

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

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Postal Rate and Fee Changes

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Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
WITNESS SMITH TO INTERROGATORIES OF  
ALLIANCE OF NONPROFIT MAILERS  
(ANM/USPS-T21-1-9)

The United States Postal Service hereby provides the responses of witness Smith to the following interrogatories of the Alliance of Nonprofit Mailers: ANM/USPS-T21-1-9, filed on February 7, 2000.

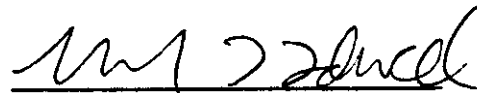
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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February 22, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH  
TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

**ANM/USPS-T21-1.** Attachment 6 to your testimony, at line 18, shows a total of 4,061,004 square feet allocated to, or occupied by, flat sorting machines ("FSMs") in FY 1998, with annual rental value of \$30,978,000.

- a. What was the total number of FSMs that occupied the above-indicated total FSM space in FY 1998?
- b. Please provide the breakdown, or count of FSMs, as between FSM 881s, FSM 1000s, and any other FSMs included in the total number supplied in response to preceding part a.
- c. What was the average square footage occupied by a FSM 881 in FY 1998?
- d. What was the average square footage occupied by a FSM 1000 in FY 1998?
- e. What was the average square footage occupied by each other type of FSM in FY 1998?
- f. Confirm that in FY 1998 the annual rental value of real estate for FSMs amounted to \$7.63 per square foot. If you do not confirm, please explain fully.

**Response:**

- a. The calculation of the 4,061,004 square feet was based on 1,046 FSMs, which is the average number of FSMs, or the mid-year number of FSMs in FY 1998. See USPS LR-I-83, page 1-5.
- b. The breakdown of the 1,046 FSMs is 812 FSM 881s and 234 FSM 1000s.
- c. The calculation of the FY 1998 FSM square footage is based on 3,882.1 square feet per FSM 881. This includes the amount of space taken up by the FSM 881s as well as an apportionment of space for staging, storage, corridors, stairwells, and elevators in the workroom and space for custodial, heating and building maintenance. This apportionment is shown in Docket No. R94-1, USPS-LR-G-120, page III-19 and in Schedules 4 and 5.

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- d. The answer is the same as for FSM 881s. However, this fails to account for the greater amount of space used by the FSM 1000s, as indicated in my response to ANM/USPS-T21-2, part c.
- e. No other types of FSMs are included in the calculations.
- f. Confirmed. As indicated in my testimony at pages 12-13, however, the volume variable costs for space provision (rent, depreciation and interest) is capped at "book" costs. As a result, the volume variable space provision cost per square foot included in the base year costs is lower than \$7.63 by about 19 percent (see USPS-LR-I-77, page 404, line 15).

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**ANM/USPS-T21-2.** In attachment 7 to your testimony, you show at line 18 a total of 6,126,832 square feet occupied by FSMs in FY 2001, with annual rental value of \$51,477,000.

- a. What is the total number of FSMs that will occupy the above-indicated total FSM space in FY 2001?
- b. Please disaggregate this total number among FSM 881s, FSM 1000s, AFSM 100s, and each other model of FSM that is projected to occupy FSM space in FY 2001.
- c. What is the average square feet assumed to be occupied by an FSM 881 and an FSM 1000 in FY 2001? If these figures differ from those provided in response to ANM/USPS-T1-1(c) and (d), please explain fully and produce documents sufficient to verify your explanation.
- d. How many square feet is an average AFSM 100 projected to occupy in FY 2001?
- e. Does the number of AFSM 100s planned for deployment by FY 2001 account fully for the increase of 2,065,828 square feet allocated to FSMs between FY 1998 and FY 2001? If not, please explain fully what accounts for this approximate 50 percent increase in space attributed to FSMs.
- f. Confirm that in FY 2001 the annual rental value of real estate for FSMs is projected at \$8.40 per square foot. If you do not confirm, please explain fully.
- g. Please explain the increase in rental value from \$7.83 [sic] in FY 1998 to \$8.40 in FY 2001. In particular, please explain the extent to which the increase results from an increase in the rate for existing space and higher-than-average rental value for new space added between FY 1998 and FY 2001.

**Response:**

- a. The calculation of the 6,126,832 square feet was based on 1,316.5 FSMs, which is the average number of FSMs, or the mid-year number of FSMs projected in FY 2001. See USPS LR-I-83, page 1-12.
- b. The breakdown of the 1,316.5 FSMs is 812 FSM 881s, 338 FSM 1000s, and 166.5 AFSM 100s.

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ANM/USPS-T21-2, Page 2 of 3**

- c. The calculation of the FY 2001 FSM 881 square footage is based on 3,882.41 square feet per FSM 881 as reported in ANM/USPS-T21-1, part c. The calculation of FSM 1000 square footage for FY 2001 is based on 5,739.8 square feet per FSM 1000. This is different than reported in ANM/USPS-T21-1, part d. Engineering estimates indicate that the FSM 1000 requires nearly 50 percent more space than a FSM 881. The projection for the space for the FSM 1000 in FY 2001 is shown in USPS-LR-I-83, at pages I-11 and I-12. My calculation for FY 2001 rectifies the problem which I noted in my response to ANM/USPS-T21-1, part d. The square footage per FSM amounts given above include the space occupied by the FSMs as well as ancillary space as indicated in my response to ANM/USPS-T21-1, part c.
- d. The calculation of AFSM 100 square footage for FY 2001 is based on 6,211.9 square feet per AFSM 100. The AFSM 100 requires 60 percent more space than a FSM 881. The projection for the space for the AFSM 100 in FY 2001 is shown in USPS-LR-I-83, at pages I-11 and I-12.
- e. No. The space projected for the AFSM 100 is 1,034,275 square feet. The projection for the space for the FSM 1000 in FY 2001 increases by 1,031,544 square feet over that in FY 1998 due to the increase in the number of FSM 1000s deployed and due to raising the amount of space per FSM 1000 as indicated in my response to part c of this question.

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- f. Confirmed. As indicated in my testimony at pages 12-13, however, the volume variable costs for space provision (rent, depreciation and interest) is capped at "book" costs. As a result, the volume variable space provision cost per square foot included in the test year costs is lower than \$8.40 by about 16 percent (see USPS-LR-I-77, page 456, line 15).
- g. The increase in rental value from \$7.63 in FY 1998 to \$8.40 in FY 2001 is based on the change in the DRI, Rent-Residential index. The index was 403.95 in FY 1998 and is projected to be 444.93 in FY 2001. This results in a 10.14 percent increase in the rental values for FSMs and all other categories. (See USPS-LR-I-83, page I-9.) As noted in part f, the volume variable space provision cost per square foot included in both the base year and test year costs are capped at "book" costs. As a result the change between the base year and test year volume variable space provision costs is based on the projected change in "book" costs.

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**ANM/USPS-T21-3.** In attachment 2 to your testimony, equipment group 6, you show depreciation costs (CS 20.1) for FSMs of \$31,607,001 in FY 1998.

- a. Of the total number of FSMs which the Postal Service owned in FY 1998 (see your response to ANM/USPS-T21-1a), how many were still being depreciated on the Postal Service's books?
- b. Of the total number supplied in response to the preceding part, how many of those FSMs will be fully depreciated on the Postal Service's books by (i) the end of FY 2000, and (ii) the end of FY 2001?

**Response:**

- a. Approximately 533 of the 812 FSM 881s were being depreciated in FY 1998. All the 234 FSM 1000s were being depreciated in FY 1998, for a total of 767.
- b. Of the 767 FSMs being depreciated in FY 1998, the number of FSMs that are fully depreciated by the end of FY2000 is 272. Of the 767 FSMs being depreciated in FY 1998, the number of FSMs that are fully depreciated by the end of FY2001 is 322.

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**ANM/USPS-T21-4.** In attachment 3 to your testimony, equipment group 6, you show depreciation costs (CS 20) for FSMs of \$78,599,672 in FY 2001.

- a. What is the total number of FSMs that the Postal Service will be depreciating in FY 2001?
- b. What is the average expected cost of an AFSM 100 that was used for estimating depreciation in FY 2001?
- c. Over how many years will the AFSM 100 be depreciated, what method of depreciation will be used, what survivor curves are assumed, and what is the estimated salvage value (if any)?
- d. Do the AFSM 100s planned for deployment by FY 2001 account fully for the \$36,992,671 [sic] increase in depreciation between FY 1998 and FY 2001? If not, please explain fully what accounts for the more than 100 percent increase in FSM depreciation between FY 1998 and FY 2001?

**Response:**

- a. The Postal Service will be depreciating approximately 261 FSM 881s, as well as all FSM 1000s and AFSM 100s it has acquired. The mid-year average is 261 FSM 881s, 338 FSM 1000s and 166.5 AFSM 100s, for a total of 765.5.
- b. The average expected cost of an AFSM 100 used in estimating depreciation was \$2,285,714.
- c. The method of depreciation, which I used in my calculations, is straight line depreciation with a ten year service life and a zero salvage value.
- d. The FSM depreciation increases by \$46,992,661 between FY 1998 and FY 2001, from \$31,607,011 to \$78,599,672, as shown in my Attachments 2 and 3 of my testimony, USPS-T-21. This increase results from the AFSM 100 depreciation of \$31,428,571, an increase in the FSM 1000



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depreciation of \$3,220,000, an increase in FSM 881 depreciation of \$4,450,352, and the apportionment of tray transport and staging systems costs of \$7,893,737. See USPS-LR-I-83, pages IV-2 to IV-7. The increase in the FSM 1000 depreciation is from the additional deployment and the addition of the barcode readers. The increase in the FSM 881 depreciation results from the addition of the OCRs to the FSM 881. The tray transport and staging systems cost apportionment is shown on page IV-6 of USPS-LR-I-83 and is discussed in my testimony at page 7, footnote 7.

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**ANM/USPS-T21-5.** For FY 1998 and FY 2001, please provide the total equipment and facility-related volume variable costs attributable to FSMs (or FSM cost pools) for each of the following components (see your testimony at page 2):

- a. Rents (component 15.1)
- b. Depreciation (component 20.3)
- c. Interest (component 20.5)
- d. Fuel and Utilities (component 15.2)
- e. Custodial Services Labor (component 11.1)
- f. Contract Cleaners (component 11.1.2)
- g. Building Equipment Maintenance Labor (component 11.3)
- h. Custodial Services and Supplies (component 16.3.1)
- i. Building Security (component 18.1.2)

**Response:**

- a.-i. The FY 1998 cost for components a to c is \$28.524 million which is \$13.657, \$13.470 and \$1.397 million, respectively, for rents, depreciation, and interest. The FY 1998 cost for components d-i is \$26.726 million, which is \$6.156 million for fuel and utilities, \$11.472 million for custodial services labor, \$0.811 million for contract cleaners, \$5.522 million for building maintenance, \$1.697 million for custodial supplies and services and \$1.069 million for building security. The FY 2001 cost for components a to c is \$48.501 million, which is \$22.117, \$22.857 and \$3.527 million, respectively, for rents, depreciation, and interest. The FY 2001 cost for components d-i is \$41.705 million, which is \$9.117 million for fuel and utilities, \$18.650 million for custodial services labor, \$1.286 million for contract cleaners, \$8.807 million for building maintenance, \$2.298 million for custodial supplies and services and \$1.547 million for building

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security. These calculations are based on USPS-LR-I-77, pages 391, 404, 442, and 456. It should be noted that the facility space on which these costs are based includes space discussed in ANM/USPS-T21-1 and 2 plus additional ancillary space. This ancillary space is for employee facilities (lunch room, restrooms, etc.), office space for supervisors and administrative, space for FSM maintenance labor, and space for mail transport equipment centers (see USPS-LR-I-77, pages 398 and 451).

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**ANM/USPS-T21-6.** Please identify and quantify any other costs, including any indirect and piggy-backed costs, that are included in total volume variable costs attributable to FSMs in FY 1998 and FY 2000.

**Response:**

For FY 1998, the other indirect and piggybacked costs are shown in USPS-LR-I-77 at page 391, line 10. This includes \$235.6 million for supervisory, administrative and benefits; \$31.9 million for FSM depreciation and interest expense; \$53.0 million for FSM maintenance labor cost; and \$12.0 million for FSM maintenance parts and supplies. I do not have these estimates for FY 2000. For FY 2001, which was requested in ANM/USPS-T21-5, the other indirect and piggybacked costs are shown in USPS-LR-I-77 at page 442, line 10. This includes \$336.8 million for supervisory, administrative and benefits; \$78.3 million for FSM depreciation and interest expense; \$86.4 million for FSM maintenance labor cost; and \$15.8 million for FSM maintenance parts and supplies.

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**ANM/USPS-T21-7.** Please refer to your testimony at pages 9-10, where you mention that the AFSM 100 is an example of an equipment deployment that is anticipated to reduce the manual sorting of flats.

- a. Are you the witness responsible for developing the estimate of anticipated cost savings from deployment of the AFSM 100 that witness Kashani used as an input in the roll-forward model? If not, please identify the witness whose testimony sponsors, or is responsible for, the estimated Test Year cost savings anticipated from deployment of the AFSM 100.
- b. Please quantify the gross (or total) cost savings in manual sorting of flats (including all piggy-back and indirect costs) that are anticipated to result from deployment of the AFSM 100 in (i) FY 2000, and (ii) FY 2001. Please explain fully how these figures are derived, and produce sufficient documentation to verify your explanation.

**Response:**

- a. No, I am not the witness responsible for developing the estimate of anticipated cost savings from deployment of the AFSM 100 that witness Kashani used as an input in the roll-forward model. This cost savings estimate is provided in USPS-LR-I-127, which is discussed by witness Tayman, USPS-T-9, in his testimony at page 1, lines 6-7.
- b. I have no estimate for FY 2000. The gross cost savings in manual flat sorting for FY 2001, which I have estimated for the purposes of developing operation specific piggyback factors, is \$274.8 million. This is computed as the sum of the net savings of \$36.6 and \$53.2 million reported for the AFSM 100 (by witness Kashani, USPS-T-14, Appendix A, page 24, lines 17 and 18) and the AFSM 100 staffing costs of \$185.0 million (provided in USPS-LR-I-77, page 446, line7). The AFSM 100

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staffing cost was computed based on the staffing cost for the FSM 881, \$674.5 million (shown at USPS-LR-I-77, page 444, line 10A). This figure is multiplied by the ratio of AFSM 100s to FSM 881s which is 167/812 and by the ratio of staffing for each machine, which 8/6.

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**ANM/USPS-T21-8.** At page 2 you state that "This part of my testimony is supported by LR-I-83, 'Equipment and Facility-Related Costs.'"

- a. Was LR-I-83 prepared by you, or under your supervision?
- b. Are you sponsoring LR-I-83? If not, what witness is?

**Response:**

- a. Yes.
- b. This material is presented as a foundation for my testimony. Any questions that you have on this material can be directed to me.

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**ANM/USPS-T21-9.** Your testimony also references LR-I-127.

- a. Was LR-I-127 prepared by you, or under your supervision?
- b. Are you sponsoring LR-I-127? If not, what witness is?

**Response:**

- a. No.
- b. Witness Tayman, USPS-T-9, discusses this library reference in his testimony at page 1, lines 6-7.



DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R2000-1 interrogatory responses are true to the best of my knowledge, information, and belief.

Marc A. Smith  
Marc A. Smith

2/2/2000  
Date

## 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.

  
Michael T. Tidwell

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February 22, 2000