Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2000 Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS CRUM TO OCA INTERROGATORIES (OCA/USPS-T27-1-7)

The United States Postal Service hereby provides the response of witness Crum to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T27-1-7, filed on February 4, 2000. Interrogatory OCA/USPS-T27-3(a) has been redirected to Postal Service witness Bozzo.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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February 18, 2000

U.S. POSTAL SERVICE WITNESS CHARLES L. CRUM
RESPONSE TO INTERROGATORIES
OF OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T27-1.

Please refer to your testimony at page 5, lines 1-10. You state that:

> In the Postal Service's proposal in Docket No. R97-1, mail processing productivities were adjusted by an explicit econometric volume variability factor that varied between about 50 and 100 percent. In this docket, the MTM productivities are adjusted only by an implicit volume variability or cost pool adjustment factor. This is consistent with the historical presentation of CRA cost data and results in effective volume variabilities at or near 100 percent. The impact of this change in approach is to raise Standard Mail (A) mail processing costs and cost savings over what they would be if explicit volume variability factors would have been considered for these types of operations as in Docket No. R97-1.

(a) Please explain fully why an *explicit* volume variability factor was used in Docket No. R97-1, but an *implicit* volume variability factor is used by you in Docket No. R2000-1.

(b) In applying implicit volume variability factors that result in "effective volume variabilities at or near 100 percent," have you employed the same econometric volume variability factors that have been used to attribute mail processing costs to the classes of mail in the instant proceeding?

(i) If so, then cite to the testimony, exhibits, or workpapers of other witnesses (or Library References) that are the source of the econometric volume variability factors that you apply.

(ii) If not, then give the economic rationale for applying near-100-percent variability factors in calculating the mail processing costs that are avoided by worksharing.

(c) If you do employ near-100-percent variability factors in calculating the mail processing costs that are avoided by worksharing, then haven't you overstated the costs avoided by workshared mail? Fully explain any "no" answer.

RESPONSE

a. The volume-variability factors in both cases are consistent with the Postal Service's mail processing cost methodology for the Cost and Revenue Analysis (CRA)

report. They were not chosen independent of the CRA analysis. Also, please see witness Bozzo's response to OCA/USPS-T27-3(a).

b. Yes.

i. Please see Table 1 of Witness Van-Ty-Smith's (USPS-T-17) direct testimony, pages 24-25.

ii. NA

c. My treatment of costs is fully consistent with the Postal Service's broader presentation in this case. To the extent that the volume variabilities presented in Table 1 of witness Van-Ty-Smith's testimony are an accurate understanding of how mail processing costs for the types of operations I model vary with volume, my worksharing savings are not overstated. If one were to use the Postal Service's volume variability estimates as presented in Docket No. R97-1, the costs avoided by workshared mail would tend to be lower.

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OCA/USPS-T27-2.

Please refer to your testimony at page 19, lines 4-8. You state that:

> The productivities used in this analysis are adjusted only by implicit volume variability factors that are near 100 percent. This is done to be consistent with Postal Service assumptions in this docket and differs from the Postal Service presentation in Docket No. R97-1 where explicit volume variability factors ranging between about 50 percent and 100 percent were used.

(a) Please list, and describe in detail, all Postal Service assumptions in this docket with which you endeavor to be consistent. Include citations to document, page, and line for each such assumption.

(b) In the R2000-1 proceeding, does the Postal Service present explicit volume variability factors less than 100 percent? If so, then identify such explicit volume variability factors and fully explain your rationale for not using them.

RESPONSE

a. I endeavor to be consistent with the Cost Pool volume variability factors presented in Table 1 of Witness Van-Ty-Smith's (USPS-T-17) direct testimony, pages 24-25.

b. Yes. Please see witness Bozzo's response to OCA/USPS-T-27-3(a) and witness Van-Ty-Smith's testimony (USPS-T-17), page 8. The question's implication that I do not use the econometrically estimated ("explicit") volume variability factors to the same extent as the Postal Service's mail processing CRA methods is incorrect. See also the response to part (a) of this interrogatory.

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OCA/USPS-T27-3.

Please refer to your testimony at page 8, lines 7-13. You state that:

> The second change from my presentation in Docket No. R97-1 is the calculation of mail processing costs. In Docket No. R97-1, the Postal Service proposed explicit econometric-based volume variability factors as part of their mail processing cost presentation. That was not done in this docket for effectively all of the parcel operations and some portion of the flats operations. The impact of this change is to expand the cost difference between flats and parcels beyond its level under the Docket No. R97-1 volume variability proposal.

(b) Please present your justification for "expand[ing] the cost difference between flats and parcels beyond its level under the Docket No. R97-1 volume variability proposal."

RESPONSE

b. In my testimony at Attachment F, Tables 3.1 through 3.4, I directly input Mail Processing Costs By Shape. Mail Processing Costs By Shape is an output of the Postal Service's mail processing volume-variability cost methods from the CRA. This is a cost input that I have no involvement in producing. The result of this input is that the cost difference between flats and parcels is higher than it was under the Docket No. R97-1 presentation. In the quoted text I am merely trying to explain one of the reasons why parcel costs would be different (higher) than they were in my Docket No. R97-1 presentation.

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OCA/USPS-T27-4.

Please refer to your testimony at page 15, lines 1-3. You state that:

> If one were to assume explicit volume variability factors similar to those presented for these types of operations by the Postal Service in Docket No. R97-1, the estimated savings would be lower.

Please present the economic rationale for assuming volume variability factors in this proceeding that lead to higher savings for DBMC-entered Bound Printed Matter.

RESPONSE

Please see the testimony of Witness Bozzo (USPS-T-27), pages 132-139 and his response to OCA/USPS-T-27-3(a). I have made no choice in assuming volume variability factors. I have merely made my testimony consistent with the Postal Service's overall presentation in this docket. This presentation puts, for example, all BMC and platform volume variability factors at or near 100 percent. The mathematical outcome of using higher volume variability factors (other things equal) is higher measured cost savings for workshared mail.

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OCA/USPS-T27-5.

Throughout your testimony and attachments, you use the abbreviation "MTM." What does "MTM" represent?

RESPONSE

"MTM" stands for Methods Time Measurement. MTM is defined as a procedure which analyzes any manual operation or method into the basic motions required to perform it and assigns to each motion a predetermined time standard which is determined by the nature of the motion and the conditions under which it is made. It has historically been used in the Standard Mail (A) dropship models to derive productivities used to estimate nontransportation cost savings. It is discussed in detail in Docket No. R87-1, Tr. 9 / 5729-30, 5782-84, and Tr. 29 / 22309-24.

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OCA/USPS-T27-6.

In the introduction to Attachment C, Tables 5-7, you state that: "[E]ngineering standards were used to estimate the time needed for each operation." Are the engineering standards the same as the "MTM" productivity figures? If not, please explain all differences.

RESPONSE

Yes.

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OCA/USPS-T27-7.

Please refer to Attachment E, Table 5, note. You state that the MTM productivities are the same ones used in Docket No. R97-1. Please give precise citations (including document title, page number, and line number) for all MTM figures obtained from Docket No. R97-1.

RESPONSE

Library Reference USPS-H-111, Appendix E, Tables 5-7.

DECLARATION

I, Charles L. Crum, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

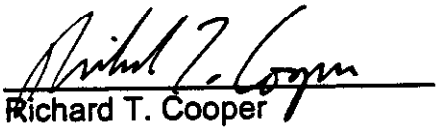
Charles L. Crum

CHARLES L. CRUM

Dated: 2-18-00

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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