

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 BOZZO TO INTERROGATORY OF  
DOUGLAS F. CARLSON  
(DFC/USPS-T15-1)

The United States Postal Service hereby provides the response of witness Bozzo to the following interrogatory of Douglas F. Carlson: DFC/USPS-T15-1, filed on February 25, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 10, 2000

**Response of United States Postal Service Witness Bozzo  
to Interrogatory of Douglas F. Carlson**

**DFC/USPS-T15-1. Please refer to witness Meehan's response to DFC/USPS-T30-6 and -7. In responding to the following questions, please provide answers that a person who understands mail processing but who may not be familiar with jargon and other terms related to cost measurement and cost systems should be able to understand. Also, for these questions, if the mail-processing cost of mailing a return receipt back to the customer is identical to the mail-processing cost of a post card, you do not need to discuss the cost issues related to the mail-processing cost of post cards.**

- a. To the extent that your knowledge or testimony covers this issue, please explain why costs for certified mail, return receipt, and return receipt for merchandise have increased substantially since Docket No. R97-1. In answering this question, please break the total cost for each service into each processing step or other factor (e.g., window-clerk time, carrier delivery time, etc.) that contributes to the total cost of this service and explain the amount by which, and why, that cost has increased since Docket No. R97-1.**
- b. To the extent that your knowledge or testimony covers this issue, for every processing step or other factor (e.g., window-clerk time, carrier delivery time, etc.) that contributes to the cost of certified mail, return receipt, and return receipt for merchandise, please explain exactly how the cost of that step or factor is measured and calculated.**
- c. Please explain any assumptions implicit in methodologies that you use or advocate for measuring costs associated with certified mail, return receipt, and return receipt for merchandise or attributing costs to those services.**
- d. Please discuss any assumptions, changes in methodology, or other factors that may cause you to have any doubt about the accuracy of the costs for certified mail, return receipt, and return receipt for merchandise that are the basis for the Postal Service's proposed fees in this docket.**
- e. Has the Postal Service adjusted certified-mail costs to account for the electronic signature-capture process? Please explain and provide details.**

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**DFC/USPS-T15-1 Response.**

- a. My testimony addresses changes to the volume-variability methods for mail processing operations ("cost pools"). Window service and carrier costs are beyond the scope of my testimony. The volume-variability factor for a mail processing operation indicates the fraction of the total costs of the operation that are distributed to the subclasses of mail and/or special services as volume-variable costs. Other things equal, a reduction in the volume-variability factor for an operation leads to a reduction in the volume-variable costs of the subclass(es) of mail and/or special services handled in that operation.

In the Base Year 1998 mail processing cost analysis it proposes in this docket, the Postal Service has adopted two major changes in the mail processing volume-variability methods for mail processing operations compared to the Docket No. R97-1 methods. First, for a collection of mail processing operations listed in my testimony, USPS-T-15 at pages 119-120, the Postal Service employs volume-variability factors based upon econometric models that update and extend Dr. Bradley's mail processing volume-variability analysis from Docket No. R97-1 (see Docket No. R97-1, USPS-T-14). Second, for the remaining mail processing operations, the Postal Service adopts the volume-variability method, based on In-Office Cost System (IOCS) data, employed by the Commission in Docket No. R97-1.

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In the table below, I estimate the effect of the volume-variability changes on the Certified Mail cost input to witness Meehan's B-series workpapers for clerk and mail handler mail processing labor (Cost Segment 3); note that witness Meehan's workpapers do not separately identify return receipt costs. Specifically, I compare the Postal Service's BY 1998 costs with those that would have obtained if the Postal Service had used the volume-variability factors it proposed in Docket No. R97-1, holding other factors equal. No costs are distributed to Certified Mail in the mail processing operations covered by my econometric analysis, so the update to the volume-variability factors in those operations has no effect on Certified Mail costs. However, I estimate that approximately \$9.52 million, or 29.9% of the BY 1998 Certified cost input of \$31.865 million to witness Meehan's WS 3.1.1a, can be attributed to the adoption of the Commission's volume-variability method for the other mail processing operations instead of Dr. Bradley's Docket No. R97-1 method.

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**Estimated effect of BY1998 volume-variability changes on Certified Mail costs (\$000)**

	BY 1998 Method	BY 1998 costs using R97-1 variabilities, other factors equal	Difference
Cost pools w/ econometric variabilities	0	0	0
Cost pools w/o econometric variabilities	31,865	22,345	9,520
Total	31,865	22,345	9,520

The effects, if any, of other potential causes for the referenced cost changes are beyond the scope of my testimony.

- b. Please see USPS-T-15 at pages 116-124 for a summary of the econometric methods I employ in my analysis and the main results. See witness Van-Ty-Smith's testimony, USPS-T-17, at pages 11-12 and USPS LR-I-106 for the computational methods used to determine the IOCS-based volume-variability factors.
- c. My analysis is an element of the "volume-variability/distribution key" method for computing volume-variable costs for the subclasses of mail and special services. See USPS LR-I-1, Appendix H, and USPS-T-15 at pages 53-56 for a discussion. The IOCS-based volume-variability factors employed for the cost pools other than those covered by the econometric models described in my testimony embody assumptions,

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**adopted by the Commission for all mail processing cost pools in  
Docket No. R97-1, that classify activities recorded in IOCS as either  
100% volume-variable or non-volume-variable.**

- d. I discuss shortcomings of the IOCS-based method for determining mail  
processing volume-variability factors at pages 5-13 of my testimony,  
USPS-T-15.**
- e. Carrier costs and adjustments to projected test year costs to account  
for new technology are beyond the scope of my testimony.**

## DECLARATION

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

A. Thomas Bozzo

Dated: 3/16/00

## 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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