

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 INTERROGATORY OF  
DOUGLAS F. CARLSON  
(DFC/USPS-T16-1)

The United States Postal Service hereby provides the response of witness Degen to the following interrogatory of Douglas F. Carlson: DFC/USPS-T16-1, 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:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Eric P. Koetting

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March 10, 2000

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

**DFC/USPS-T16-1. 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 the rationale behind changes to the methods by which volume-variable mail processing costs are distributed to the subclasses of mail and special services. These include changes to the "encirclement" rules that determine whether an In-Office Cost System (IOCS) tally where the sampled employee is handling a special service piece should be associated with the special service or the underlying subclass of mail. Please see my testimony, USPS-T-16, at pages 57-58, and 70-74 for a discussion; the details of the implementation are addressed in the testimony of witness Van-Ty-Smith (USPS-T-17). Window service and carrier costs are beyond the scope of my testimony.

In the table below, I estimate the effect of the volume-variable cost distribution 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. The table compares the Postal Service's BY 1998 costs with those that would have obtained if the Postal Service had used the volume-variable cost distribution method it proposed in Docket No. R97-1, holding other factors equal. I estimate that volume-variable cost for Certified mail would have been approximately \$36.411 million, \$4.546 million (14.3

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percent) higher than the BY 1998 Certified cost input to witness Meehan's WS 3.1.1a, had the Postal Service employed its Docket No. R97-1 distribution method without modifications.

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

BY 1998 Method	BY 1998 costs using R97-1 distribution method, other factors equal	Difference
31,865	36,411	-4,546

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

- b. Please see witness Van-Ty-Smith's testimony, USPS-T-17 at pages 7-20, and USPS LR-I-106 for descriptions of the computational methods used to distribute volume-variable costs to the subclasses of mail and special services.
- 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 witness Bozzo's testimony, USPS-T-15, at pages 53-56 for a discussion.
- d. The changes in methodology increase my confidence that, other things equal, the Postal Service's methods provide the most accurate


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**available estimate of the actual costs incurred for the subclasses of  
mail and special services in the Base Year.**

- e. Carrier costs and adjustments to projected test year costs to account  
for new technology are beyond the scope of my testimony.**

## 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.

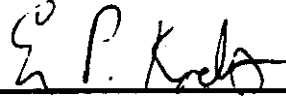


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Dated: 3-9-00

## **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.

A handwritten signature in black ink, appearing to read "E. P. Koetting", written over a horizontal line.

**Eric P. Koetting**

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