

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER
TO INTERROGATORIES OF ABA&NAPM
(ABA&NAPM/USPS-T24-33 THROUGH 36 AND 38 THROUGH 42)

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of American Bankers Association and National Association of Presort Mailers, which were filed on March 22, 2000:
ABA&NAPM/USPS-T24-33 through 36 and 38 through 42.

Each interrogatory is stated verbatim and is followed by the response.

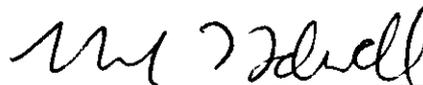
T24-30, 31, 32 and 37 have been redirected to the Postal Service for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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April 5, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION & NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&NAPM/USPS-T24-33 Please confirm that the USPS will realize cost savings as a result of the move update requirements for non-automation presort FCLM and automated FCLM. Please estimate these cost savings in the test year in this case. If you cannot confirm this fact, please explain why.

RESPONSE:

Not confirmed. See my response to MMA/USPS-T24-21(a) and (c).

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ABA&NAPM/USPS-T24-34 Page I-1 of Appendix I to your testimony sets forth First Class unit cost estimates for, inter alia, the Bulk Metered FCLM Benchmark, non-automated presort FCLM and automated FCLM. Please confirm that these unit cost estimates do not reflect any cost differences as a result of the move update requirements which are applicable to non-automated presort and automated FCLM, and which are not applicable to the Bulk Metered FCLM benchmark; and explain why these move update savings were not included in R2000-1. If you cannot confirm this fact please explain why not. If you believe that your testimony does capture cost savings of move update requirements, does this include not only mail processing savings, but also the savings of transportation and delivery of forwarding/returning Undeliverable As Addressed Mail?

RESPONSE:

See my response to MMA/USPS-T24-21(d). That response only addresses the mail processing unit costs and delivery unit costs found in my testimony.

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ABA&NAPM/USPS-T24-35 Please explain fully the unusual spike in unit mail processing direct labor costs (CRA, cost segment 3.1) for First Class and Standard A letter mail between FY 1996 and FY 1997. In particular is the change influenced by any of the following factors?

- a. Methodological changes between the 1996 and 1997 CRA, including but not limited to measuring volume variable (1997) as opposed to attributable (1996) direct labor costs.
- b. Any settlements of labor disputes which caused a one time increase in mail processing labor costs.
- c. Other factors.

RESPONSE:

a. b. c. This interrogatory is clearly outside the scope of my testimony. In addition, it is difficult to efficiently redirect it to another party given the absence of a specific data source citation and/or the specific numbers that are in question.

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ABA&NAPM/USPS-T24-36 In your testimony on page 17, lines 12-17, you state that the use of an R97-1 methodology for estimating non-automation presort unit mail processing costs resulted in a 7.199 cent measure while the different methodology used in this case results in a 10.337 cent measure for the same rate category.

a. How much of this change is due to a change in methodology, and how much is due to a change in other factors, e.g., mail processing wage rates?

b. Assuming, as your discussion implies, that the difference is mostly due to your change in methodology, please explain what credibility the USPS mail processing cost methodology procedures have if the estimation for one rate category is 44% different than the estimation of R97-1?

c. Please confirm that, ceteris paribus, if the methodology in R97-1 underestimated "true" unit mail processing costs for non-automation presort, then: (i) it overestimated true unit mail processing costs for the other three rate categories in the "non-carrier route presort" category; (ii) underestimated mail processing cost avoidances for the other three rate categories in the "non-carrier route presort" category.

RESPONSE:

a. I have not attempted to determine the extent to which the change in mail processing unit costs between Docket No. R97-1 and this docket are due to cost methodology changes compared to other factors, such as increasing wage rates. However, I would suspect that the change that has had the biggest affect on the results is the separation of CRA "nonautomation presort letters" mail processing unit costs from the corresponding costs for "automation non-carrier route presort letters."

b. I might suspect the credibility of a specific cost methodology if the results were to change dramatically between dockets, given that an identical cost methodology had been used. However, if a cost analyst discovers that the IOCS system can be used to isolate CRA mail processing unit costs for a rate category that had previously been modeled (as is the case in this docket), I would not necessarily question the credibility of the results. I view the change that has been made in this docket as a means to obtain more accurate cost estimates.

c. Not confirmed. I have not conducted any analysis using the Docket No. R97-1 data and would therefore have no basis for drawing these conclusions.

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ABA&NAPM/USPS-T24-38 On page 4, line 5 please explain what you mean by "level of Prebarcoding."

RESPONSE:

On page 4, line 5, the phrase "level of presorting" should be considered by itself. The words "level of" have no bearing on the word "prebarcoding."

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ABA&NAPM/USPS-T24-39 On page 7 of your testimony, lines 18-19, you state that "you rely upon the estimated test year finalization rate" in a publication entitled RCR 2000 Decision Analysis Request (DAR).

- a. Please confirm that your RCR percentages for First Class single piece and metered mail are hypothetical, that is in the nature of a forecast DAR for test year 2001.
- b. Please confirm that the finalization rate for the last year of actual data is 53%, while your test year forecast is 69%.
- c. Please confirm that the conclusions about the reduced unit costs of processing single piece and metered mail in your test year models hinge on the hypothetical number in a. being an accurate forecast.

RESPONSE:

a. Not confirmed. The percentage used in my testimony is an aggregate value for all mail pieces that are processed through the RCR system. This percentage is not specific to a given mail type. It is an estimate using the projected finalization rate for the Test Year, which can be found in LR-I-164.

b. Not Confirmed. The RCR finalization rates are as follows (as per the Corporate Information System):

FY 1998 Actual	32.7%
FY 1999 Actual	48.1%
FY 2000 (YTD AP 7) Actual	58.5%
FY 2001 Forecast (DAR)	69.0%

c. Not confirmed. I do not use the cost models in my testimony to develop "single piece" letters costs. My testimony includes a cost model for metered letters, but that cost model is used for comparison purposes only. The Bulk Metered Mail (BMM) letters mail processing unit costs shown in Appendix I, page I-7, are CRA-derived and do not rely upon the model costs.

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ABA&NAPM/USPS-T24-40 On page 7 of your testimony, lines 24-25, you state that "the actual RBCS leakage percentages have been decreasing and approaching the target value." Please list the actual RBCS leakage percentages by year for 1996, 1997, 1998 and 1999.

RESPONSE:

I obtained the following leakage information from the Corporate Information System:

FY 1996	12.1%
FY 1997	25.3%
FY 1998	10.7%
FY 1999	5.7%
FY 2000 (YTD AP 7)	5.7%

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ABA&NAPM/USPS-T24-41 In your testimony at page 11 you characterize your mail processing cost methodology as differing from USPS witness Hatfield's in R97-1 primarily in that you separate mail processing "fixed costs" into "worksharing related" and "non-worksharing related," while USPS witness Hatfield assumed all fixed costs to be worksharing related. However, comparing witness Hatfield's percentages in his Figure III-A (R97-1, USPS-T-25, page 6) to your in Appendix I, pages 12 and 13, (nonautomation presort and automation non-carrier route presort respectively), you appear in the first instance to have moved many costs out of witness Hatfield's "proportional" cost pool into your two "fixed" cost pools. For example, Hatfield's proportional costs for his benchmark CRA (non-carrier route presort) at 4.2 cents are 91.3% of his total CRA benchmark costs (4.6 cents) while your proportional costs for your benchmark (automation non-carrier route presort) are only 65.85% of your total CRA benchmark costs [and 80% of your nonautomation presort costs, the fourth rate category in the Hatfield aggregate benchmark].

- a. Please confirm that you have reclassified several proportional cost pools from R97-1 as fixed cost pools in this case. List each such change for your 52 cost pools.

- b. Please justify each and every such change in a cost pool that you have made from proportional to fixed (whether worksharing related or non-worksharing related). That is explain why that cost pool was classified as proportional up through R97-1, and why it is suddenly no longer so classified.

RESPONSE:

In Docket No. R97-1, witness Hatfield (USPS-T-25) calculated the total mail processing unit cost estimates for First-Class letters and cards. He did not calculate the cost difference (referred to as "worksharing related savings" in this docket) in his testimony. The cost difference calculations were performed in the testimony of witness Fronk (USPS-T-32). In my opinion, these calculations should be the responsibility of the cost witness. As a result, I have included them in my testimony in this docket and have given them a greater amount of scrutiny.

- a. Confirmed. The following cost pools were classified as "proportional" in Docket No. R97-1, but have been classified as either "worksharing related fixed" or "non-worksharing related fixed" in my testimony in this docket.

Fsm/
Mechparc
SPBSOth

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RESPONSE to ABA&NAPM/USPS-T24-41 (Continued)

SPBSPrio
Manf
Manp
Priority
1Bulkpr
1CancMMP
1OpBulk
1OpPref
1Pouching
1Scan
BusReply
Express
Mailgram
Registry
Rewrap
1Eqmt
Intl
LD 48 Exp
LD 48 SSv
LD 49
LD 79
1SuppF1
1SuppF4

b. I classify a cost pool as "worksharing related proportional" if it represents a piece distribution or package sorting activity that is actually included in a specific model. In my opinion, these should be the only cost pools that the cost model results are tied to "proportionally" because the CRA proportional factors are used as a means to adjust the results to compensate for the fact that the models rely on average data inputs and simplified processing assumptions. In general, I rely on the MODS operation numbers that are "mapped" to each cost pool as a means to determine its cost pool classification. These operations can be found in LR-I-106. See my response to ABA&NAPM/USPS-T24-12 for the rationale behind each cost pool classification.

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ABA&NAPM/USPS-T24-42

- a. Please group by number of bins the current array of MLOCRs in use by the Postal Service for First Class Letter Mail. For example, 100 OCRs have 60 bins, 150 have 90 bins, etc.
- b. What assumption concerning the number of sweepers per MLOCR for each grouping identified above underlies your mail processing cost studies for First Class Letter Mail?

RESPONSE:

a. It is my understanding that the 875 MLOCR-ISS machines described by witness Kingsley (USPS-T-10, page 4, line 5) have either 44 or 60 bins. In checking my equipment inventory resources, I was unable to find information that specifically mentioned how many of each machine type are currently in the field. However, the number of MLOCR-ISS bins would have affected the density tables results. Therefore, the number of bins would have been incorporated into the cost estimate results found in my testimony.

b. I made no specific assumptions regarding the staffing of MLOCR-ISSs in my testimony. The impact of MLOCR-ISS staffing would be imbedded in the marginal productivity values that I use for these operations.

DECLARATION

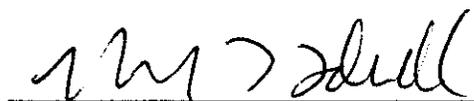
I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Michael W. Miller", written over a horizontal line.

Dated: 4/5/2000

CERTIFICATE OF SERVICE

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

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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