

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 DEGEN TO INTERROGATORIES OF  
THE ALLIANCE OF NONPROFIT MAILERS,  
REDIRECTED FROM WITNESS RAMAGE  
(ANM/USPS-T2-2, 6, 8)

The United States Postal Service hereby provides the responses of witness Degen to the following interrogatories of ANM: ANM/USPS-T2-2, 6, 8, filed on February 22, 2000, and redirected from witness Ramage.

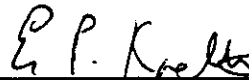
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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March 7, 2000

Response of United States Postal Service Witness Degen  
to Interrogatories of Alliance of Nonprofit Mailers  
(Redirected from Witness Ramage, USPS-T-2)

ANM/USPS-T2-2. During the period FY 1990 through FY 1999, the Postal Service has increased the volume of letter mail sorted on automation equipment and the volume of flats sorted on mechanized equipment. At the same time, the percentage of not handling tallies has also increased.

(a) Please explain why automation and mechanization have resulted in so many more not handling IOCS tallies.

(b) Please produce all studies, analyses, reports and similar documents generated since Docket No. R97-1 that support your response to part (a).

ANM/USPS-T2-2 Response.

(a) I do not believe it is correct to draw a direct link between the automation of the letter mail stream and the increase in the percentage of IOCS not-handling tallies. The proportion of not-handling tallies in letter automation operations is actually lower than the average for all mail processing cost pools (see Docket No. R97-1, Tr. 12/6227-6228). Between FY 1996 and FY 1998, a period in which the applicable data collection rules have remained unchanged, the overall not-handling percentage (of dollar-weighted tallies) in mail processing has changed very little – from 42.6 percent to 43.35 percent. Direct comparisons of not-handling tally percentages with earlier years are not possible because of significant changes in data collection rules; see Docket No. R97-1, Tr. 36/19338. Note that automation will tend to reduce clerk and mail handler labor, and therefore tallies of all types, in sortation operations but not (other things equal) allied labor and some support operations, which have higher not-handling tally proportions. Such a change could increase the observed not-handling tally percentage in mail processing

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as a whole without a change in the not-handling percentages for any given mail processing cost pool.

- (b) I obtained the FY 1998 not-handling percentage from USPS LR-I-184. I obtained the FY 1996 not-handling percentage from my analysis that generated the table at Docket No. R97-1, Tr. 12/6227-6228: I computed FY 1996 dollar-weighted not-handling tallies in mail processing cost pools of \$5,401,594,000 and total dollar-weighted mail processing tallies of \$12,679,788,000.

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**ANM/USPS-T2-6. Please confirm that, if the costs associated with mixed mail tallies are distributed within MODS pools in proportion to direct tallies, mixed mail tallies add no independent information to cost estimates for the classes and subclasses of mail. If you fail to confirm unconditionally, please:**

- (a) Explain fully.**
- (b) Explain how the cost distribution can change as the proportion of mixed tallies increases or decreases.**

**ANM/USPS-T2-6 Response.**

**Not confirmed.**

- a. A mixed-mail tally adds information to the cost process to the extent information in the tally (e.g., the item type or container contents) identifies the likely shape(s) or class(es) of mail contained in the item or container. See Docket No. R97-1, Tr. 12/6580.**
- b. The cost distribution can change as the proportion of mixed-mail tallies varies to the extent the subclass shares in the mixed-mail distribution key(s) differ from the subclass distribution of the applicable set of all direct tallies. Please see witness Van-Ty-Smith's response to ANM/USPS-T2-5 for a description of the actual subclass distribution process for mixed-mail tallies.**

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ANM/USPS-T2-8. Please confirm that, if the costs associated with "not handling" mail tallies are distributed within MODS pools in proportion to direct tallies, "not handling" mail tallies add no independent information to cost estimates for the classes and subclasses of mail. If you fail to confirm unconditionally, please:

- (a) Explain fully.
- (b) Explain how the cost distribution can change as the proportion of "not handling" tallies increases or decreases.
- (c) Identify any other additional information that you contend is gained from "not handling" mail tallies.

ANM/USPS-T2-8 Response.


a. – c. Confirmed that not-handling tallies add no information to the subclass distribution of mail handlings; see USPS-T-16 at pages 73-74. Please see witness Van-Ty-Smith's response to ANM/USPS-T2-8 for a description of the actual subclass distribution process for not-handling tallies. Please also see the response to ANM/USPS-T2-6(b). Note also that, in most cost pools other than allied labor cost pools, the not-handling distribution (in proportion to direct and distributed mixed-mail tallies in the same cost pool) has the same effect on the subclass shares as ignoring the not-handling tallies. In the allied labor cost pools, the broad distribution of not-handling tallies reflects the *lack* of information on patterns of cost causation by subclass in the not-handling tallies. My analysis of mail processing operations indicates that a portion of allied labor costs are not "driven" (as volume-variable costs) by the subclasses of mail observed in the allied cost pools. Given the use of the Commission's volume-variability assumptions, I believe that the broad distribution of not-handling tallies is

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appropriate to ensure that the subclasses of mail observed in allied operations do not bear an inappropriately large share of the measured volume-variable costs.

## DECLARATION

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



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Dated: 3-6-00

**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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