9 billion
2 pieces. Without any doubt, some of the growth in commercial rate mail
3 has been fueled by nonprofit organizations entering mail at the
4 commercial rate. Trouble is, much of this mail has nonprofit evidencing
5 of postage paid and, through the IOCS, costs of processing this mail are
6 attributed to the nonprofit subclass, while volumes are credited to
7 Standard Mail (A). I estimate that, since 1992, mail from nonprofit
8 organizations has grown as follows:

		Pieces <u>(millions)</u>
11	1992 Volume of Nonprofit Mail	11,999
12	Growth in Nonprofit Mail, 1992 - 96	<u>210</u>
13	1996 Volume of Nonprofit Mail	12,209
14	Mail entered at commercial rates by	
15	qualified nonprofit organizations:	
16	With nonprofit evidencing	1,040
17	With regular rate evidencing	<u>520</u>
18	Total volume of bulk mail entered by	
19	nonprofit organizations	<u>13,769</u>

20 The total growth in volume of nonprofit bulk mail between 1992-
21 1996 is estimated at a 3.5 percent annual compound rate. Of the total
22 volume which paid regular rates, either at the time of entry or by

1 retroactive assessment, I estimate that at least two-thirds had nonprofit
2 evidencing of postage paid. On this basis, the total volume of bulk mail
3 with nonprofit evidencing of postage paid in fiscal year 1996 was as
4 follows:

		Volume <u>(millions)</u>	Distribution <u>(%)</u>
7	Entered at nonprofit rate	12,209	92.15%
8	Entered at commercial rate	<u>1,040</u>	<u>7.85</u>
9		13,249	100.00%

10 Since the IOCS is a random sample, it is reasonable to infer that
11 7.85 percent of all valid mail processing tallies, as well as the mail
12 processing costs arising from those tallies, have been incorrectly
13 attributed to nonprofit mail, and instead should have been attributed to
14 commercial rate bulk mail. I therefore recommend that the Commission
15 adjust mail processing costs, including piggybacks, attributed to
16 Nonprofit Standard Mail (A) in this proceeding accordingly.

17 **Conclusion**

18 On the basis of empirical data gathered to date, the Postal
19 Service's volume and cost data for Standard Mail (A) are clearly out of
20 sync. It is clear that many nonprofit organizations have in fact paid

1 commercial rate postage for mail which bore evidence of nonprofit
2 postage. Accordingly, such mailings doubtless have been recorded
3 (appropriately) as regular rate volume. At the same time, any costs
4 arising from any IOCS tallies of this mail would have been charged
5 incorrectly (and admittedly inadvertently) to nonprofit mail. In this
6 way, nonprofit costs have been and are being systematically overstated
7 by the Postal Service's data systems.

Table 14

Third-Class Bulk Mail Volume (millions of pieces)

<u>12</u>	<u>Fiscal Year</u>	<u>Nonprofit (1)</u>	<u>Regular (2)</u>	<u>Total (3)</u>
14	1980	7,964	21,997	29,961
15	1981	8,566	24,706	33,272
16	1982	9,064	27,452	36,516
17	1983	9,381	31,186	40,567
18	1984	10,372	37,699	48,070
19	1985	10,976	41,026	52,002
20	1986	10,888	44,006	54,894
21	1987	11,022	48,553	59,575
22	1988	11,249	51,789	63,038
23	1989	11,857	50,731	62,588
24	1990	12,028	51,509	63,537
25	1991	11,956	50,267	62,222
26	1992	11,999	50,354	62,353
27	1993	11,958	53,629	65,587
28	1994	11,900	57,327	69,237
29	1995	12,266	58,705	70,971
30	1996	12,209	59,331	71,686

Source: I.R.-H-187

1 **VI. OVER-ATTRIBUTION OF TRANSPORTATION COSTS**
2 **TO STANDARD (A) NONPROFIT MAIL**

3 Between FY95 and FY96, the increase in purchased
4 transportation costs attributed to Nonprofit Standard Mail (A) Regular
5 amounted to \$11,451,000, which represented an astounding increase of
6 29 percent over FY95 (see Table 8). Total volume of Nonprofit
7 Standard Mail (A) Regular was up only 0.8 percent, the percentage drop
8 shipped increased by 2 percent (see Table 6), and the volume variability
9 of total transportation costs did not change between FY95 and FY96.
10 So, what is the explanation for such a sharp, disproportionate increase in
11 transportation costs attributed to Nonprofit Standard Mail (A) Regular?

12 Transportation costs attributed to the individual classes and
13 subclasses of mail are a direct result of the distribution key that is
14 developed by TRACS. The distribution key represents the proportion of
15 cubic foot miles that TRACS allocates to each subclass of mail. The
16 cubic foot miles from TRACS are thus the basis for developing
17 transportation costs attributable to each subclass. Accordingly, one
18 must examine TRACS to see how such a result could occur.

1 **How TRACS Works**

2 TRACS is a sampling system. Postage evidencing on mail pieces
3 may be used to determine the subclass of mail. Consequently, TRACS
4 suffers the same drawback as IOCS when nonprofit evidencing is used
5 on mail entered at commercial rates. That is, whenever such mail is
6 sampled, the nonprofit subclass will be tagged with the transportation
7 costs, while the regular rate subclass is credited with the volume and
8 revenues.

9 The purpose of TRACS is to develop a key for distributing
10 volume variable transportation costs to the individual classes and
11 subclasses of mail. TRACS is a sampling system, and it samples mail
12 from all the different modes of postal transportation except water: *i.e.*,
13 air, highway and rail. The vast majority of Nonprofit Standard Mail (A)
14 is moved by surface transportation, the majority of which consists of
15 highway services.

16 For highway transportation, TRACS samples mail as it is off-
17 loaded from randomly selected trucks. At first blush, one might think
18 that TRACS would distribute highway transportation costs according to:

- 19 • the *actual amount of mail* off-loaded; and
20 • the transportation service provided to whatever
21 mail is found to have been off-loaded from the
22 truck.

1 Unfortunately, TRACS does not achieve either of the above
2 results. As explained below, TRACS treatment of highway
3 transportation costs is fatally flawed in at least two important respects.

4 First, TRACS artificially breaks each truck's route into separate
5 "independent" segments. Most highway routes involve round-trips,
6 whereby trucks return to the facility from which they initially start the
7 route.²² On any given day, all segments of the route are necessarily
8 served by the same truck. Capacity of the truck must obviously be sized
9 for whatever segment or segments have the highest average volume. In
10 other words, for operational planning purposes, as well as from an
11 economic perspective, the route is an integral, indivisible unit. As stated
12 by witness Bradley,²³

13 For the Postal transportation network, I view the cost of a
14 contract being jointly determined by the cost of serving
15 all of the legs on all of the route/trips on the contract.
16 The cubic foot-mile capacity set on a contract reflects the
17 joint requirements of moving mail over the Postal
18 network and that the total contract cost should not be
19 allocated to any individual leg on the contract. In other
20 words, the cost of transportation on a contract varies with
21 changes in the *total* cubic foot-miles specified in the
22 contract and is not directly allocable to any specific leg.

²² The truck may go out and back, more or less traversing the same route, or it may make a "circular" trip that does not entail retracing any segment in opposite directions.

²³ FGFSA/USPS-T13-25, Tr.7/3337.

1 Moreover, contract specifications are set by the Postal
2 Service in its attempt to minimize highway transportation
3 costs subject to reliably meeting service standards.
4 (emphasis added)

5 Witness Bradley is correct, and I concur fully.²⁴ In other words,
6 the route should not be broken up artificially into "independent"
7 segments. Yet this is precisely what TRACS does.

8 Second, TRACS is built upon an indefensible "expansion"
9 process that distorts and biases the final distribution key by an unknown
10 magnitude.

11 The "expansion" process explained. In fact, TRACS neither
12 measures nor records the actual volume of mail (in terms of pieces,
13 pounds or cube) that is off-loaded. Instead, through a series of steps or
14 data manipulations, the total space available is allocated to whatever
15 mail that happens to be off-loaded from the truck at the time when the
16 truck is sampled. In so doing, TRACS *expands* the sampled mail *to fill*
17 *the entire space available*, regardless of the amount of mail actually on
18 the truck.

19 To illustrate, assume that an over-the-road ("OTR") container is
20 sampled upon off-loading. It may have in it only one or two sacks of

²⁴ Under cross-examination, witness Nieto professed to agree fully with witness Bradley. Tr.7/3518.

1 nonprofit mail. Alternatively, it might be loaded full to the brim with
2 nonprofit mail. So long as the OTR container has only nonprofit mail, it
3 would be recorded as having 100 percent nonprofit mail.²⁵ This is the
4 case even if the container is practically empty and the remainder could
5 just as easily have been filled with something else, such as regular rate
6 bulk mail, or parcels, or whatever. In other words, the nonprofit mail in
7 the OTR container is treated by TRACS as somehow having been
8 responsible for whatever empty space happens to be found in the OTR
9 at the time the sample is taken. On this basis, TRACS treats the empty
10 space in the container as "reasonably assignable" to the nonprofit mail
11 in the container. Finally, as indicated previously, the actual volume of
12 mail is not recorded, hence that most essential datum is simply not
13 available in the TRACS database.²⁶

14 To continue the preceding example, the TRACS expansion
15 process does not end with the OTR container. The expansion process
16 continues its "blame the victim" procedure until all available cube on
17 the truck is assigned to whatever mail happens to be off-loaded from the

²⁵ Tr.7/3493, 3495.

²⁶ The lack of this datum makes it impossible to use the TRACS data base to develop an alternate distribution key based on actual volumes of sampled mail, and transportation services provided to sampled mail.

1 truck, no matter how small or large the actual volume of mail. At the
2 point where the sample is taken, the truck may be almost empty, but the
3 expansion process nevertheless attributes all the empty space for that
4 particular segment (as well as prior segments) to whatever mail is
5 actually sampled.²⁷

6 **Bizarre results from the expansion process.** TRACS'
7 expansion process is capable of producing absolutely bizarre results.
8 The ratio of (i) the cubic volume attributed to a subclass and (ii) the
9 actual volume of mail on the truck can vary enormously. If the truck is
10 practically full, the ratio will be low, perhaps less than 2 to 1. If the
11 truck is nearly empty, however, the ratio could be quite large, perhaps
12 exceeding 100 to 1, by virtue of the empty volume assigned to mail on
13 the truck.²⁸ In other words, the emptier the vehicle, the greater the cube
14 apportioned to the actual volume of mail that happens to be off-loaded
15 from the truck.

²⁷ Assume a truck is 20 percent full and three-fourths of the mail on the truck is off-loaded. Then three-fourths of the 80 percent empty capacity is "reasonably assigned" to the off-loaded mail. In this example, mail occupying 15 percent of the truck is assigned 75 percent of the total capacity of the truck for that segment.

²⁸ Tr.7/3504. TRACS evidence ratios of expanded cubic feet to actual feet that are well in excess of 100 to 1. FGFSA/USPS-T2-50, Tr.7/3323, 3325.

1 On those segments that have low capacity utilization on a regular
2 recurring basis, the cubic volume assigned to the distribution key will be
3 inversely proportional to the actual volume of mail off-loaded from the
4 truck. In other words, the ultimate cost that is attributed (via the
5 distribution key) for each unit of actual mail volume will be high.
6 Should a particular class of mail travel regularly over a segment where
7 the truck is largely empty, that class will be the victim of this weird
8 procedure for always attributing the entire cubic volume of the truck.
9 Moreover, rates will be designed to reflect these unit costs, even though
10 they may be inversely related to actual usage.

11 In short, TRACS is an economist's nightmare come true. The
12 emptier the vehicle, the greater the amount of cube (and, ultimately, the
13 cost) charged to whatever subclasses of mail that happen to be on the
14 truck. Recall that **TRACS breaks the route into independent**
15 **segments.** On segments where trucks are largely empty, TRACS thus
16 operates like a game of "Old Maid." Should volume diminish on a
17 particular segment, until the only remaining mail on the truck is one sack
18 or container, it gets "stuck" with the entire cube (and cost) of that
19 particular segment (which is expanded up to the full year). It seems
20 ironic that such an allocation procedure would be implemented by an

1 organization which favors cost-based rates coupled with demand
2 pricing.²⁹

3 Under TRACS, the assignment of empty space distorts the reality
4 of what is actually being transported, and how much transportation
5 services are actually being provided to, or consumed by, each subclass
6 of mail. And on those occasions when trucks are largely empty, the
7 distortion of reality can border on the grotesque.

8 In my opinion, the assignment of empty space is fundamentally
9 wrong, because no causal nexus exists between (i) the subclasses of
10 mail on the truck and transportation services provided to that mail, and
11 (ii) empty space on the truck that is sampled. The preceding criticism of
12 the expansion process should not in any way be interpreted to mean that

²⁹ An analogy may help demonstrate the way TRACS assigns cubic-foot-miles that, ultimately, are reflected in "cost-based" rates. Suppose a ski resort spent \$10 million on a lift that is being depreciated over 10 years; *i.e.*, \$1 million per year. The average ski season at this resort lasts for 100 days, and on this basis the operator determines that depreciation of the lift costs \$10,000 per day. A random sample is taken to ascertain usage of the lift. The first sample, on Tuesday, counts 100 skiers; the second sample, on Saturday, counts 1,000 skiers. Applying TRACS reasoning, people skiing on Tuesday are assigned a depreciation cost of \$100 per skier, and for Saturday it works out to \$10 per skier. Cost-based rates for each day of the week are set accordingly. If this result seems bizarre, we rationalize it by "reasonably assigning" all the empty chairs on Tuesday to those skiers who were counted and found to be utilizing the lift that day.

1 some alternative way of assigning empty space on specific legs of a
2 specific trip to individual classes of mail would be better.

3 **Potential for bias.** With respect to the 29 percent increase in
4 transportation cost between FY95 and FY96, the issue at hand is: Do
5 systematic biases exist in the cubic volume assigned to each subclass
6 when developing the distribution key? To address this issue, the
7 following questions are pertinent.

- 8 • Do trucks systematically utilize more capacity in
9 one direction?

10 The answer is clearly affirmative. Intra-BMC transportation, will
11 be used to illustrate the point. Trucks bound from the BMC average
12 significantly higher capacity utilization (and correspondingly less empty
13 space) than trucks bound to the BMC (which have far more empty
14 space). The substantial variation in utilization documented by TRACS
15 results from the large volume of mail that is drop shipped to destination
16 BMCs. In other words, a substantial volume of mail is transported from
17 BMCs to destination SCFs, while originating volume traveling from
18 SCFs to BMCs is comparatively light.

- 19 • Do some subclasses systematically drop ship less
20 than others and, as a result, constitute more of the
21 volume on trucks bound to BMCs?

1 Again, the answer is clearly affirmative. As between the two
2 Standard Mail (A) Regular subclasses, only 25 percent of Nonprofit
3 Standard Mail (A) Regular was drop shipped in FY96, versus 41 percent
4 for Standard Mail (A) Regular; see Table 6, *supra*.³⁰

5 **Conclusion.** TRACS is fatally flawed, as demonstrated above,
6 but the solution seems obvious. TRACS needs to be revised so as to
7 measure the *actual volume of mail utilizing Postal Service*
8 *transportation*, and to develop distribution keys that incorporate only
9 actual mail volumes. When that is done, TRACS will reflect the
10 transportation services actually provided to each subclass of mail.
11 TRACS should also treat the cost of serving an entire route as an
12 individual unit.

13 Regrettably, under the circumstances of this case, it has not been
14 possible to develop an alternative distribution key based on the volume
15 of mail actually transported, and the transportation services that were
16 utilized by each subclass of mail.

17 Given the data that are available from the TRACS sample data,
18 the Commission could develop a distribution key that does not expand

³⁰ Standard Mail (A) presorted to the 3/5-Digit category is over 8 times more likely to be drop shipped than Basic Mail. If TRACS were applied at the rate category level, it would contain substantial bias against Basic presort mail.

1 the sample beyond what the data collector initially records. That is, the
2 expansion step or steps that unjustifiably assign absolutely empty floor
3 space on the truck should be eliminated. This would be a step in the
4 right direction.

EXHIBIT ANM-T1-1
(revised 2-9-98)

**RESPONSES TO ANM SURVEY OF MAIL VOLUMES ENTERED IN FY 1996
FOR WHICH COMMERCIAL STANDARD (A) RATES WERE PAID**

MAILER	(1a) PERMIT USED	(1b) HOW SHOWN	(2) COMMERCIAL STANDARD (A) POSTAGE ORIGINALLY PAID		(3) NONPROFIT STANDARD (A) POSTAGE ORIGINALLY PAID	
			Pieces Entered With Commercial Standard (A) Indicia	Pieces Entered With Nonprofit Standard (A) Indicia	Pieces On Which Commercial Standard (A) Rates Were Later Assessed	Did Mailer Submit Revised Form 3602?
1	NP	Indicia			15,000	yes
2	REGULAR	Indicia	50,000			
3	REGULAR	Indicia	22,291			
4	NP	Indicia/Meter				
5	NP	Indicia/meter				
6	NP	Indicia			1,000,000	no
7	NP	Indicia			5,300,000	no
8	NP	Meter	15,000			
9	NP	Indicia/Meter		45,641	6,050	no
10	NP	Meter	2,726			
11	NP	Indicia/Meter	25,000			
12	NP	Indicia/Meter	1,200			
13	NP	Indicia			500	no
14	NP	Indicia/Meter	10,000		10,000	yes
15	NP	Indicia	20,000			
16	REGULAR	Indicia	46,708			
17	REGULAR	Indicia	30,000			
18	REGULAR	Indicia	2,100			
19	NP	Indicia			560	yes
20	REGULAR	Indicia	750,000			
21	NP	Indicia			400,000	yes
22	NP	Indicia/Meter	102,170			
23	NP	Indicia	2,500		5,000	no
24	NP	Indicia	15,000			
25	REGULAR	Indicia	15,000			

	(1a)	(1b)	(2)	(3)	(4)	(5)
26	NP	Indicia			1,081,278	no
27	NP	Indicia		7,800		
28	NP	Indicia		9,912		
29	NP	unk		800		
30	NP	Meter		100,000		
31	NP	Indicia/Meter				
32	NP	Indicia			118,500	unk
33	NP	Indicia			16,000	unk
34	NP	Indicia		30,000	370	unk
35	NP	Indicia			65,000	no
36	NP	Indicia				
37	NP	Indicia		168,000		
38	NP	Indicia		23,578		
39	REGULAR	Meter	26,000			
40	REGULAR	Indicia/Meter	40,000			
41	REGULAR	Indicia/Meter	30,000			
42	NP	Indicia			620	unk
43	NP	Indicia		925		
44	NP	Indicia		2,900		
45	REGULAR	Indicia/Meter	20,000			
46	NP	Indicia			11,000	no
47	NP	Indicia			100,000	unk
48	NP	Indicia			200,000	yes
49	NP	Indicia		3,500		
50	NP	Indicia			70,000	no
51	NP	Indicia		1,000		
52	REGULAR	Indicia	10,000			
53	NP	Indicia			2,000	yes
54	REGULAR	Meter	3,000			
55	NP	Indicia		500,000		unk
56	NP	Indicia			2,200	unk
57	NP	Indicia			7,000	yes
58	REGULAR	Indicia	350,000			
59	NP	Indicia			100,000	no
60	NP	Indicia			500	yes
61	NP	Indicia			30,000	yes
62	REGULAR	Indicia	147,616			
63	NP	Indicia		200,000		unk
64	REGULAR	Meter	1,000			

	(1a)	(1b)	(2)	(3)	(4)	(5)
65	NP	Indicia			600	no
66	NP	Meter		10,000		unk
67	NP	Indicia			15,000	yes
68	NP	Indicia		10,000		unk
69	NP	Meter		4,000		unk
70	NP	Indicia		7,000		unk
71	NP	Indicia		30,000		unk
72	NP	Indicia		60,000		unk
73	NP	Indicia		6,000		unk
74	NP	Meter		3,603		unk
75	REGULAR	Indicia	10,000			
76	REGULAR	Indicia	10,000			
77	REGULAR	Meter	1,200			
78	REGULAR	Indicia	22,000			
79	NP	Indicia			640,000	yes
80	NP	Indicia		3,500		unk
81	NP	Indicia		4,800		unk
82	NP	Indicia		2,000		unk
83	NP	Indicia		50,000		yes
84	NP	Indicia		750		unk
85	NP	Indicia		6,000		unk
86	REGULAR	Meter	1,050			
87	NP	Indicia		5,000		unk
88	NP	Indicia		4,000		unk
89	REGULAR	Meter	3,500			
90	NP	Indicia		2,500		unk
91	NP	Indicia		2,500		unk
92	REGULAR	Indicia	15,000			
93	NP	Indicia		8,000		unk
94	NP	Indicia		80,000		yes
95	REGULAR	Indicia	50,000			
96	REGULAR	Meter	1,500			
97	REGULAR	Meter	2,000			
98	NP	Indicia		32,000		unk
99	REGULAR	Indicia	2,500			
100	NP	Indicia		2,500		unk
101	NP	Indicia		20,000		unk
102	NP	Indicia		6,000		unk
103	NP	Indicia		925		unk

	(1a)	(1b)	(2)	(3)	(4)	(5)
104	REGULAR	Indicia	5,000			
105	REGULAR	Indicia	15,000			
106	REGULAR	Indicia	200,000			
107	REGULAR	Indicia	71,000			
108	NP	Indicia		7,000		unk
SUBTOTALS			1,953,465	1,655,730	9,197,178	

Exhibit ANM-T1-1
(Revised 2-9-98)

EXPLANATION AND NOTES

SUBJ: Exhibit 1 - ANM-T1-1
Responses to Survey of Alliance of Nonprofit Mailers
Survey Conducted December 16, 1997 - Current

PURPOSE: As outlined in the testimony of Dr. John Haldi, the ANM has come to recognize that a significant volume of mail marked as "nonprofit" actually paid Standard (A) Regular rates in FY 1996, the base year in Docket No. R97-1.

To better learn the scope of this phenomenon, on December 9, 1997 the ANM submitted seven interrogatories (ANM/USPS-20-26) to the Postal Service.

ANM/USPS- 20 sought to learn how much volume of "nonprofit" mail was forced to pay regular rates because "the Postal Service determined, before or during entry of the mail, that it did not qualify" for nonprofit rates.

ANM/USPS - 21 sought to learn how much nonprofit mail was retroactively found to require commercial rates of postage because material in the mailpiece disqualified it for nonprofit rates.

ANM/USPS - 25 sought to learn how data were revised on USPS Form 3602s after a "nonprofit" mailing was forced to pay commercial rates.

Because the Postal Service has objected to these interrogatories, and refused to hold a technical conference to assess what partial information is or may be available from the Postal Service, and because an understanding of this pattern is important to this proceeding, the ANM has undertaken to collect as much data as can be produced within the limited resources and time available.

KEY: All volumes reported in this survey are of Standard Mail (A) Regular that was entered by nonprofit organizations at the commercial rate, or that was subsequently assessed and paid the full commercial rate.

Column 1 represents the type of permit and subclass marked on the mailpiece.

Column 2 contains volumes of Standard (A) Regular rate mail sent by a nonprofit organization under *regular rate* markings because the mailpiece was ruled to contain ineligible material that disqualified it for nonprofit rates. [See ANM/USPS-20]

Exhibit ANM-T1-1
(Revised 2-9-98)

Column 3 contains volumes of Standard A Regular rate mail sent by a nonprofit organization with *nonprofit rate* markings but, because the mailpiece was ruled to contain ineligible material that disqualified it for nonprofit rates, commercial rates were actually paid. [See ANM/USPS-20]

Column 4 contains volumes of Standard (A) Regular rate mail sent by a nonprofit organization under *nonprofit rate* markings that were later ruled to contain ineligible material that disqualified it for nonprofit rates. Commercial rates of postage were retroactively assessed these volumes. [See ANM/USPS-21]

Column 5 represents the answer to the question: "for how many (if any) of the pieces identified" [in column 4] was a revised Form 3602 filed?

SURVEY: A sample survey is attached. It was faxed, e-mailed and mailed to hundreds of nonprofit mailers. (It is impossible to identify how many nonprofit executives received the survey because it was copied and recopied by other "umbrella" nonprofit organizations.) For surveys that were incomplete, phone calls were made to supplement the filing.

SUMMARY:

At the time and point of entry:

- Column 2 demonstrates that 31 organizations paid commercial rates and used regular rate indicia.
- Column 3 demonstrates that 49 organizations paid commercial rates but used nonprofit markings.
- Column 4 demonstrates that 28 organizations entered nonprofit mail at nonprofit rates and with nonprofit markings, but later were assessed regular rates. Of those 28 mailers, at least 13 organizations were certain that a corrected USPS Form 3602-R had been filed.



MEMO: December 17, 1997
 TO: Members and Friends of the Alliance of Nonprofit Mailers
 FROM: Neal Denton, Executive Director
 SUBJ: Important Request to Provide Information for Rate Case

For those of you that read the regular *Alliance Report*, you know that the ongoing postal rate case litigation before the Postal Rate Commission threatens to hit nonprofit Standard A mailers with substantial increases. For some members and friends, the rate increases could be as high as 15-18%.

In order to best protect your interests and the interests of your colleagues in this critical coalition — we urgently need your response to the important questions listed below. After learning some very important information from an earlier set of questions, our Litigation Team needs this follow-up information in order to present our best defense before the Postal Rate Commission.

Could you please take personal responsibility to see that these questions are answered and that this page is faxed back to the Alliance office AS SOON AS POSSIBLE? At the very least, please try to have these responses back to us by Monday, December 22 (fax 202-462-0423).

Organization: _____

Date: _____

Address: _____

Does your organization use Fiscal Year or Calendar Year volume data?
 (Please circle one)

Name of contact: _____

Telephone No. _____

Email Address _____

I. 1996 Bulk Mailings

1. How many pieces of mail did your organization enter at the Standard A nonprofit rates (or the old third-class nonprofit rates) during Fiscal Year 1996 (i.e., from October 1, 1995 to September 30, 1996)?

2a. How many pieces of mail did your organization enter at the Standard A regular (commercial) rates (the old third-class regular, bulk rates) in FY 96?

2b. For mail entered at the Standard A regular rates (the old third-class regular, commercial bulk rates), what permit was used?

nonprofit permit _____ regular Rate permit _____

2c. For mail that your organization sent at the Standard A regular rate [the old third-class regular, bulk (commercial) rates], what postal indicia did the organization use?

	Nonprofit	Regular rate
Indicia	_____	_____
Stamps	_____	_____
Meter	_____	_____

3. Why did your organization enter mail at the Standard A regular rates (the old third-class regular, bulk rates)?
 - Because your organization decided that the mail was ineligible for the nonprofit rates?
 - Because the Postal Service had told your organization that this mail did not qualify for the nonprofit rates?

II. Mailings Retroactively Assessed

5. Did your organization enter at the Standard A (formerly third-class) nonprofit rates any mail that was later determined by the Postal Service not to qualify for the nonprofit rates?
6. Did you appeal the assessment?
7. What was the result of the appeal?
8. For how many pieces of mail entered at nonprofit rates in Fiscal Year 1996 did you ultimately pay the difference between nonprofit and commercial postage?
9. For how many (if any) of the pieces identified in response to Question 8 did you file a revised Form 3602?

III. Mailings Under Reclassification

10. How many pieces of mail, if any, was your organization permitted to enter at the Standard A nonprofit ECR (Enhanced Carrier Route) rates after the effective date of reclassification, (October 6, 1996) that failed to meet all the post-reclassification mail preparation requirements? In other words, for how much mail did the Postal Service waive some or all of the requirements for ECR rates?

PLEASE FAX TO THE ALLIANCE OF NONPROFIT MAILERS AT 202-462-0423. YOUR PROMPT ATTENTION TO THIS SURVEY WILL ASSIST IN REPRESENTING THE INTERESTS OF NONPROFIT MAILERS IN THE CURRENT USPS RATE CASE.

Thank you for your time.

1 CHAIRMAN GLEIMAN: Dr. Haldi, have you had an
2 opportunity to examine the packet Designated Written
3 Cross-Examination that was made available earlier today?

4 THE WITNESS: Yes, I did, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would. I would note, Mr.
9 Chairman, the packet I examined indicated on the front that
10 UPS-1 was designated but it wasn't in the packet that I was
11 handed.

12 CHAIRMAN GLEIMAN: That correction has been made.
13 If you want to look at that --

14 THE WITNESS: No, I have a copy of it, thank you.

15 CHAIRMAN GLEIMAN: Okay.

16 If you're comfortable with the fact that we've
17 added that interrogatory to the package, then I'll provide
18 two copies of the Designated Written Cross-Examination to
19 the reporter and direct that it be accepted into evidence
20 and transcribed into the record at this point.

21 [Designation of Written
22 Cross-Examination of Dr. John
23 Haldi, ANM-T-1, was received into
24 evidence and transcribed into the
25 record.]

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

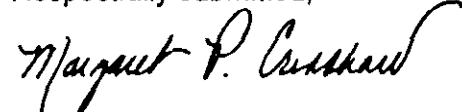
Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
(ANM-T1)

<u>Party</u>	<u>Interrogatories</u>
Newspaper Association of America	UPS/ANM-T1-1
United States Postal Service	USPS/ANM-T1-1-22, 24-40

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

UPS/ANM-T1-1

USPS/ANM-T1-1

USPS/ANM-T1-2

USPS/ANM-T1-3

USPS/ANM-T1-4

USPS/ANM-T1-5

USPS/ANM-T1-6

USPS/ANM-T1-7

USPS/ANM-T1-8

USPS/ANM-T1-9

USPS/ANM-T1-10

USPS/ANM-T1-11

USPS/ANM-T1-12

USPS/ANM-T1-13

USPS/ANM-T1-14

USPS/ANM-T1-15

USPS/ANM-T1-16

USPS/ANM-T1-17

USPS/ANM-T1-18

USPS/ANM-T1-19

USPS/ANM-T1-20

USPS/ANM-T1-21

USPS/ANM-T1-22

USPS/ANM-T1-24

USPS/ANM-T1-25

USPS/ANM-T1-26

Designating Parties:

NAA

USPS

Interrogatory:

Designating Parties:

USPS/ANM-T1-27

USPS

USPS/ANM-T1-28

USPS

USPS/ANM-T1-29

USPS

USPS/ANM-T1-30

USPS

USPS/ANM-T1-31

USPS

USPS/ANM-T1-32

USPS

USPS/ANM-T1-33

USPS

USPS/ANM-T1-34

USPS

USPS/ANM-T1-35

USPS

USPS/ANM-T1-36

1158

USPS/ANM-T1-37

USPS

USPS/ANM-T1-38

U.S.P.S.

USPS/ANM-T1-39

1158

USPS/ANM-T1-40

115BPS

RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS
HALDI TO INTERROGATORIES OF THE UNITED PARCEL SERVICE

UPS/ANM-T1-1. Please refer to page 31, lines 10-12 of your testimony, where you conclude that Nonprofit Standard Mail (A) Regular IOCS tallies with recorded weight in excess of 16 ounces "are clearly in error, and these tallies should be disregarded."

- (a) Is it not possible that the class of these IOCS tallies was recorded correctly but the weight was misrecorded?
- (b) Confirm that the IOCS mail weight is not used by Postal Service witness Degen (USPS-T-12) in determining the costs of classes and subclasses of mail in his calculations. If not confirmed, please explain.
- (c) Is [sic] there any other data for these IOCS tallies to suggest that the mail class has been misrecorded?

RESPONSE

- (a) It is of course possible, as you suggest. However, when errors as egregious as those noted in my testimony occur, something is clearly wrong (e.g., the IOCS tally clerk's attention was diverted in a major way), and in my opinion all such tallies should be deleted from the IOCS database.
- (b) I am not aware that witness Degen used mail weight when determining the costs of classes and subclasses in his calculations. However, I am not sufficiently knowledgeable about witness Degen's procedures to confirm what he did or did not do. For confirmation, I suggest that you direct the question to witness Degen.
- (c) For the most part, the IOCS is what accountants would describe as a "single-entry" data system. Such data systems typically contain few, if any, checks and balances that enable the detection of errors of any kind.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-1. Please refer to page 46 of your testimony. Please explain what you mean by "postage evidencing." Does this refer to postage, endorsements, or other mailpiece characteristics?

RESPONSE

The term "postage evidencing," as used in my testimony at p. 46, refers to evidence of postage having been paid, in any of the various forms recognized by the Postal Service. As such, the term currently includes stamps, meter imprint and pre-printed indicia. In the future it may be expanded to include some form of computer-generated marking.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-2. On page 46, line 13 of your testimony, you state that TRACS samples water transportation movements. Please state your basis for this assertion.

RESPONSE

Upon review the statement in my testimony is not correct. It should read as follows:

TRACS is a sampling system, and it samples mail from all the different modes of postal transportation except water; i.e., air, highway and rail.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-3. On page 45, line 5 of your testimony, you present a figure of \$11,451,000 to represent the increase in purchased transportation costs for Nonprofit Standard A Regular mail. Please confirm that this figure is the result of the subtraction of CRA 1996 costs from CRA 1995 costs or \$50,937,000 - \$39,486,000.

RESPONSE

Confirmed.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-4. Is it your testimony that the entire increase in transportation costs results from TRACS? Please explain any other reasons underlying this cost increase, including increases in accrued costs and increases in the percentage of costs that are considered volume variable or attributable.

RESPONSE

I assume that your question means to refer to the increase, from FY95 to FY96, in transportation costs attributed to nonprofit Standard Mail (A). With that understanding, my answer is no, not all the increase in transportation cost was probably the result of TRACS. My testimony at page 10 notes that volume increased by 0.75 percent. The average weight also increased slightly, as shown in Table 7, page 20. These slight changes in cube may have been offset, at least partially, by the increase in destination entry shown in Table 6 at page 19 of my testimony. With respect to changes in the percentage of costs considered volume variable, see my response to USPS/ANM-T1-5.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-5. Is it your understanding that FY 1995 costs use the same volume variability factors for highway transportation as FY 1996? If it is not, please explain your understanding of any differences in the volume variabilities for highway transportation costs between FY 1995 and FY 1996.

RESPONSE

It is my understanding that FY96 is prepared on the same basis as FY95, and the difference between FY96 and BY96 reflects changes in assumption regarding variability. This understanding is based on the following statement by USPS witness Alexandrovich (USPS-T-5, pp. 3-4):

The costing methodology employed in the Fiscal Year 1996 CRA departs from that used in Fiscal Year 1995 only in two relatively minor respects. [footnote omitted] The first of these is a technical adjustment to correct for the different employee mix found in plants and non-plants at CAG A and CAG B sites in the In-Office Cost System (IOCS).

The second change in Fiscal Year 1996 costing is the creation of separate components for the costs associated with power transport equipment, such as forklifts, tractors and cargo carriers.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-6.

- (a) In developing your testimony regarding transportation cost changes from FY 1995 to FY 1996 did you consider any of the following:
 - (i) Changes in average weight per piece of Nonprofit Standard A Regular?
 - (ii) Changes in volume of Nonprofit Standard A Regular?
- (b) Would you agree that if Nonprofit Standard A Regular mail weighed more in FY 1996, other things being equal, it would tend to have a greater cube in FY 1996?

RESPONSE

- (a) (i) Yes; see my testimony at page 20, lines 1-13.
 - (ii) Yes; see my testimony at page 10, lines 10-12.
- (b) Yes.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-7. Do you have any evidence to support the proposition that Nonprofit Standard A mail traveled the same distance on average in FY 1996 that in FY 1995? If so, please provide such evidence.

RESPONSE

The year-to-year stability of the profile of Nonprofit Standard A mail, discussed in my testimony at pp 10-20, coupled with the slight increase in destination entry at BMCs (see Table 6, p. 19), would indicate that on average the distance traveled by Nonprofit Standard A mail in 1996 was no greater than the average distance traveled in 1995.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-8. Your testimony frequently uses terms such as "actual amount of mail" (e.g., page 46), "actual volumes of sampled mail" (page 49), "actual mail volume" (page 51), "actual volume of mail" (page 48), and "volume of mail actually transported" (page 54). To which of the following measures are you referring as "actual volume".

- (a) pieces
- (b) cubic feet
- (c) pounds
- (d) cubic foot miles
- (e) pound miles

If your answer is anything other than one of the above measures, please provide your preferred measure and explain why you prefer it.

RESPONSE

The references at pages 46, 48, 49, 50 and 51 are to measurements of mail as it is off-loaded from a truck. In this context, the above references are to cubic feet. The reference at page 54, to "volume of mail actually transported," would be to cubic foot miles.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-9. Please refer to page 47 of your testimony. On lines 8-9 you state that the truck capacity must "obviously be sized for whatever segment or segments have the highest average volume." Please explain the basis for this assertion.

RESPONSE

To put your question into perspective, the sentence immediately preceding the one referred to in your question states that "[o]n any given day, all segments of the route are necessarily served by the same truck." Thus, although on each successive day of the week, the Postal Service theoretically may be able to change the size of the truck used on a route, under normal operating conditions, for any given day the size of the truck is assumed to be fixed. On each day, therefore, the options are to size the truck (i) for the segment with the highest average volume, or (ii) for some segment with average volume somewhat less than the segment with the highest average volume. If option (ii) is selected, then on that day the truck may lack sufficient capacity to carry all volume on the segment with the highest average volume. Whenever that situation occurs, the Postal Service must either put another truck (and driver) into "emergency" service, or fail to transport some of the mail that day. Both of these latter options strike me as somewhat undesirable, hence option (i) above, sizing the truck for the segment with the highest average volume, would appear to be a generally sensible solution.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-10. Please provide a list of all documents you reviewed in preparation of the portions of your testimony that deal with postal purchased transportation costs or operations, and TRACS.

RESPONSE

Before July 10, 1997, when the Postal Service filed its case in this docket, I recall reading the following documents on the subject:

- Docket No. R90-1: Testimony and interrogatory responses of witness Cathy Rogerson.
- Docket No. R94-1: Oral cross-examination and interrogatory responses of witness Dana Barker; TRACS Sample Design, Programs and Documentation, Highway and Rail.

It is possible that I reviewed other documents which I do not recall.

Since July 10, 1997, I have reviewed the following items on the same subject:

Testimony: USPS-T-2 (Nieto); USPS-T-13 (Bradley); USPS-T-16 (Hatfield)

Library References: H-78, H-82

Interrogatory responses filed by witnesses: Nieto, Bradley, Hatfield

Oral cross-examination of witnesses: Nieto, Bradley

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-11. On pages 48-49 of your testimony, you state that in a TRACS highway test an OTR container "may have only one or two sacks of nonprofit mail" in it. Please provide your estimate of the frequency with which this occurred in TRACS tests in FY 1996 and in FY 1995.

RESPONSE

I have not examined the individual entries in the TRACS database for nonprofit mail. Moreover, as explained in my testimony at page 49, regardless of whether the OTR contains only one or two sacks of nonprofit mail (and nothing else), or is filled to the brim with nonprofit mail, the TRACS data collector records the OTR as 100 percent nonprofit mail. Consequently, as originally entered, the TRACS data provide no insight whatsoever on the answer to your question, hence even the most detailed examination of the TRACS database would not be expected to shed any light on the issue. Any quantitative estimate on my part would therefore be pure speculation, which I decline to make.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-12. On page 51, lines 16-19 of your testimony, you explain that when one sack or container is on a truck, it gets "stuck" with the entire cube. Please provide your estimate of the frequency with which this occurred in FY 1995 and FY 1996.

RESPONSE

The particular statement to which your question refers occurs within a "hypothetical" discussion that is intended to illustrate how TRACS works. Namely, TRACS "bends over backwards" to avoid any kind of cost averaging, even over a single route, which witness Bradley considers to be a joint cost. Instead, under TRACS, cost distribution to the classes of mail is inversely proportional to capacity utilization (see response to FGFSA/USPS-T2-45). From an economic perspective, the way TRACS distributes highway transportation costs is fundamentally wrong, no matter how often (or infrequently) trucks contain only one sack or container of mail. It would be my hope that the situation alluded to (*i.e.*, only one sack or container on an entire truck) would occur rarely, if ever. However, only a detailed examination of the TRACS database might reveal how often the situation actually occurs.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-13. On page 49, lines 4-5 of your testimony, you state that a container that is "practically empty" could have "just have easily been filled with something else". If no other mail is available would you recommend withholding the container from transportation until it can be filled? Please explain fully.

RESPONSE

To withhold a practically empty container from transportation until it can be filled, as the question posits, would be even more ridiculous than assigning the entire capacity of the container to the particular class of mail that happens to occupy only a small portion of the container.

Collectively, Postal Service highway contracts constitute a *scheduled* transportation network. Within the framework of timely departures and timely arrivals, the object is to transport as much mail as expeditiously as possible. Operation of the Postal Service's transportation system, including decisions such as that posed in this interrogatory, should be totally independent of TRACS, which is nothing more than a sampling system. That is, design of the sampling system should not determine or affect operation of the transportation system itself.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-14. On page 49, lines 11-13 of your testimony, you note that "the actual volume of mail is not recorded". Assume that an OTR is filled with nonprofit mail. Do you recommend that the entire contents of the OTR be counted in a TRACS test?

RESPONSE

Please see my response to USPS/ANM-T1-8, where I recommend that the actual cubic feet of space occupied by each class of mail be recorded. If the OTR is filled with nonprofit mail, then the full number of cubic feet within an OTR should be recorded and ascribed to nonprofit mail. When taking the TRACS test, the number of pieces would not need to be counted.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-15. Please refer to page 50, line 7 of your testimony, where you claim that TRACS is "capable of producing absolutely bizarre results." Please indicate which TRACS test in FY 1995 and FY 1996 produced results that you would consider to be "absolutely bizarre," and explain why you would view them in this manner.

RESPONSE

1. See response to FGFSA-T2-51. Three parcels, on a vehicle that was 70 percent empty, had combined calculated cubic feet of 2.37849. Through a series of expansions described there, a total of 1,807.29 cubic feet were ascribed to these three parcels. The expansion factor here is 760. The containers may have had some other loose parcels in them, but a large part of the expansion simply represents empty space.
2. See response to FGFSA-T2-52. A sack containing 183 pieces of mailcode M, weighing 8.125 pounds and having a calculated cubic feet of 0.45974, was deemed representative of other sacks which occupied a total of 9.868 cubic feet, or 20 percent of the container. This amount of actual mail, about 10 cubic feet, was then expanded to 541.54 cubic feet, which is 55 times the actual volume of mail in the container, and almost 1200 times the cubic feet of mail in the sampled sack.
3. See response to FGFSA-T2-53, where the ratio of the expanded cubic feet to the actual cubic feet of mail sampled ranges from 96 to 8,571, and the variation in this ratio has nothing to do with the amount of amount of mail, but instead is said to be depend upon factors such whether the sampled item was loose or in a container, and the type of container.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-16. Please refer to your testimony on pages 49-50, where you state that TRACS assigns "all available cube" on a truck "to whatever mail happens to be off-loaded from the truck." Is it your testimony that TRACS assigns "all cube" to offloaded mail?

RESPONSE

No. To simplify matters and help illustrate the point being made at that particular point in my testimony, I made the implicit assumption that the truck had reached an "end-point" and was being fully off-loaded. If the TRACS sample is taken at an intermediate stop, empty space is pro-rated between the volume off-loaded and the volume remaining on the truck.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-17. Please refer to your testimony on page 53 where you assert that "trucks systematically utilize more capacity in one direction".

- (a) Is this your understanding for inter-SCF routes that are round trips?
- (b) Is this your understanding for inter-SCF routes that are one-way?
- (c) Is this your understanding for inter-BMC routes that are round-trips?
- (d) Is this your understanding for inter-BMC routes that are one-way?

RESPONSE

- (a) Yes
- (b) No
- (c) Yes
- (d) No

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-18. Please refer to the following intra-BMC routing: BMC1 to SCF1 to SCF2 to BMC1.

- (a) Which of the three segments of this route do you consider to be inbound?
- (b) Would you agree that the truck moving on the first leg (BMC1 to SCF1) would "average significantly higher capacity utilization" than when the truck moves on the last leg (SCF2 to BMC1)? Please fully explain your response.

RESPONSE

- (a) Leg 1 is outbound. Leg 2 is mixed; to the extent that the truck contains mail loaded at the BMC for SCF2 it is outbound, and to the extent that the truck loads mail at SCF1 for the BMC, it is inbound. Leg 3 is inbound.
- (b) Yes. Mailers now dropship a large volume of Standard mail to BMCs. Consequently, the Postal Service has considerably more destinating mail which must be transported from BMCs to associated facilities that it has originating mail for transportation to BMCs. See also the response to FGFSA/USPS-T2-12, the part which shows highway capacity utilization factors for Intra-BMC. Based on a simple unweighted average of the percentages shown there, outbound trucks arriving at SCFs were 72.2 and 72.0 percent utilized in 1995 and 1996, respectively, while trucks arriving at BMCs had respective utilization factors of only 40.5 and 41.2 percent.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS WITNESS HALDI TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-19. On page 55 of your testimony, you recommend that TRACS should eliminate the procedures used to "assign absolutely empty floor space on the truck."

- (a) Are you recommending that this step be taken for one way movements?
- (b) Are you recommending that this step be taken for round-trip movements?
- (c) For what specific TRACS subsystems (e.g., intra-BMC) are you making this recommendation?

RESPONSE

- (a) Yes
- (b) Yes
- (c) For all highway accounts sampled by TRACS; *i.e.*, for intra-SCF highway, inter-SCF highway, intra-BMC highway, and inter-BMC highway.

**RESPONSE OF THE ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO UNITED STATES POSTAL SERVICE INTERROGATORIES**

USPS/ANM-T1-20. Please state any and all reasons why a mailing paid at commercial rates would be permitted to be entered into the mailstream bearing "nonprofit evidencing of postage."

RESPONSE

It is my understanding that for many years the Postal Service has permitted nonprofit organizations to use their nonprofit permit for Standard Mail (A) to enter a mailing at Standard A (formerly third-class) commercial rates if the organization so desired. When a nonprofit organization opts to pay the full commercial rate, acceptance clerks apparently do not object to the use of envelope stock (or meters or stamps) that indicate nonprofit evidencing of postage. The responses to the survey summarized in my Exhibit 1 (revised 2/9/98, and attached to USPS/ANM-T1-35)

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certainly indicate that many nonprofit organizations in fact have entered at commercial rates Standard Mail (A) with nonprofit evidencing of postage. Beyond documenting that the practice exists and is widespread, the Postal Service is the proper party to explain why it permits the practice to occur.

**RESPONSE OF THE ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO UNITED STATES POSTAL SERVICE INTERROGATORIES**

USPS/ANM-T1-21. Please specify which "accounting records" collect Standard (A) revenue data and aggregate mail processing costs, as you indicate on page 34 of your testimony, and describe in detail your understanding of how this is done.

RESPONSE

These are questions which ANM has been asking the Postal Service, with limited success. Doesn't the Postal Service know where and how it accounts for revenues and costs from Standard (A) mail?

Revenue data. It is my understanding that the Postal Service maintains separate revenue accounts for commercial rate and nonprofit Standard A mail. However, I do not have available a separate chart of Postal Service revenue accounts, hence I am unable to provide further detail. It is my understanding that the PERMIT system systematically records revenue and volume data from 3602s, but that such data are not complete and need to be reconciled with CRA data.

Mail processing costs. The reference to aggregate mail processing costs is to the costs collected for all the separate accounts maintained within Cost Segment 3 and reported in the CRA.

**RESPONSE OF THE ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO UNITED STATES POSTAL SERVICE INTERROGATORIES**

USPS/ANM-T1-22. At page 37, footnote 19 of your testimony, you indicate that the Office of Inspector General's Semiannual Report to Congress, FY 1997, Volume 1, "cites 79 Revenue Investigations against nonprofit organizations during the six-month period October 1, 1996 to March 31, 1997." Please confirm that you determined this figure by summing the listing of Revenue Investigations which indicated they were related to Nonprofit mailings, from pages 50-53 of the Semiannual Report. If you do not confirm, please explain fully.

RESPONSE

Confirmed. These figures were also confirmed by the response from H.J. Bauman in the Office of the Chief Inspector in a June 1997 Freedom of Information Act Request from the Alliance of Nonprofit Mailers (see FOIA 409-97).

**RESPONSE OF THE ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO UNITED STATES POSTAL SERVICE INTERROGATORIES**

USPS/ANM-T1-24. Please explain the source of each volume figure shown on page 42, lines 11-19 of your testimony, including citations and/or calculations used to arrive at each number. For all estimates that you derive from sample data, please provide 95 percent confidence intervals.

RESPONSE

1. The 1992 and 1996 volumes (11,999 and 12,209, respectively) are from LR-H-187, Section A, page 7.
2. The growth in volume, 210 (million), is the difference between 12,209 and 11,999.
3. As explained on page 42, the total growth in volume of nonprofit bulk mail between 1992-1996 is estimated at a 3.5 percent annual compound rate. Over four years, 3.5 percent compounds to 1.147523. This figure, times the 1992 volume of 11,999 (million) pieces, equals the 13,769 (million) pieces shown in the last row as "total volume."
4. The mail entered at commercial rates, 1,040 (million) and 520 (million) pieces, combined, is the difference between the 1996 volume in LR-H-187 (12,209 million pieces), and my estimate of total volume of mail entered by nonprofit organizations (13,769 million pieces). The two-third/one-third split is a conservative estimate based on my Exhibit 1.

RESPONSE OF THE ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO UNITED STATES POSTAL SERVICE INTERROGATORIES

USPS/ANM-T1-25. Please refer to page 42, lines 20-21 of your testimony. Please show how the 3.5 percent annual compound rate of growth in volume of nonprofit bulk mail was calculated or derived.

RESPONSE

See my testimony, page 41, lines 18-22.

$$\frac{11,999}{7,964} = 1.50666$$

$$(1.034)^{12} = 1.49363$$

$$(1.035)^{12} = 1.51106$$

$$(1.036)^{12} = 1.52867$$

**RESPONSE OF THE ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO UNITED STATES POSTAL SERVICE INTERROGATORIES**

USPS/ANM-T1-26. Please refer to Exhibit 1-ANM-T1 of your testimony, where you summarize the results of a survey conducted by ANM under your supervision. For each responding organization that mailed Standard A regular rate mail with a nonprofit indicia, please provide:

- (a) the name of the organization;
- (b) the organization's address;
- (c) the number of pieces entered at regular rates with nonprofit indicia; and
- (d) the name of the Postal facility(ies) where the mailing (s) were entered.

RESPONSE

- (a) Objection filed.
- (b) Objection filed.
- (c) Any responsive information possessed by ANM appears in Exhibit ANM-T1-1 (revised 2/9/98), filed today under separate cover.
- (d) ANM does not possess this information.

**RESPONSE OF THE ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO UNITED STATES POSTAL SERVICE INTERROGATORIES**

USPS/ANM-T1-27. Please refer to page 43, lines 1-2 of your testimony, where you "estimate that at least two-thirds [of nonprofit bulk mail paying regular rates] had nonprofit evidencing of postage paid." Please provide a complete derivation for this estimate. If you derive this estimate from sample data, please provide 95 percent confidence intervals for the estimate.

RESPONSE

The estimate is based on the data in my Exhibit ANM-T-1, and includes mail that was originally entered at nonprofit rates (with nonprofit evidencing of postage) and retroactively assessed the difference between nonprofit and commercial postage. The data in my original Exhibit ANM-T-1 were as follows:

	<i>Volume (pieces)</i>	<i>Dist. (%)</i>
Entered with commercial evidencing	1,032,099	10.4%
Entered with nonprofit evidencing:		
Originally entered at commercial rates	586,652	5.9
Retroactive assessment	<u>8,329,878</u>	<u>83.7</u>
Total	9,948,629	100.0%

From these data I conservatively estimated that two-thirds of the growth in volume which was entered at commercial rates had nonprofit evidencing.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
USPS/ANM-T1-27 (continued)**

The data from my revised Exhibit 1 are as follows:

	<i>Volume (pieces)</i>	<i>Dist. (%)</i>
Entered with commercial evidencing	1,953,465	15.3%
Entered with nonprofit evidencing		
Originally entered at nonprofit rates	1,655,730	12.9
Retroactive assessment	<u>9,197,178</u>	<u>71.8</u>
Total	12,806,373	100.0%

On the basis of the above revised data, I continue to regard two-thirds as a conservative estimate. It was my hope that by this time the Postal Service would have provided more data and information on this issue.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-28. Please confirm that, according to the ANM survey conducted under your supervision, almost two-thirds of the pieces of bulk nonprofit mail entered at commercial rates had "regular rate evidencing of postage paid", i.e. $1,032,099/(1,032,099+586,652)$. If you do not confirm, please explain fully.

RESPONSE

Confirmed for the data in my Exhibit 1 as originally filed.

The updated data from my Exhibit 1 (revised 2/9/98) indicate that approximately 54 percent of all pieces of bulk nonprofit entered at commercial rates had regular rate evidencing of postage paid.

$(1,953,463)/(1,953,463 + 1,655,730)$

The data also indicate that 31 organizations paid commercial rates and used regular rate evidencing, while 49 organizations paid commercial rates but used nonprofit evidencing. In other words, about two-fifths of all nonprofit organizations that paid commercial rates (at the time the mail was entered) used commercial evidencing.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

- (c) Incomplete surveys were not included in my Exhibit.
- (d) Most incomplete surveys were generally submitted by nonprofit executives who received the survey questions but have no knowledge of the mailing operations of the nonprofit organization. Those returned surveys usually included the notation "I don't know the answers to these questions" or other words to the same effect.
- (e) See answer to (c) above.
- (f) No.
-
- (g) See the updated version of Exhibit ANM-T1-1 (Feb. 9, 1998), filed separately today.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/ANM-T1-29. Regarding Exhibit 1 to your testimony, which describes the survey you conducted of nonprofit mailers:

- (a) You indicate that you cannot determine how many nonprofit organizations actually received the survey. Please provide the number of surveys that were initially faxed, e-mailed and mailed.
- (b) How many of the surveys were mailed to "umbrella' nonprofit organizations"?
- (c) How many of the surveys were originally returned incomplete?
- (d) Were any of the survey questions more likely than others to be left incomplete? Please explain fully.
- (e) When survey forms were returned incomplete, please describe fully the procedures you used to supplement the responses.
- (f) Did you or ANM contact non-respondents? Which ones? Please explain fully your procedures for doing so.
- (g) How many more responses have you received since your testimony was completed?

RESPONSE

- (a) Approximately 700 surveys were initially sent to nonprofit organizations.
- (b) Many of the surveys were sent to "umbrella" organizations which themselves mail little or no preferred rate mail. Some of those organizations, however, solicited their membership to assist in compiling data for the survey.

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

USPS/ANM-T1-30. Please refer to ANM-T-1, page 23. You claim that "the higher ratio of direct tallies [for mail that is handled manually] will cause an increase in the share of "not handling" tallies and costs assigned to manually sorted mail."

- (a) Does your statement assume that the "not handling" costs are related to mail processing operations other than manual operations? Please explain fully.
- (b) Does your statement assume that "not handling" costs are distributed using an aggregate "mail processing direct labor" distribution, as in the "old" Postal Service methodology? Please explain fully.

RESPONSE

- (a) No. My statement pertains to the fact that "not handling" tallies are *distributed* in proportion to direct tallies. Very little seems to be known about what is *causing* the increase in the number and proportion of "not handling" tallies, or to what the "not handling" costs are related in any causal sense.
- (b) When I prepared my testimony, I was thinking of the "old" Postal Service methodology. I suspect, however, that my statement is equally applicable to the "new" Postal Service methodology. To elaborate, assume that the Postal Service does indeed have excess labor and that "not handling" tallies reflect the existence of such excess labor. Since machines typically have fixed complements, any excess clerks and mailhandlers are likely to be assigned either to a manual sorting operation or to some other operation that does not have a fixed complement (e.g., dock handling or an opening unit). These other operations then function as a sort of "excess labor pool" that can be drawn upon as needed. When clerks and

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

mailhandlers in this "excess labor pool" are "not handling" mail, the cost of the "not handling" tallies will be confined to the "excess labor pool"

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

(USPS/ANM-T1-30 continued)

(according to its MODS number where these employees are clocked in),
and will not be spread over a wider base.

The "new" MODS-based approach does nothing to provide a causal explanation for the high and increasing proportion of "not handling" tallies, nor does it explain whether any of these tallies are related to the claimed non-volume variability of mail processing cost, nor does it provide any kind of internal control to help contain "not handling" costs.

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

USPS/ANM-T1-31. Please refer to your testimony at page 24. You claim that "the sharp increase in mail processing cost, *relative to direct carrier costs*, is also fully consistent with the hypothesis that the Postal Service has excess mail processing labor" (emphasis in original).

- (a) Please confirm that "direct carrier costs" refers to city carrier in-office (cost segment 6) costs. If you do not confirm, please indicate the correct cost segment(s) and/or component(s).
- (b) Did you consider any other hypotheses that might explain the increase in mail processing costs relative to city carrier in-office costs? If so, please list all hypotheses you considered and all evidence that might support or refute each hypothesis.
- (c) Please refer to USPS-T-4 at pages 7-8. Could the increase in mail processing costs relative to city carrier in-office costs be consistent with the shift of delivery point sequencing (DPS) workload from city carriers to Delivery Bar Code Sorter (DBCS)-i.e., mail processing-operations? Please explain.

RESPONSE

- (a) Confirmed.
- (b) Yes, since over four-fifths of all nonprofit mail is letter-shaped (see Table 4 at page 14 of my testimony), I considered it possible that using DPS could have shifted some workload from city carriers to mail processing operations. Shifting workload from manual carrier casing to automated DPS should result in lower unit cost, not higher unit cost for both operations combined.

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

(USPS/ANM-T1-31 continued)

One alternative hypothesis considered is that IOCS mail processing tallies for nonprofit mail are simply erroneous. See my testimony, pages 26-33 for discussion of this possibility.

The other alternative hypothesis which I considered is that some Standard A mail entered by nonprofit organizations bears nonprofit evidencing of postage, and is recorded by the IOCS as nonprofit mail, while at the same time such mail pays commercial rates and is in fact recorded by the Postal Service's revenue and volume data systems as Commercial Standard A mail. See my testimony, pages 34-44 for discussion of this possibility. Also see my response to USPS/ANM-T1-35 and Exhibit 1 (revised 2/9/98) attached. The survey summarized in Exhibit 1 firmly establishes the correctness of this hypothesis. The only open question is the extent to which the situation described here exists.

(c) See answer to (b).

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

USPS/ANM-T1-32. Please refer to your testimony at page 31, and to USPS-LR-H-49, page 131.

- (a) For the seven tallies with anomalous weights, is it possible that the data collector recorded the subclass correctly but the weight incorrectly? If your answer is negative, please explain.
- (b) Assuming the error is only the recorded weight, is it necessary to disregard the tallies in computing the cost of Nonprofit Standard Mail (A)? Please explain.

RESPONSE

(a) With the IOCS, it seems that almost anything is possible. It is more likely, however, that the erroneous entry involves the class or subclass identification. Recording weight is a relatively simple and straightforward task. Moreover, based on my understanding of LR-H-49, page 131, the data collector must make two separate, erroneous entries to record weight improperly: first, by indicating that the weight is in excess of 4 ounces; and second, by recording an incorrect value for the actual weight of the mail piece.

(b) I do not fully understand the meaning of the phrase "is it necessary to disregard the tallies." At the time I wrote my testimony, it was my presumption that the Postal Service's standards for the IOCS database exist to maintain a high level of quality in the data. If such standards do not exist (or are unenforced), and the Service and the Commission are prepared to accept obvious garbage, then my answer is no, it is not necessary. In that case, though, why bother recording anything except the subclass?

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

USPS/ANM-T1-33. Please refer to ANM-T-1, page 32. Consider a letter-shape piece (per DMM C050) that weighs 3 lb.

- (a) Please confirm that the maximum volume of the mailpiece is approximately 17.61 cubic inches (6.125"x11.5"x0.25"). If you do not confirm, please provide the number you believe to be correct, and explain your answer.
- (b) Please confirm that the minimum density of such a piece is approximately 0.17 lb/cu. in. If you do not confirm, please provide the number you believe to be correct, and explain your answer.
- (c) Please explain what sort of Nonprofit Standard Mail (A) letters would be expected to have a density equal to or in excess of the density from part (b).

RESPONSE

- (a) Confirmed.
- (b) Confirmed.
- (c) A cubic foot (12" x 12" x 12") contains 1,728 cubic inches. A density of 0.17 lb/cubic inch is therefore equivalent to a density of 293.76 lbs/cubic foot. Ordinary 20-lb. paper has a density of approximately 50 lbs/cubic foot. Thus a Nonprofit Standard Mail (A) letter that weighs 3 pounds would be expected to have a density that is at least six times greater than the density of ordinary paper. The density would have to be considerably greater than water, which has a density of about 62 pounds per cubic foot, or even solid glass (which has a specific gravity 2.7 times heavier than water), but somewhat less than the density of solid iron, which has a specific gravity about 8 times that of water.

**RESPONSES OF ANM WITNESS JOHN HALDI
TO USPS INTERROGATORIES**

USPS/ANM-T1-34. Please refer to ANM-T-1, page 32.

- (a) Please confirm that, of the 2333 Standard Mail (A) Nonprofit tallies with recorded weight, 1485 tallies (63.65% of the total) have a recorded weight less than one ounce.
- (b) Please confirm that, of the 2333 Standard Mail (A) Nonprofit tallies with recorded weight, 428 (18.35% of the total) have a recorded weight between one and two ounces.
- (c) Is it possible that the weight distribution of the Standard Mail (A) Nonprofit tallies is consistent with an average weight per piece of 1.1 oz.? If your answer is negative, please provide a detailed proof of the impossibility.

RESPONSE

- (a) Confirmed.
- (b) Confirmed.
- (c) Yes, it is possible.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI TO USPS INTERROGATORIES**

USPS/ANM-T1-35. Please update the results of the survey you conducted on nonprofit Standard (A) mailers, to reflect survey responses that you received since completing your testimony.

RESPONSE

See Exhibit ANM-T1-1 (revised 2/9/98), filed separately today.

EXHIBIT ANM-T1-1
(revised 2-9-98)

**RESPONSES TO ANM SURVEY OF MAIL VOLUMES ENTERED IN FY 1996
FOR WHICH COMMERCIAL STANDARD (A) RATES WERE PAID**

MAILER	(1a) PERMIT USED	HOW SHOWN	COMMERCIAL STANDARD (A) POSTAGE ORIGINALLY PAID		NONPROFIT STANDARD (A) POSTAGE ORIGINALLY PAID	
			Pieces Entered With Commercial Standard (A) Indicia	Pieces Entered With Nonprofit Standard (A) Indicia	Pieces On Which Commercial Standard (A) Rates Were Later Assessed	Did Mailer Submit Revised Form 3602?
			(2)	(3)	(4)	(5)
1	NP	Indicia			15,000	yes
2	REGULAR	Indicia	50,000			
3	REGULAR	Indicia	22,291			
4	NP	Indicia/Meter				
5	NP	Indicia/meter				
6	NP	Indicia			1,000,000	no
7	NP	Indicia			5,300,000	no
8	NP	Meter		15,000		
9	NP	Indicia/Meter		45,641	6,050	no
10	NP	Meter		2,726		
11	NP	Indicia/Meter		25,000		
12	NP	Indicia/Meter		1,200		
13	NP	Indicia			500	no
14	NP	Indicia/Meter		10,000	10,000	yes
15	NP	Indicia		20,000		
16	REGULAR	Indicia	46,708			
17	REGULAR	Indicia	30,000			
18	REGULAR	Indicia	2,100			
19	NP	Indicia			560	yes
20	REGULAR	Indicia	750,000			
21	NP	Indicia			400,000	yes
22	NP	Indicia/Meter		102,170		
23	NP	Indicia		2,500	5,000	no
24	NP	Indicia		15,000		
25	REGULAR	Indicia	15,000			
26	NP	Indicia			1,081,278	no

	(1a)	(1b)	(2)	(3)	(4)	(5)
27	NP	Indicia		7,800		
28	NP	Indicia		9,912		
29	NP	unk		800		
30	NP	Meter		100,000		
31	NP	Indicia/Meter				
32	NP	Indicia			118,500	unk
33	NP	Indicia			16,000	unk
34	NP	Indicia		30,000	370	unk
35	NP	Indicia			65,000	no
36	NP	Indicia				
37	NP	Indicia		168,000		
38	NP	Indicia		23,578		
39	REGULAR	Meter	26,000			
40	REGULAR	Indicia/Meter	40,000			
41	REGULAR	Indicia/Meter	30,000			
42	NP	Indicia			620	unk
43	NP	Indicia		925		
44	NP	Indicia		2,900		
45	REGULAR	Indicia/Meter	20,000			
46	NP	Indicia			11,000	no
47	NP	Indicia			100,000	unk
48	NP	Indicia			200,000	yes
49	NP	Indicia		3,500		
50	NP	Indicia			70,000	no
51	NP	Indicia		1,000		
52	REGULAR	Indicia	10,000			
53	NP	Indicia			2,000	yes
54	REGULAR	Meter	3,000			
55	NP	Indicia		500,000		unk
56	NP	Indicia			2,200	unk
57	NP	Indicia			7,000	yes
58	REGULAR	Indicia	350,000			
59	NP	Indicia			100,000	no
60	NP	Indicia			500	yes
61	NP	Indicia			30,000	yes
62	REGULAR	Indicia	147,616			
63	NP	Indicia		200,000		unk
64	REGULAR	Meter	1,000			
65	NP	Indicia			600	no
66	NP	Meter		10,000		unk

	(1a)	(1b)	(2)	(3)	(4)	(5)
67	NP	Indicia			15,000	yes
68	NP	Indicia		10,000		unk
69	NP	Meter		4,000		unk
70	NP	Indicia		7,000		unk
71	NP	Indicia		30,000		unk
72	NP	Indicia		60,000		unk
73	NP	Indicia		6,000		unk
74	NP	Meter		3,603		unk
75	REGULAR	Indicia	10,000			
76	REGULAR	Indicia	10,000			
77	REGULAR	Meter	1,200			
78	REGULAR	Indicia	22,000			
79	NP	Indicia			640,000	yes
80	NP	Indicia		3,500		unk
81	NP	Indicia		4,800		unk
82	NP	Indicia		2,000		unk
83	NP	Indicia		50,000		yes
84	NP	Indicia		750		unk
85	NP	Indicia		6,000		unk
86	REGULAR	Meter	1,050			
87	NP	Indicia		5,000		unk
88	NP	Indicia		4,000		unk
89	REGULAR	Meter	3,500			
90	NP	Indicia		2,500		unk
91	NP	Indicia		2,500		unk
92	REGULAR	Indicia	15,000			
93	NP	Indicia		8,000		unk
94	NP	Indicia		80,000		yes
95	REGULAR	Indicia	50,000			
96	REGULAR	Meter	1,500			
97	REGULAR	Meter	2,000			
98	NP	Indicia		32,000		unk
99	REGULAR	Indicia	2,500			
100	NP	Indicia		2,500		unk
101	NP	Indicia		20,000		unk
102	NP	Indicia		6,000		unk
103	NP	Indicia		925		unk
104	REGULAR	Indicia	5,000			
105	REGULAR	Indicia	15,000			
106	REGULAR	Indicia	200,000			

Exhibit ANM-T1-1
(Revised 2-9-98)

EXPLANATION AND NOTES

- SUBJ:** Exhibit 1 - ANM-T1-1
Responses to Survey of Alliance of Nonprofit Mailers
Survey Conducted December 16, 1997 - Current
- PURPOSE:** As outlined in the testimony of Dr. John Haldi, the ANM has come to recognize that a significant volume of mail marked as "nonprofit" actually paid Standard (A) Regular rates in FY 1996, the base year in Docket No. R97-1.
- To better learn the scope of this phenomenon, on December 9, 1997 the ANM submitted seven interrogatories (ANM/USPS-20-26) to the Postal Service.
- ANM/USPS- 20 sought to learn how much volume of "nonprofit" mail was forced to pay regular rates because "the Postal Service determined, before or during entry of the mail, that it did not qualify" for nonprofit rates.
- ANM/USPS - 21 sought to learn how much nonprofit mail was retroactively found to require commercial rates of postage because material in the mailpiece disqualified it for nonprofit rates.
- ANM/USPS - 25 sought to learn how data were revised on USPS Form 3602s after a "nonprofit" mailing was forced to pay commercial rates.
- Because the Postal Service has objected to these interrogatories, and refused to hold a technical conference to assess what partial information is or may be available from the Postal Service, and because an understanding of this pattern is important to this proceeding, the ANM has undertaken to collect as much data as can be produced within the limited resources and time available.
- KEY:** All volumes reported in this survey are of Standard Mail (A) Regular that was entered by nonprofit organizations at the commercial rate, or that was subsequently assessed and paid the full commercial rate.
- Column 1 represents the type of permit and subclass marked on the mailpiece.
- Column 2 contains volumes of Standard (A) Regular rate mail sent by a nonprofit organization under *regular rate* markings because the mailpiece was ruled to contain ineligible material that disqualified it for nonprofit rates. [See ANM/USPS-20]

	(1a)	(1b)	(2)	(3)	(4)	(5)
107	REGULAR	Indicia	71,000			
108	NP	Indicia		7,000		unk
SUBTOTALS			1,953,465	1,655,730	9,197,178	

Exhibit ANM-T1-1
(Revised 2-9-98)

Column 3 contains volumes of Standard A Regular rate mail sent by a nonprofit organization with *nonprofit rate* markings but, because the mailpiece was ruled to contain ineligible material that disqualified it for nonprofit rates, commercial rates were actually paid. [See ANM/USPS-20]

Column 4 contains volumes of Standard (A) Regular rate mail sent by a nonprofit organization under *nonprofit rate* markings that were later ruled to contain ineligible material that disqualified it for nonprofit rates. Commercial rates of postage were retroactively assessed these volumes. [See ANM/USPS-21]

Column 5 represents the answer to the question: "for how many (if any) of the pieces identified" [in column 4] was a revised Form 3602 filed?

SURVEY: A sample survey is attached. It was faxed, e-mailed and mailed to hundreds of nonprofit mailers. (It is impossible to identify how many nonprofit executives received the survey because it was copied and recopied by other "umbrella" nonprofit organizations.) For surveys that were incomplete, phone calls were made to supplement the filing.

SUMMARY:

At the time and point of entry:

- -- Column 2 demonstrates that 31 organizations paid commercial rates and used regular rate indicia.
- Column 3 demonstrates that 49 organizations paid commercial rates but used nonprofit markings.
- Column 4 demonstrates that 28 organizations entered nonprofit mail at nonprofit rates and with nonprofit markings, but later were assessed regular rates. Of those 28 mailers, at least 13 organizations were certain that a corrected USPS Form 3602-R had been filed.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI TO USPS INTERROGATORIES**

USPS/ANM-T1-36. Please provide the information requested in USPS/ANM-T1-26, for the survey responses you received since completing your testimony.

RESPONSE

See Answer to USPS/ANM-T1-35, and objection filed on February 6, 1998.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI TO USPS INTERROGATORIES**

USPS/ANM-T1-37. Please confirm that some mailers mail both nonprofit and regular rate Standard (A) mail.

- (a) Do you consider it possible that some mailers could endorse pieces as regular rate when they intend to mail them at nonprofit rates?

RESPONSE

Only qualified nonprofit organizations can obtain a nonprofit permit and enter Standard A mail at nonprofit rates. I therefore assume that your reference to "some mailers" is to "some *nonprofit* mailers." With that clarification, yes, it is my understanding that during the course of a year some qualified nonprofit organizations will at various times enter Standard A mail at both the nonprofit and regular rate.

- (a) No. Mail entered with commercial "markings" or evidencing of postage must pay commercial rates.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI TO USPS INTERROGATORIES**

USPS/ANM-T1-38. Please indicate all bases for the statement you make in footnote 17 to your testimony, including any quantitative support you have.

RESPONSE

Footnote 17 notes that most nonprofit mail is believed to be entered with a preprinted indicia. That is a generalization formed after many years of experience working with nonprofit mailers, as well as observing mail that I receive personally from nonprofit organizations. As noted in the updated survey results, this generalization holds true.

Further, the Postal Service's Financial and Operating Statement for Accounting Period 13, PFY 1996, p. 5, shows the following for year-to-date revenue by source (millions):

Permit Imprint	\$12,796.0
Presorted First and Fourth Class/Permit Imprint	3,574.0

Year-to-date revenues for Periodicals and Standard A Mail, shown on page 3 of the same report, were as follows (millions):

Periodicals	\$ 1,989,683
Standard A	<u>12,162,717</u>
Total	\$14,152,390

Revenues from Permit Imprint thus amounted to approximately 90 percent of combined revenues from Periodicals and Standard A Mail—a fact which further supports my statement that most nonprofit Standard A mail (as well as most commercial Standard A mail) is entered with preprinted indicia.

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI TO USPS INTERROGATORIES**

USPS/ANM-T1-39. What, in your opinion, are the characteristics of nonprofit Standard (A) letters that make their costs so much lower than regular rate Standard (A) letters (for example, USPS-LR-H-106, page 11-5, indicates that the unit cost for nonprofit is 4.6 cents, while the unit cost for regular rate is 5.3 cents)?

RESPONSE

First, as shown in Table 7 at page 26 of my testimony, nonprofit bulk mail weighs significantly less than commercial bulk mail. While the average weight shown there is for letters and non-letters combined, I nevertheless suspect that nonprofit Standard A letters weigh somewhat less than commercial Standard A letters. Lower weight results in less bulk, or less cube, which can reduce costs in all processing operations except individual piece sortation.

Second, while I do not have statistics on average haul for nonprofit and commercial rate Standard A mail, I suspect that much nonprofit mail is local mail, and that nonprofit Standard A mail has a shorter average haul, indicating less movement through the postal network, with corresponding lower costs. (In general, more movement through the postal network increases handling, or mail processing costs.)

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
WITNESS JOHN HALDI TO USPS INTERROGATORIES**

USPS/ANM-T1-40. Please refer to your testimony, at page 39, where you describe a situation where "nonprofit organizations may have prepared a mailing using nonprofit evidence of postage, only to have the Postal Service demand payment of the full regular rates before allowing the mail to be entered." Please estimate the costs to a nonprofit mailer in this circumstance, if he or she were required to provide proper evidence of postage prior to entering that mail.

RESPONSE

Under the circumstances described, the mail might be entered "under protest," in which case the mail would be processed and delivered with nonprofit evidence of postage, and its status with respect to rates and proper subclass category would be determined later.

Should the Postal Service require the nonprofit evidencing of postage to be changed to commercial rate, the mailer would have to (1) re-envelope the contents (which probably would be labor intensive and rather expensive) or (2) change the evidencing by covering the nonprofit evidencing with commercial rate bulk mail stamp or meter strip. This probably would be less costly than re-enveloping the mail, but would certainly increase the mailer's cost and delay entry somewhat.

A long run solution to the problem identified in my testimony may indeed include a requirement that mail entered at commercial rates bear commercial, not nonprofit evidencing of postage. The costs to nonprofit mailers of complying with such a rule will depend in large part on whether the Postal Service gives mailers adequate advance notice of the change.

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

3 [No response.]

4 CHAIRMAN GLEIMAN: If there is none, we'll move on
5 to oral cross examination, but before we do that, I just
6 want to mention that Dr. Haldi will be coming back on March
7 the 3rd, as I understand it, in his capacity as a witness
8 for ANM to respond to cross examination, if there is any, on
9 his response to Presiding Officer's Information Request
10 Number 13.

Having said that, only one participant has asked
for oral cross examination at this point on the original
testimony, and that is the Postal Service. Does any other
party wish to cross examine?

15 [No response.]

16 CHAIRMAN GLEIMAN: If not, Ms. Reynolds, when
17 you're ready, you can proceed.

18 MS. REYNOLDS: Thank you, Mr. Chairman.

CROSS - EXAMINATION

20 BY MS. REYNOLDS:

21 Q Good afternoon, Dr. Haldi.

22 A Good afternoon, Ms. Reynolds.

23 Q Can we start by referring to page 37 of your
24 testimony, specifically footnote number 19 where you discuss
25 the 79 revenue investigations against non-profit mail that

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1 were conducted by the Postal Inspection Service.

2 Now, you got this figure from Volume 1 of the
3 Fiscal Year '97 Inspector General Semiannual Report to
4 Congress; is that correct?

5 A Yes, ma'am.

6 Q And in interrogatory response number 22 from the
7 Postal Service, you indicated that these figures were
8 confirmed for you in response to a Freedom of Information
9 Act request.

10 A That's correct.

11 Q Now, these 79 revenue investigations were
12 conducted in a period between October 1st, 1996 and March
13 31st, 1997.

14 A That's what the report indicated.

15 Q Okay. Isn't this fiscal year 1997?

16 A Yes, it is.

17 Q Do you have the number of Postal Inspection
18 Service revenue investigations that were conducted
19 concerning non-profit mail in fiscal year '96?

20 A I do not, no.

21 Q Okay. If I could turn your attention now to
22 interrogatory 24 from the Postal Service. Subpart 4 of your
23 response explains where you got two of the figures that
24 appear on pages 42 and 43 of your testimony. It's
25 one-thousand-forty-million and 520 million, and these are

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1 respectively mail entered at commercial rates by qualified
2 non-profit organizations with non-profit evidencing and with
3 regular rate evidencing, correct?

4 A Correct.

5 Q I would like to review quickly how you got those
6 figures. You took the difference, as I understand it,
7 between the 1996 volume figures from Postal Service Library
8 Reference H-187 and your estimate of the total volume of
9 mail entered by non-profit organizations, correct?

10 A Well, that number is in Library Reference H-187.

11 Q Which number?

12 A Well, the numbers for 1992 and 1996 are both out
13 of Library Reference H-187. Those are actual numbers.

14 Q The one-thousand-forty-million?

15 A No, no, no. I'm sorry. I took the number for
16 1992 -- if you go back to the response to question one, the
17 number for 1992 out of Library Reference H-187 was 11
18 million -- this is part one of my response to this
19 interrogatory here.

20 Q Okay. Okay.

21 A I took the number 11,000,999 -- 11,999,000,000,
22 really, and I multiplied it by the compound growth factor of
23 -- it's down there in part three of my response, 1.147523,
24 and that gave me a figure of what the non-profit mail would
25 have been in 1996 if it had grown -- or mail from non-profit

1 organizations had they grown at a compound rate of 3.5
2 percent a year. That number worked out to 13,769,000,000
3 pieces. The actual volume in 1996 was 12,209,000,000
4 pieces. So if you subtract 12,209,000,000 from
5 13,769,000,000, you get 1,560,000,000, and ten I took
6 two-thirds and one-third of that number, and those two
7 numbers add up to this -- that's the 1,040,000,000 and 520
8 million.

9 Q Okay. I follow you that far. This
10 two-third/one-third split that you used, this comes from the
11 results of your survey that you conducted for ANM; is that
12 correct?

13 A That's correct. That's correct.

14 Q Now, interrogatory 24 from the Postal Service
15 asked you to provide the sources of the numbers on page 42
16 as well as the 95 percent confidence interval. Do you have
17 such a confidence interval?

18 A No, I do not.

19 Q Okay. Let me talk a little bit with you about
20 that survey. Your response to USPS-ANM-T-1-29, if I could
21 refer you to that, that response indicates in part A that
22 you sent out about 700 surveys initially, but because of the
23 fact that some of the organizations to whom you sent the
24 surveys were umbrella organizations, we have no way of
25 telling how many non-profit executives actually received the

1 survey itself; is that correct?

2 A That's correct.

3 Q Now, according to your exhibit, ANM-T-1-1, you
4 received 108 responses, correct?

5 A Correct.

6 Q Can you produce any evidence that the survey
7 respondents were representative of the population of
8 non-profit mailers?

9 A We did not construct a universe and then sample
10 the universe, if that's what you're referring to.

11 Q Okay. Did ANM take any steps to measure or
12 correct for non-response bias?

13 A There really wasn't enough time to do any of that.

14 Q Okay. Let me refer you, if I can, to the survey
15 questionnaire that was used. In the first paragraph -- I'm
16 going to quote it -- the questionnaire states that, "Ongoing
17 postal rate case litigation before the Postal Rate
18 Commission threatens to hit non-profit Standard A mailers
19 with substantial increases."

20 Dr. Haldi, in your opinion, is this language
21 designed to elicit an impartial response?

22 A It's designed to elicit a response as opposed to a
23 non-response. This was sent out in a great hurry over the
24 Christmas holidays, and we knew we had a problem anyhow
25 because what happens in a lot of non-profit organizations is

1 the people who are in charge of preparing mail and sending
2 mail are not the people who deal with responses to the
3 mailing that goes out -- they open the envelopes, answer the
4 telephones, whatever -- and this being the Christmas holiday
5 season and a lot of the mail tied into that holiday season,
6 the mailings have gone out and the people who prepared the
7 mailings and knew the answers to the questions that we were
8 posing here of how was the mail entered, what indicia did it
9 have on it, rather detailed kind of questions, many of them
10 had gone on vacation. They had left the other group to
11 answer the responses. The mailings had been entered and
12 their job was done and they had gone on vacation for the
13 holidays. So we were trying to make sure we got as many
14 responses as we could.

15 Q You mentioned the questions on the survey. I
16 would like to ask you about some of those quickly.

17 Question 3 asks the mailer why their organization
18 entered the mail at Standard A rates, and they ask
19 specifically whether the -- because the organization decided
20 that the mail was ineligible or because the Postal Service
21 had told the organization that the mail didn't qualify.
22 Number 5 -- actually number 5 through 9 specifically ask
23 about mailings that were retroactively assessed for being
24 mailed at improper rates.

25 Now, suppose you're a non-profit executive, you

1 get this survey and you look at the questions, especially
2 three through nine, and you decide -- you're looking at
3 these questions -- that the survey just doesn't apply to
4 you. So would it be reasonable that such a non-profit
5 executive wouldn't bother to answer it?

6 A There's a lot of reasons for non-responses.
7 That's one, if it's not applicable. But I will say, as I
8 say, in terms of the total universe of non-profits, we
9 directed this to the membership of the Alliance and then
10 umbrella organizations who in turn were members, and if you
11 want to say we had a bias, the bias was that we directed
12 --the reason people joined the Alliance of Non-Profit
13 Mailers is because they rely heavily on the mails.
14 Organizations that either don't rely on the mail or that
15 have very light mailings tend not to be members. So we
16 tended in that sense to direct it to people known to be
17 mailers, users of non-profit bulk-rate mail.

18 Q Okay. Let me refer you to your response to
19 USPS-ANM-T-1-37.

20 A All right.

21 Q Your first sentence there indicates that only
22 qualified non-profit organizations can obtain a non-profit
23 permit and enter Standard A mail at non-profit rates.

24 Suppose a mailer has an application for mailing at
25 non-profit rates pending. Can you confirm that while the

1 application is pending, that mailer's mail must bear the
2 regular Standard A indicia?

3 A That's my understanding.

4 Q Now, once this application is approved, is it your
5 understanding that the mailer can receive a refund of the
6 difference between the regular and the non-profit rate?

7 A That's my understanding.

8 Q Now, in your survey, did you try to obtain
9 information regarding mailers who entered mail at commercial
10 rates while they had an application to mail at non-profit
11 rates pending?

12 A The survey does not include such mailers.

13 Q Now, do you know for a fact that those respondents
14 to the survey who said they had entered pieces with
15 non-profit Standard A mail indicia at commercial rates did
16 not have applications pending?

17 A I can't vouch for every single one in the survey,
18 but we have done a follow-up telephone check on quite a
19 number, and for those, I can vouch for that fact. But we
20 haven't followed up every one.

21 Q Do you know whether any of these respondents
22 subsequently got reimbursed for the difference in rates?

23 A I don't know for a fact that they did. In most
24 cases, I think they were the result of an appeals process.

25 Q All right. We discussed a couple of minutes ago

1 your response to USPS-24, and I would like to turn back to
2 it briefly.

3 Okay?

4 A Yes.

5 Q And you talked with us about the 3.5-percent
6 growth rate; is that correct?

7 A That's correct.

8 Q Now your estimate of the 3.5 percent annual
9 compound rate from 1992 to '96 is based on the growth rate
10 from 1980 to 1992; is that correct?

11 A Correct.

12 Q Do you know how reliable this estimate is? Do you
13 have a confidence interval around this estimate?

14 A I don't follow you.

15 Q Do you know how likely it is that the
16 3-1/2-percent annual growth rate is as applicable to the --

17 A Applicable or accurate? I mean, the data come,
18 the data for all the years come out of Library Reference
19 187.

20 Q Um-hum.

21 A I don't know if you're asking me how reliable
22 those data are, and if you turn to answer 25 of the next
23 question, 1.35 percent or 3.5 percent is -- I figured it out
24 later, it's really 1.347 something something something
25 percent. And I don't know what you mean by reliable.

1 Q Let me ask something slightly different. You took
2 the growth rate from 1980 to 1992.

3 A Correct.

4 Q And you extrapolated that the same growth rate
5 would be applicable to the years 1992 to 1996.

6 A Correct.

7 Q On what basis did you decide that this was -- that
8 this same growth rate would be applicable to these other
9 four years?

10 A All right. Testimony at page 44, Table 14.

11 CHAIRMAN GLEIMAN: Dr. Haldi, could I ask you to
12 speak up a little bit.

13 THE WITNESS: Yes, sir.

14 CHAIRMAN GLEIMAN: It's late in the afternoon. I
15 think we're fading up here.

16 THE WITNESS: I'll try to keep the microphone a
17 little closer here.

18 CHAIRMAN GLEIMAN: Thank you.

19 THE WITNESS: Here I have reproduced the data from
20 Library Reference 187 for all the years available from 1980
21 onward, and I'm not 100 percent sure of your question here,
22 but if you look at first of all the -- as I note in my
23 testimony -- the first change in the law was in 1990 when
24 they adopted the TIF, Travel, Insurance, and Finance
25 requirements, and that kind of didn't really start kicking

1 in till 1992, and then there was a subsequent amendment with
2 the Revenue Foregone Reform Act that kicked in particularly
3 with Postal Service well publicized inspection service
4 audits and other things starting around 1996 and continuing.

5 In the case of both nonprofit and regular rate
6 there's not been a uniform year-to-year growth, and in fact
7 if you look at the regular rate numbers from 1988 to 1992,
8 that's the second column there, column 2, there was a kind
9 of a stagnation in the growth of regular rate mail during
10 those years, and then starting in 1993 regular rate resumed
11 its growth. And I thought that the period 1980 to 1992 both
12 coincided with the time after the law took effect to start
13 really becoming effective, and I took a longer-term period
14 here as being more reflective than some short-term period
15 that you might consider nonrepresentative.

16 BY MS. REYNOLDS:

17 Q Let me just shift gears a little bit.

18 A All right.

19 Q And ask you about some Standard A mail. In your
20 experience if you found that all mail adheres to DMM
21 rules --

22 A All mail what?

23 Q Adheres to DMM rules for makeup.

24 A Well, I haven't inspected mail submitted for
25 acceptance at the dock. I assume that the Postal Service

1 enforces its DMM rules.

2 Q Would you be willing to accept that once in a
3 while a piece squeaks through that doesn't fit within every
4 rule that it's supposed to?

5 A Is your question am I willing to accept that the
6 Postal Service is less than 100-percent perfect? Yes, I'll
7 accept that subject to check.

8 [Laughter.]

9 Q As an institution and individually I can agree
10 with that.

11 For instance, do you think any Standard A mailers
12 have ever entered a piece as Standard A that weighs a little
13 bit more than a pound, say, 16.001 ounces?

14 A I suppose it may have happened.

15 Q Do you think 16.01 ounces?

16 A It may have happened.

17 Q Do you think maybe we could slide in one that's 17
18 ounces?

19 A In a bulk mailing I would be surprised if you did,
20 but I'd be loath to say never.

21 Q I'd like to refer you to pages 30 and 31 of your
22 testimony.

23 At the bottom of page 30 and continuing on to page
24 31, you cite a response that Postal Service Witness Degen
25 gave to a hypothetical question about a piece of Standard

1 Mail A that weighed more than 16 ounces.

2 In your testimony you emphasized the sentence, and
3 I am going to quote, "It cannot be determined from the
4 hypothetical whether the mail class was misidentified or the
5 weight was incorrectly entered" -- but would you agree that
6 there is a third possibility which is neither explicitly
7 stated nor precluded by Witness Degen's response, and that
8 is that the piece was heavier than the 16 ounce limit and
9 that it was correctly recorded.

10 Do you agree that that is possible?

11 A That is possible.

12 Q Now if mail -- a piece of mail does not adhere to
13 DMM rules, but is nevertheless observed in an IOCS reading,
14 is it your testimony that that reading should be eliminated
15 and not used in the costing?

16 A You haven't told us what shade of gray we are
17 talking about.

18 Are you talking about a piece that weighs 16.01
19 ounces or even 16.1 ounces or are you talking about a piece
20 that weighs three pounds?

21 Q Actually, I would be interested in your response
22 to either shade of gray.

23 Do you find a cutoff?

24 A Well, let's talk about inconsistency, if you will,
25 inconsistency with the DMM.

1 Pieces of Standard A mail are not supposed to
2 weigh three pounds or 2.5 or five pounds. If you record a
3 piece as weighing 2.5 pounds, I would call that a gross
4 inconsistency if you are saying it is Standard A mail, which
5 has a limit of 16 ounces.

6 If you tell me it weighs 16.1 ounces or 16.2
7 ounces, you know, it kind of slipped in over the line. I
8 don't consider that a gross inconsistency.

9 I would like to think that the IOCS has edit
10 checks which would take what I call gross inconsistencies or
11 absolute contradictions and throws them out and strives for
12 the cleanest possible database, even if it is slightly
13 smaller, but I am not aware of what data checks they use on
14 the IOCS tallies.

15 But myself, if I were in charge, I would strive
16 for a cleaner database even if it were slightly smaller than
17 opposed to one that was garbaged up but slightly larger but
18 subject to challenge.

19 Q Let me refer you to your response to
20 USPS/ANM-T1-32.

21 A Yes.

22 Q In Part A to that response you indicate that a
23 data collector needs to make two errors in order to record a
24 weight greater than the pound on a Standard A mail piece.

25 Basically as I understand you, they have to enter

1 that the piece weighs more than four ounces in the weight
2 question in the code software -- I think that is 23(g) --
3 and then they have to mis-key in the actual weight. Is that
4 correct?

5 A That is correct, yes. That is what I said.

6 Q Now suppose that the data collector samples
7 somebody who is handling a piece of Standard A, nonprofit
8 mail that weighs six ounces and let's suppose that that
9 weight of the piece gets entered as six pounds.

10 In this hypothetical, wouldn't the first entry,
11 the question of whether or not it is over four ounces,
12 wouldn't the first entry be entered correctly?

13 A Correct.

14 Q And then to enter the weight as six pounds, the
15 data collector would have to enter the six in one of two
16 fields and in this case he would have entered it in the
17 pound field rather than the ounce field.

18 A Correct.

19 Q Now do you suppose that a trained data collector
20 can tell the difference between a six pound piece and a six
21 ounce piece?

22 A One would like to hope.

23 Q Now are you aware that IOCS instructions for
24 subclass identification indicate that Standard A matter
25 weighs 16 ounces or less?

1 A I haven't read the handbook from cover to cover,
2 no. I will accept that if that is what you are
3 representing.

4 Q That works for me.

5 Do you know how many steps are required to
6 identify a piece of mail as Standard A nonprofit regular via
7 this question 23 in the IOCS code software?

8 A I did read that part, but I have forgotten it.

9 Q Would you accept that the steps are as follows.
10 They need to select Standard A from the subclass menu and
11 the weight -- and the question 23. They need to answer no
12 as to whether or not the piece is carrier route. They
13 select nonprofit from the mailing endorsements question,
14 which is 23(c).

15 Would you accept that that is the correct order,
16 subject to check?

17 A Subject to check, yes.

18 Q And is your understanding that if the data
19 collector does not note the presence of a nonprofit marking
20 a Standard A tally will receive a Standard A commercial
21 activity code?

22 A That would be my presumption.

23 Q I would like to move on to something a little
24 different.

25 I would like to ask you a couple questions about

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1 your nonsynchronization issue regarding nonprofit costs and
2 volumes.

3 Is it your testimony that this issue only applies
4 to mail with permit indicia, or do you believe that it also
5 applies to stamped and metered indicia?

6 A It can apply to any indicia, as I understand it,
7 if it is accepted with a nonprofit -- there is a nonprofit
8 bulk stamp, there's meters that say nonprofit on them and
9 there's a permit indicia that says nonprofit organization,
10 and the mailer can use any of those on the mail, but if it
11 is paid at regular rate but tallied by an IOCS tally clerk,
12 he would read nonprofit from either the stamp or the meter
13 strip or meter imprint or the indicia and record it as
14 nonprofit.

15 Q Are you aware that during the base year 1996 that
16 revenue and volume estimates for stamped and metered third
17 class mail or Standard A mail came from the domestic
18 probability subsystem of the RPW?

19 A I read that.

20 Q So for stamped and metered pieces of Standard A
21 mail the revenues and volumes depended on the observations
22 of data collectors looking at the pieces of mail?

23 A Right.

24 Q In your analysis -- let me back up.

25 If the revenue and volumes for this portion of

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1 Standard A mail are being recorded by data collectors, isn't
2 this very much the same means by which IOCS data collection
3 is done?

4 A You mean to pick up a piece of mail and look at
5 it? Yes.

6 Q So therefore would stamped and metered pieces have
7 the same problem as those entered by the permit?

8 A In terms of feeding into the data?

9 Q Right.

10 A Yes, they would -- to the extent they feed in that
11 way.

12 Q So is it your testimony that they would -- even
13 though the stamped and metered pieces, the revenue and
14 volume data is being collected the same way that the IOCS
15 data is being collected, is it your testimony that the
16 mismatch still exists for these pieces?

17 A Okay -- if they are all collected only through the
18 revenue, through the probability sampling system, and not
19 through forms that are filled out, then the mismatch
20 probably would be limited to pieces with indicia only.

21 My understanding is that the bulk stamp that you
22 buy, the bulk permit stamp, does not cover the whole
23 postage. It's only part of it and you have to fill out a
24 form 3602, whatever it is -- MP or something, and pay the
25 difference between what you pay for the stamps and the

1 actual rate categories that the mail is entered into
2 according to this presort condition, destination, entry and
3 so forth.

4 If you pick up those revenues off -- or those
5 volumes off of the form 3602-MP, even though it has stamps
6 on it, you would still have that problem.

7 Q I want to focus though on the pieces that aren't
8 using the form.

9 Your survey didn't account for the fact that some
10 of these have the revenue and volume data being collected
11 the same way as it is for IOCS, did it?

12 A We asked them what they used. In our survey we
13 didn't find anybody who had actually used the nonprofit bulk
14 stamp. We did find some who indicated they'd used meters.
15 The vast majority had used preprinted indicia.

16 Q Could you tell us how much highway transportation
17 cost was for Standard A non-profit, non-carrier route mail
18 in the base year?

19 A Read the question again, please.

20 Q Sure. Could you tell us how much -- how much
21 highway transportation cost was for Standard A non-profit,
22 non-carrier route mail in the base year?

23 A Well, my testimony has the total transportation
24 cost in, I thin, it's Table 8, which is at page -- yeah,
25 Table 8 at page 25 is the total transportation -- no. Yeah,

1 total transportation cost attributed to non-carrier route, I
2 guess that's called regular or something, non-profit mail.

3 Q May I ask you to accept, subject to check, that
4 the highway transportation cost for Standard A non-profit,
5 non-carrier route in the base year was \$36.5 million?

6 A All right. I'll accept that subject to check.

7 Q May I ask you to accept, subject to check, that
8 the 1996 volume for Standard A non-profit, non-carrier route
9 mail was 9,300,500,000?

10 A That the volumes -- wait a minute. When you say
11 base year, would you specify the base year again, please?

12 Q That's the base year 1996.

13 A 1996.

14 Q Right.

15 A And the highway transportation costs that year
16 were \$36 million?

17 Q Right. \$36-and-a-half-million.

18 A Okay.

19 Q And if you accept these two numbers, Dr. Haldi,
20 would you agree then that the total volume variable highway
21 transportation costs for non-profit, non-carrier route
22 Standard A mail is .4 cents per piece?

23 A Okay.

24 Q If I may for a minute, I would like to compare
25 this to the same information for parcel post costs, and the

1 reason I want to do this is the TRACS empty space allocation
2 that you discuss raises the highway cost for parcel post
3 mail, too, would you agree?

4 A I think -- probably. I haven't studied it, but
5 I'll --

6 Q Would you confirm, again, subject to check, that
7 the parcel post base year '96 highway cost is \$176.1
8 million?

9 A I can't confirm that. I'll accept it subject to
10 check.

11 Q And if you would accept, subject to check, that
12 the parcel post base year volume is 212.8 million?

13 MR. LEVY: Will counsel represent all of these
14 numbers that she is asking Dr. Haldi to accept subject to
15 check, are in fact checkable in the public documentation?

16 MS. REYNOLDS: Absolutely. They are on the
17 record.

18 THE WITNESS: Could you repeat the numbers for
19 parcel post, please?

20 MS. REYNOLDS: Sure.

21 BY MS. REYNOLDS:

22 Q The cost for the base year for parcel post highway
23 is \$176.1 million.

24 A Okay.

25 Q And the parcel post base year '96 volume is 212.8

1 million?

2 A Okay.

3 Q And would you accept that the base year unit
4 parcel post highway cost would therefore be about 83 cents
5 per piece? I have got a calculator if you would like.

6 A I'll accept that. It looks about right. Now, you
7 are asking me to compare these numbers with the non-profit
8 numbers, is that correct, that you read previously?

9 Q Or if you could simply confirm that the 83 cents
10 per piece is about 200 times as much as the Standard A
11 non-profit, non-carrier mail, carrier route mail?

12 A The -- give me the numbers on the carrier route
13 --non-profit, non-carrier route mail again.

14 Q Sure. For the cost?

15 A Yes.

16 Q It is \$36.5 million.

17 A All right.

18 Q For the volume, 9,300,500,000.

19 A Okay.

20 Q And that gives me a unit volume variable highway
21 transportation cost of .4 cents per piece.

22 A Okay.

23 Q So would you confirm that that -- the base year
24 unit parcel post highway cost of about 83 cents per piece is
25 over 200 times as much as that for Standard A, non-profit,

1 non-carrier route mail?

2 A Well, if I divide .4 cents into 83 cents, I get a
3 number slightly in excess of 200, so, yes, I will confirm
4 the arithmetic.

5 Q If I could turn your attention to page 47 of your
6 testimony, specifically lines 8 and 9, and also to your
7 response to Interrogatory No. 9 from the Postal Service.

8 A Okay.

9 Q In both places you indicate that the Postal
10 Service sizes a truck for a segment with the highest average
11 volume. Now, that is your conclusion, correct?

12 A That is correct.

13 Q Have you ever worked for the Postal Service in
14 Transportation Operations?

15 A No, I have not.

16 Q Are you familiar with any of the testimony of
17 James Orlando that was submitted in R80 or R84?

18 A I believe I reviewed it at that time.

19 Q Have you read any of it recently?

20 A No, I have not.

21 MS. REYNOLDS: I have with me a piece of Mr.
22 Orlando's testimony from R84 and what I would -- I would
23 like to show it to the witness, if I may.

24 MR. LEVY: No objection to that.

25 CHAIRMAN GLEIMAN: Do you just have one copy, Ms.

1 Reynolds?

2 MS. REYNOLDS: Oh, no, I have two copies.

3 CHAIRMAN GLEIMAN: Could you perhaps give counsel
4 a copy and maybe --

5 MS. REYNOLDS: I have got a copy for counsel.

6 Unfortunately, I don't have a copy for all of you.

7 CHAIRMAN GLEIMAN: That's all right.

8 COMMISSIONER LeBLANC: One copy, we'll share it.

9 BY MS. REYNOLDS:

10 Q If I can draw your attention to Mr. Orlando's
11 autobiographical sketch, the first paragraph, I believe.
12 You can see that he was responsible for administering Postal
13 purchased transportation.

14 A Yes.

15 Q May I refer you to page 9 of his testimony,
16 specifically, lines 11 through 15.

17 MR. LEVY: Mr. Chairman, I am going to object to
18 this line of questioning. It sounds an awful lot like
19 counsel is trying to get 13 year old testimony without an
20 authenticating witness. I mean the procedure for trying to
21 do this sort of thing would have been to move it under the
22 Commission's rules for prior testimony where it could be
23 subject to the usual standards and opposition for keeping it
24 in or getting it out.

25 Here, she is -- I think she is trying to use this

1 witness, who has said -- well, you know what foundation he
2 laid for knowing about this, is not in a position to either
3 authenticate or not authenticate this piece of 13 or 14 year
4 old testimony.

5 CHAIRMAN GLEIMAN: Ms. Reynolds?

6 MS. REYNOLDS: Witness Haldi has testified that he
7 is familiar with this testimony, and the portion which I
8 would have him review contradicts directly what he is
9 testing to in his testimony.

10 CHAIRMAN GLEIMAN: Well, let me just make two
11 points. One is that I believe that Witness Haldi said that
12 he had read Mr. Orlando's testimony at the time, and the
13 time was 14 years ago. That is No. 1. And, No. 2, I think
14 that Mr. Levy's point is valid about the authentication of
15 this testimony. It may have been the case that this is the
16 way things were done in 1984.

17 I asked a question earlier today when another
18 Postal Service counsel brought up Mr. Orlando's testimony.
19 Perhaps it was you who brought it up earlier, I don't
20 recall. And I guess that my concern is that this testimony
21 is somewhat old and it is not altogether clear to me that
22 is, in fact, the way that the Postal Service does things
23 now. And I think that you will have opportunity to present
24 rebuttal testimony on this point if you want, and,
25 therefore, I am going to rule in favor, I am going to

1 sustain Mr. Levy's objection.

2 BY MS. REYNOLDS:

3 Q In that case, let me refer you your responses to
4 Postal Service Interrogatories 8 and 14.

5 A Yes.

6 Q In your answer to No. 8 you say that the relevant
7 measure of volume of mail sampled is cubic feet of mail.
8 Just to clarify for my understanding, why do you choose
9 cubic feet and not pieces?

10 A Well, because the transportation is assigned or
11 costs are attributed on the basis of cube, and the relevant
12 interest then is how much is purchased on the basis of cube,
13 and it's attributed on the basis of cube. I believe that's
14 been the precedent for some time. So the relevant measure
15 would be the amount of the cube that the mail took up.

16 Q Are you referring to Dr. Bradley's attribution
17 factors or his analysis?

18 A My understanding is that transportation has been
19 attributed on the basis of cube -- highway transportation
20 costs have been attributed on the basis of cube before Dr.
21 Bradley's testimony in this case for several cases.

22 Q Can I refer you please to your testimony on page
23 45.

24 MS. REYNOLDS: At this point, Mr. Chairman, I
25 think it would be useful to work with a cross-examination

1 exhibit. We've designated it USPS/ANM-XE-1. I have two
2 copies for the reporter, copies for counsel, copies for the
3 bench, and a copy for the witness.

4 CHAIRMAN GLEIMAN: If you would please distribute
5 them.

6 [Cross-Examination Exhibit
7 USPS/ANM-XE-1 was marked for
8 identification.]

9 BY MS. REYNOLDS:

10 Q All right, Dr. Haldi, in your response -- in your
11 testimony at page 45, you cite the increase in purchased
12 transportation costs for nonprofit Standard A Regular mail
13 between fiscal year '95 and fiscal year '96 of \$11,451,000;
14 is that correct?

15 A That is correct.

16 Q Did you mean to say noncarrier-route nonprofit
17 Standard A mail?

18 A Well, I used the term -- I'm not sure what the
19 terminology is since reclassification -- but I used the term
20 nonprofit Standard Mail A Regular to refer to non-ECR. I'm
21 not terribly fond of a terminology that uses Regular in
22 conjunction with nonprofit mail, because I always
23 distinguish between nonprofit mail and regular rate mail.
24 But yes, that's -- I use that term to mean not what you're
25 calling non-carrier route or non-ECR mail.

1 Q Now as I understand it, the rest of your testimony
2 that has to do with TRACS concerns highway cost increases.
3 Is that correct?

4 A That's correct.

5 Q Now would you accept, subject to check, that the
6 increase in highway cost for non-carrier route, nonprofit
7 Standard A mail from fiscal year '95 to fiscal year '96 was
8 from 25,162,000 to 32,723,000?

9 A Well, you've confused me now, because earlier you
10 said the highway cost in 1996 was 36.5 million, and now
11 you've got a document that says it's 32.7 million. So I'm
12 not sure what -- subject to check I guess I can accept
13 anything, but I'm not -- you've got me totally confused at
14 this point.

15 Q At this point let's work with the numbers that are
16 on this chart.

17 A All right.

18 Q At any rate, based on the numbers that appear
19 here, the change from fiscal year '95 to fiscal year '96 was
20 about 7,561,000, or about a 30 percent change; is that
21 correct?

22 A That -- in round numbers, that's the arithmetic I
23 get, yes.

24 Q Now the last line of this chart, you show an
25 increase in non-highway costs from fiscal year '95 to base

1 year '96 of 3,653,000; do you see that?

2 A Yes, I see that.

3 Q Now your testimony does not address this?

4 A No, I have only addressed highway transportation.

5 Q In your response to USPS No. 10, you listed the
6 documents that you reviewed in preparing your testimony.

7 Can you confirm that you have not reviewed the interrogatory
8 responses of Witness Patelunas in this proceeding?

9 A No, I can't confirm that. I did not review -- I
10 do not recall reviewing his responses in connection with the
11 preparation of this testimony. I have prepared other pieces
12 of testimony in this case, and I do recall reviewing Witness
13 Patelunas with respect to other pieces of testimony.

14 Q If I could refer you to your response to
15 USPS/ANM-T-1-5, there you discuss that your testimony on
16 non-profit transportation costs is based on the assumption
17 that volume variability factors used in the base year in
18 this case match the volume variability factors in FY 1995;
19 is that correct?

20 A Yes, I relied on the statement by Witness
21 Alexandrovich which I cite in that response.

22 Q I'd like to show you and your counsel copies of
23 two interrogatory responses from Witness Patelunas. If I
24 could ask you to review those.

25 CHAIRMAN GLEIMAN: Mr. Reynolds, while Dr. Haldi

1 is reviewing those two interrogatory responses, is Mr.
2 Orlando still employed by the Postal Service, do you know?

3 MS. REYNOLDS: It is my understanding that he
4 retired within the last fiscal year.

5 CHAIRMAN GLEIMAN: Well, I was hoping you might
6 call him as a rebuttal witness, because I notice from his
7 vitae that he is a member of the Traffic Club of Washington,
8 D.C., and I would have many questions from the bench to ask
9 him about Washington, D.C. traffic. But perhaps that's not
10 in the cards; I don't know.

11 [Laughter.]

12 MS. REYNOLDS: As opposed to the Pothole Club of
13 Washington, D.C.?

14 CHAIRMAN GLEIMAN: Well, we'd accept a rebuttal
15 witness on that also.

16 MR. LEVY: I think, sir, that's a term of art.

17 THE WITNESS: I have the responses and I have
18 reviewed them.

19 BY MS. REYNOLDS:

20 Q Does that review of your responses change in any
21 way your response to USPS/ANM-T-1-5?

22 A I'm not sure what it says, exactly. It refers to
23 the base year 1995 in a different docket, Docket No. MC-97-2
24 -- or no, I guess it was 97-3.

25 Q Dr. Haldi?

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1 A Yes.

2 Q Could I ask you to simply accept, subject to
3 check, that the volume variable cost between FY 1995 and FY
4 1996 increased 226,973,000 for --

5 MR. LEVY: I'm going to -- I'm sorry.

6 BY MS. REYNOLDS:

7 Q -- 22.8 percent?

8 MR. LEVY: I'm going to object to this line. The
9 Postal Service took one position in the testimony of
10 Alexandrovich, and I gather that the thrust of this
11 questioning is to confront the witness with two pieces of
12 testimony later by another witness that apparently take a
13 different tack. If the witness is going to be asked to
14 comment on these documents, which I think he has testified
15 he hasn't seen before, he ought to have a chance to review
16 it and explain it, rather than accept something subject to
17 check that he has never had a chance to see or think about
18 before.

19 CHAIRMAN GLEIMAN: Ms. Reynolds?

20 MR. LEVY: One more thing. In effect, he is being
21 to asked to impeach the Postal Service's own witness,
22 Alexandrovich.

23 MS. REYNOLDS: If ANM is interested in providing
24 Dr. Haldi more time to comment on these interrogatory
25 responses, we wouldn't mind having such commentary in

1 writing at a later date.

2 CHAIRMAN GLEIMAN: Well, actually Dr. Haldi is
3 going to be back wearing his -- well, he's going to be back
4 several times, but he's going to be back at least one more
5 time wearing his ANM hat. The question is whether, given
6 adequate time, he would be prepared to respond to questions
7 on these interrogatories. I have no problems if the Postal
8 Service wishes to impeach one of its witnesses. You know, I
9 don't know that that is in fact the case myself, looking at
10 these interrogatory responses that have been presented
11 today. If it's not objectionable to Dr. Haldi, I would like
12 to allow him an opportunity to examine these. He'll be back
13 here on March 3rd, and at that point in time if you have,
14 you know, objections to his responding to these, then we can
15 take it up at that point in time. I'm loath, at this point,
16 given his other, as the term has been used around here in
17 the past few days, homework, to ask him to put anything else
18 in writing at this point. He does have some
19 responsibilities with respect to a POIR. So why don't we
20 put these questions off until the 13th, if it's agreeable to
21 the --

22 THE WITNESS: Could I ask for some clarification?

23 CHAIRMAN GLEIMAN: Certainly.

24 THE WITNESS: Are you asking me to affirm that the
25 volume variability of highway transportation costs or all

1 transportation costs, whichever, did in fact change from
2 fiscal year '95 to fiscal year '96 in contradiction to what
3 Witness Alexandrovich said?

4 MS. REYNOLDS: That would be fine.

5 CHAIRMAN GLEIMAN: You know, it would be very
6 useful at this point if you have a list of questions, if you
7 simply read those questions into the record at this point.
8 Dr. Haldi has the two interrogatories in question, and he
9 could study them in the context of the questions that you
10 had planned to ask today, and, you know, maybe that would
11 move things along when we come back on the 3rd, or maybe you
12 would chose at that point not to pursue the matter; I don't
13 know.

14 MS. REYNOLDS: Actually, I think we have chosen at
15 this point not to pursue the matter, and I'd like to move
16 on.

17 CHAIRMAN GLEIMAN: Then can we agree that the
18 homework assignment is cancelled?

19 MS. REYNOLDS: Yes.

20 CHAIRMAN GLEIMAN: And that we don't have to worry
21 about questions or responses with respect to these two
22 interrogatories?

23 MS. REYNOLDS: No.

24 CHAIRMAN GLEIMAN: Thank you.

25 BY MS. REYNOLDS:

1 Q Dr. Haldi, in your testimony, you discuss mail
2 processing productivity, and you refer to the testimony of
3 Time Warner Witness Stralberg; is that correct?

4 A That's correct.

5 Q Now Witness Stralberg's testimony focuses on the
6 costs of regular rate periodicals; isn't that correct?

7 A That's the focus of it, I believe, yes.

8 Q At this point I have prepared a cross examination
9 exhibit which has been designated USPS/ANM-XE-3 -- actually
10 I had earlier designated No. 3 -- I think it would be more
11 appropriate to use No. 2, and I will make that correction on
12 these copies. I have a copy for the witness, copy for
13 counsel, copy for the bench, and two copies for the
14 reporter.

15 MR. LEVY: So the exhibit we are about to see will
16 be marked XE-2?

17 MS. REYNOLDS: Yes.

18 [Cross-Examination Exhibit
19 USPS/ANM-XE-2 was marked for
20 identification.]

21 BY MS. REYNOLDS:

22 Q This cross-examination exhibit looks at some of
23 the costs for regular-rate periodicals and Standard A
24 nonprofit regular mail. The figures in the total column on
25 the far right come from Witness Degen's testimony. It's

1 USPS/T-12 as revised on October 17, 1997. And you'll see
2 that the total figures are broken out into five categories:
3 automated distribution, mechanized distribution, manual
4 distribution, allied labor, and other.

5 Can you confirm or accept subject to check that
6 the figures for each of the columns were derived by adding
7 the figures in Table 5 of USPS-T-12 for each of the
8 operations listed?

9 A Yes, I'll accept it, subject to check; yes.

10 Q This is verifiable from looking at --

11 A Yes.

12 Q Witness Degen's testimony.

13 Now at page 24 of your testimony you discuss your
14 hypothesis on mail processing costs related to regular-rate
15 periodicals and Standard A nonprofit regular mail. Is your
16 hypothesis based on similarities between processing
17 characteristics between regular-rate periodicals and
18 Standard A nonprofit regular mail?

19 A No, it had nothing to do with the similarities. I
20 referenced -- not on this page, but elsewhere, as you
21 noted -- I referenced Witness Stralberg's testimony. I
22 didn't give a precise page reference because I had read an
23 advance copy, and I didn't know where it was going to wind
24 up, which page it would wind up on after he finished writing
25 it.

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1 But he discusses in general how when you automate
2 something such as First Class mail and you have a fixed
3 complement on that machine and you then assign the workers
4 elsewhere to some other place such as allied labor or
5 something, the distribution of not handling mail tallies, if
6 they're done in direct proportion to the direct tallies, and
7 if the not handling mail tallies increase, that a class of
8 mail the handling of which has not changed at all winds up
9 picking up a larger share of not handling tallies, and
10 therefore gets a higher level of attributable costs just by
11 virtue of the fact that its direct handling costs and its
12 associated direct tallies have not gone down pro rata with
13 the class of mail which is being automated.

14 And so he points out that that's a phenomenon if
15 you will of the way the IOCS distributes the not handling
16 tallies. And that was irrespective of periodicals per se
17 that if you have a class of mail which receives a lot of
18 manual handling from this labor and its handling costs don't
19 go down, while another costs do go down sharply, but the
20 people who are working this mail now become not handling
21 tallies, that the classes I should say, plural, which are
22 still subject to the same amount of manual handling and the
23 same costs other than just cost-of-living increases or
24 something, pick up more of these not handling tallies if
25 they're distributed in proportion, and so their costs go up,

1 even though nothing's happened to cause their costs to go
2 up.

3 Q So it's your testimony that this is a problem --
4 now I'm not as familiar with Witness Stralberg's testimony,
5 but as he's testifying for Time Warner, I assume he's
6 focusing on Second Class Mail -- you're testifying that this
7 is a similar problem for Standard A nonprofit regular mail.

8 A For that portion which is not subject to
9 automation, not for the automatable letters, for example,
10 no, it's not a problem, but for the portion that's not
11 subject to automation, that us a potential problem; yes,
12 ma'am.

13 Q Well, if we could look at the Allied Labor costs
14 that are on USPS/ANM-XE-2, do you agree that those costs --
15 those are again according to Witness Degen -- for Standard A
16 nonprofit regular amount to about 25 percent of the total
17 mail processing costs for Standard A nonprofit regular?

18 That is to say the 7684 divided by the 287,180.

19 A The arithmetic appears correct; yes.

20 Q Whereas the same calculation for periodicals, the
21 Allied Labor is 42 percent of total mail processing costs.

22 A Yes.

23 Q Now isn't it true that regular-rate periodicals is
24 made up almost entirely of flats?

25 A I would expect it to be. I assume it is; yes.

1 Q And you've testified in Table 4, page 14 of your
2 testimony that Standard A nonprofit regular mail is made up
3 of about 80 percent letters; is that correct?

4 A That's correct; yes.

5 MS. REYNOLDS: Mr. Chairman, at this point I would
6 ask that cross-examination exhibit designated USPS/ANM-XE-2
7 be transcribed into the record as a cross-examination
8 exhibit and be moved into evidence.

9 CHAIRMAN GLEIMAN: Mr. Levy?

10 MR. LEVY: No objection to its transcription into
11 the record as a cross-examination exhibit. I would object
12 to its being admitted into evidence in its own right. If
13 this is merely a summary without complicated manipulations
14 from USPS-T-12, then there's no need to have this admitted
15 into evidence in its own right. If there are complicated
16 manipulations, then I don't think there's a foundation for
17 it.

18 CHAIRMAN GLEIMAN: Ms. Reynolds?

19 MS. REYNOLDS: We don't have a problem. That's
20 fine.

21 CHAIRMAN GLEIMAN: All right, then I'll direct
22 that Cross-Examination Exhibit No. 2 be transcribed into the
23 record at this point.

24 [Cross-Examination Exhibit
25 USPS/ANM-XE-2 was received into

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1 evidence and transcribed into the
2 record.]
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USPS/ANM-XB-32

Cross-Examination Exhibit for witness Haldi (ANM-T-1)
BY 1996 Mail Processing Cost at MODS 1&2 offices by LDC, Selected Subclasses

Cost (\$000)	Automated Distribution LDC 11 /1	Mechanized Distribution LDC 12-13 /2	Manual Distribution LDC 14 /3	Allied Labor LDC 17 /4	Other	Total
Regular Rate Periodicals	874	54,860	84,982	149,325	64,158	354,199
Standard (A) Nonprofit Regular	31,386	50,001	84,969	70,684	50,139	287,180
Distribution of Cost						
Regular Rate Periodicals	.0%	15%	24%	42%	18%	100%
Standard (A) Nonprofit Regular	11%	17%	30%	25%	17%	100%

Source: USPS-T-12, Table 5

Notes

/1 BCS, OCR

/2 FSM, LSM, SPBS Oth, SPBS Prio, Mecparc, 1SackS_m

/3 Manl, Manf, Manp, Priority

/4 1Bulk Pr, 1CancMPP, 1OpPref, 1OpBulk, 1Platfrm, 1Pouchng, 1SackS_h, 1SCAN

1 BY MS. REYNOLDS:

2 Q I'd like to take a look at Table 8 in your
3 testimony, which appears on page 25.

4 CHAIRMAN GLEIMAN: Ms. Reynolds, before you move
5 on, may I ask you a question about your cross-examination
6 exhibit? You've got a bunch of footnotes on there for each
7 of the columns, but there's a column, the second column in
8 from the right, that says other that doesn't have a
9 footnote. I mean, if you had a footnote, would the footnote
10 be other, and we don't know what other is?

11 MS. REYNOLDS: I know what other is. It's written
12 on a piece of paper that I believe is sitting in my office
13 right now. I believe the other can be derived from Witness
14 Degen's testimony.

15 CHAIRMAN GLEIMAN: Well, I'll take a look at
16 Witness Degen's testimony and see if he's got other in
17 there.

18 MS. REYNOLDS: It'll be easier to find in his
19 testimony than in my office.

20 CHAIRMAN GLEIMAN: Thank you. I apologize for the
21 interruption.

22 MS. REYNOLDS: Mr. Chairman, I have just had my
23 memory refreshed. It's all mods 1 and 2 cost pools that are
24 not otherwise listed in another footnote.

25 CHAIRMAN GLEIMAN: I'm sorry?

1 MS. REYNOLDS: All mods 1 and 2 cost pools that
2 are not listed in one of the other footnotes.

3 CHAIRMAN GLEIMAN: So it is truly other.

4 MS. REYNOLDS: Truly other.

5 [Laughter.]

6 CHAIRMAN GLEIMAN: And everything has to add up to
7 100, so we make adjustments.

8 MS. REYNOLDS: Even in my office.

9 BY MS. REYNOLDS:

10 Q All right. Table 8, Dr. Haldi, in your testimony,
11 in line 9, clerk and mail handlers, you show a percentage
12 change in cost of 9.2 percent; am I correct?

13 A That's correct.

14 Q And looking down to the total volume growth for
15 non-profit Standard A regular mail is 0.8 percent, correct?

16 A Correct.

17 Q What I would like to do is look at the unit costs
18 for these costs and subtracting the 0.8 percent from the 9.2
19 percent yields a unit cost --

20 A Wait. You're subtracting percentages or you're
21 subtracting costs?

22 Q I'm trying to get an estimate by subtracting the
23 percentages.

24 A The only percentages shown in Table 8 are in the
25 last column, column 4.

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1 Q Oh. Let me back up. If we take the 9.2
2 percentage change in clerks and mail-handlers' cost and
3 subtract from that the 0.8 percentage change in volume down
4 below, can you confirm that that gives us an 8.4 percent
5 increase in unit clerk and mail-handler cost?

6 A No, I can't confirm that.

7 Q Why is that?

8 A Well, you have a multiplicative factor. You're
9 comparing percentage changes in volumes with percentage
10 changes in cost, and you've got a kind of interactive effect
11 there. But it would be close.

12 Q What I'm going for is a rough estimate.

13 A A rough estimate, it would be about right.

14 Q So you will you accept that?

15 A Yes.

16 Q If we could do the same thing with line 11, which
17 is city delivery carriers' office, we've got a 1.8 percent
18 decrease, and if you subtract from that the 0.8 percent
19 change in volume, does that give us a rough estimate of a
20 2.6 percent decrease in city carrier per-piece cost?

21 A Rough, yes.

22 Q Do you consider that it would be reasonable to
23 expect clerk and mail-handler wages to have increased
24 between fiscal year 1995 and 1996?

25 A Yes. A small amount.

1 Q Okay.

2 MS. REYNOLDS: We have nothing further, Mr.
3 Chairman.

4 CHAIRMAN GLEIMAN: Is there any follow-up?
5 Questions from the bench?

6 I can't resist, Dr. Haldi. I have to ask you a
7 couple of questions, mainly because there is no Postal
8 Service witness here to ask them of.

9 Earlier on, there was some discussion about the
10 highway transportation cost and the ratio of highway
11 transportation cost for parcels versus non-profit letters.

12 THE WITNESS: Yes, sir. I recall that.

13 CHAIRMAN GLEIMAN: And just for curiosity's sake,
14 as I understood it, the ratio was something like 200 to 1 or
15 something like that.

16 THE WITNESS: I believe that was the number, yes,
17 sir.

18 CHAIRMAN GLEIMAN: And then you mentioned that
19 highway transportation costs are related to the cube when
20 you're --

21 THE WITNESS: Yes.

22 CHAIRMAN GLEIMAN: -- when you're purchasing.

23 Is there a relationship between the average size
24 parcel, what cube size it is and the number of non-profit
25 letters that it would take to fill up a cube of equal size

1 or something that I don't know about? I'm trying to figure
2 out, you know, a little bit in my own mind.

3 THE WITNESS: Well, I can -- I was a little bit
4 unclear as to where the line of question was going, but a
5 non-profit average letter weighs -- average piece, including
6 flats -- most of them are letters -- weighs about 1.1
7 ounces, I believe, and a one-ounce letter, if you take four
8 ordinary sheets of paper, fold it and put it in an envelope,
9 you would have about one ounce, depending on the weight --
10 an ordinary sheet of paper, just about one ounce. So 200
11 envelopes, which would be maybe part of a tray, would amount
12 -- that would amount to about a part of a tray, I guess, 200
13 envelopes, fairly thin envelopes with just four pieces of
14 paper in them weighing about an ounce.

15 I don't know if that's the equivalent of an
16 average parcel sample in the TRACS system. I don't know.

17 CHAIRMAN GLEIMAN: Okay. I just thought you might
18 know.

19 The other thing is that on Cross-Examination
20 Exhibit Number 2, I had asked Ms. Reynolds about that
21 column, one in from the right, the other column, and I
22 notice you were asked questions about the allied labor cost
23 differential between regular rate periodicals and standard
24 non-profit mail, and I noticed that in the other column,
25 that the percentage of cost is roughly equivalent, 17 versus

1 18 percent, for regular rate versus Standard A non-profit.

2 Can you think of -- I know we all wrestle with
3 what other is, but can you think of any reason why the other
4 is roughly equivalent other than to make the two rows add up
5 to 100 percent?

6 THE WITNESS: No, I'm not at this point that
7 familiar with all these mods cost pools to know what other
8 -- I know other includes things not listed above, but I'm
9 not sure what all those are at this point.

10 CHAIRMAN GLEIMAN: Is that other column something
11 like a non-modelled cost adjustment when you have an
12 engineering model to make the cost from the model add up to
13 the cost that you actually see in your cash register or --

14 THE WITNESS: Well, it always comes out in the
15 wash. The thing I noticed about this is that the manual
16 distribution non-profit regular mail, despite the fact that
17 it's 80 percent letters, has 30 percent versus 24 percent
18 for periodicals, most of which are processed on machines,
19 flat sorting machines these days.

20 CHAIRMAN GLEIMAN: I was going to --

21 THE WITNESS: I was a little bit surprised that it
22 was that high, but that was the point I was making earlier,
23 that manual distribution is one of those sort of amorphous
24 cost pools that supposedly excess labor gets assigned to
25 when you have a full complement on the machines.

1 CHAIRMAN GLEIMAN: Thank you.

2 Any follow up as a consequence of questions from
3 the bench?

4 MS. REYNOLDS: No, thank you.

5 CHAIRMAN GLEIMAN: Okay. Anyone else?

6 [No response.]

7 CHAIRMAN GLEIMAN: If that's the case, it brings
8 us to redirect. Mr. Levy?

9 MR. LEVY: May I take a minute to confer?

10 CHAIRMAN GLEIMAN: Certainly.

11 MR. LEVY: Thank you.

12 [Pause.]

13 CHAIRMAN GLEIMAN: Mr. Levy?

14 MR. LEVY: No redirect, Mr. Chairman.

15 CHAIRMAN GLEIMAN: If that is the case, Dr. Haldi,
16 I want to thank you once again. We appreciate your
17 appearance here today and your contributions to the record,
18 and if there is nothing further, you're excused until
19 tomorrow when we will see you again.

20 THE WITNESS: Thank you, Mr. Chairman.

21 CHAIRMAN GLEIMAN: We will convene on Friday,
22 February the 20th at 9:30 to receive testimony of the
23 Association of Alternate Postal System Witnesses Bradstreet
24 and Green, Saturation Mail Coalition Witness Buckel, Dr.
25 Haldi on behalf of Nashua District Mystic Seattle, and the

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1 Office of Consumer Advocate Witness Callow, and then finally
2 Advertising Mail Marketing Association Witness Schick.

3 You all have a good evening and we will see those
4 of you who have to be here tomorrow tomorrow.

5 [Whereupon, at 4:03 p.m., the hearing was
6 recessed, to reconvene at 9:30 a.m., Friday, February 20,
7 1998.]

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