Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

CONFIRM	Docket No. MC2002–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS NIETO TO INTERROGATORIES OF AMERICAN POSTAL
WORKERS UNION, AFL-CIO
(APWU/USPS–T3–1-10)

The United States Postal Service hereby provides responses of witness Nieto to the following interrogatory of the American Postal Workers Union, AFL-CIO: APWU/USPS–T3–1-10, filed on May 31, 2002.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 12, 2002

RESPONSE OF POSTAL SERVICE WITNESS NIETO TO
INTERROGATORY OF AMERICAN POSTAL WORKERS UNION

APWU/USPS-T3-1. What costs were involved in moving the central server site for CONFIRM from Wilkes-Barre to Raleigh to Eagan and how much did each move cost? Were the costs of moving the central server site included in the costing for CONFIRM? If so, how were they included? Were those costs included in the CONFIRM development costs? If so, how were they included?

RESPONSE:

There was about $10,000 in expenses incurred by Confirm in FY 2001 to move equipment to Eagan. My cost analysis provides costs for test year 2003 (TY 2003). The test year is a hypothetical year selected to represent forward-looking operational costs for Confirm. Test year costs include projected ongoing expense spending and depreciated capital costs. As such, the one-time expense to move equipment in years prior to TY 2003 is not reflected in my analysis.

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APWU/USPS-T3-2. What is a "sunk cost" and what is the basis for excluding "sunk costs" from the costing for CONFIRM? How did you decide that some of the costs related to CONFIRM were "sunk costs"? Which costs related to CONFIRM were "sunk costs"? How much did each of these "sunk costs" items cost? Were these "sunk costs" all excluded from CONFIRM costing? If they are not included in CONFIRM costing, where are they included in overall Postal Service costing and to which account(s) are they charged?

RESPONSE:

Sunk costs do not represent ongoing expenses nor do they create an asset that can be depreciated, therefore all sunk costs are excluded from attributable cost analyses. Sunk costs are "sunk" in that they can not be recouped whether or not a Confirm product offering is realized, and in this sense sunk costs are not a part or representative of true operational costs related to the Confirm offering in this filing.

Through analysis and research of the Confirm process/technology of production and historical costs, and by meeting with the Confirm program manager and system experts I determined which Confirm costs were sunk and therefore not attributable to Confirm.

For a discussion on what sunk costs were excluded from the Confirm test year costs presented in my testimony please refer to page 15, "Costs Not Supporting the Confirm Full Production System", of my testimony.

APWU/USPS-T3-3. What is the basis for excluding from CONFIRM costs the expenditures that did not support the full production system? How did you determine which work supported the full production system? For example, at page 15, line 18 through page 16, line 2, you state that the cost of the prototype web site was not included in the CONFIRM costing because it did not support the full production system. Was there nothing about that web site that provided knowledge for building the full production system? Would the cost of that prototype web site have been undertaken if the full production system of CONFIRM had not been planned? Would the prototype web site have been undertaken if a web site had not been planned as part of CONFIRM? Which expenditures related to CONFIRM that did not support the full production system were excluded from the costing for CONFIRM? How much did each of these expenditures cost? For the expenditures excluded from CONFIRM costing because they did not support the full production system, state where they were included in overall Postal Service costing and to which account(s) they were charged?

RESPONSE:

Expenditures that do not support the full production Confirm system fall under the category of sunk costs; please refer to the response to APWU/USPS-T3-2 for a discussion detailing how sunk costs are determined and why they are excluded from my attributable cost analysis.

The “prototype” web site had no direct cost impact on the web site that is being used for the full production system, as there was no hardware and/or software that was transferred over. It therefore has no effect on my test year costs. This is not tantamount to ignoring the importance of any “lessons learned” from the prototype web site. Any lessons would be reflected in value added (i.e. lower cost) to the full production web site; however, in this case, I did not study these effects as it was not necessary to my analysis.

APWU/USPS-T3-4. Which post-launch system development costs, mentioned on page 14, 2 lines through 8, have been included in your costing analysis?

RESPONSE::

Post-launch system development costs are a product of Confirm system experts' estimations of future capital projects that will be carried out to enhance the Confirm system. One such cost is the Confirm accounting system solution cost (see the response to APWU/USPS-T3-9). The System Development funds will be spent on an as-needed basis depending on the evolution of Confirm in future periods.

APWU/USPS-T3-5. At page 15, you state that the costs of the CMOR tool are excluded from CONFIRM costing. Is the CMOR tool available for Postal Service managers and/or customer service representatives to provide information to help resolve service problems for specific mailers? If so, what proportion of the use of CMOR is for problem solving for specific mailers? During the testing of CONFIRM, has CMOR been used for problem solving for specific mailers? If it were used for solving problems for specific CONFIRM mailers, should the cost of CMOR be included in whole or in part in CONFIRM costing?

RESPONSE:

Yes, the CMOR tool is available for Postal Service Managers and/or customer service representatives to analyze and resolve service problems for specific mailers (or any other postal customers).

CMOR costs are not attributable to Confirm, regardless of who is benefiting from the CMOR tool. The guiding principle of attributable costing is causality, to charge costs to a product based upon that product's draw upon resources. It is important not to confuse *benefits* with *causality*. If a Confirm mailer was to *benefit* from CMOR by using it to resolve a service problem this does *not* equate to any part of CMOR being attributable to Confirm. Rather, the CMOR costs are caused by the Postal Service's desire to improve service-wide efficiency and performance, for which they will use PLANET Code data.

APWU/USPS-T3-6. While the CONFIRM use of shared infrastructure may not cause immediate need for expanding the field equipment infrastructure, it will take up capacity that would have otherwise been used for natural expansion of other mail processing data activities, and could impact upgrade decisions. Was this opportunity cost assessed in your analysis? If so, how was it included? If not, why not?

RESPONSE::

Opportunity costs are historically excluded from attributable cost analysis per rate case precedent. Rather, the basis of attributable costing is cost causality.

APWU/USPS-T3-7. Once a barcode sorter has been programmed to read PLANET codes, is there on-going updating required for this software? At page 19 you indicate that update costs are excluded from the CONFIRM costing because CONFIRM updates are done as part of preexisting update cycles. If CONFIRM is the only program being updated during a cycle, would the update be skipped?

RESPONSE:

These updates referred to above do not represent a capital improvement to the Confirm system, but instead are general technical maintenance performed on bar code sorters (BCS) by the Postal Service. This also includes bringing new BCS online. With this periodic BCS maintenance there can be lines of code that are specific to Confirm. While the development of this code is included in my cost analysis under "Field Technology Support" (See USPS-LR-2, Worksheet A-2), the physical installation of the update to the BCS is not attributable because Confirm does not cause this general update.

I did not study the details of a hypothetical situation involving skipped update cycles in the course of my analysis, as it was not necessary. For all intents and purposes, Confirm would always be part of the general updates and would never cause the update in and of itself.

APWU/USPS-T3-8. When the software needed for barcode sorters to read and capture the PLANET codes was initially installed as part of a preexisting update cycle, what other updates were done at the same time? In the initial installation of the software needed for barcode sorters to read and capture the PLANET codes, was testing required to determine that the installation of this software worked? If so, what testing was required? What testing was required to determine that the installation of other software or updates installed as part of the same preexisting update cycle worked? Was it necessary to reinstall the software needed for barcode sorters to read and capture the PLANET codes in any installations or for any piece of equipment? If so, where was this necessary and on what types of equipment?

RESPONSE:

The detail of this question far exceeds what was necessary to complete my analysis. However, it is my understanding that the PLANET codes program was a postal-wide initiative to be leveraged for multiple products, and not solely caused by Confirm. Thus, costs associated with the barcode sorter enabling of PLANET codes are institutional and not included in my attributable cost analysis for the Confirm service filed in these proceedings.

APWU/USPS-T3-9. Since the software accounting system for CONFIRM is not yet complete, how were the programming costs for that system estimated? Where were those costs included in the CONFIRM costing? Who will be doing the CONFIRM accounting? Where are and what are the costs associated with doing the ongoing CONFIRM accounting? Will the CMOR be used as a tool for accounting purposes, including any use for verification of accounts? If so, how will it be used and who will use it?

RESPONSE:

Accounting costs for Confirm are contained in two components, an accounting information technology system solution and invoicing support. The depreciated accounting information technology system solution costs for Confirm are included in the test year "System Development" costs. Preliminary estimates were developed to ensure that sufficient funds had been allocated for that development. The accounting system will also require invoicing support to be provided by the National Customer Support Center (NCSC). This segment of the accounting costs is included in my analysis under "Program Management" costs (see USPS-LR-2, Worksheet A-3) at a fully loaded wage rate of $70,065. CMOR will not be used as a tool for accounting purposes.

APWU/USPS-T3-10. Have costs associated with uploading data from mail processing equipment at intervals other than end-of-run been included in the CONFIRM costing estimates? If not, why not? What other uses of mail processing data require or benefit from uploading data from mail processing equipment at intervals other than end-of-run?

RESPONSE:

I was not asked to study the costs of uploading data at intervals other than end-of-run at the time of my analysis; thus I did not study the other uses of mail processing data that require or benefit from these intervals.

DECLARATION

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

_____
Norma B. Nieto

Dated: _____

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.

_____
Kenneth Hollies

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