

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

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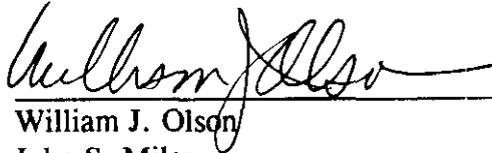
Nov 14 4 49 PM '97  
Docket No. R97-1  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997 )

NASHUA PHOTO INC., DISTRICT PHOTO INC.,  
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.  
FIFTH INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS  
TO POSTAL SERVICE WITNESS CHARLES L. CRUM (NDMS/USPS-T28-30-41)  
(November 14, 1997)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc., proceeding jointly herein, hereby submit the following interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,



William J. Olson

John S. Miles

Alan Woll

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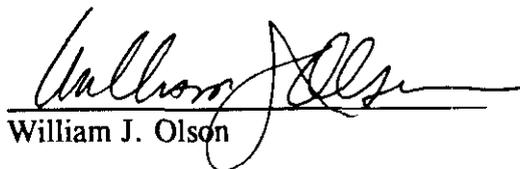
McLean, Virginia 22102-3823

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Counsel for Nashua Photo Inc., District Photo Inc.,  
Mystic Color Lab, and Seattle FilmWorks, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served by hand delivery or mail the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

November 14, 1997

**NDMS/USPS-T28-30.**

Please refer to your testimony at p. 10 (revised 10/1/97), where you cite certain "studies showing shape-based cost differences between letters and nonletters," and go on to note that:

Though the rate distinction [for shape-based cost differences] has always been limited by low "passthroughs," this concept is still integral to current Standard Mail (A) rates.

- a. Please identify the shape-based passthroughs for Standard A and third-class mail that have been in effect since shape-based rate differences were first adopted.
- b. In light of the passthroughs provided in response to preceding part a, please define or discuss what you consider to be a "low" passthrough, and distinguish "low" passthroughs from, say, "medium" or "high" passthroughs; *e.g.*, at what point does a "low" passthrough become a "medium" or "high" passthrough?
- c. What is your understanding of the rationale for, (i) on the one hand, recognizing shape-based cost differences in the rate structure, and (ii) on the other hand, for setting shape-based passthroughs "low." Please explain, including whether "low" passthroughs are also integral to the concept of recognizing shape-based cost differences.

**NDMS/USPS-T28-31.**

The following data for parcels are taken, or computed, from your Exhibit K, Tables 3A(1&2) and 3B(1&2) for Bulk Standard A Mail.

	Total Attributable Mail Processing Cost (000)	Unit Cost (cents)	Average Weight (ounces)
Regular Rate			
ECR	10,154	14.62	2.77
Regular	252,236	29.01	8.90
Nonprofit			
ECR	510	36.72	3.06
Regular	15,693	37.05	6.40

- a. Please confirm that the data shown above are correct. If not confirmed, please provide appropriate corrections.
- b. Within Regular Rate, the unit mail processing cost for an ECR parcel (14.62 cents) is about half the unit cost for a "Regular" parcel (29.01 cents).
  - (i) Is this difference in mail processing cost explained by the fact that ECR parcels avoid a certain amount of mail processing and handling? If not, please explain.
  - (ii) Which mail flow models presented in this docket (if any), are applicable to ECR or "Regular" parcels and show explicitly the processing and handling avoided by ECR parcels?
- c. Within Nonprofit, the unit mail processing cost for ECR parcels (36.72 cents) is almost the same as the unit cost for "Regular" parcels (37.05 cents). Please explain why the unit mail processing cost for Nonprofit ECR parcels is not significantly less than the unit cost of Nonprofit "Regular" parcels.
- d. (i) Why is the unit mail processing cost for Nonprofit ECR parcels (36.72 cents) 2.5 times the unit cost for Regular Rate ECR parcels (14.62 cents)?

- (ii) What processing and handling steps explain the 22.10 cent difference in unit cost?
  - (iii) What is the confidence interval for the two unit cost estimates?
  - (iv) How many IOCS tallies support the cost estimates for Nonprofit and Regular Rate ECR parcels?
- e. The average weight of a Nonprofit ECR parcel (3.06 ounces) is slightly heavier (by 0.29 ounces) than the average weight of a Regular Rate ECR parcel (2.77 ounces). Does the weight difference help explain the 22.10 cent mail processing cost difference? Please explain your answer.
- f. The unit mail processing cost for a Nonprofit "Regular" parcel (37.05 cents) is 8 cents more than the unit cost for a Regular Rate parcel (29.01 cents).
  - (i) What steps in handling explain this 8-cent difference in unit cost?
  - (ii) Do nonprofit parcels have a different, more expensive-to-handle shape than Regular Rate parcels?
  - (iii) What is the 95 percent level of confidence for the two unit cost estimates?
  - (iv) How many IOCS tallies support the mail processing cost estimates for Nonprofit and Regular Rate "Regular" parcels?
- g. Why does a lighter weight Nonprofit "Regular" parcel (6.4 ounces) have a unit mail processing cost that is 8 cents higher than a heavier Regular Rate parcel (8.9 ounces)?

**NDMS/USPS-T28-32.**

The following data for parcels are taken, or computed, from your Exhibit K, Tables 3A(1&2)) and 3B(1&2) for Bulk Standard A Mail.

	Total Attributable City Delivery Carrier Cost (000)	Unit Cost (cents)	Average Weight (ounces)
Regular Rate			
ECR	19,192	27.63	2.77
Regular	84,470	9.72	8.90
Nonprofit			
ECR	1,315	94.67	3.06
Regular	8,425	19.89	6.40

- a. Please confirm that the data shown above are correct. If not confirmed, please provide appropriate corrections.
- b. Within Regular Rate, the unit delivery cost for a "Regular" parcel (9.72 cents) is about one-third the unit delivery cost for an ECR parcel (27.63 cents), despite the fact that an ECR parcel (2.77 ounces) is only one-third the weight of a "Regular" parcel (8.90 ounces). What factor(s) account for this difference of 17.91 cents in delivery cost? Please explain fully.
- c. Within Nonprofit, the unit delivery cost for an ECR parcel (94.67 cents) is about five times the unit delivery cost of a Nonprofit "Regular" parcel (19.89 cents), even though the average weight of the ECR parcel (3.06 ounces) is less than half the average weight of the "Regular" parcel (6.40 ounces).

- (i) Please identify and explain all factors that account for the 74.78 cent difference in unit cost.
- (ii) What is the 95 percent level of confidence for the unit cost estimates?
- d. Why is the unit cost to deliver a Nonprofit ECR parcel (94.67 cents) over three times the unit cost to deliver a Regular Rate ECR parcel (27.63 cents)? Please explain fully.
- e. To what extent do differences in weight account for differences in the unit delivery cost of Standard A parcels?

**NDMS/USPS-T28-33.**

The following data for parcels are taken, or computed, from your Exhibit K, Tables 3A(1&2) and 3B(1&2) for Bulk Standard A Mail.

	Total Attributable City Delivery Direct Labor Cost (000)	Unit Cost (cents)	Average Weight (ounces)
Regular Rate:			
ECR	6,286	9.05	2.77
Regular	13,439	1.55	8.90
Nonprofit			
ECR	49	3.53	3.06
Regular	773	1.82	6.40

- a. Please confirm that the data shown above are correct. If not confirmed, please provide appropriate corrections.

- b. Within Regular Rate, the unit city delivery direct labor cost for an ECR parcel (9.05 cents) is almost six times the unit cost for a "Regular" parcel (1.55 cents), and within Nonprofit, the direct labor unit cost for an ECR parcel (3.53 cents) is almost twice the unit cost for a "Regular" parcel (1.82 cents). At the same time, the average weight of ECR parcels is less than half the average weight of "Regular" parcels.
- (i) Please explain why city delivery direct labor cost is so much higher for ECR parcels than it is for "Regular" parcels?
  - (ii) What characteristics of Regular Rate ECR parcels cause them to incur a city delivery direct labor unit cost of 9.05 cents?
  - (iii) What is the 95 percent level of confidence for the two unit cost estimates.
  - (iv) How many IOCS tallies support the cost estimates for ECR and Regular parcels?

**NDMS/USPS-T28-34.**

The following data for parcels are taken, or computed, from your Exhibit K, Tables 3A(1&2) and 3B(1&2) for Bulk Standard A Mail.

	Total Attributable Rural Delivery Carrier Cost (000)	Unit Cost (cents)	Average Weight (ounces)
Regular Rate			
ECR	559	0.80	2.77
Regular	25,173	2.90	8.90
Nonprofit			
ECR	66	4.75	3.06
Regular	1,017	2.40	6.40

- a. Please confirm that the data shown above are correct. If not confirmed, please provide appropriate corrections.
- b. Within Regular Rate, the unit rural delivery cost for a "Regular" parcel (2.90 cents) is about three and one-half times the unit rural delivery cost for an ECR parcel (0.80 cents). Does the fact that the weight of a "Regular" parcel (8.90 ounces) is over three times the weight of an ECR parcel (2.77 ounces) account for the extraordinary difference in unit cost? What other factor(s) account for this difference of 2.10 cents in rural delivery cost? Please explain fully.
- c. Within Nonprofit, the unit delivery cost for an ECR parcel (4.75 cents) is about two times the unit delivery cost of a Nonprofit "Regular" parcel (2.40 cents), even though the average weight of the ECR parcel (3.06 ounces) is less than half the average weight of the "Regular" parcel (6.40 ounces).
  - (i) Please explain all factors that account for the 2.35 cent difference in unit cost.
  - (ii) What is the level of confidence for the unit cost estimates?
- d. Why is the unit cost for rural delivery of a Nonprofit ECR parcel (4.75 cents) almost six times the unit cost for rural delivery of a Regular Rate ECR parcel (0.80 cents)? Please explain fully.
- e. Please explain the extent to which the wide-ranging differences in unit rural delivery cost are a result of "real" factors associated with parcels, such as weight, difficult-to-handle shapes, etc. If you made no attempt to investigate such wide-ranging differences, please explain why.

- f. Please discuss the extent to which the wide-ranging differences in unit rural delivery cost are a result of data problems or possible inconsistencies in the way rural delivery costs are distributed to letters, flats and parcels in each rate category covered by your tables 3A(1&2) and 3B(1&2).

**NDMS/USPS-T28-35.**

The following data for parcels are taken, or computed, from your Exhibit K, Tables 3A(1&2) and 3B(1&2) for Bulk Standard A Mail.

	Rural Delivery Unit Cost (cents)	City Delivery Unit Cost (cents)	Ratio City Delivery: Rural Delivery
Regular Rate			
ECR	0.80	9.05	11.3
Regular	2.90	1.55	0.5
Nonprofit			
ECR	4.75	3.53	0.7
Regular	2.40	1.82	0.8

- a. The unit city delivery cost for an ECR parcel is more than 11 times the unit rural delivery cost for an ECR parcel. Conversely, the unit rural delivery cost for a "Regular" parcel exceeds the unit city delivery cost for a "Regular" parcel by a factor of two. The unit rural delivery unit cost of Nonprofit "Regular" and ECR parcels are also higher than the corresponding unit city delivery costs. What factors explain why the unit city delivery cost for an ECR parcel is more than 11 times the unit rural delivery cost for an ECR parcel, while the unit city delivery cost for all other Standard A parcels are less than their unit rural delivery cost?

- b. In view of these results, how much confidence do you have in these data on unit delivery cost?

**NDMS/USPS-T28-36.**

The following data for parcels are taken, or computed, from your Exhibit K, Tables 3A(1&2) and 3B(1&2) for Bulk Standard A Mail.

	Total Attributable Elemental Load Cost (000)	Unit Cost (cents)	Average Weight (ounces)
Regular Rate:			
ECR	5,105	7.35	2.77
Regular	38,808	4.46	8.90
Nonprofit			
ECR	814	58.60	3.06
Regular	4,610	10.88	6.40

- a. Please confirm that the data shown above are correct. If not confirmed, please provide appropriate corrections.
- b. Within Regular Rate, the elemental load cost for an ECR parcel (7.35 cents) is 1.6 times the unit cost for a "Regular" parcel (4.46 cents). Please explain why a lighter-weight ECR parcel has a higher elemental load cost than a "Regular" parcel.
- c. Within Nonprofit, the elemental load cost for an ECR parcel (58.60 cents) is over 5 times the unit cost for a "Regular" parcel (10.88 cents). At the same time, the average weight of a Nonprofit ECR parcels is less than half the average weight of

a Nonprofit "Regular" parcel. Please explain why elemental load cost is so much higher for a Nonprofit ECR parcel than it is for a Nonprofit "Regular" parcel.

For example, what characteristics of a Nonprofit ECR parcel cause them to incur an average elemental load cost of 58.60 cents?

- d. The elemental load cost for a Nonprofit ECR parcel (58.60 cents) is approximately 8 times greater than the elemental load (7.35 cents) cost for a Regular Rate ECR parcel. Please explain the source of this 51.25 cents difference in elemental load cost.

**NDMS/USPS-T28-37.**

Please refer to your Exhibit K, Table 5, Construction of FY 1996 Elemental Load Key.

- a. Is the reference "W/S 7.0.6.6" to a worksheet filed as a part of your original testimony? If not, please provide a complete citation to where this reference can be found.
- b. Please explain the source of the entries under column 3, parcels. That is, are the numbers shown in this column based on a sample? If so, please
- (i) indicate where a description of the data collection can be found;
  - (ii) discuss how the data collection distinguishes between parcels in the different Standard A subclasses; and
  - (iii) discuss how the data collected can result in such widely differing unit costs as those discussed in NDMS/USPS-T28-36.

**NDMS/USPS-T28-38.**

- a. Please confirm that the vast majority of purchased transportation costs attributed to Standard A Mail consists of highway transportation costs. Please explain any nonconfirmation.
- b. Please confirm that highway transportation costs (i) are incurred on the basis of the cubic volume of mail to be transported, not the weight to be transported, and (ii) highway transportation costs are distributed to the classes and subclasses of mail according to cube. Please explain fully any nonconfirmation.
- c. Please refer to Exhibit K, Table 7, part 2 and confirm that the cost avoidance due to dropshipment of Standard A mail (shown in row 3 below) is composed of the two components shown in rows 1 and 2. If you do not confirm please supply the correct data.

Cost Avoidance From Dropshipment, \$/lb.

	<u>BMC</u>	<u>SCE</u>	<u>DDU</u>
Transportation Costs	0.0769	0.0906	0.1108
Nontransportation Costs	<u>0.0135</u>	<u>0.0199</u>	<u>0.0271</u>
Total	0.0904	0.1105	0.1379

- d. Please confirm that:
  - (i) the Postal Service's cost of transporting mail to the DDU was computed by dividing total test year adjusted Standard Mail (A) transportation costs by total test year Standard Mail (A) pounds;
  - (ii) in that division, pounds are used as a proxy for cube; and

(iii) using pounds as a proxy for cube assumes, implicitly, that all Standard A Mail has the same density. If you fail to confirm any of the preceding, please explain fully.

**NDMS/USPS-T28-39.**

- a. Would you agree that if Standard A Mail has an average density of 20.4 pounds per cubic foot (Exhibit K, Table 3) then dropship avoidance of transportation costs of \$0.0769, \$0.0906 and \$0.1108 per pound (for BMC, SCF and DDU respectively, and which you use in Exhibit K, Table 7) are equivalent to a cost avoidance of \$1.56876, \$1.84824 and \$2.26032 per cubic foot? Please explain any disagreement, and supply the correct amounts for costs avoided per cubic foot if you disagree.
- b. If Standard A letters, flats and parcels have an average density of 28.4, 20.7 and 8.1 pounds per cubic foot (Exhibit K, Table 3), would you agree that "unbundled" transportation per pound cost avoidances for drop shipment would be as follows (\$/lb):

	<u>BMC</u>	<u>SCF</u>	<u>DDU</u>
Letters	0.05524	0.06501	0.07959
Flats	0.07579	0.08929	0.10919
Parcels	0.19367	0.22812	0.27905

If you do not agree, please provide what you believe to be correct unbundled transportation cost avoidances for letters, flats and parcels.

**NDMS/USPS-T28-40.**

Please refer to (i) the tabulation in interrogatory NDMS/USPS-T28-38(c), "Cost Avoidance From Dropshipment, \$/lb," and (ii) to the tabulation in interrogatory NDMS/USPS-T28-39(b), referred to as "unbundled" transportation per pound cost avoidances. If the bundled "Transportation Costs" in line 1 of tabulation (i) above are replaced with the unbundled transportation costs of tabulation (ii) above, would you agree that the following tabulation of "unbundled" Cost Avoidance from Dropshipment, \$/lb, will result. If you disagree, please provide what you believe to be the correct unbundled cost avoidance from drop shipment of Standard A mail, assuming that weight is the cost driver for nontransportation costs avoided.

Unbundled Cost Avoidance From Drop Shipment \$/lb.

	<u>BMC</u>	<u>SCE</u>	<u>DDU</u>
<b>Letters</b>			
1. Trans Costs	0.05524	0.06501	0.07959
2. Nontrans. Costs	0.01350	0.01990	0.02710
3. Total	0.06874	0.08491	0.10669
<b>Flats</b>			
1. Trans. Costs	0.07579	0.08929	0.10919
2. Nontrans Costs	0.01350	0.01990	0.02710
3. Total	0.08929	0.10919	0.13629
<b>Parcels</b>			
1. Trans. Costs	0.19367	0.22812	0.27905
2. Nontrans. Costs	0.01350	0.01990	0.02710
3. Total	0.20717	0.24802	0.30615

**NDMS/USPS-T28-41.**

In LR-H-111, both the transportation and nontransportation costs avoided from dropshipment are presented on a per pound basis. They are presented this way because the drop ship discount is figured on a per pound basis and converted to a per piece basis for pieces under

the breakpoint that do not have weight as part of the rate design. At the same time, it is well established that the underlying driver of highway transportation costs is cube. That is, highway transportation costs are incurred and distributed to the classes of mail on the basis of cube.

Rates, however, are set on the basis of pieces and pounds, not cube. With respect to highway transportation costs avoided, it is thus clear that pounds serve as a proxy for cube.

Nontransportation costs avoided from dropshipment relate to dock handling expenses, such as loading and unloading trucks, moving containers around on the dock and staging them for loading, etc.

- (i) Please confirm that this explanation concerning transportation costs is accurate. Please explain any nonconfirmation.
- (ii) For purposes of developing an unbundled dropship discount, please discuss whether pounds or cube should be considered as the underlying driver of nontransportation costs avoided from dropshipment.