

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MILLER  
TO INTERROGATORIES OF  
AMERICAN BANKERS ASSOCIATION &  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
(ABA&NAPM/USPS-T22-15,16, 19, 20, 22, 23 – 32 and 34)

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of American Bankers Association & National Association of Presort Mailers: ABA&NAPM/USPS-T22-15, 16, 19, 20, 22, 23 – 32 and 34, filed on December 10, 2001.

Interrogatories ABA&NAPM/USPS-T22-17 and 18 have been redirected to witness Marc Smith for response. Interrogatories ABA&NAPM/USPS-T22-21, 33 and 35 have been redirected to the Postal Service for response.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**ABA&NAPM/USPS-T22-15**

- a. See pages 3-4 of your Direct Testimony, and please confirm your view is that USPS mail processing automation efforts starting in 1988 focused on reducing the costs of First Class single piece mail because it "represented nearly 70% of the total First-Class letter mail volume.
- b. Is it your view that most of the USPS efforts to reduce mail processing costs in First Class continue to focus on single piece mail?
- c. Please provide any data or information which you have which would indicate how much of the USPS automation efforts have been devoted to reducing costs of single piece as opposed to bulk entered mail in First Class, including pre-barcoded mail.
- d. Now that projected TY volumes for FCM workshared exceed that for single piece, do you believe the USPS should devote more efforts to reducing those costs, following the logic of part a. above?
- e. Please confirm that TY 2003 unit mail processing cost for F-C presort automation letters has fallen from TY 2001 costs in R2000-1 from 4.06 cents to 3.63 cents (-11%), while for Standard (A) Regular letters automated, it has fallen from 5.17 cents to 3.82 cents (-26%).
- f. How many cost reduction efforts have been allocated to Standard A Regular letters? To First Class workshared letters?

**RESPONSE:**

- (a) Please see USPS-T-22, page 4 at 7-10, where I state:

Accordingly, the Postal Service's initial efforts to automate the letter and card mail processing operations were focused on reducing, or at least containing, the costs for non-barcoded letters and cards, the vast majority of which were found in the First-Class single-piece mail stream.

It can be confirmed that the initial automation deployments included computer systems and equipment retrofits (e.g., the Remote Bar Coding System, Input Sub System retrofits, and Output Sub System retrofits) that would provide the Postal Service with the ability to apply POSTNET barcodes to non-barcoded letters and cards.

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**RESPONSE TO ABA&NAPM/USPS-T22-15 (CONTINUED)**

- (b) It is my view that the Postal Service continues to evaluate cost containment opportunities, including those related to First-Class single-piece letters and cards.
- (c) Postal Service automation deployments have enhanced the organization's ability to process all machinable letters and cards, regardless of the specific postage paid. Please see USPS-T-22, page 4 at 12-14. Delivery Point Sequencing (DPS) incoming secondary operations can be used to illustrate this point. DPS processing began in 1993. The DPS operation sorts the mail in the order a carrier walks his or her route and can be performed on a Mail Processing Bar Code Sorter (MPBCS), a Delivery Bar Code Sorter (DBCS), or a Carrier Sequence Bar Code Sorter (CSBCS). By sorting the mail in carrier walk sequence, in-office carrier casing time can be reduced. Given that letters and cards from all rate categories are sorted simultaneously in the DPS incoming secondary operation, this processing method has enhanced the organization's ability to process all machinable letters and cards.
- (d) The Postal Service has expended resources to contain the costs for presort letters and cards. For example, expansion modules were added to the DBCS. When the DBCS is used for non-incoming secondary operations, the additional DBCS bin capacity has reduced the likelihood that barcoded mail pieces would have to be processed in downstream operations.
- (e) The Docket No. R2000-1 figures should be taken from USPS LR-I-477, which used the same IOCS methodology for separating automation and nonautomation costs as the figures contained in USPS LR-J-60. In addition, these figures are not directly comparable.

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**RESPONSE TO ABA&NAPM/USPS-T22-15 (CONTINUED)**

In Docket No. R2000-1, the First-Class automation non-carrier route presort letters mail processing unit cost estimate found in USPS LR-I-477 was 3.772 cents. In this docket, the First-Class automation presort letters mail processing unit cost found in USPS LR-J-60 is 3.631 cents. This latter figure includes the costs for First-Class automation carrier route presort letters. In the last docket, a separate CRA-derived cost estimate for First-Class automation carrier route presort letters was used.

In Docket No. R2000-1, the Standard Regular automation non-carrier route presort letters mail processing unit cost estimate found in USPS LR-I-477 was 4.559 cents. The Standard Nonprofit automation non-carrier route presort letters mail processing unit cost estimate was 4.461 cents. In this docket, an aggregate mail processing unit cost estimate for Standard automation non-carrier route presort letters is used due to the passage of Public Law 106-384.

- (f) The automation efforts described in the responses to ABA&NAPM/USPS-T22-14(c) and (d) have enhanced the Postal Service's ability to process First-Class presort letters and cards, and Standard presort letters.

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**ABA&NAPM/USPS-T22-16** As between TY 2001 from R2000-1 and TY 2003 in this case, please confirm that the total unit mail processing costs for FCM single piece metered letters has increased from 10.77 cents to 10.83 cents.

**RESPONSE:**

Not confirmed. The CRA mail processing unit cost estimate for First-Class single-piece metered letters has increased from 10.659 cents to 10.826 cents. The Docket No. R2000-1 figure should be taken from USPS LR-I-464. This library reference contains CRA mail processing unit cost estimates that are calculated using the BY 1999 IOCS cost methodology that is consistent with that used to calculate the CRA mail processing unit cost estimates contained in Docket No. R2001-1, USPS LR-J-53.

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**ABA&NAPM/USPS-T22-19** Below is a basic comparison of your R2000-1 TY2001 "First Class Mail Presort Letters Summary" with its TY2003 counterpart in this case.

<u>Rate Category</u>	<u>Total Mail Proc Unit Cost</u>	<u>Worksharing Mail Proc Unit Cost</u>	<u>Delivery Unit Cost</u>
BMM TY 2003	10.826	9.763	4.066 (5.933)
BMM TY 2001	10.470	8.330	5.479
Auto 3D TY 2003	3.897	3.585	3.980
Auto 3D TY 2003	4.264	3.421	4.196
Auto 5D Other TY03	2.946	2.633	3.795
Auto 5D Other TY01	3.040	2.196	2.966

For each number, please explain to what degree the change in cost is due to a methodological change and to what degree it is due to other factors. Please list the other factors as well as the methodological factor and what part in cents each factor plays in the above differences, e.g., the number for TY2003 delivery costs for BMM would be the number in parentheses (5.933 cents) had you used the same nonautomation presort proxy in this case for BMM delivery costs that you used in R2000-1.

**RESPONSE:**

The Docket No. R2000-1 figures in the table above are incorrect. Data from USPS LR-I-477 should have been used as those figures were developed using the same BY1999 IOCS automation/nonautomation cost methodology that has been used to develop the cost estimates found in USPS LR-J-60 in this docket.

For Bulk Metered Mail (BMM) letters category, the mail processing unit cost estimates are all CRA-derived and would have changed based on the factors that affect that analysis (see Docket No. R2001-1, USPS-T-15). The delivery unit cost estimate that I use in the current docket differs from that used in Docket No. R2000-1. Please see the Docket No. R2001-1 response to MMA/USPS-T22-19(B). The details regarding the delivery unit cost calculations are described in Docket No. R2001-1, USPS-T-43.

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**RESPONSE TO ABA&NAPM/USPS-T22-19 (CONTINUED)**

The mail processing unit cost estimates for the automation 3-digit and 5-digit rate categories are affected by changes in the CRA mail processing unit cost estimates, changes to the cost models, and changes to the cost model inputs. The disaggregate cost impact related to all possible factors affecting these results are not available.

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**ABA&NAPM/USPS-T22-20** For your metered letters cost sheet mail flow model, the RBCS pieces handled appear to be substantially different than their R2000-1 equivalents for the RCR, REC, OSS, and LMLM operations. Please explain each such difference.

**RESPONSE:**

It is assumed that this interrogatory refers to the Bulk Metered Mail (BMM) letters cost model found in USPS LR-J-60 on pages 15 and 16.

The cost model was revised in this docket to utilize the combined Multi Line Optical Character Reader Input Sub System / Remote Computer Read (MLOCR-ISS/RCR) finalization rate forecast in the most recent Decision Analysis Requests (DAR).

Consequently, there is no longer a separate RCR node. Please see USPS LR-J-62 and USPS LR-J-157. In addition, please see the response to MMA/USPS-T22-4(E1). The improved RCR finalization rate has reduced the volume of mail requiring Remote Encoding Center (REC) processing. Enhancements to the MLOCR-ISS have improved that machine's ability to apply barcodes directly to mail pieces. Consequently, the volume of mail that requires Remote Bar Coding System (RBCS) processing, including Output Sub System (OSS) processing, has been reduced. Finally, mail pieces that contained POSTNET barcode verification errors used to be isolated on the OSS. These mail pieces would be routed to a Letter Mail Labeling Machine (LMLM) where a label would be applied over the barcode. Those mail pieces were subsequently reprocessed on the OSS. The OSS can now sort mail pieces using the RBCS ID tags on the back of those mail pieces when these problems occur. Consequently, some LMLM tasks can now be avoided.

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**ABA&NAPM/USPS-T22-22** For the FCM auto 3-digit presort letters cost sheet, please confirm that total pieces handled per hour for the auto 3-Pass DPS have more than doubled to 32,363/hour compared to the TY 2001 counterpart in R2000-1, which was 14,898/hour.

**RESPONSE:**

Confirmed. Please see the response to OCA/USPS-T39-19.

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**ABA&NAPM/USPS-T22-23** Please confirm that the modeled MP cost for auto 5-digit "other" sites has dropped between TY 2001 and TY 2003 from 1.719 cents to 1.540 cents. Confirm it has dropped for auto 3-digit from 3.093 cents to 3.017 cents.

**RESPONSE:**

It can be confirmed that the cost estimate for First-Class automation 5-digit presort letters not processed at Carrier Sequence Bar Code Sorters (CSBCS) or manual sites was 1.755 cents in Docket No. R2000-1 (please see USPS LR-I-477). In this docket, the corresponding cost estimate is 1.540 cents (please see USPS LR-J-60).

It can be confirmed that the cost estimate for First-Class automation 3-digit presort letters was 3.165 cents in Docket No. R2000-1 (please see USPS LR-I-477). In this docket, the corresponding cost estimate is 3.017 cents (please see USPS LR-J-60).

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**ABA&NAPM/USPS-T22-24** Please explain all the different mail flow model results in TPH for auto 5-digit "other" sites as between TY 2001 and TY 2003, e.g., 0 auto carrier route TPH in TY 2003 versus 9,340 in TY 2001. Especially in light of the fact that you used the entry profile data from the R97-1 mail characteristics studies.

**RESPONSE:**

The statements made in this interrogatory are incorrect. The mail characteristics data collected in Docket No. R97-1 (USPS LR-H-185) are not used to develop the cost model referenced in this interrogatory. In addition, the TPH volume for the auto carrier route operation in the "First-Class Automation 5-Digit Other" cost model in Docket No. R2000-1 was also 0. Please see Docket No. R2000-1, USPS-T-24, Appendix I, page I-28.

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**ABA&NAPM/USPS-T22-25** Please reference your statement on page 7, lines 3-4, that "a reduction in the benchmark costs over time could, in turn, reduce the measured savings for the First-Class automation presort letters..."

- a. Do you agree in principle that the Postal Service has discretion in how and where it chooses to enhance mail processing productivity?
- b. Hypothetically, if the USPS were attempting to bring more workshared mail into its own plants at the expense of the private sector, would it make sense that it would concentrate its efforts in such a way as to reduce cost avoidances between single piece mail and workshared mail?
- c. Please confirm that had the Postal Service concentrated more resources on reducing the costs associated with Incoming Secondaries sorts, and Incoming SCF/Primary sorts, it is possible that the MP cost differences between 3 digit auto and 5 digit auto on the one hand, and metered and other single piece letters on the other hand would have grown by even more between TY 2001 and TY 2003.

**RESPONSE:**

- (a) It is my belief that, subject to labor contract constraints, engineering and operations personnel regularly evaluate mail processing productivity data and ultimately propose the necessary changes to enhance overall mail processing productivity.
- (b) No. The operations and engineering personnel that make the evaluations described in the response to ABA&NAPM/USPS-T22-25(a) are not typically aware of the details regarding the ratemaking process, nor would they generally be familiar with the benchmarks used to measure the worksharing related savings estimates for the First-Class presort letters categories. Consequently, this supposition makes little sense.
- (c) I do not understand this question as it is phrased. In addition, the Postal Service has focused a great deal of attention on these operations. The

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Delivery Bar Code Sorter (DBCS) was initially purchased to perform incoming secondary Delivery Point Sequencing (DPS) operations. The DBCS is also used regularly for non-incoming secondary operations, such as the incoming SCF/primary operation. The addition of DBCS expansion modules has provided the Postal Service with the ability to finalize incoming SCF/primary mail in one operation. Prior to the DBCS deployments, many sites had multiple incoming SCF/primary operations that were performed on the Mail Processing Bar Code Sorter (MPBCS). The MPBCS contains 96 bins, while the DBCS contains 174 bins or greater. In addition, there are more DBCS machines in the field than there are any other piece of letter mail processing equipment.

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**ABA&NAPM/USPS-T22-26** You state on page 8, lines 16-17, that "In some cases, the IOCS provides relevant mail processing unit costs at the rate category level." Please explain why the IOCS does not provide unit MP costs at all rate category levels, in particular justify fully your statement on page 10, line 6 that "it is not possible to isolate CRA mail processing unit costs" for several rate categories. Do you mean not possible or not desirable in a mission oriented analysis to reduce measurement of cost avoidances?

**RESPONSE:**

Please see the response to MMA/USPS-T22-8(A).

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**ABA&NAPM/USPS-T22-27** On page 16, line 7, of your testimony you state that "in general" FCM is processed during premium pay time periods. Please state all other times FCM is processed or could be processed.

**RESPONSE:**

It is my understanding that the bulk of FCM is processed during premium pay time periods. Some small First-Class single-piece mail volumes may be cancelled at times (e.g., early to mid-afternoon) when postal employees do not earn premium pay.

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**ABA&NAPM/USPS-T22-28** Please refer to your response to interrogatory MMA/USPS-T43-10. You have "...confirmed that letter recognition enhancement programs will increase the percentage of First-Class single-piece machinable letters and cards" between the base year and test year.

- a. Do you believe that USPS will be able to continue with enhancement programs as proposed in this Docket between the base year and test year despite its current financial conditions, namely at a time that it is trying to cut costs even at the expense of productivity improvements?
- b. In your opinion how does this affect your model costs?

**RESPONSE:**

- (a) It is my understanding that these programs have not been delayed.
- (b) The model costs will not be affected, given the response to ABA&NAPM/USPS-T22-28(a).

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**ABA&NAPM/USPS-T22-29** Please refer to your testimony page 12 line 11 and your response to Part H of interrogatory KE/USPS-T22-20. You state that for accept and upgrade rates you have relied on the Docket No. R97-1 study.

- a. Are you saying that since R97-1 there have been no additional studies conducted that would allow for an update in these rates?
- b. Hasn't USPS been able to enhance or improve the current technology in this regard, and if so why are you relying on an R97-1 study?
- c. Are you aware of any attempts made by USPS to improve the productivity in this regard or conduct new studies to update the rates as it did in the case of Input Sub Systems (ISS)?

**RESPONSE:**

- (a) It is my understanding that the specific study found in Docket No. R97-1, USPS LR-H-130 has not been updated. However, updated accept and upgrade data and assumptions have been used. For example, the MLOCR-ISS/RCR finalization rates from USPS LR-J-62 are used. In addition, assumptions in the models were changed to reflect the fact that the ID tag can be used to sort some problem mail pieces.
- (b) Yes. Please see the changes described in the response to ABA&NAPM/USPS-T22-29(a). In some cases, the only data available are the data contained in the Docket No. R97-1 study (USPS LR-H-130).
- (c) Productivity data were not collected in the Docket No. R97-1 study (USPS LR-H-130). Updated accept and upgrade data have been included in the models as described in the response to ABA&NAPM/USPS-T22-29(a).

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**ABA&NAPM/USPS-T22-30** Please refer to your responses to part H of interrogatory KE/USPS-T22-33 and to interrogatory of ABA&NAPM/USPS-T22-3. You responded that since it is difficult to find an estimate for the unit cost for BMM letters you use the mail processing unit costs for all metered letters as a proxy.

- a. In your opinion do the mail processing unit costs for all metered letters used as a proxy for cost of BMM letters, overestimates or underestimates the true unit cost of BMM letters. Please explain your answer in detail why it might overestimate or underestimate it.
- b. How can you justify using cost of all metered letters as a proxy for BMM letters?
- c. Please explain in detail why it is difficult for you or USPS to finally provide an estimate of the unit cost for BMM letters rather than using a proxy.

**RESPONSE:**

- (a) In my opinion, the proxy likely overestimates those costs.
- (b) There are no other data that can be used as an alternative.
- (c) It is my understanding that the In-Office Cost System (IOCS) cannot be used to isolate a mail processing unit cost estimate for Bulk Metered Mail (BMM) letters.

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**ABA&NAPM/USPS-T22-31** Please refer to your response to part D of interrogatory of MMA/USPS-T22-32. You state, "In general, First-Class Mail letters and Standard Mail letters are processed using the same MODS operations number. Consequently, it is not always possible to collect data by class using postal data collection systems. CRA adjustment factors are applied to the model costs to compensate for the fact that disaggregated data are not available.

- a. When you say "...it is not always possible..." Do you mean it is sometimes possible to collect the required data? If your answer is yes, please explain in detail why then it is not always possible to collect the data.
- b. Isn't it desirable that for designing rates and discounts in regard to two of the most important and competing mail categories for the USPS to always collect data so that one can obtain a better estimate of these costs rather than using CRA adjustment factors.
- c. Isn't it possible for the USPS to design its data collection in such a way to attach an additional code number to each MODS number to represent the mail type? If you cannot answer this question, please refer it to a party, who is able to provide reasons why USPS cannot or has not been able or will not do this.
- d. In your opinion, does the use of CRA adjustment factors "...to compensate for the fact that disaggregated data are not available" result in the same unit costs as if USPS had collected the disaggregated data. If your answer is no, please explain why using CRA adjustment factors results in overestimate or underestimation of the costs.

**RESPONSE:**

- (a) Yes. On occasion, it is possible to collect data by class using postal data collections systems. For example, premium pay factors can be isolated by class of mail. In other instances, it is not. For example, the MODS system does not collect productivity data by class of mail.

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**RESPONSE TO ABA&NAPM/USPS-T22-31 (CONTINUED)**

- (b) Ideally, yes. But time and resource constraints make it difficult to collect all possible data related to the processing of all possible rate categories under all possible circumstances.
- (c) No. Different classes of mail are processed sometimes processed in the same operations (e.g., DPS) at the same time.
- (d) I do not know the extent to which results developed using CRA adjustment factors would differ from those using cost models with more detailed input data, given that the latter scenario does not exist.

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**ABA&NAPM/USPS-T22-32** Please refer to interrogatory MMA/USPS-T29-6 and your response.

- a. Please explain why when certain cost is avoided on a certain task performed by the mailers, it implies that USPS will no longer perform that task.
- b. If USPS is encouraging worksharing, which requires mailers to perform tasks that otherwise would have been performed by USPS, would this imply that USPS would eliminate the associated costs, thus, leading to a reduction in USPS total costs. If your answer is no, please explain whether it is due to contractual obligations or some other considerations that the cost of avoided tasks cannot be eliminated by USPS.

**RESPONSE:**

- (a) The referenced interrogatory response cites previous responses to MMA/USPS-T22-1(F) and (G) concerning "pallet sorting" and "truck sorting," which were the tasks originally discussed in interrogatory MMA/USPS-T29-6(b). These are not tasks associated with the tray-based operations used to process letters and cards. In addition, worksharing does not imply that the Postal Service would no longer perform a given task. It implies that the Postal Service would not longer perform a given task for mailers that engage in specific worksharing activities. If "pallet sorting" and "truck sorting" operations had ever been performed in relation to presort letters and cards mail processing operations, those tasks would still exist since the Postal Service continues to process non-worksharing mail.
- (b) Worksharing activities would reduce Postal Service costs associated with the specific tasks performed by mailers that choose to engage in worksharing.

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**ABA&NAPM/USPS-T22-34** In your response to interrogatory ABA&NAPM/USPS-T22-8, you were asked to identify cases where increased wage rates did not appear to have offset the impact of Letter Recognition Enhancement Programs, and you responded that "it is difficult to engage in a similar analysis for the First-Class Presort Worksharing Categories because of cost methodology changes." Please identify which cost methodology changes you are referring to in this response, and why they make it difficult to engage in such an analysis for First-Class Presort Worksharing Categories.

**RESPONSE:**

Mail processing technologies change over time. Consequently, the cost models change over time. In addition, data inputs can change over time. In addition, the cost methodologies change over time. These methodologies are affected by changes to the In-Office Cost System (IOCS), updated volume variability studies, etc. Consequently, it is difficult to perform the analysis described in this interrogatory using a hybrid cost methodology. This is reason I responded to MMA/USPS-T22-5(A) as follows:

...an analyst can use the current model and change the MLOCR-ISS/RCR finalization rates and wage rates to evaluate how letter recognition enhancements have reduced the estimated savings over time.

## 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.

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Michael T. Tidwell

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December 26, 2001