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POSTAL RATE COMMISSION  
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POSTAL RATE AND FEE CHANGES, 2000

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Docket No. R2000-1

**AMERICAN BANKERS ASSOCIATION AND  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
JOINT INTERROGATORIES TO USPS WITNESS SMITH  
(ABA&NAPM/USPS-T21-1-36)  
(March 3, 2000)**

Pursuant to Sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the American Bankers Association and the National Association of Presort Mailers hereby submit these joint interrogatories and requests for production of documents. If the witness to whom an interrogatory is directed is unable to answer the interrogatory or produce the requested documents and another person is able to do so, the interrogatory or request should be referred to such person.

If data requested are not available in the exact format or level of detail requested, any data available in (1) substantially similar format or level of detail or (2) susceptible to being converted to the requested format and detail should be provided.

Responses to requests for explanations or the derivation of numbers should be accompanied by workpapers. The terms "workpapers" shall include all backup material whether prepared manually, mechanically or electronically, and without consideration to the type of paper used. Such workpapers should, if necessary, be prepared as part of the witness's responses and should "show what the numbers were, what numbers were added to other numbers to achieve a final result." The witness should "prepare sufficient workpapers so that it is possible for a third

party to understand how he took data from a primary source and developed that data to achieve his final results." Docket No. R83-1, Tr. 10/2795-96.

ABA&NAPM/USPS-T21-1            a.        For all allocations of capital costs (depreciation, amortization, interest) to mail processing costs, please state what accounting principles are used for BY1998 and TY2001.

b.    Are these the same accounting principles used for capital costs in the 1998 CRA? The 1997 CRA? The 1996 CRA? The 1995 CRA? The 1994 CRA?

c.    If your answer to any question in b. is "No.", please provide capital costs by cost pool on a consistent accounting basis from 1994 on using the BY1998 methodology in R2000-1. Provide the same data set (1994-1998) using the CRA capital costs accounting methodology from 1994.

ABA&NAPM/USPS-T21-2            In your analysis of piggyback factors for R2000-1, if any piggyback factor for any cost pool for mail processing for First Class or Standard mail differs from that for R97-1, please note the difference, and give a full explanation for each such change.

ABA&NAPM/USPS-T21-3            Please provide by cost pool four columns of data for BY 1998 (before rates) and TY 2001 (before rates and after rates): (1) total volume variable costs; (2) volume variable labor costs; (3) non-volume variable labor costs; and (4) non-volume variable other costs.

ABA&NAPM/USPS-T21-4            On page 4, lines 10-11 you assert that your mail processing costs by letter shape have been developed using "indicia for First - Class single - piece letters."

- a.        In this exercise have you used single piece letters as a benchmark for developing costs avoided due to worksharing?
- b.        Did you in any way use actual data on BMM directly as a benchmark for developing costs by letter shape avoided due to worksharing?

ABA&NAPM/USPS-T21-5

On page I-1 of your Library reference, LR-83 entitled “SUMMARY”, you reference a rental index used to inflate imputed rents.

- a. Please confirm that the Commission rejected the use of imputed rents in its O&RD in R90-1.
- b. Please reproduce page I-9 from LR-83, a page which appears to be missing or is unreadable from your Excel files.
- c. For each facility cost category, in addition to your “imputed rent” figure, please state the actual rent paid at the facility for BY1998. If the facility is owned by USPS and no actual rental fees are paid, enter 0.

ABA&NAPM/USPS-T21-6

In Attachment I of LR-83, “Maintenance Labor, and Parts and Supplies for Mail Processing Equipment by Category for FY 1998, please explain in detail what \$281 million in “non-mail processing equipment” labor costs, and \$170 million in parts and supplies costs, consists of.

ABA&NAPM/USPS-T21-7

Consider Attachment I of LR-83 and Page I-II, “FY01 Adjustments Due to Deployments”, column (I), Mid-FY 98 Deployments.

- a. Please confirm that annual labor maintenance costs per deployed mail processing machinery were as follows for BY 1998:  
\$43,885 per DBCS; \$94,403 per OCR; \$132,309 per RBCS deployment
- b. How many manhours by machine category do these costs entail? At what wage rate?
- c. What does the \$132,309 figure “per RBCS deployment” mean, i.e. is this the maintenance cost for all remote video stations per site and related equipment?

ABA&NAPM/USPS-T21-8

On page I-11 of LR-83, DBCS deployments increase from BY1998 to TY2001 from 4661 to 5117, while OCR and RBCS deployments appear at steady state levels, respectively, of 930 and 250. Depreciation charges for this equipment appear at Page

IV-2 of your LR-83. As would be expected for a steady state, the depreciation charges from BY98 to TY2001 are about the same for the 930 OCRs deployed for both years, but they increase by 73% from \$50 million to nearly \$87 million for RBCS deployments between base year and test year. With 250 deployments for both years, how can depreciation charges grow by this much?

Aba&NAPM/USPS-T21-9                      From LR-I-83, page III-I, "Mail Processing Equipment Variabilities", please explain the variability number 1.005 for RBCS: workroom, and also RBCS: remote encoding site.

- a.       Does this number mean more than 100% volume variability?
- b.       How can a cost segment be more than 100% volume variable?

ABA&NAPM/USPS-T21-10                      a.       From Page III-8 of LR-83, why are "non-MODS" cost pool costs essentially 100% volume variable for manual letters while "MODS" cost pool costs for the (same) manual letters are 73.5% volume variable?

- c.       From Page III-9 of LR-83, why are Standard A mail BMC "aggregate mail processing" labor costs nearly 100% volume variable (97.9%) while they are now claimed to be much less than 100% volume variable for First Class Mail?

ABA&NAPM/USPS-T21-11                      From LR-83, Page I-9, what are the numbers 444.93 and 403.95? What units are total space expressed in?

ABA&NAPM/USPS-T21-12                      From LR-83, Attachment 7, how are the rental values in column 2 calculated? From actual rental contracts with (non-USPS) owners of the property? Are these capped at historic costs?

ABA&NAPM/USPS-T21-13      From LR-83, Attachment 8, please explain why the variabilities for all letter and flat mail processing equipment facility spaces (lines 13-18) are uniformly listed at 80%. Is this an assumption, the result of a study?

ABA&NAPM/USPS-T21-14      Referencing LR-83, Page V-1, what is the methodology for estimating the test year cost reductions listed?

ABA&NAPM/USPS-T21-15      On page 11, line 11 you make reference to the use of “imputed rents (or market rental value)”. Please define imputed rent and from what source(s) it is calculated, and please define how market rental value is calculated for postal costing purposes.

ABA&NAPM/USPS-T21-16      In a “full up” automated environment of 2001, please explain how a 1992 facility study referenced on lines 14-15, page 11, can be used to estimate current facility space, e.g. for RBCS not even deployed yet, and for other mail processing equipment such as the largest bin BCSs or MLOCs?

ABA&NAPM/USPS-T21-17      a.      Please explain why as you indicate on page 12, lines 7-8, a residential rent index (DRI) is used to measure postal commercial facility space, much of which is in warehousing districts?

                 b.      For each facility for which a residential rent index is applied in costing postal facilities, state the actual, annual out of pocket cost to the Postal Service for such facilities, e.g. lease payments made, mortgage payments made including actual interest payments, records of monthly rent actually paid to another party, etc.

                 c.      From FY1992 through BY1998, by years, are the changes in actual facility costs from b. greater than, less than, or about the same as your DRI index?

ABA&NAPM/USPS-T21-18            a.        Is the procedure for capping imputed rents at “book” costs” you note on page 13, lines 2-3 applied across the board to all imputed rent calculations? If not please explain why not.

c.        What measure of book cost is used to cap imputed rental escalation using the DRI index, actual historical cost, estimated replacement cost for the DRI index year, or other method? Fully explain the measure actually used as the cap.

ABA&NAPM/USPS-T21-19            Regarding your labor-based distribution keys for equipment and facility cost allocations by subclass, does one-subclass run on a machine cause more downtime than another subclass, for example, from jamming the machine? How are the machine downtimes and associated labor costs allocated by subclass, to the subclass causing the jam, or are they allocated to an institutional cost pool?

ABA&NAPM/USPS-T21-20            You state on page 14, lines 3-4, that the volume variabilities of facility related costs are unchanged from those used in R97-1. Is this also true for mail processing equipment related volume variabilities? If not, please state the differences and account for each one.

ABA&NAPM/USPS-T21-21            Referencing lines 16-17 of page 16 in your testimony, you define what piggyback factors are “generally”. Please list all piggyback factors that are exceptions to the “general” definition, and explain how they are calculated.

ABA&NAPM/USPS-T21-22            Referencing lines 11-12 on page 20, does your rollforward/budget process incorporate any network economies or economies of scale or scope in arriving at test year estimates of costs?

ABA&NAPM/USPS-T21-23            On pages 28-29, you state that you apply the “same adjustments” that witness Kashani uses for his aggregated mail processing labor cost data to your disaggregated cost pool data. How can you be certain that his aggregated adjustment factor is appropriate for each and every one of your cost pools, and is this a reasonable assumption on your part?

ABA&NAPM/USPS-T21-24            On page 29, you note the existence of new IOCS data on non-carrier route presort letters. Does this IOCS data include tallies of labor time spent on automation versus non-automation presort letters? At what stage of the mail processing is the information gathered?

ABA&NAPM/USPS-T21-25            In Attachment 1, how does “RBCS: Workroom” differ from Remote Encoding Sites? Was this same classification used in R97-1, and if not, why not?

ABA&NAPM/USPS-T21-26            In Attachment 2, please explain the difference between your total mail processing equipment depreciation cost figure of \$769.9 million and the CRA figure of \$775.2 million.

- a.     What is the computer forwarding system (CFC)?
- b.     Why are depreciation costs for this equipment rising from \$1.9 million in FY 1998 ( see Attachment 2) to \$6.3 million in FY 2001 (see Attachment 3)?

ABA&NAPM/USPS-T21-27            a.     Regarding your use of IOCS labor time distribution keys for distributing mail processing costs, what percentage of the time is the labor running mail of only one rate category through automation equipment?

- b.     What percentage of the time is the labor running mixed rate categories through automation equipment?

- c. What percentage of the time is the labor running more than one class of mail through the automation equipment?
- d. For the mixed mail in items b. and c. above, how can the labor time sampled be assured to represent the correct percentages of that mixed mail by class, subclass or rate category?

ABA&NAPM/USPS-T21-28 a. Regarding Attachments 6 & 7, while there is no more square footage assigned for OCRs between FY1998 and FY 2001, rental costs are shown as rising by \$1.89 million, or by over 10%. What accounts for the increase?

- b. Is this cost factor capped at actual out of pocket rental costs for FY1998?  
For FY2001, actual estimated costs?
- c. What index or other factor is used to escalate this cost?

ABA&NAPM/USPS-T21-29 Why is the square footage for RBCS shown as increasing by nearly 200,000 square feet (Attachments 6 & 7) between FY 1998 and FY 2001, when the number of “deployments” listed in LR 83 remains constant at 250 between those years?

ABA&NAPM/USPS-T21-30 Regarding Attachment 9, please explain why mail processing labor costs would go down by a greater percentage for Standard A commercial mail than for First Class presort letter mail (19.49% vs. 12.15%).

ABA&NAPM/USPS-T21-31 a. Regarding Attachment 11, test year piggyback factors are identical for rural delivery as between First Class presort and Standard A Regular, yet piggybacks are lower for the latter for city carrier and for vehicle service drivers. Why?

- b. Please explain what the term “clerk/messenger” means in that attachment and what these work activities consist of.



ABA&NAPM/USPS-T21-32

a. Please confirm that the same base year piggyback factors, (e.g. 1.981 for OCRs in Attachment 13), applied to higher direct labor costs for a test year result in higher cost totals for those indirect costs.

b. Please explain why beyond these higher cost totals in 32 (a) above, piggyback factors for the test year in Attachment 14 also increase for OCRs, BCSs and other mail processing equipment, resulting in another layer of cost increases? Is this double counting?

ABA&NAPM/USPS-T21-33

Regarding Attachment 14:

- a. why is the piggyback factor for DBCS so much greater than for other bar code sorters?
- b. Why is there no piggyback factor for RBCS "other workroom", please define this term and explain the difference between this category and RBCS "workroom".
- c. What is RBCS LMLM, and why does this piggyback have indirect costs 262.3% greater than direct labor costs?

ABA&NAPM/USPS-T21-34

You use premium pay factors for processing First Class workshared mail, yet you use only two wage rates (one for RBCS and one for other) to represent the much more complex wage structure of mail processing labor.

- a. Is the base pay for the typical worker during these premium pay periods lower than for daytime shifts, as might be expected from their being younger, less experienced with less seniority, and hence working graveyard shifts or early morning hours.
- b. If your answer to a. is yes, please state what that average base wage is for each premium pay period.

ABA&NAPM/USPS-T21-35

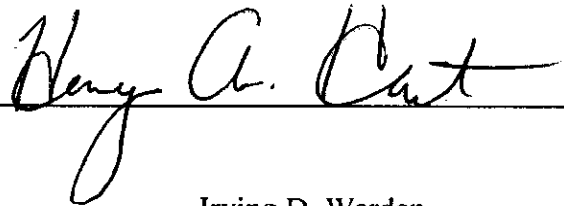
Regarding Attachment 15, what is the norm for the premium pay ratios, that is what does 1.00 stand for, what time period, what base wage rate, etc.? What does less than 1.00 mean?

ABA&NAPM/USPS-T21-36

Regarding Attachment 12, why is the piggyback factor for "First Class: - Ltrs & Pcls" (1.190) lower than that for "Presort Letter & Pcls" (1.212)? Quantify the reduction in mail processing costs for "Presort Letters & Pcls" if its piggyback factor were a.) the same as that for "First Class: - Ltrs & Pcls" (i.e., 1.190), or b.) that for "Total Standard (A) (i.e., 1.177).

Respectfully submitted,

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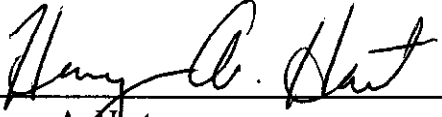
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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

  
Henry A. Hart

March 3, 2000