

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF POSTAL SERVICE WITNESS SMITH
TO INTERROGATORIES OF ABA&NAPM
REDIRECTED FROM WITNESS ABDIRAHMAN
[ABA&NAPM/USPS-T21-37-46, 47d, 48-54]
(June 3, 2005)

The United States Postal Service hereby responds to the above-listed interrogatories of American Bankers Association and National Association of Presort Mailers, filed on May 20, 2005.

The interrogatories are stated verbatim and are followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, Fax -5402

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ABA&NAPM/USPS-T21-37. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 1 of 4, please respond to the following:

- a. For MODS 11 BCS/, why have unit costs for bar code sorting gone down for a First Class presort automated letter from 1.17 cents in R2000-1 to 0.10 cents in R2005-1?
- b. If the new MODS category in R2005-1, MODS 11 BCS/DBCS, is a unit cost measurement that applies to the overwhelming majority of First Class presort automated letters, then is the cost difference between R2000-1 and R2005-1 the difference between the old MODS number of 1.17 cents and the new MODS 11 category number of 0.98 cents? Please fully explain your answer, and list the percentages of FCLM automation presort that are measured using the old MODS 11 category and the new MODS 11 category for this case.
- c. If your answer to b. is "No", please provide an apples to apples comparison of how the actual unit costs for the barcoding operation for FCLM automation presort have changed since R2000-1 and R2005-1.

Response:

- a. See my response to ABA&NAPM/USPS-T21-21 filed on May 26, 2005.
- b-c. See my responses to ABA&NAPM/USPS-T21-21 and 34 filed on May 26, 2005.

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ABA&NAPM/USPS-T21-38. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 1 of 4, please respond to the following concerning First Class automated presort letters:

- a. What is the source or sources of the decline in unit OCR costs from 0.09 cents in R2000-1 to 0.08 cents in R2005-1?
- b. If you are still realizing dynamic efficiencies from the OCR technology, why is your capital expenditures budget replacing all OCRs with DIOSS technology over the next couple years?
- c. Please supply all operating efficiency information you have on DIOSS machinery productivity and unit costs including purchase prices in a format that is comparable to the OCR unit costs noted in a.

Response:

- a. I don't know. Wage rates are higher, variabilities and piggyback factors are about the same, so perhaps it is due to improved prebarcoding by mailers which lessens the use of OCRs. Also see the response of witness Abdirahman to Presiding Officer's Information Request No. 1, part A.
- b. See the testimony of witness McCrery, USPS-T-29, pages 4-7 and page 7 of USPS-LR-K-49.
- c. The through put rates for DIOSS are provided in the testimony of witness McCrery, USPS-T-29, pages 6-7. The DIOSS purchase price is \$764,275. I do not know what is meant by providing this cost "in a format that is comparable to the OCR unit costs noted in a." I do not have unit operating costs for DIOSS.

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ABA&NAPM/USPS-T21-39. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 1 of 4, please respond to the following concerning First Class automated presort letters:

- a. The unit costs for occasionally processing letter trays on mechanized sack sorting equipment has fallen from 0.02 cents in R2000-1 to 0.01 cents in R2005-1. Does this change reflect an increase in efficiency or fewer letter trays being processed in this manner, or other factors? Please fully explain your answer.
- b. The unit costs for manually sorting these letters has fallen from 0.31 cents in R2000-1 to 0.19 cents in R2005-1. How do you reconcile the reduction in unit cost for a "manual" activity when wage rates have in fact risen between the two cases?

Response:

- a. I don't know what has caused this change, however I am told that there has been a concerted effort to remove letter trays off sack sorting equipment and onto more appropriate mechanized sorting equipment, such as the Low Cost Tray Sorter (see USPS-T-29, page 25). This cost is a very small contributor to the overall unit cost of 3.5 cents for this category (see LR-K-53, page 67).
- b. The decline in manual letter sorting unit costs at plants appears to reflect the reduction in the use of manual letter sorting or the share of sorting done manually. Most likely this reflects automation and/or mail piece improvements. In addition, I am told that Manual Incoming Secondary distribution has been shifted to Stations and Branches where there is a better supply of scheme trained clerks.

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ABA&NAPM/USPS-T21-40. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 2 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please confirm that the MODS 15 LD15 activity refers to RBCS keying activities and supervision of same.
- b. Please state what the change in wage rates has been for this activity between R2000-1, R2001-1 and R2005-1.
- c. Unless there has been a reduction in wages in this manual activity, please explain why unit labor costs have fallen from 0.13 cents in R2000-1 to 0.06 cents in R2005-1. If the explanation is technological please be detailed and specific as to what specific brand name technologies have increased labor productivity in RBCS operations.
- d. If the explanation sought in c. has to do with better direct read rates for equipment installed at USPS mail processing facilities, please provide a detailed explanation linking the reduction in RBCS unit costs due to improved technology within USPS mail processing factories.
- e. Are there any remaining LMLM costs associated with the LD15 activity?
- f. Please provide the MODS hours for MODS 15 codes 383, 384, 775 and 779.

Response:

- a. No, the MODS 15 LDC 15 cost pool also includes LMLM operation and other activities, see LR-K-55, page I-17, which can also be found at USPS-LR-55-C.exe, directory lr-k-55 part 1, spreadsheet R2005 lr-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC.
- b. Most of LDC 15 costs concerns the work at Remote Encoding Centers (REC). The REC wage rates for the test years in R2000-1, R2001-1 and R2005-1 are respectively \$17.786, \$20.409 and \$20.795. (The source of this information is from part 8 of the following library references: LR-I-106, LR-J-55 and LR-K-55.)
- c. The unit costs you cite include labor and piggyback or indirect costs, not just labor costs. I can think of four possible reasons for this decline. First, the RCR,

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a plant component of RBCS, resolves 72.5 percent of the letter images it processes as opposed to 55 percent resolution in R2000-1 (witness McCrery, USPS-T-29, page 5 and also see Docket No. R2000-1, witness Kingsley, USPS-T-10, page 5). This reduces the amount of RBCS keying required for letters. Second, there may have been a reduction in the LMLM costs for First-Class automation presort due to the ICS program (see witness McCrery, USPS-T-29, pages 7-8). Third, the piggyback ratio for the operation has declined from 1.958 in R2000-1 (see LR-I-81, MPSHUSTY.xls, sheet "Pool") to 1.779 in this case (see LR-K-55, page 14). Finally, this may also reflect mail piece improvements, such as better barcodes.

- d. See my response to part c.
- e. Yes, see my response to part a.
- f. See LR-K-55, page I-17, which can also be found at USPS-LR-55-C.exe, directory lr-k-55 part 1, spreadsheet R2005 lr-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC.

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ABA&NAPM/USPS-T21-41. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", please respond to the following concerning First Class automated presort letters:

- a. What percentage of such letters is received at postal facilities for further processing on (1) rolling stocks; (2) pallets; (3) other—please specify.
- b. At postal processing facilities would you agree that the basic physical unit of output is a sleeved and banded tray, as opposed to an individual letter?
- c. Would you agree that other than collection box mail, that the basic physical unit of mail input is also a sleeved and banded tray?
- d. Do you collect, or have you collected in any special studies measurements of mail processing costs where the basic unit is a sleeved and banded tray, for example, in transportation costs? If so, please provide these studies.

Response:

- a. We do not have this information.
- b. Not fully. A tray based unit of output would work for the operations that involve tray handling. (Some of these operations, however are for unbanded and/or unsleeved trays.) Many operations involve piece distribution so the piece is needed as a unit of output for these operations. Trays of mail can be of different presort levels, and can be automation or non-automation rate. So the workload for a "tray" mail can vary depending on its makeup.
- c. No. See my response to b.
- d. We do not have this information.

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ABA&NAPM/USPS-T21-42. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 2 of 4, please respond to the following concerning First Class automated presort letters:

- a. For the MODS 17 1OPBULK cost pool, are the MODS hours calculated for First Class and Standard Class mail together, as might be inferred from the MODS 3 digit codes, all of which state "BBM" whether for incoming or outgoing activities?
- b. Does this activity relate mainly to non-automation presort letter operations, and if so, please explain why First Class presort automation letters have positive unit costs of 0.06 cents in R2000-1 for this activity and 0.01 cents in R2005-1.
- c. Please explain the reasons for the reduction in unit costs noted in b.

Response:

- a. All of the operation names for the MODS 3-digit codes for MODS 17 1OPBULK include "STANDARD," indicating that these operations are primarily for Standard Mail (See page I-18 of LR-K-55 and this can be found at USPS-LR-55-C.exe, directory lr-k-55 part 1, spreadsheet R2005 lr-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC.). However, as shown in witness Van-Ty-Smith, USPS-T-11, page 39, Standard Mail accounts for about 68 percent of the labor costs in this cost pool and First-Class presort accounts for about 4 percent.
- b. No. These operations are used for initial separation of letter trays, flat trays, flat bundles, newspaper bundles, sacks, parcels, and IPP/SPRs into mail transport equipment, in preparation for further sorting. First-Class presort automation letters require such processing. Some of this processing is provided in the operations included in the MODS 17 1OPBULK cost pool.
- c. See my response to ABA&NAPM-T21-30. In addition, there is a lower volume

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variability and piggyback factor for this cost pool for the R2005-1 test year as compared to the R2000-1 test year, which offset the increased wages.

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ABA&NAPM/USPS-T21-43. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 2 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please provide a complete definition of what the cost pool MODS 17 1OPPREF entails. For codes 110, 111, 112, 113, 114, 180-184, 343 and 344, please provide complete definitions or cite the source where such definitions are provided.
- b. Please explain what factors have caused the unit costs for this cost pool to decline from 0.21 cents in R2000-1 to 0.15 cents in R2005-1?

Response:

- a. The operations in the MODS 17 1OPPREF cost pool are used for initial separation of letter trays, flat trays, flat bundles, newspaper bundles, sacks, parcels, and IPP/SPRs into mail transport equipment, in preparation for further sorting, primarily for PREF mail classes. The workload in these units may require the dumping of sacks, setting up the work area, moving containers of working mail into the unit, removing strapping and sleeves from trays, and the staging of worked containers. The MODS operations for this cost pool are shown in LR-K-55, page I-18, which differs from the list of operations contained in the question. (This can also be found at USPS-LR-55-C.exe, directory lr-k-55 part 1, spreadsheet R2005 lr-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC). This cost pool was modified as discussed by witness Van-Ty-Smith, USPS-T-11, pages 6-7.
- b. See my response to ABA&NAPM-T21-30. In addition, there is a lower volume variability and piggyback factor for this cost pool for the R2005-1 test year, which

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offset the increased wages.

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ABA&NAPM/USPS-T21-44. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 2 of 4, please respond to the following concerning First Class automated presort letters:

- a. For the MODS 17 activity 1PLATFRM, please explain why unit costs have gone up since R2000-1, from 0.29 cents to 0.30 cents.
- b. What distinctive factors associated with platform activities have caused this cost pool to increase, when many other cost pools have decreased?
- c. For MODS codes 210-234 and 351, 352 and 454, please provide complete definitions or cite the source where such definitions are provided.
- d. Is the lack of progress in controlling costs in this MODS cost pool due to major redundancies in the Postal Service's distribution infrastructure, for example, sending mail through intermediate facilities rather than directly to SCF's.
- e. Do you have a breakdown of MODS productivities and unit costs for this operation as between BMC's, ADC's, AADC's, SCF's and other facilities which letter mail goes through. If so, please break down the overall unit platform costs and cost dynamics by type of USPS facility.
- f. Does this cost pool measure the time that workshared mail delivered to a USPS facility remains on the dock, or otherwise idle, before being broken down and processed further at the USPS facility or grouped for dispatch to another facility?
- g. If your answer to f. is other than an unequivocal "yes", please explain how this downtime is costed, in what cost pool(s) it is found, and what the measurement of it is by three digit MODS code(s).

Response:

- a. Unit costs have gone up due to the wage increases between test year FY2001 and test year FY 2006, which have almost been offset by the declines in variabilities and piggyback factors.
- b. Overall workhours have declined in this operation from FY98 to FY2004 from 42.8 billion to 41.7 billion, while volumes have increased during this period. This would suggest productivity improvements in this operation. The LDC 17

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realignment of operations did not involve any significant change in the activities that constitute this cost pool.

- c. The operations in the 1PLATFRM cost pool are used for the loading and unloading of containers or individual sacks, parcels, trays, and bundles of mail on and off all types of vehicular transportation on the platform. This also includes work to perform any separation of mails on the platform required to (1) load a vehicle, or (2) move load to next handling operation. These operations also include transporting mail to and from the platform (manually or with powered equipment) as well as the work of expeditors, elevator operators, traffic direction, and control center operations supporting platform movements. The MODS operations for this cost pool are shown in LR-K-55, page I-18 and I-19, which differs from the list of operations contained in the question. (This can also be found at USPS-LR-55-C.exe, directory Ir-k-55 part 1, spreadsheet R2005 Ir-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC).
- d. See my response to part b.
- e. No, we do not have this information. Some unit cost information for platforms is provided in LR-K-53, for the cost pools MODS 17 1PLATFRM and BMC PLA (platforms).
- f. No.
- g. There is no costing of the time mail is staged on the dock waiting to be worked.

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ABA&NAPM/USPS-T21-45. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 2 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please provide a complete definition of what the cost pool MODS 17 1POUCHING entails. For codes 120-129, 208, 209 and 345 please provide complete definitions or cite the source where such definitions are provided.
- b. Please explain why unit costs have fallen for this activity from 0.14 cents in R2000-1 to 0.01 cent in R2005-1.

Response:

- a. The operations in the 1POUCHING cost pool are used for the separation of all mail types into sacks or pouches and the dumping of sacks or containers onto a conveyor or fixed table. The work content also includes setting up the work area, moving containers of working mail into the unit, removing strapping and sleeves from trays, the removal of worked sacks/pouches from racks onto MTE, and the staging of worked containers. The MODS operations for this cost pool are shown in LR-K-55, page I-19, which differs from the list of operations contained in the question. (This can also be found at USPS-LR-55-C.exe, directory lr-k-55 part 1, spreadsheet R2005 lr-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC). This cost pool was modified as discussed by witness Van-Ty-Smith, USPS-T-11, pages 6-7. See also my response to ABA&NAPM-T21-30.
- b. See my response to ABA&NAPM-T21-30. In addition, there is a lower volume variability and piggyback factor for this cost pool, which offset the increased wages.

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ABA&NAPM/USPS-T21-46. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 2 of 4, please respond to the following concerning First Class automated presort letters:

- a. For the MODS 17 activity 1SCAN, please explain why the unit costs have doubled since R2000-1 from 0.02 cents per piece to 0.04 cents per piece.
- b. Since this air transport activity does not involve piece distribution activities, please explain how you arrive at a per-piece unit cost.
- c. Please explain fully how POSTAL ONE affects this MODS category and provide any data you may have which distinguishes pre- from post- POSTAL ONE unit costs for this cost pool.

Response:

- a. The main reason for the cost increase is that 1SCAN was expanded adding the SWYB operations formerly in the Pouching cost pool (see witness Van-Ty-Smith, USPS-T-11, page 6, lines 29-31). Test year to test year wage increases contributed to this as well, while piggyback factor increases offset the variability declines for this cost pool.
- b. As true for all costs pools, the unit cost for this cost pool is obtained by dividing the costs for a category of mail, like First-Class presort automation, by the RPW volumes for this category.
- c. I am told these operations are impacted by the *PostalOne!* Transportation Management systems. Customer sites with this form of *PostalOne!* include shipping systems functionally similar to Postal AAA and/or SWYB systems thereby reducing the need for this work at plants and AMCs. Customers provide the staff for the AAA and SWYB done on their sites and may purchase the equipment used in their mail production facilities as well. So *PostalOne!*

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Transportation Management systems should enable reductions the 1SCAN cost pool and also reduce the 1SCAN unit costs for the classes or categories of mail prepared by mailers using these systems.

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ABA&NAPM/USPS-T21-47. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 3 of 4, please respond to the following concerning First Class automated presort letters:

- a. In defining the costs related to computerized forwarding systems (CFS), namely cost pool MODS 49 LD49, in response to an ABA/NAPM interrogatory in R2000-1, the Postal Service stated "First Class presort mailers are required to meet strict addressing standards. However, these costs are not included in the cost models." Please confirm that whether or not the Postal Service includes such costs in their cost models, the presort mailers costs avoid these costs for the Postal Service.
- b. Consider a hypothetical mail processing - related, transportation - related, cost incurred by presort mailers that, were it not incurred by them, would be incurred by the Postal Service. Assume further that the Postal Service does not measure this cost or define it in a cost pool because in fact it does not have to engage in the activity since presort mailers are. Please confirm that such an activity would be an avoided cost for the Postal Service.
- c. Please confirm that if the presort industry supplied the Postal Service or the Commission with essentially MODS productivities for such activities, an adjustment for USPS wage rates could be applied to the productivity data and unit costs avoided estimated.
- d. Please explain the reduction in unit costs for this activity that are measured by the Postal Service, from 0.22 cents in R2000-1 to 0.13 cents in R2005-1.

Response:

- a.-c. Retained by witness Abdirahman.
- d. The decline in unit costs suggests productivity gains or lessening of the share of mail requiring CFS work. This decline occurred despite the test year to test year wage increases, which were only partly offset by the lower variability for this cost pool. Please note that there were unit cost declines of similar magnitudes for both First-Class single-piece letters (0.28 to 0.21 cents) and First-Class non-carrier route presort letters (0.24 to 0.17 cents). In addition, it is important to remember that our methods for splitting First-Class presort letter costs into

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automation and non-automation may not be accurate, as indicated in witness Abdirahman's response to Presiding Officer's Information Request, part A. While automation letter CFS unit costs declined as your question indicates, the CFS unit cost for First-Class presort non-automation letters increased from 0.43 cents to 1.09 cents.

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ABA&NAPM/USPS-T21-48. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 3 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please provide a complete definition for MODS 79 LD79 and all three-digit MODS codes within that cost pool.
- b. Please explain why unit costs in this area have more than quadrupled between R2000-1 and R2005-1, from 0.02 cents to 0.09 cents for FCLM automation presort, and have increased by ten times for metered mail and more than doubled for single piece mail.

Response:

- a. This cost pool covers the bulk mail entry units. A listing of MODS operations is shown on page I-20 of LR-K-55. (This can also be found at USPS-LR-55-C.exe, directory lr-k-55 part 1, spreadsheet R2005 lr-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC).
- b. The increase in the variability from .299 to .83 is the main factor in the higher unit costs.

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ABA&NAPM/USPS-T21-49. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 3 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please provide a detailed and complete list of the support activities that constitute MODS 99 1SUPP F1. Provide a sufficient definition for each so that it is clear as to what each activity entails.
- b. Please explain why unit costs for this cost pool nearly tripled between R2000-1 and R2005-1, from 0.04 cents to 0.11 cents.

Response:

- a. See the list of MODS operations for this cost pool on page I-20 of LR-K-55, under the cost pools 1MISC and 1SUPPORT, which are both included in MODS 99 1SUPP F1. (This can also be found at USPS-LR-55-C.exe, directory lr-k-55 part 1, spreadsheet R2005 lr-k-55_pt1.xls, sheet Table I-2B, Plants-no ISC & PMPC).
- b. The main factors in this increase is the doubling of the volume variability from 0.39 to 0.83 and also the increase in wages (cost per work hour), which is partially offset by the decline in the piggyback factor. Finally please note that these costs are distributed in proportion to all function 1 costs. As a result, changes by class/category in the unit costs for this cost pool will also mirror relative changes in the other MODS cost pools.

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ABA&NAPM/USPS-T21-50. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 4 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please provide a detailed list of the allied and platform activities that constitute the NONMODS ALLIED cost pool. Provide a sufficient definition for each so that it is clear as to what each activity entails.
- b. Please explain how you calculate a per piece unit cost for this activity since you stated in response to an ABA/NAPM interrogatory in R2000-1 that it "does not involve piece distribution".
- c. What is the volume percentage of First Class automated presort mail that enters this cost pool? Of FCLM metered mail? Of FCLM single piece mail?
- d. Why have unit costs in this activity increased from 0.19 cents in R2000-1 to 0.27 cents in R2005-1? Why have they doubled for metered mail, from 0.44 cents to 0.88 cents and almost doubled for single piece mail, from 0.54 to 0.90 cents?
- e. Is the lack of progress in controlling costs in this NONMODS cost pool due to major redundancies in the Postal Service's distribution infrastructure, for example, sending mail through intermediate facilities rather than directly to SCF's.
- f. Do you have a breakdown of NONMODS productivities and unit costs for this operation as between BMC's, ADC's, AADC's, SCF's and other facilities which letter mail goes through. If so, please break down the overall unit platform costs and cost dynamics by type of USPS facility.
- g. Does this cost pool measure the time that workshared mail delivered to a USPS facility remains on the dock, or otherwise idle, before being broken down and processed further at the USPS facility or grouped for dispatch to another facility?
- h. If your answer to e. is other than an unequivocal "yes", please explain how this downtime is costed, in what cost pool(s) it is found, and what the measurement of it is.

Response:

- a. See USPS-LR-K-1, page 3-11 and LR-K-55, page II-25. The activities included in this cost pool are platform work, mail preparation, canceling, facing, banding, culling, separating mail (in trays, sacks, bundles or other containers) mainly by carrier route and transporting this mail to each carrier and preparing collection

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mail for dispatch to the plant.

- b. As true for all costs pools, the unit cost for this cost pool is obtained by dividing the costs for a category of mail, like First-Class presort automation, by the RPW volumes for this category.
- c. We do not have this information.
- d. The comparison of the R2005-1 NONMODS ALLIED unit costs and R2000-1 NONMODS ALLIED unit costs as done in the question is not an apples to apples comparison. This is because of the consolidation of the MODS and non-MODS cost pools for post-offices, stations, and branches discussed by witness Van-Ty-Smith, USPS-T-11, page 5 and also my response to ABA&NAPM/USPS-T21-35. The correct comparison can be made by using the “cross-walked R2005-1” NONMODS ALLIED unit costs from the first page of the attachment to my response to ABA&NAPM/USPS-T21-35 (for First-Class single piece and metered letters) and the same calculation done for First-Class non-carrier route presort automation letters which is attached to this response. Based on these cross-walked unit costs we can make the following comparisons for NONMODS ALLIED unit costs for First-Class letters in cents per piece:

Class/Category	R2005-1	R2000-1
First-Class Single-Piece	0.65	0.54
First-Class Single-Piece Metered	0.64	0.44
First-Class Presort Automation	0.20	0.19

The increases shown above are consistent with the increased wages and cost

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pool piggyback factors, which are only somewhat offset by the decline in cost pool variability between the R2005-1 and R2000-1 test years.

- e. I have no information on the amount of progress (or its sources) on controlling costs for these operations.
- f. No I don't have this information.
- g. No.
- h. There is no costing of the time mail is staged on the dock waiting to be worked.

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ABA&NAPM/USPS-T21-51. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 4 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please provide a detailed list of the automation and mechanization activities that constitute the NONMODS AUTO/MECH cost pool. Provide a sufficient definition for each so that it is clear as to what each activity entails.
- b. The unit costs are identical at 0.20 cents as between R2000-1 and R2005-1 for the NONMODS AUTO/MECH activity, whereas in MODS facilities corresponding automation activities appear to have experienced reduced costs. Please explain why these costs have remained the same at NONMODS facilities.

Response:

- a. USPS-LR-K-1, page 3-11 and LR-K-55, page II-25. This includes sorting with CSBCS, DBCS, OCRs, FSMs and other equipment located at stations, branches and post-offices.
- b. The comparison of the R2005-1 NONMODS AUTO/MECH unit costs and R2000-1 NONMODS AUTO/MECH unit costs as done in the question is not an apples to apples comparison. This is because of the consolidation of the MODS and non-MODS cost pools for post-offices, stations, and branches discussed by witness Van-Ty-Smith, USPS-T-11, page 5 and also my response to ABA&NAPM/USPS-T21-35. The correct comparison can be made by using the "cross-walked R2005-1" NONMODS AUTO/MECH unit costs from the attachment to my response to ABA&NAPM/USPS-T21-50. The cross-walked unit cost is 0.17 cents per piece which does indeed conform to the expectations. This decline occurred despite the wage increases between the R2005-1 and R2000-1 test

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years, which was only partly offset by the decline in this cost pool's volume variability.

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ABA&NAPM/USPS-T21-52. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 4 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please explain why unit costs between R2000-1 and R2005-1 have dropped in the NONMODS MANL cost pool for single piece and automated presort letters in First Class, but has increased for metered letters. What are the differences in manual activities applied to each type of mail that would account for this?
- b. What has been the change in the craft wage associated with this cost pool between R2000-1 and R2005-1?
- c. Please explain all factors that have led to the changes in unit costs for each of the types of mail noted in a., in particular why they have in the case of single piece and automation presort letters offset the presumed wage increase noted in your answer to b.

Response:

- a. There are likely differences in characteristics for single piece, metered and automated presort letters which would account for differences in the changes in NONMODS MANL unit costs, as discussed in my response to ABA&NAPM/USPS-T21-27b. However, the claim you make in your question that NONMODS MANL cost pool unit costs between R2000-1 and R2005-1 "has increased for metered letters" is not true. The comparison of the R2005-1 metered NONMODS MANL unit costs of 1.15 cents (see LR-K-53, page 67, cell BI47) and R2000-1 metered NONMODS MANL unit costs of 1.08 cents (see LR-I-81, spreadsheet MP SHUSTY, sheet TY Letters (4), cell AX47) is not an apples to apples comparison. This is because of the consolidation of the MODS and non-MODS cost pools for post-offices, stations, and branches discussed by witness Van-Ty-Smith, USPS-T-11, page 5 and also my response to

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ABA&NAPM/USPS-T21-35. The correct comparison can be made by using the “cross-walked R2005-1” metered letters NONMODS MANL unit costs of 0.80 cents from the first page of the attachment to my response to

ABA&NAPM/USPS-T21-35. This is a reduction from the R2000-1 unit cost of 1.08 cents provided above.

- b. There was a 27 percent increase in the wage or cost per work hour between test year FY2001 (from R2000-1) and the test year FY 2006 (from R2005-1).
- c. The unit cost for metered letters NONMODS MANL have declined from 1.08 cents to 0.80 cents as indicated above in part a. This decline isn't as large as for single-piece for the reasons discussed in my responses to ABA&NAPM/USPS-T21-27b and ABA&NAPM/USPS-T21-39b.

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ABA&NAPM/USPS-T21-53. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 4 of 4, please respond to the following concerning First Class automated presort letters:

- a. Please provide a detailed list of the "miscellaneous support" activities that constitute the NONMODS MISC cost pool. Provide a sufficient definition for each so that it is clear as to what each activity entails.
- b. Please explain why these unit costs have risen from 0.08 cents to 0.12 cents for FLCM automation presort letters between R2000-1 and R2005-1, more than doubled for metered letters, and nearly doubled for single piece letters.

Response:

- a. USPS-LR-K-1, page 3-11 and LR-K-55, page II-25. This is other processing work not included in the 7 other non-MODS cost pools. This includes CFS and central mail markup, delivery confirmation, other accountables, non-accountables, rewrap, postage due, business reply and other activities.
- b. The comparison of the R2005-1 NONMODS MISC unit costs and R2000-1 NONMODS MISC unit costs as done in the question is not an apples to apples comparison. This is because of the consolidation of the MODS and non-MODS cost pools for post-offices, stations, and branches discussed by witness Van-Ty-Smith, USPS-T-11, page 5 and also my response to ABA&NAPM/USPS-T21-35. The correct comparison can be made by using the "cross-walked R2005-1" NONMODS MISC unit costs from the first page of the attachment to my response to ABA&NAPM/USPS-T21-35 (for First-Class single piece and metered letters) and the same calculation done for First-Class non-carrier route presort automation letters which is attached to my response to ABA&NAPM/USPS-T21-

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50. Based on these cross-walked unit costs we can make the following comparisons for NONMODS MISC unit costs for First-Class letters in cents per piece:

Class/Category	R2005-1	R2000-1
First-Class Single-Piece	0.26	0.22
First-Class Single-Piece Metered	0.29	0.17
First-Class Presort Automation	0.08	0.08

The increases shown above are consistent with the increases in wages and cost pool variability, which are only somewhat offset by the decline in cost pool piggyback factors between the R2005-1 and R2000-1 test years. In addition, the non-mail handling costs for this cost pool are distributed in proportion to all non-MODS pool costs. As a result, changes by class/category in the unit costs for this cost pool will also mirror relative changes in the other non-MODS cost pools.

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ABA&NAPM/USPS-T21-54. In LR-K-53, "Test Year Mail Processing Unit Costs by Cost Pool for Letters", page 4 of 4, please respond to the following concerning First Class automated presort letters and other letters as noted:

- a. In the calculated total for mail processing unit costs, please explain why as between R2000-1 and R2005-1, they have gone up for metered letter mail, but have gone down for other single piece letters as well as for automation presort letters.
- b. In light of what clearly appears to be aberrant cost estimates for metered mail in several cost pools and in the calculated total relative to single piece letters generally, please explain how you can, or why you would, risk using this as a benchmark for estimating costs avoided for First Class workshared mail?

Response:

- a. See my responses to ABA&NAPM/USPS-T21-27b (filed on May 26, 2005) and ABA&NAPM/USPS-T21-39b.
- b. The cost estimates for metered mail do not appear to be aberrant. The differences in cost trends for metered and other mail are explained in my responses to ABA&NAPM/USPS-T21-27b, ABA&NAPM/USPS-T21-39b and my responses to ABA&NAPM/USPS-T21-52. In addition, the increase in the metered mail unit costs from 10.77 cents to 10.91 cents is approximately a one percent rise, well below the 27 percent projected change in wage levels (or cost per work hour) between test years FY2001 and FY2006. There was hardly any increase in the metered unit costs despite the growth in wage levels (or cost per work hour). In addition, see witness Abdirahman, USPS-T-21, page 11 concerning benchmarks.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
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