

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MILLER TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T24-1-4)

The United States Postal Service hereby provides the responses of witness Miller to the following interrogatories of United Parcel Service: UPS/OCA-T24-1 through 4 (filed on February 10, 2000).

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998 Fax -5402
February 24, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T24-1. Please refer to your testimony at page 9, lines 9-14.

- (a) Please define the term "marginal (volume variable) productivity" as you use it there.
- (b) Please provide a representative calculation of a marginal productivity value using the information contained in USPS-LR-I-107 and USPS-T-17, Table 1.
- (c) What effect does the marginal productivity have on the magnitude of the cost differences you display in Appendix I of your testimony? Please describe fully and provide an example.

RESPONSE:

(a) Marginal Productivity = MODS Productivity (LR-I-107) / Volume Variability
Factor (USPS-T-17, Table 1)

(b) The actual calculations can be found in Appendices I (page I-43), II (page II-30), and III (page III-30). The sample calculation below is for the Outgoing Input Sub System (ISS) operation.

$$\text{Marginal Productivity} = (6,847 \text{ pcs/hr}) / (0.751) = 9,117 \text{ pcs/hr}$$

(c) The marginal productivities are accessed by the cost spreadsheets in Appendix I and therefore affect both the total mail processing unit cost estimates and the worksharing related savings found in Appendix I (pages I-1 and I-2). Changes to the volume variability factors would affect both the marginal productivities and the CRA mail processing unit costs. These changes could either increase or decrease the worksharing related savings results. It depends upon the specific change that is being made.

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OCA/USPS-T24-2. Please refer to your testimony at page 4, lines 18-20, where you define "non-worksharing fixed" costs as those that "are not affected at all by the types of worksharing activities covered in this testimony." Also refer to your testimony at page 10, lines 25-29. You appear to state there that nonworksharing fixed costs are used to calculate worksharing savings.

- (a) Is that interpretation correct? If not, please state your position with respect to nonworksharing fixed costs. If OCA's understanding is correct, then state your rationale for including nonworksharing fixed costs in a calculation of the cost savings resulting from worksharing.
- (b) Also explain whether your position is consistent with the Commission's opinion in Docket No. MC95-1 that inclusion of "cost differences unrelated to presorting and prebarcoding . . . are inconsistent with the Postal Service's, as well as the Commission's, intent that these workshare category differentials send accurate signals to potential producers of the costs that the Postal Service avoids as a result of worksharing."

RESPONSE:

- (a) No. The "non-worksharing related fixed" cost pools are used to calculate the total mail processing unit costs estimates as described on page 10, lines 25-29. These cost pools, however, are not included in the worksharing related savings calculations as described on page 11, lines 13-23.
- (b) I believe it to be consistent with the Commission's comments in Docket No. MC95-1.

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OCA/USPS-T24-3. Please refer to your testimony at page 13, lines 25-30. What is the rationale for dividing the difference between ("Benchmark Worksharing Related Mail Proc Unit Costs + Delivery Unit Costs") and ("Rate Category Worksharing Related Mail Proc Unit Costs + Delivery Unit Costs") by ("Worksharing Related Savings")? Explain fully.

RESPONSE:

The equation referenced on page 13, lines 25-30 should be interpreted as follows:

Worksharing Related Savings = (Benchmark Worksharing Related Mail Processing Unit Costs + Benchmark Delivery Unit Costs) - (Rate Category Worksharing Related Mail Processing Unit Costs + Rate Category Delivery Unit Costs)

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OCA/USPS-T24-4. In the instant proceeding, the Postal Service appears to present an analysis of mail processing costs that leads the Service to conclude that the costs of some mail processing activities vary less than 100 percent with volume. In some cases, these mail processing cost volume variabilities are significantly less than 100 percent. For the purpose of developing worksharing related savings for First-Class presort and Standard A presort rate categories, does your analysis reflect the differing and wide-ranging volume variabilities for different cost pools? If not, why not? (Explain fully.) If so, explain how your analysis takes these wide-ranging volume variabilities into account.

RESPONSE:

Yes. The volume variability factors specified in witness Van-Ty-Smith's testimony (USPS-T-17, Table 1) affect both the CRA mail processing unit costs and the marginal productivities that are used to support my testimony. The CRA mail processing unit costs are included in the testimony of witness Smith (USPS-T-21). The marginal productivities are calculated in Appendices I (page I-43), II (page II-30) and III (page III-30) of my testimony.

DECLARATION

I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: 2/24/2000

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.

A handwritten signature in cursive script, appearing to read "M. Tidwell", is written above a solid horizontal line.

Michael T. Tidwell

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