

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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OFFICE OF THE ATTORNEY GENERAL

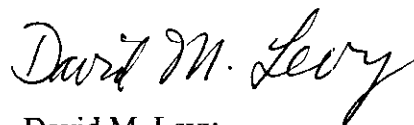
Docket No. R97-1

Postal Rate And Fee Changes, 1997

**RESPONSE OF ALLIANCE OF NONPROFIT MAILERS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 13**

The Alliance of Nonprofit Mailers ("ANM") hereby submits the response of its witness, John Haldi, to Presiding Officer's Information Request No. 13. The request is stated verbatim and followed by the response.

Respectfully submitted,



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February 26, 1998

REQUEST

At pages 42 and 43 of witness Haldi's testimony, he provides a rationale for shifting 7.85 percent of mail processing tallies from nonprofit mail to commercial mail, adjusting for piggybacks as necessary.

a. The 7.85 percent estimate does not distinguish between piece volumes for Standard (A) Nonprofit regular and Standard (A) Nonprofit Enhanced Carrier Route subclasses. Does the 7.85 percent estimate apply equally to both subclasses? If not, how should the costs in each subclass be adjusted, and what is the basis and rationale for these different adjustments?

b. Does the mail processing tally misidentification problem extend to carrier in-office tallies? If so, should carrier in-office costs be adjusted? Please provide a procedure and a rationale for any such adjustments you recommend.

c. What assumptions does witness Haldi make concerning shape of mail by subclass? Please discuss the reasonableness of those assumptions.

d. The total volume of bulk mail entered by nonprofit organizations is estimated on page 42 as 13,769 million. Please confirm that it is calculated by starting with the FY 1992 volume of third-class nonprofit mail and assuming a 3.5 percent annual growth factor through FY 1996. The corresponding volume total on page 43 is 13,249 million and apparently reflects the elimination of the 520 million pieces with regular rate evidencing. Please confirm. Please provide a rationale for removing this volume from the total on page 42 before calculating the percentage of volume that paid commercial rates but contained nonprofit markings.

RESPONSE

a. Yes, my estimate of 7.85 percent, and 1,040 million pieces, as developed at page 42 of my testimony, applies to both the Regular and ECR subclasses. It is suggested that costs be adjusted via the following procedure.

1. Use the billing determinants in LR-H-145 to develop the volumes of nonprofit mail by subclass and shape for FY 1996 (see Table 1, part A, attached).
2. Develop the distribution of nonprofit mail by subclass and shape for FY 1996 (see Table 1, part B, attached).
3. Using the percentage distribution in Table 1, part B, distribute the estimated volume of commercial rate mail with nonprofit evidencing (1,040 million pieces) by subclass and shape (see Table 2, attached). For discussion concerning assumptions about shape, see my response to part c, *infra*.
4. Estimate the total volume of mail with nonprofit evidencing of postage by adding the volume in Table 2 to the volume in Table 1, part A (see Table 3, attached).
5. Partition the direct mail processing IOCS tallies at MODS 1 & 2 offices by subclass and shape (see Table 4, attached). In Table 4, tallies for cards are included with letters, and tallies for IPPs and parcels are included with non-letters.
6. Divide the total volumes with nonprofit evidencing of postage (Table 3) by the respective tallies (Table 4) to

obtain the number of pieces per tally (see Table 5, attached).¹ Non-letters are tallied somewhat more frequently than letters, as noted by the fewer number of pieces per tally.

7. Divide the number of pieces of commercial rate mail with nonprofit evidencing (Table 2, attached) by the number of pieces per tally (Table 5, attached) to estimate the number of tallies incorrectly charged to letters and non-letters within each subclass of nonprofit mail (see Table 6, attached).
8. Reduce direct costs of the nonprofit Regular and ECR subclasses (and letters and flats within each respective subclass) in proportion to the tallies in Table 6 as a percentage of the tallies charged to each subclass and the shapes within each subclass.²
9. Make appropriate adjustments to nonprofit mail processing costs arising from (i) other, non-direct tallies, such as “not handling” and “handling empty equipment,” that are distributed on the basis of direct

¹ The total tallies are shown at page 27, Table 9, of my testimony, ANM-T-1. To be conservative, administrative and window service tallies have been omitted.

² This will require pooling and averaging the costs associated with direct tallies.

tallies, as well as (ii) piggybacked indirect costs from other cost segments, based on reductions in direct costs.

b. When a nonprofit organization enters mail at the commercial rate, but with nonprofit evidencing of postage, if such mail is sampled it is almost certain to be incorrectly recorded as nonprofit mail, regardless of whether the tally is taken in a mail processing operation or a carrier in-office operation.

It should be noted, however, that a portion of nonprofit mail is delivered by rural carriers, and that portion is not subject to being tallied and misidentified in city carrier in-office operations. Further, letter mail that is delivery point sequenced at plant and distribution centers is unlikely to be subject to carrier in-office tallies.

Of the total volume of nonprofit mail estimated to have been entered at commercial rates with nonprofit evidencing of postage in FY96 (1,040 million pieces), I estimate that some 45 percent, or 468.64 million pieces, would have been subject to in-office processing by city carriers. On this basis, the indicated adjustment to city carrier in-office costs would be somewhat less than the indicated adjustment to mail processing costs. The above volume breaks down as follows (millions):

| | |
|---------------------------------------|---------------|
| Non-carrier route letters: | |
| Delivery point sequenced on CSBCSs | 75.24 |
| Sequenced manually | 113.32 |
| Carrier route letters | 145.40 |
| Non-letters | <u>134.68</u> |
| TOTAL | 468.64 |

The volumes shown above are derived from Table 7, attached. The data in Table 7 were developed as follows. First, the percentage breakdown between nonprofit letters and non-letters, shown in column 4, was developed from the FY 1996 billing determinants in LR-H-145. These percentages were applied to the grand total (1,040 million pieces) to obtain the more detailed breakdown in column 3.

Second, the percentage distribution of nonprofit mail as between city and rural carriers was developed by comparing costs of city and rural carriers attributed to nonprofit mail in Base Year 1996.³ These percentages were used to distribute the estimated volume of letters and non-letters between city and rural carriers.

| Cost Segment | Attributable Cost (\$) | Distribution (%) |
|-------------------|------------------------|------------------|
| 6&7 City Carriers | 238,902 | 74.0 |
| 10 Rural Carriers | 83,844 | 26.0 |
| Total | 322,746 | 100.0 |

³ USPS-T-5, Exhibit USPS-5A, pp. 1 and 3.

Reasonableness of the above percentage breakdown between city and rural carriers was cross-checked against the total number of routes at the end of A/P 1 in FY97.⁴

| | Number | Distribution |
|-----------------|---------|--------------|
| Delivery Routes | 170,852 | 75% |
| Rural Routes | 57,674 | 25% |
| Total | 228,526 | 100% |

Third, the total volume of letters handled by city carriers (634.92 million, column 1) was distributed to carrier route and non-carrier route presort using the distribution in FY 96 billing determinants, LR-H-145. As shown in column 1, 489.52 million letter-shaped pieces were estimated to be non-carrier route presort. Of these, 23.15 percent (9.48% + 13.67%) were estimated to be sequenced manually by virtue of being non-upgradable to automation status.⁵ The remaining letters are considered to be automatable and subject to delivery point sequencing. Some of these automatable letters will be sequenced by clerks and mailhandlers on large BCSs, while others may be sequenced by carriers on CSBCSs. I have assumed an 80/20 split between BCS/CSBCS sequencing to be conservative with respect to the number likely to be handled by city carriers.

⁴ Financial and Operating Statement, p. 1.

⁵ See response of witness Daniels to ANM/USPS-T29-20; also Exhibit USPS-29B, page 1 (revised 2/24/98).

c. The practice of using nonprofit bulk permits to enter bulk mail at commercial rates in FY96 appears to have been quite widespread, geographically,⁶ by size of mailing, and by type of organization.⁷ The mail recorded in Exhibit 1, column 3 of my testimony is known to have included both letter and non-letter (flat) shapes.⁸

Mail entered by nonprofit organizations at commercial rates may have included some offer involving travel, insurance or finance (*e.g.*, affinity credit card), or some other prohibited back-end offer or questionable reference (*e.g.*, to VISA or MasterCard). It seems unlikely that mail with such offers or “commercial” references would consist only of a card, or be a parcel or an IPP. Aside from discounting these particular shapes, which account for a very small percentage of nonprofit mail, in the absence of more definitive data I assume that the mail in question resembles the profile of nonprofit mail as shown in the FY 1996 billing determinants, LR-H-145. In other words, although the mail in question was entered at commercial rates, *nevertheless I assume that it resembled the profile of nonprofit bulk mail, and not the profile of ordinary commercial rate bulk mail.*

⁶ My Exhibit 1, column 3, contains 49 responses that indicated use of a nonprofit permit to enter bulk mail at commercial rates with nonprofit evidencing of postage. Of those 49 responses, 25 were received from organizations in different states, ranging as far east as Massachusetts and as far west as Hawaii; also, as far north as North Dakota, and as far south as Florida.

⁷ Colleges and universities, farm organizations, health organizations, museums, religious groups, and symphony orchestras are included among the 49 respondents to the survey discussed in footnote 5, *supra*.

⁸ Less information is available concerning presort condition. Some respondents are said to have indicated that their mailing(s) reported in the survey was prepared by a commercial vendor and they did not know the presort condition.

d. The statements in this part of the POIR concerning the derivation of the numbers shown on page 42 of my testimony are confirmed. Also, see my response to USPS/ANM-T1-21.

The rationale for removing one-third of the volume is discussed in my response to USPS/ANM-T1-27. The resulting estimate that costs are overestimated by 7.85 percent is about 10 percent less than, but in the same general ballpark as, the 8.6 percent estimate derived using a different methodology with CRA unit cost data for five years on pages 25-26 of ANM's pretrial brief and in my response to NFN/ANM-T1-1.

Table 1

A. Recorded Volume of Standard A Nonprofit Mail
GFY 1996

| | Letters (1) | Non-letters (2) | Total (3) |
|------------------------------|----------------|--------------------|----------------|
| Required Presort: | | | |
| Minimum rate | 2,515,688,954 | 316,080,131 | |
| Pound rate | | 135,167,048 | |
| | ----- | ----- | |
| Subtotal | 2,515,688,954 | 451,247,179 | 2,966,936,133 |
| 3/5 Digit Presort | | | |
| Minimum rate | 5,154,123,939 | 888,795,191 | |
| Pound rate | | 290,611,151 | |
| | ----- | ----- | |
| Subtotal | 5,154,123,939 | 1,179,406,342 | 6,333,530,281 |
| Carrier Route Presort | | | |
| Minimum rate | 2,276,784,568 | 506,943,016 | |
| Pound rate | | 124,889,680 | |
| | ----- | ----- | |
| Subtotal | 2,276,784,568 | 631,832,696 | 2,908,617,264 |
| | ----- | ----- | ----- |
| TOTAL | 9,946,597,461 | 2,262,486,217 | 12,209,083,678 |

B. Distribution of Nonprofit Standard A Mail
GFY 1996

| | Letters (1) | Non-letters (2) | Total (3) |
|-----------------------|----------------|--------------------|--------------|
| Required Presort: | 20.61% | 3.70% | 24.30% |
| 3/5 Digit Presort | 42.22% | 9.66% | 51.88% |
| Carrier Route Presort | 18.65% | 5.18% | 23.82% |
| | ----- | ----- | ----- |
| Total | 81.47% | 18.53% | 100.00% |

Table 2

Mail Entered by Nonprofit Organizations at Commercial
Rates and with Nonprofit Evidencing
GFY 1996 (millions)

| | Letters (1) | Non-letters (2) | Total (3) |
|-----------------------|----------------|--------------------|--------------|
| Required Presort: | 214.3 | 38.4 | 252.7 |
| 3/5 Digit Presort | 439.0 | 100.5 | 539.5 |
| Carrier Route Presort | 193.9 | 53.8 | 247.8 |
| | ----- | ----- | ----- |
| Total | 847.3 | 192.7 | 1,040.0 |

Table 3

A. Total Volume of Standard A Mail with
Nonprofit Evidencing of Postage
GFY 1996

| | Letters (1) | Non-letters (2) | Total (3) |
|-----------------------|----------------|--------------------|----------------|
| Required Presort: | 2,729,981,573 | 489,685,532 | 3,219,667,104 |
| 3/5 Digit Presort | 5,593,164,987 | 1,279,871,097 | 6,873,036,084 |
| Carrier Route Presort | 2,470,726,719 | 685,653,771 | 3,156,380,490 |
| Total | 10,793,873,279 | 2,455,210,399 | 13,249,083,678 |

Table 4

Direct Mail Processing Tallies for Mail with Nonprofit
Evidencing of Postage at MODS 1&2 Offices
GFY 1996

| | Letters (1) | Non-letters (2) | Total (3) |
|-----------------------|----------------|--------------------|--------------|
| Regular Presort: | | | |
| Required & 3/5 Digit | 1,639 | 723 | 2,362 |
| Carrier Route Presort | 111 | 61 | 172 |
| | ----- | ----- | ----- |
| Total | 1,750 | 784 | 2,534 |

Table 5

Pieces of Nonprofit Mail per Direct
Mail Processing Tally
GFY 1996

| | Letters (1) | Non-letters (2) |
|-----------------------|----------------|--------------------|
| Regular Presort: | | |
| Required & 3/5 Digit | 5,078,186 | 2,447,520 |
| Carrier Route Presort | 22,258,799 | 11,240,226 |

Table 6

Estimated Number of Tallies of Mail with Nonprofit
Evidencing that Paid Commercial Rates

| | Letters (1) | Non-letters (2) |
|--|----------------|--------------------|
| Regular Presort: Required & 3/5 Digit | 129 | 57 |
| Carrier Route Presort | 9 | 5 |


Table 7

**Distribution of Mail Entered by Nonprofit Organizations at
Commercial Rates with Nonprofit Evidencing**

| | City Carriers (1) | Rural Carriers (2) | Total (3) | Dist. (%) (4) |
|----------------------|-------------------------|--------------------------|--------------|---------------------|
| | ----- | ----- | ----- | ----- |
| LETTERS: | | | | |
| Non-Carrier Route: | | | | |
| DPS'd at P&DC's | 300.96 | | | |
| DPS'd on CSBCSs | 75.24 | | | |
| Sorted manually | 113.32 | | | |
| | ----- | | | |
| Subtotal | 489.52 | 171.99 | 661.52 | |
| Carrier Route | 145.40 | 51.09 | 196.48 | |
| | ----- | ----- | ----- | |
| Subtotal | 634.92 | 223.08 | 858.00 | 82.5% |
| NON-LETTERS: | 134.68 | 47.32 | 182.00 | 17.5% |
| | ----- | ----- | ----- | ----- |
| Total | 769.60 | 270.40 | 1,040.00 | 100.0% |
| | ===== | ===== | ===== | |
| Distribution - % | 74.0% | 26.0% | 100.0% | |

DECLARATION

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



Dated: February 26, 1998

CERTIFICATE OF SERVICE

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

David M. Levy

February 26, 1998