

DOCKET SECTION

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

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POSTAL REGULATORY
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MEEHAN TO INTERROGATORIES OF
PITNEY BOWES, INC.
(PB/USPS-T11-3(e)-(f), 4-8, 9(c), 11, 12(a)-(b), and 13)

The United States Postal Service hereby provides the responses of witness Meehan to the following interrogatories of Pitney Bowes, Inc.: PB/USPS-T11-3(e)-(f), 4-8, 9(c), 11, 12(a)-(b), and 13, filed on February 16, 2000. An objection to interrogatory PB/USPS-11-3(d) was filed on February 28, 2000. Interrogatories PB/USPS-T11-1, 2, 3(a)-(c), 9(a)-(b), 10, and 12 (unnumbered part) were redirected to the Postal Service.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 1, 2000

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-1. For FY 1998 and FY 1999, provide the percentage of single piece First-Class Mail that was (i) metered, (ii) stamped, and (iii) permit, and indicate the source of the data.

Response:

Redirected to the Postal Service.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-2 Provide all ODIS data for single piece First-Class Mail for FY 1998 and FY 1999.

Response:

Redirected to the Postal Service.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-3. Confirm that when retail customers buy stamps and other services at Post Office counters, the Postal Service will accept various specified credit cards for payment, including American Express, Master Card and VISA.

a. Please confirm that the Postal Service does not charge its customers a fee for using a credit card as a form of payment when purchasing stamps. If you do not confirm, indicate the fee charged to stamp purchasers.

b. When customers have used credit cards to pay for stamps, and the Postal Service submits the appropriate records to credit card companies for payment, does the Postal Service (i) receive the **gross** amount which customers charged and subsequently pay a separate commission to the credit card companies, or (ii) receive a **net** amount that reflects the gross amount charged **less** the commission due the credit card company? Please explain.

c. If the Postal Service receives from credit card companies a net amount that reflects deduction of commissions owed to credit card companies, (i) does it record only the net amount as cash received, or (ii) does it record the gross amount as income and record the commissions as an explicit expense?

d. In terms of the amounts that customers charged to their credit cards, (i) what was the average percentage commission or service charge that the Postal Service paid to credit card companies in FY 1998, and (ii) what was the total amount of commissions paid to credit card companies in FY 1998?

e. In what cost segment and account does the Postal Service record commissions paid to credit card companies?

f. To what extent are fees for credit card usage treated as (i) volume-variable, (ii) attributable, and (iii) incremental?

Response:

a. Redirected to the Postal Service.

b. Redirected to the Postal Service.

c. Redirected to the Postal Service.

d. Objection filed on February 28, 2000.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc. ;**

- e. Cost segment 16, account 52359.
- f. The fees are volume variable.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-4 How many Amobile post offices@ (i.e. trucks selling stamps in urban areas) did the Postal Service operate in FY 1998?

a. Are the wages of clerks who operate mobile post offices charged to window service (cost segment 3.2)? If not, please explain the segment and component in which this expense is recorded.

Response:

I am told that there were 168 mobile self-powered post offices and 30 mobile post office trailers in FY 1998.

a. Yes. The employees who operate mobile post offices are postal employees, and they are charged to window service in cost segment 3.2.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-5 During FY 1998, what were the total costs for (i) the Stamp Advisory Committee, (ii) artists who created stamp designs, and (iii) stamp distribution network personnel? In what cost segments are each of these respective costs recorded?

Response:

In FY 1998, the total cost for the Stamp Advisory Committee compensation was \$269,312. These costs are recorded in cost segments 15, 16, 18 and 20. The cost for the artists who create stamp designs was \$782,212, found in cost segments 16 and 18. Stamp distribution network personnel costs were \$13,012,831, which can be found in cost segment 18, in subaccount .150.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-6 During FY 1998, what was the total cost for operation of contract stations?

- a. What portion of the cost of contract stations was treated as (i) volume-variable, (ii) attributable, and (iii) incremental?
- b. In what cost segment are the costs for contract stations recorded?

Response:

The total cost in FY 1998 for contract stations was \$67,348,000.

- a. Contract station costs are institutional.
- b. Costs for contract stations are in cost segment 13, Miscellaneous Local Operations. A discussion of contract stations can be found in USPS-LR-I-1: Summary Description of USPS Development of Costs by Segments and Components, FY 1998.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-7 How much did the Postal Service spend to print stamps in FY 1998?

- a. To what extent is the cost of printing stamps treated as (i) volume-variable, (ii) attributable, and (iii) incremental?
- b. How much did the Postal Service spend to print stamps in FY 1999?

Response:

For BY1998, the stamp printing costs were \$183,398,000 shown in the B workpapers 16.1.2, column (1).

- a. Stamp printing costs are volume variable, except for migratory bird stamps (\$231,000). Migratory bird stamp costs are institutional.
- b. The stamp printing costs in FY 1999 were \$169,072,000.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc. .

PB/USPS-T11-8 In FY 1998, did the Postal Service use any outside contractor(s) to administer (i) stamps placed on consignment and sold through grocery stores and other retail outlets, or (ii) stamps by mail, or (iii) stamps by phone? If you answer affirmatively for any of the preceding, indicate the amount paid to any contractor(s) in FY 1998, along with the cost segment and account where such costs appear, and whether any portion of these expenses are treated as volume-variable, attributable, and incremental.

Response:

I am informed that the Postal Service used Amplex Corp. to manage the stamps on consignment program which encompasses stamps sold through grocery stores and other retail outlets. I am also informed that the Postal Service paid Amplex \$7,769,686 in FY 1998.

This cost is volume variable and appears in Cost Segment 16 in account 52359.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-9 In FY 1998, how many stamp vending machines were operated by the Postal Service?

- a. What was the cost of those vending machines when purchased?
- b. Are stamp vending machines expensed when acquired, or are they depreciated over time? If they are depreciated like other capital investments, (i) over how many years, and (ii) how much of the cost was charged to depreciation expense in FY 1998?
- c. What portion (if any) of the depreciation expense for stamp vending machines was treated as volume-variable?

Response:

- a. Redirected to the Postal Service
- b. Redirected to the Postal Service
- c. None.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-10 For the stamps-by-mail program, how many advertising fliers and order forms did the Postal Service distribute to potential customers during FY 1998?

a. What were the costs associated with printing and distributing those fliers?

Response:

Redirected to the Postal Service.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-11 Please provide copies of all studies relating to (i) consumer habits or practices pertaining to the purchase of stamps and other window activities, or (ii) the time and effort involved in selling stamps at USPS counters, or (iii) efforts to reduce the Postal Service's cost of collecting revenues through the sale of stamps.

Response:

- (i) In Docket No. R97-1, LR-H-167 contains the results of a window service time study and econometric analysis. It includes transaction times for the purchase of stamps and window transactions. This is the only such study of which I am aware.
- (ii) See the response to (i) above.
- (iii) I am not aware of any studies relating to efforts to reduce the Postal Service's cost of collecting revenues through the sale of stamps.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-12 For FY 1998, and for each of the different marketing channels which the USPS uses to sell stamps (e.g., counters, contract stations, vending machines, stamps-by-mail, consignment sales, etc.) please provide data showing the revenues collected from the sale of stamps for each channel which the Postal Service is able to identify separately.

- a. To the extent that costs are available for the different channels identified in response to preceding part a, please provide and indicate whether they are (i) volume variable, (ii) attributable, or institutional.
- b. For all costs provided, also indicate whether (i) they are direct costs only, or (ii) all appropriate indirect and piggyback costs are included. If they are direct costs only, please indicate what the appropriate piggyback factor should be, if applicable.

Response:

First part redirected to the Postal Service.

- a. Like revenue, costs are not available for all retail channels. The following is available. Counter service is what the Postal Service refers to as window service. My B workpapers, W/S 3.2.1 column 9 shows the cost of selling stamp at the window of \$759,673,000, of which 350,361,000 is volume variable (shown in W/S 3.2.1 column 11.) Exhibit A of my testimony, cost segment 13.1 shows contract station costs. These costs are \$67,348,000 and are institutional. I am told that vending personnel costs, including maintenance and supervisor costs, were \$54,245,804 in FY 1998, and are institutional. I am informed that the Stamps-by-mail program cost \$36 million.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

Consignment costs are shown in response to #8, as \$7,769,686. As stated in #8, these costs are volume variable.

- b. The counter or window service costs for selling stamps provided in part "a" is the direct cost. The piggyback factor for this is 1.45 (see Witness Smith, USPS-T-21, Attachment 10). There are two additional "piggyback" costs related to vending. The first is the cost for mileage driven of \$999,973, as provided by Retail. The second is the facility-related costs (e.g. rents, custodial, maintenance) for the space used by vending equipment. This cost is \$30,727,971 which is a product of the \$12.88 facility-related cost per square foot (see USPS-LR-I-77, page 404) and 2,385,971 square feet used for Self Service Postal Centers (as shown by witness Smith, USPS-T-21, Attachment 6.). See also the response to PB/USPS-T11-9 on vending depreciation costs. For contract stations and consignment, the costs provided are both direct and indirect.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-13 Please provide all data used to develop the distribution key for cost segment 3.2, Window Services, shown at pp. 19-20 of USPS-11A.

- a. Page 20.1 of USPS-11A references Workpaper A-2, pages 35-36. Please explain how the data shown on these pages of Workpaper A-2 differ from, elaborate on, or provide additional detail and insight to the data shown at pp. 19-20 of USPS-11A, and explain the purpose of Workpaper A-2.

Response:

Please see witness Van-Ty-Smith's LR-I-106 Tables IV-1, IV-2, and IV-3 and my B workpaper cost segment 3.2 spreadsheets (i.e. 3.2.1, 3.2.2, 3.2.3, 3.2.4, 3.2.6, 3.2.7, and 3.2.8) for development of the distribution keys. Additionally, references to window service can be found on worksheet 3.0.1, column 3; worksheet 3.0.6; "OUTPUTS TO CRA" column 2; and "ENDNOTES" which are additional footnotes.

- a. The window service data shown in Exhibit USPS-11A and in Workpaper A-2 are identical because no further processing of these costs takes place once they are entered into the CRA model (see Workpaper A-1, pp. 15-16). The purpose of Workpaper A-2 is to show volume-variable costs exclusive of plant, equipment, servicewide, and selected administrative costs (PESSA costs).

DECLARATION

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

Karen B Meehan

3/1/00

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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March 1, 2000