

**DOCKET SECTION**

**BEFORE THE  
POSTAL RATE COMMISSION**

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POSTAL RATE COMMISSION  
WASHINGTON, D.C.

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POSTAL RATE AND FEE CHANGES, 1997

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DOCKET NO. R97-1

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**SUPPLEMENTAL TESTIMONY OF  
STEPHEN E. SELICK ON BEHALF  
OF UNITED PARCEL SERVICE  
PURSUANT TO PRESIDING OFFICER'S  
INFORMATION REQUEST NO. 11**

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INFORMATION REQUEST NO. 11

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1 My name is Stephen E. Sellick. I am submitting this Supplemental  
2 Testimony in response to Presiding Officer's Information Request No. 11 (January 30,  
3 1998) ("POIR 11").

4 MIGRATION OF COSTS  
5

6 1. POIR 11 asks why, in my original testimony and workpapers, I did  
7 not back out from Mail Processing costs \$385,172,000 of Administrative and Window  
8 Service costs which the Postal Service has identified as migrating to Mail Processing  
9 under the MODS-based approach. It requests that I "prepare a presentation that  
10 moves the administrative and window service costs that the Postal Service identifies as  
11 migrating to mail processing under the MODS based cost system and calculate the  
12 base year and test year costs by subclass." POIR 11 at 2. As a result, I have further  
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14 defined cost component for attribution. I have recalculated UPS's recommended base

1 year and test year costs at 100% Mail Processing variability to take into account these  
2 changes. The result is shown in Table 1 at the end of this testimony.

3 Background

4 My original testimony was intended primarily to ensure that previous  
5 Commission practice with respect to the level of cost attribution was followed in  
6 returning Mail Processing costs in Cost Segment 3.1 to "100% volume variability."<sup>1</sup> In  
7 particular, I attempted to isolate costs that had previously been classified as "Fixed Mail  
8 Processing." In doing so, I discovered that a significant portion of the costs which had  
9 "migrated" from Cost Segments 3.3 (Window Service and Administrative, respectively)  
10 to Cost Segment 3.1 were contained in a few Administrative activity codes identified in  
11 Mr. Alexandrovich's B-series workpaper 3.0.4, and that transferring those costs from  
12 Cost Segment 3.1 to 3.3 was a relatively simple matter. I did not attempt to reverse all  
13 of the migration into Cost Segment 3.1. Thus, my calculations yielded a result different  
14 from that which the Postal Service later provided in its response to Commission Order  
15 No. 1203.

16 Also, in its response to Order No. 1203 the Postal Service used a  
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19 leaves those costs in Mail Processing (using the MODS pool approach to costing) but  
20 applies a re-calculated variability to them.<sup>2</sup> Specifically, the Postal Service divides the

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1. References to "100% volume variability" are shorthand for the previous Commission and Postal Service practice of treating most Mail Processing costs as fully variable and a limited portion as fixed.

2. The Postal Service's method is not inherently inferior or superior to the approach I took. It merely represents a different way of getting to the same point. However, as I later discuss, the Postal Service made an error in implementing its approach.

1 cost pools currently in Cost Segment 3.1 (Mail Processing) into four categories:  
2 Variable Mail Processing, Fixed Mail Processing, Migrated Window Service Costs, and  
3 Migrated Administrative Costs. The appropriate variability factor for each category is  
4 used to derive a weighted variability factor for Mail Processing and the Degen cost  
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6 The Postal Service states that under its method, "fundamental differences  
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8 implement the exact variability analysis of one method in the other." Revised Response  
9 of U.S. Postal Service to Interrogatories of the Office of the Consumer Advocate,  
10 OCA/USPS-71 through 76. I believe my method partially avoids some of these  
11 complications. Because of our different approaches, however, my results differ  
12 somewhat from those of the Postal Service.

13 The Postal Service quantifies what costs would go to which of the different  
14 cost categories in applying its approach. However, it slightly understates the correct  
15 effective variability in its presentation. Perhaps the best way to explain this is to review  
16 the three separate types of costs that are relevant in combining the Commission's  
17 previous methodology and definitions of Mail Processing, Window Service, and  
18 Administrative costs with the improved MODS cost pool distribution of costs within Mail  
19 Processing. The three types of costs are (1) Fixed Mail Processing costs, (2) costs that  
20 have migrated from Window Service to Mail Processing, and (3) costs that have  
21 migrated from Administrative to Mail Processing.

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<sup>3</sup>. The variabilities applied by the Postal Service are 100% for Variable Mail Processing (except for Registry), 0% for Fixed Mail Processing, 58.1% for Window Service, and 62.1% for Administrative costs. See Table A of the Postal Service's response to Order No. 1203 in LR-H-315.

1 Fixed Mail Processing Costs

2 Fixed Mail Processing costs were, in previous cases, enumerated in "B-  
3 Series" worksheet 3.0.2 and include the IOCS activity codes for Platform Acceptance  
4 (6210), Nixie (6240), Performing Routine Office Work (6420), Obtaining  
5 Mail/keys/checking vehicle (6430), as well as the institutional portions of Special  
6 Delivery (0010 and 6220) and Registry (0060 and 6230). See Worksheet 3.0.2,  
7 Workpaper UPS-Sellick-2. My original testimony and the approach taken in this  
8 supplemental testimony both treat these costs as non-volume variable within Mail  
9 Processing (Cost Segment 3.1).

10 The Postal Service's response to Order No. 1203 erroneously includes  
11 General Administrative Services (6630), Quality Control/Revenue Protection (6480),  
12 and Supplies & Equipment (6320), which fall into the Administrative cost component, in  
13 the Fixed Mail Processing cost category. As a result, the Postal Service's calculation of  
14 the overall variability of Mail Processing costs should be 94.9% rather than the 93.46%  
15 shown by the Postal Service.

16 Costs that Have Migrated from Window Service to Mail Processing

17 These are primarily costs associated with activity codes in the ranges of  
18 5020-5180 and 6000-6200, which are assigned to Window Service in IOCS but are  
19 classified as Mail Processing in Mr. Degen's MODS approach. The Postal Service  
20 identifies \$127,182,000 of such costs.

21 My original testimony did not focus on Window Service costs (Cost  
22 Segment 3.2) and I did not return these costs to Cost Segment 3.2. This supplemental  
23 testimony identifies \$111,893,000 of these costs and returns them to Cost Segment 3.2  
24 for attribution and distribution.

1           The majority of the \$15,289,000 difference between my calculation and  
2 that of the Postal Service represents costs that are already assigned to mail subclasses  
3 and special services in IOCS (and in Mr. Degen's MODS approach) and that would be  
4 100 percent volume variable in either event. Therefore, I have not returned them to the  
5 Window Service cost component. I thereby avoid considerable complexity which would  
6 not make any significant difference in the resulting attributable costs. That is the  
7 primary reason why the costs I identify as migrating from Window Service are lower  
8 than the costs the Postal Service identifies.

9           Costs that Have Migrated from Administrative to Mail Processing

10           These are costs for which IOCS defines the observation as belonging to  
11 Cost Segment 3.3 (Mail Processing Administrative) while Mr. Degen's MODS approach  
12 includes them in Cost Segment 3.1 (Mail Processing). These costs are in activity  
13 codes detailed in B-series workpaper 3.0.4 for various administrative activities such as  
14 Data Collection and Processing (6495 and 6660), General Office and Clerical Work  
15 (6460 and 6630), Time & Attendance (6610, 6640, and 6650), Scheme Examination  
16 (6500), and Other Administrative (6430 and 6460). The Postal Service quantifies these  
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18 original testimony, I quantified these costs as \$421,231,000 -- a difference of  
19 \$247,990,000.

20           The primary difference lies with a portion of the costs in two activity codes  
21 which IOCS and the Postal Service (in its response to Order No. 1203) identify as  
22 Administrative: 6521 (Breaks) and 6523 (Moving Empty Equipment). My original  
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24 several activity codes (6480, 6519, 6320, and 6511 through 6516) which I previously  
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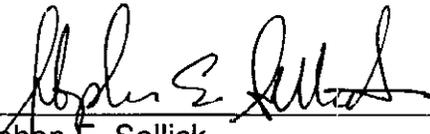


Table 1: Summary of Results of UPS Recommended Approach

|   | <u>Base Year Costs at 100% Variability</u> |                    |                    | <u>Test Year AR Costs at 100% Variability</u> |                    |                    |
|---|--|--------------------|--------------------|---|--------------------|--------------------|
|   | As Filed 12/30/97                          | POIR 11 Correction | % Incr. from Filed | As Filed 12/30/97                             | POIR 11 Correction | % Incr. from Filed |
| Letters & Parcels                         | 13,400,624                                 | 13,420,664         | 0.15%              | 13,821,126                                    | 13,850,901         | 0.22%              |
| Presort Ltr & Pcl                         | 4,087,648                                  | 4,087,524          | 0.00%              | 4,307,303                                     | 4,306,759          | -0.01%             |
| Single Piece Cards                        | 472,880                                    | 475,567            | 0.57%              | 474,538                                       | 477,740            | 0.67%              |
| Presort Cards                             | 136,169                                    | 136,389            | 0.16%              | 171,401                                       | 171,681            | 0.16%              |
| <b>Total First</b>                        | <b>18,097,321</b>                          | <b>18,120,144</b>  | <b>0.13%</b>       | <b>18,774,368</b>                             | <b>18,807,081</b>  | <b>0.17%</b>       |
| Priority Mail                             | 1,867,621                                  | 1,856,660          | -0.59%             | 2,456,169                                     | 2,444,918          | -0.46%             |
| Express Mail                              | 410,971                                    | 407,464            | -0.85%             | 489,151                                       | 484,912            | -0.87%             |
| Mailgrams                                 | 461  | 462                | 0.35%              | 532   | 531                | -0.18%             |
| Within Country                            | 79,844                                     | 79,930             | 0.11%              | 85,339  | 85,449             | 0.13%              |
| Outside Country:                          |  |                    |                    |   |                    |                    |
| Reg Rate Pub                              | 1,607,084                                  | 1,601,808          | -0.33%             | 1,724,399                                     | 1,719,184          | -0.30%             |
| Nonprofit Pub                             | 345,527                                    | 345,210            | -0.09%             | 355,223                                       | 354,989            | -0.07%             |
| Classroom Pub                             | 17,338                                     | 17,371             | 0.19%              | 14,634  | 14,651             | 0.12%              |
| <b>Total Second</b>                       | <b>2,049,792</b>                           | <b>2,044,320</b>   | <b>-0.27%</b>      | <b>2,179,595</b>                              | <b>2,174,273</b>   | <b>-0.24%</b>      |
| Single Piece Rate                         | 215,018                                    | 214,795            | -0.10%             | 251,857                                       | 251,717            | -0.06%             |
| Bulk Rate-Reg                             |  |                    |                    |   |                    |                    |
| Car Presort                               | 1,925,248                                  | 1,926,958          | 0.09%              | 2,000,034                                     | 2,001,786          | 0.09%              |
| Other                                     | 4,640,443                                  | 4,633,943          | -0.14%             | 5,954,194                                     | 5,948,470          | -0.10%             |
| Bulk Rate-Nonprofit                       |  |                    |                    |   |                    |                    |
| Car Presort                               | 146,685                                    | 146,366            | -0.22%             | 137,208                                       | 136,924            | -0.21%             |
| Other                                     | 1,066,513                                  | 1,064,234          | -0.21%             | 1,228,893                                     | 1,226,972          | -0.16%             |
| <b>Total Third</b>                        | <b>7,993,908</b>                           | <b>7,986,296</b>   | <b>-0.10%</b>      | <b>9,572,186</b>                              | <b>9,565,869</b>   | <b>-0.07%</b>      |
| Parcel Zone Rate                          | 789,067                                    | 791,042            | 0.25%              | 828,452                                       | 831,303            | 0.34%              |
| Bound Prnt Matter                         | 322,853                                    | 323,908            | 0.33%              | 370,998                                       | 372,427            | 0.39%              |
| Spc 4th-CI. Rate                          | 263,321                                    | 264,656            | 0.51%              | 294,772                                       | 296,521            | 0.59%              |
| Library Rate                              | 56,599                                     | 56,930             | 0.58%              | 57,136  | 57,508             | 0.65%              |
| <b>Total Fourth</b>                       | <b>1,431,840</b>                           | <b>1,436,535</b>   | <b>0.33%</b>       | <b>1,551,359</b>                              | <b>1,557,759</b>   | <b>0.41%</b>       |
| US Postal Service                         | 250,816                                    | 232,336            | -7.37%             | 219,791                                       | 203,822            | -7.27%             |
| Free Mail -- Blind & Hndc<br>& Servicemen | 31,595                                     | 31,586             | -0.03%             | 37,377  | 37,414             | 0.10%              |
| International Mail                        | 1,244,755                                  | 1,235,981          | -0.70%             | 1,278,539                                     | 1,270,111          | -0.66%             |
| <b>Total All Mail</b>                     | <b>33,379,080</b>                          | <b>33,351,784</b>  | <b>-0.08%</b>      | <b>36,559,067</b>                             | <b>36,546,691</b>  | <b>-0.03%</b>      |
| Special Services:                         |  |                    |                    |   |                    |                    |
| Registry                                  | 115,173                                    | 91,703             | -20.38%            | 101,630                                       | 82,899             | -18.43%            |
| Certified                                 | 305,397                                    | 305,922            | 0.17%              | 351,872                                       | 352,374            | 0.14%              |
| Insurance                                 | 36,758                                     | 37,187             | 1.17%              | 41,703  | 42,185             | 1.16%              |
| COD                                       | 21,399                                     | 21,466             | 0.31%              | 18,218  | 18,281             | 0.35%              |
| Special Delivery                          | 3,541                                      | 3,544              | 0.10%              | 28  | 28                 | 0.03%              |
| Money Orders                              | 123,797                                    | 126,666            | 2.32%              | 146,767                                       | 150,089            | 2.26%              |
| Stamped Envelopes                         | 10,938                                     | 10,891             | -0.44%             | 12,193  | 12,149             | -0.36%             |
| Special Handling                          | 1,248                                      | 1,276              | 2.24%              | 1,381   | 1,413              | 2.33%              |
| Post Office Boxes                         | 525,696                                    | 527,714            | 0.38%              | 585,299                                       | 587,117            | 0.31%              |
| Other                                     | 188,241                                    | 186,782            | -0.77%             | 198,331                                       | 196,933            | -0.70%             |
| <b>Total Special Services</b>             | <b>1,332,188</b>                           | <b>1,313,150</b>   | <b>-1.43%</b>      | <b>1,457,421</b>                              | <b>1,443,470</b>   | <b>-0.96%</b>      |
| <b>Total</b>                              | <b>34,711,268</b>                          | <b>34,664,934</b>  | <b>-0.13%</b>      | <b>38,016,489</b>                             | <b>37,990,161</b>  | <b>-0.07%</b>      |
| Other                                     | 20,265,331                                 | 20,312,200         | 0.23%              | 22,677,365                                    | 22,673,319         | -0.02%             |
| <b>Total Costs</b>                        | <b>54,976,599</b>                          | <b>54,977,134</b>  | <b>0.00%</b>       | <b>60,693,854</b>                             | <b>60,663,480</b>  | <b>-0.05%</b>      |

**DECLARATION**

I, Stephen E. Sellick, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Stephen E. Sellick

Dated: February 13, 1998

**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.

  
\_\_\_\_\_  
John E. McKeever

Dated: February 13, 1998  
Philadelphia, PA

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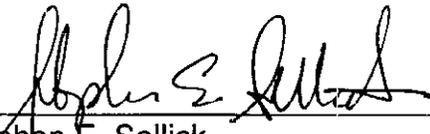


Table 1: Summary of Results of UPS Recommended Approach

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| Presort Cards                             | 136,169                             | 136,389            | 0.16%              | 171,401                                | 171,681            | 0.16%              |
| <b>Total First</b>                        | <b>18,097,321</b>                   | <b>18,120,144</b>  | <b>0.13%</b>       | <b>18,774,368</b>                      | <b>18,807,081</b>  | <b>0.17%</b>       |
| Priority Mail                             | 1,867,621                           | 1,856,660          | -0.59%             | 2,456,169                              | 2,444,918          | -0.46%             |
| Express Mail                              | 410,971                             | 407,464            | -0.85%             | 489,151                                | 484,912            | -0.87%             |
| Mailgrams                                 | 461                                 | 462                | 0.35%              | 532                                    | 531                | -0.18%             |
| Within Country                            | 79,844                              | 79,930             | 0.11%              | 85,339                                 | 85,449             | 0.13%              |
| Outside Country:                          |                                     |                    |                    |  |                    |                    |
| Reg Rate Pub                              | 1,607,084                           | 1,601,808          | -0.33%             | 1,724,399                              | 1,719,184          | -0.30%             |
| Nonprofit Pub                             | 345,527                             | 345,210            | -0.09%             | 355,223                                | 354,989            | -0.07%             |
| Classroom Pub                             | 17,338                              | 17,371             | 0.19%              | 14,634                                 | 14,651             | 0.12%              |
| <b>Total Second</b>                       | <b>2,049,792</b>                    | <b>2,044,320</b>   | <b>-0.27%</b>      | <b>2,179,595</b>                       | <b>2,174,273</b>   | <b>-0.24%</b>      |
| Single Piece Rate                         | 215,018                             | 214,795            | -0.10%             | 251,857                                | 251,717            | -0.06%             |
| Bulk Rate-Reg                             |                                     |                    |                    |  |                    |                    |
| Car Presort                               | 1,925,248                           | 1,926,958          | 0.09%              | 2,000,034                              | 2,001,786          | 0.09%              |
| Other                                     | 4,640,443                           | 4,633,943          | -0.14%             | 5,954,194                              | 5,948,470          | -0.10%             |
| Bulk Rate-Nonprofit                       |                                     |                    |                    |  |                    |                    |
| Car Presort                               | 146,685                             | 146,366            | -0.22%             | 137,208                                | 136,924            | -0.21%             |
| Other                                     | 1,066,513                           | 1,064,234          | -0.21%             | 1,228,893                              | 1,226,972          | -0.16%             |
| <b>Total Third</b>                        | <b>7,993,908</b>                    | <b>7,986,296</b>   | <b>-0.10%</b>      | <b>9,572,186</b>                       | <b>9,565,869</b>   | <b>-0.07%</b>      |
| Parcel Zone Rate                          | 789,067                             | 791,042            | 0.25%              | 828,452                                | 831,303            | 0.34%              |
| Bound Prnt Matter                         | 322,853                             | 323,908            | 0.33%              | 370,998                                | 372,427            | 0.39%              |
| Spc 4th-CI. Rate                          | 263,321                             | 264,656            | 0.51%              | 294,772                                | 296,521            | 0.59%              |
| Library Rate                              | 56,599                              | 56,930             | 0.58%              | 57,136                                 | 57,508             | 0.65%              |
| <b>Total Fourth</b>                       | <b>1,431,840</b>                    | <b>1,436,535</b>   | <b>0.33%</b>       | <b>1,551,359</b>                       | <b>1,557,759</b>   | <b>0.41%</b>       |
| US Postal Service                         | 250,816                             | 232,336            | -7.37%             | 219,791                                | 203,822            | -7.27%             |
| Free Mail -- Blind & Hndc<br>& Servicemen | 31,595                              | 31,586             | -0.03%             | 37,377                                 | 37,414             | 0.10%              |
| International Mail                        | 1,244,755                           | 1,235,981          | -0.70%             | 1,278,539                              | 1,270,111          | -0.66%             |
| <b>Total All Mail</b>                     | <b>33,379,080</b>                   | <b>33,351,784</b>  | <b>-0.08%</b>      | <b>36,559,067</b>                      | <b>36,546,691</b>  | <b>-0.03%</b>      |
| Special Services:                         |                                     |                    |                    |  |                    |                    |
| Registry                                  | 115,173                             | 91,703             | -20.38%            | 101,630                                | 82,899             | -18.43%            |
| Certified                                 | 305,397                             | 305,922            | 0.17%              | 351,872                                | 352,374            | 0.14%              |
| Insurance                                 | 36,758                              | 37,187             | 1.17%              | 41,703                                 | 42,185             | 1.16%              |
| COD                                       | 21,399                              | 21,466             | 0.31%              | 18,218                                 | 18,281             | 0.35%              |
| Special Delivery                          | 3,541                               | 3,544              | 0.10%              | 28                                     | 28                 | 0.03%              |
| Money Orders                              | 123,797                             | 126,666            | 2.32%              | 146,767                                | 150,089            | 2.26%              |
| Stamped Envelopes                         | 10,938                              | 10,891             | -0.44%             | 12,193                                 | 12,149             | -0.36%             |
| Special Handling                          | 1,248                               | 1,276              | 2.24%              | 1,381                                  | 1,413              | 2.33%              |
| Post Office Boxes                         | 525,696                             | 527,714            | 0.38%              | 585,299                                | 587,117            | 0.31%              |
| Other                                     | 188,241                             | 186,782            | -0.77%             | 198,331                                | 196,933            | -0.70%             |
| <b>Total Special Services</b>             | <b>1,332,188</b>                    | <b>1,313,150</b>   | <b>-1.43%</b>      | <b>1,457,421</b>                       | <b>1,443,470</b>   | <b>-0.96%</b>      |
| <b>Total</b>                              | <b>34,711,268</b>                   | <b>34,664,934</b>  | <b>-0.13%</b>      | <b>38,016,489</b>                      | <b>37,990,161</b>  | <b>-0.07%</b>      |
| Other                                     | 20,265,331                          | 20,312,200         | 0.23%              | 22,677,365                             | 22,673,319         | -0.02%             |
| <b>Total Costs</b>                        | <b>54,976,599</b>                   | <b>54,977,134</b>  | <b>0.00%</b>       | <b>60,693,854</b>                      | <b>60,663,480</b>  | <b>-0.05%</b>      |

**DECLARATION**

I, Stephen E. Sellick, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

  
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Stephen E. Sellick

Dated: February 13, 1998

**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.

  
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John E. McKeever

Dated: February 13, 1998  
Philadelphia, PA