

Before The  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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Postal Rate and Fee Changes

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Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
WITNESS SMITH TO INTERROGATORIES OF  
AMERICAN BANKERS ASSOCIATION  
AND NATIONAL ASSOCIATION OF PRESORT MAILERS  
(ABA&NAPM/USPS-T21-1-8, 11-26, 28-36)

The United States Postal Service hereby provides the responses of witness Smith to the following interrogatories of the American Bankers Association and National Association of Presort Mailers: ABA&NAPM/USPS-T21-1-8, 11-26, 28-36, filed on March 3, 2000. Interrogatories 9 and 10 have been redirected to witness Bozzo, and number 27 has been redirected to witness Degen.

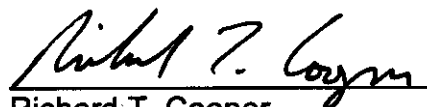
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
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March 17, 2000

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**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 BY 1998 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.

**Response:**

- a. My development of mail processing equipment capital costs by cost pool for the base year and test year is described in my testimony at pages 5-7. The equipment in each cost pool is described in USPS-LR-I-83, pages IV-9 to IV-12. The main principle or guideline is to group together equipment types of similar purpose or activity. As per the Postal Rate Commission decision in Docket No. R90-1, I use accounting or book depreciation and interest expense in these calculations.<sup>1</sup> I identify the book depreciation by cost pool from accounting records for the base year. For the test year, I estimate the book depreciation by cost pool using the accounting records and information from the capital budget. Interest expense, the portion related to interest on debt, is apportioned in proportion to depreciation to each cost pool (as indicated in my testimony at page 5, footnote 3).
- b. Yes to all parts of this question.
- c. Not applicable.

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<sup>1</sup> See Docket No. R90-1, PRC Op., Volume I, pages III-102 to III-134.

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**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.

**Response:**

I'm not sure which piggyback factors you are asking about in this question since the piggyback factors I provide are either by cost pool (see my testimony, Attachments 13 and 14) or by subclass (see my testimony, Attachments 10, 11, and 12). I have no cost pool piggyback factors for First-Class or Standard Mail. In addition, all or nearly all of the piggyback factors I have provided in my testimony differ at least slightly from the corresponding piggyback factors provided in Docket No. R97-1. This is to be expected since piggyback factors are simply the ratios of costs contained in the test year or base year costs. For example, a piggyback factor for the Optical Character Reader (OCR) cost pool is the ratio of total OCR related costs to the labor costs for the OCR operators. Total costs include the OCR operator labor costs as well as supervisory, additional benefits, administrative, facility-related and equipment-related costs. (See my testimony, pages 5-6, 10-11 and 16-17 for a further description of these costs.) Such costs will change from year to year, for a variety of reasons (e.g. all labor costs will be subject to wage rate changes), leading to some changes in the piggyback ratios or factors.

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**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.

**Response:**

This question does not specify what type of cost pool you are interested in, but I assume you are referring to mail processing labor cost pools and will respond on that basis. For BY 1998, the four "columns" can be obtained as follows. Column (2), or volume variable labor costs by cost pool, is shown in witness Van-Ty-Smith's testimony, USPS-T-17, Table 1 on pages 24-25. Column (1), total volume variable cost by cost pool can be obtained by multiplying the costs in column (2) times the respective cost pool piggyback factor from my testimony in Attachment 13. Non-volume variable labor costs by cost pool, column (3), can be obtained by subtracting "pool total costs" from "pool volume variable cost," contained in witness Van-Ty-Smith's testimony, USPS-T-17, Table 1 on pages 24-25. Non-volume variable other costs, column (4), can be approximated by multiplying column (3) by the respective piggyback factors<sup>1</sup> for each cost pool from Attachment 13 of my testimony. To do this more precisely, cost pool piggyback factors specifically for non-volume variable costs would need to be computed. These piggyback factors would differ from those in Attachment 13 due to differences in the volume variability of facility-related costs

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<sup>1</sup> For this purpose each piggyback factor should be reduced by one. For example, the OCR cost pool piggyback factor of 1.981 (in Attachment 13) would be .981.

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**Page 2 of Response to ABA&NAPM/USPS-T21-3.**

as compared to all other costs, leading to different ratios of non-labor and labor costs.

For TY 2001, before rates, columns 1 and 2 can be approximated based on the calculation of test year, before rates, piggyback factors by cost pool (as shown in Attachment 14 of my testimony) and the calculation of test year unit costs (as shown in Attachment 18 of my testimony). Column (2), or volume variable labor costs by cost pool for test year before rates can be computed by multiplying the base year volume variable costs by cost pool, shown in witness Van-Ty-Smith's testimony, USPS-T-17, Table 1 on pages 24-25, by test year to base year cost ratio for each cost pool, contained in USPS-LR-I-81, pages IV-6 to IV-10. Column (1), total volume variable cost by cost pool can be obtained by multiplying the costs in column (2) times the respective cost pool piggyback factors from my testimony in Attachment 14. I do not have estimates for columns 3 and 4 since I have made no estimates of non-volume variable costs by cost pool, nor am I aware of other Postal Service witnesses that have done so. The same is also true for all four columns for TY 2001 after rates costs. I have made no cost pool calculations using after rates costs, nor am I aware of any other Postal Service witness that has.

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**ABA&NAPM/USPS-T2I-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?

**Response:**

Page 4, lines 10-11 is merely a summary or listing of the various unit costs by shape which I provide in my testimony. If you would rather not rely on such summaries or so-called "assertions," see Attachments 17 and 18 of my testimony to see the specific unit costs provided in my testimony.

- a. No. As indicated in my testimony at page 4, lines 7 to 8, my testimony provides costs to be used in developing costs avoided due to worksharing. My testimony, however, makes no designations of costs as "benchmarks" nor does it provide estimates of costs avoided due to worksharing.
- b. No. As noted in my response to part "a," I have not designated any costs as "benchmarks." In addition, if "BMM" refers to "bulk metered mail" then it should be noted that I provide "First-Class Single-Piece Bulk Entered Metered Letters" unit costs of 9.87 cents per piece for the base year (see Attachment 17, page 2) and 10.47 cents per piece for the test year (see Attachment 18, page 2). These unit costs are based on cost data for all

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First-Class, Single-Piece Metered Letters. See also witness Miller's response to  
ABA&NAPM/USPS-T24-20.

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**ABA&NAPM/USPS-T2I-5.** On page I-I 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 FY 1998. If the facility is owned by USPS and no actual rental fees are paid, enter 0.

**Response:**

- a. Not confirmed. The Postal Rate Commission rejected the proposed use of "uncapped" imputed rents to reflect building occupancy costs, but continued its practice of using the "capped (at book amounts) imputed rental cost for building occupancy." See Docket No. R90-1 Opinion and Recommended Decision, page III-102.
- b. I have attached a copy of page I-9. There is an incorrect title in the bottom right corner, which is "FY98/FY96." The correct title is "FY01/FY98."
- c. I do not have actual rents paid by facility category for FY 1998. I also want to point out that the "book" cost of facilities owned by the Postal Service is the sum of building and leasehold depreciation/amortization, related interest expense and rental payments, as described in my response to ABA&NAPM/USPS-T21-18.



## SPACE AND RENTAL GROWTH FACTORS FOR FY98 AND FY01

SPACE GROWTH			RENTAL RATE	
	(1) END OF FY TOTAL SPACE TOTAL INTERIOR SQ.FT. PLUS PLATFORMS _1/	(2) MID-FY TOTAL SPACE TOTAL INTERIOR SQ.FT. PLUS PLATFORMS	(3) FACILITY SPACE GROWTH FACTOR (RATIO OF MID-YEAR TO MID-YEAR SPACE IN C2)	(4) RENTAL RATE GROWTH FACTOR _2/
END OF FY 1997	301,924,000			
MID-FY98		317,259,000		
END OF FY 1998	332,594,000		FY98 TO FY01 SG1 1.132937	FY98 TO FY01 FY01 444.93 FY98 403.95
END OF FY 2000	358,157,000			FY98/FY96 RGF1 1.1014482
MID-FY01		359,434,500		
END OF FY 2001	382,712,000			

\_1/ FACILITIES (DEPT.).

\_2/ FINANCE, ANNUAL (FISCAL YEAR) INDICES FOR USPS BUDGET FORECASTS FROM DRI, RENT- RESIDENTIAL.

ATTACHMENT TO RESPONSE  
TO ABA&NAPM/USPS-T21-5.

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**ABA&NAPM/USPS-T2I-6.** In Attachment 1 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.

**Response:**

These amounts are the maintenance labor costs and parts and supplies costs for non-mail processing equipment. This includes the following: custodial, maintenance, and building equipment; office furniture; print shop and communications equipment; computers; vehicle maintenance equipment; lobby, window, and vending equipment; cafeteria, audio-visual and closed circuit TV equipment. For additional information see USPS-LR-I-201. Please note that Attachment 1 is part of my testimony and that the excel spreadsheet copy of this attachment to my testimony is contained in the USPS-LR-I-83 spreadsheets.

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**ABA&NAPM/USPS-T21-7.** Consider Attachment I of LR-83 and Page I-11, "FYOI 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?

**Response:**

- a. Confirmed.
- b. The FY 1998 hours for maintenance of DBCSs, OCRs and RBCS were 4,517,023.6, 2,015,023.6 and 784,128 respectively. The hourly wage rate was \$29.52. The product of these hours and wage rate provides the costs shown in column 2 of page II-6A of USPS-LR-I-83. These costs are adjusted to reflect break, washup, administrative and supervision as indicated in column 5 of page II-6A. The hours by equipment listed above do not reflect break, washup, administrative and supervision time.
- c. This is the RBCS maintenance labor cost per plant with RBCS.

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**ABA&NAPM/USPS-T21-8.** On page I-11 of LR-83, DBCS deployments increase from BY 1998 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?

**Response:**

Page I-11 of USPS-LR-I-83 shows 250 plants as having RBCS in both years.

The increased capital cost stems mainly from the additional purchase of more advanced Remote Computer Reading equipment. See the testimony of witness

Kingsley, USPS-T-10, at page 9. Also purchases of additional Output

Subsystems (OSS) for DBCS and for LMLM Linerless Label Applicator also add to test year depreciation. See USPS-LR-I-126, pages 9-11 for a description of these programs.

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**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?

**Response:**

The numbers 444.93 and 403.95 are the annual rent-residential index from DRI for the FY 2001 and FY 1998, respectively. Total space is expressed in square feet.

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**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?

**Response:**

The calculation of "Rental Value" shown in column 2 of Attachment 7 of my testimony (also contained in the spreadsheets of USPS-LR-I-83) is described in my testimony at pages 11-12, in USPS-LR-I-1, pages 15-1 and 15-2 and in USPS-LR-G-120, Part A, Section IV of Docket No. R94-1. As described in the latter source, this calculation is based on rental contracts with non-Postal Service owners of property and also on the purchase price of owned facilities. The capping of "Rental Value" is described in my testimony at pages 12-13. Also see my responses to ANM/USPS-T21-1 and ANM/USPS-T21-2.

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**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?

**Response:**

These variabilities from Attachment 8 of my testimony, are those established in

Docket No. R76-1 as indicated in my testimony at pages 13-14.

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

**Response:**

This page, as well as Attachment 9, page 1 of my testimony, shows the distribution key or the percentage of savings for the program "Improve Function 4 Productivity" to be distributed to each subclass. The use of this distribution key is described in witness Kashani, USPS-T-14, Appendix A. Improve Function 4 Productivity is listed at page 24, line 19, and its distribution is shown on page 30. This program is described in USPS-LR-I-126, page 18.



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**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.

**Response:**

Imputed rent is the current market rental cost associated with the facilities used by the Postal Service, whether owned or rented by the Postal Service. It is the rents the Postal Service would pay if it rented all facility space it uses, at current rental rates. Alternatively, imputed rents reflect what the Postal Service could earn if it rented out its facility space. Imputed rents reflect the opportunity cost of facility space use. The calculation of imputed rents is described in the sources listed in my response to ABA&NAPM/USPS-T21-12.

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**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?

**Response:**

This is explained in my testimony at pages 11-12. Adjustments in facility space by category due to equipment deployments since FY 1992 to FY 1998 have been provided in Docket No. R94-1, USPS-LR-G-137, pages I-4 to I-6; in Docket No. R97-1, USPS-LR-H-127, pages I-4 and I-5 and in the current case in USPS-LR-I-83, pages I-4 and I-5. Adjustments due to anticipated deployments between FY 1998 and FY 2001 are shown in USPS-LR-I-83, pages I-10, I-11 and I-12.

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- 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?

**Response:**

- a. Just to be clear, the DRI Rent -Residential index is used to update the rental rates obtained for earlier fiscal years to both the base year and test year. For example the imputed rent per square foot for OCRs in FY 1996 was \$7.22 per square foot (see line 13 of page I-2, of USPS-LR-I-83). The ratio of the FY1998 to FY1996 DRI Rent-Residential indices or 403.94 to 380.78 (shown on page I-3 of USPS-LR-I-83) is used to escalate this rental rate to \$7.65 per square foot for FY 1998 (see page I-7). I use the DRI Rent-Residential index to update imputed rents since that is used in our budget forecasts of rental costs (see USPS-LR-I-127, Chapter III, Section a).
- b. I use the DRI Rent-Residential index to update imputed rents for all facility categories and therefore all facilities. I have made no use of the individual facility rental and other payment information for FY 1998. Much of this

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**Page 2 of Response to ABA&NAPM/USPS-T21-17.**

information, which is often obtained through Freedom of Information Act requests, is available for purchase. The attached materials describe the data available on a set of CDs and provide a contact for obtaining this.

- c. I have made one comparison of the average rent paid per square foot and the DRI Rent-Residential Index for the two years FY 1992 to FY 1998.

The average rent per square foot grew 20 percent from \$5.83 per square foot in FY 1992 to \$6.97 per square foot in FY 1998. The DRI Rent-Residential Index rose by 17 percent going from 345.73 in FY 1992 to 403.95 in FY 1998. (Rent per square foot based on private lease payments and real estate taxes, as per accounts 54101, 54121, and 54133).

USPS LEASED FACILITY DATA INFORMATION  
AVAILABLE UNDER THE FREEDOM OF INFORMATION ACT

I. FILE ORGANIZATION

Data is broken out by State. Each State is presented in an Microsoft Excel format.

II. DATA COLUMN NAMES

COLUMN NAME	DESCRIPTION
A	Facility ID
B	Post Office
C	Unit Name
D	Street Address
E	State
F	Zip Code
G	County
H	Lease Effective Date
I	Lease Expiration Date
J	Annual Rental
K	Responsible Area/District
L	Renewal Options Available
M	Renewal Option Years
N	Next Renewal Option Rental
O	Maintenance Responsibility
P	Net Interior Square Feet
Q	Total Site Square Feet
R	Building Ownership Code
S	Land Ownership Code
T	Building Occupied Date
U	Tax Rider
V	Purchase Option Rider
W	Owner Name
X	Owner Address 1
Y	Owner Address 2
Z	Owner Address 3
AA	Owner City
AB	Owner State
AC	Owner Zipcode
AD	Payee Name (only if different from owner)
AE	Payee City
AF	Payee State
AG	Payee Zipcode

### III. SUPPORT

For information and support, you may call:

Jenny A. Herndon  
Information Systems Coordinator  
Facilities Program Support  
US Postal Service  
4301 Wilson Boulevard #300  
Arlington, VA 22203-1861  
Phone: 703/526-2802  
Fax: 703/526-2710  
Email: jherndon@email.usps.gov

### IV. CODE TRANSLATION

#### Facility Building Ownership

Code	Description
	<b>Private Lease</b>
A	Standard Lease
B	Renewal Option
C	Extension Agreement
D	Month-to-Month Lease
E	Automatic Renewal
P	Fixed Term Lease
	<b>Federal</b>
G	GSA Controlled
K	Other Agency Control
W	Military Controlled
	<b>USPS</b>
F	Lease Purchase
H	Purchased, Prev. Leased
J	Purchased, Not Prev. Lsd
N	Constructed by USPS
V	Transferred
	<b>Miscellaneous</b>
O	Free Building
Q	Bldg on another record
X	No Building
Y	USPS Personal Property

**Facility Land Ownership**

Code	Description
	<b>Private Lease</b>
A	Standard Lease
B	Renewal Option
C	Extension Agreement
D	Month-to-Month Lease
E	Automatic Renewal
P	Fixed Term Lease
Z	Ground Lease
	<b>Federal</b>
G	GSA Controlled
K	Other Agency Control
W	Military Controlled
	<b>USPS</b>
F	Lease Purchase
H	Purchased, Prev. Leased
J	Purchased, Not Prev. Lsd
L	Land Banking
V	Transferred
	<b>Miscellaneous</b>
O	Free Land
Q	Land on another record
X	No Land

**Building Maintenance Responsibility**

Code	Description
1	Lessor
2	USPS
3	GSA
4	USPS(Not Roof)
5	Federal Agency
6	Shared
7	Lap Maintenance Rider

**Lease Tax Rider Code**

Code	Description
0	None Specified
1	Percentage
2	Reimbursable

**Lease Purchase Option Type**

Code	Description
1	Fixed Dollar and Date
2	Fixed Dollar/Date and LAP Option
3	Option Under LAP
4	Fixed Date at FMV
5	Non-Standard, Specified in Lease



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**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.

**Response:**

- a. Yes this procedure is applied to all imputed rent calculations. See my responses to ANM/USPS-T21-1 and ANM/USPS-T21-2 as well.
- c. The measure of book costs used to cap imputed rents is the sum of building and leasehold depreciation, related interest expense, and rent payments. For the base year this is \$1.322 billion in line 10 of page 404 in USPS-LR-I-77. Test year book costs are \$1.708 billion from page 456.

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**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?

**Response:**

IOCS does not separately identify machine downtime due to jams, so I do not have any evidence to suggest that any particular subclass causes a disproportionate share of that downtime. In principle, some subclasses may cause relatively more jams and related downtime than others. In the case of automated letter sorting equipment, heavy and flimsy letters will tend to cause more jams. It is my understanding that the mail processing cost methodology includes machine downtime in the labor cost pools for mechanized and automated sorting, and in the corresponding workhours used in the volume-variability models. Since the downtime is not identified separately, there is no blanket treatment of the downtime as either fully volume-variable or institutional. The estimated volume-variability factors will reflect, among other things, the volume-variable portion of machine downtime. Also, to the extent that jammed mail requires additional handling, it will tend to result in relatively more IOCS "handling mail" tallies for the associated subclasses. Those subclasses will, in turn, tend to account for a relatively large share of the volume-variable cost distribution keys.

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**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.

**Response:**

No, this is not true for mail processing equipment-related variabilities. The volume variabilities for equipment-related costs are based on the volume variabilities developed for the mail processing labor which is operating such equipment. See my testimony at page 8 for a discussion of these variabilities. See also Attachment 4 of my testimony and USPS-LR-I-83, part III. The development of the variabilities for Docket No. R97-1 is provided in USPS-LR-H-127, part III. For information on the development of variabilities for mail processing labor, please see the testimonies of witness Bozzo, USPS-T-15, and witness Van-Ty-Smith, USPS-T-17. For Docket No. R97-1, see the testimony of witness Bradley, USPS-T-14.

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**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.

**Response:**

The piggyback factors that are exceptions to this general definition are the test year piggyback factors for final adjustments contained in Attachment 12 of my testimony. See my testimony at pages 19-20. See also USPS-LR-I-77 at page 165 for the calculations of the mail processing piggyback factors for final adjustments.

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**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?

**Response:**

My rollforward process should incorporate the same economies of scale and scope as included by witness Kashani, USPS-T-14, with the following minor caveat: As discussed in my response to ABA&NAPM/USPS-T21-23 I attempt to rollforward costs in the same way as witness Kashani, USPS-T-14. As noted in that response, however, I must use some approximations of his calculations, so this would lead to some minor differences.

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**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?

**Response:**

As stated in my testimony on page 29, in developing test year unit costs by shape and cost pool, I approximate the calculations done by witness Kashani, as well as those of witness Meehan. (See page 29, lines 9-11). It would be very difficult to replicate their calculations in all detail. Doing so would require a very large modeling exercise to reflect all aspects of base year cost development and all of the factors considered in the rollforward. The modeling of the rollforward process needs to consider specific volume changes for each subclass by year, and the distribution of cost reductions and other programs according to specific distribution keys as done by the rollforward, for each year. As a result, it is reasonable to use approximations.

As stated on page 29 of my testimony, I reconcile my calculations back to the aggregate mail processing costs by subclass of witnesses Meehan and Kashani because of my use of approximations. I reconcile my calculations back to the aggregate mail processing costs by subclass for the base year and the test year (both for labor and for total labor and piggybacked costs) as discussed in pages 29 to 31. This reconciliation assures overall consistency of my calculations with witnesses Meehan and Kashani.

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**ABA&NAPM/USPS-T2I-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?

**Response:**

Yes, IOCS data contains labor time separately for automation and non-automation presort letters. This information is gathered at all stages of mail processing.

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**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?

**Response:**

RBCS: Workroom refers to RBCS equipment at plants such as Image Processing Subsystems (IPSS) at the plant, Remote Computer Readers (RCR), Output Subsystems (OSS), and Letter Mail Labeling Machines (LMLM). RBCS equipment at the Remote Encoding Sites includes the terminals used by the keyers and the IPSS at the remote encoding site. Yes, this is the same classification used in Docket No. R97-1.



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**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)?

**Response:**

The \$769.9 million is the mail processing equipment depreciation excluding the depreciation for product specific equipment. See USPS-LR-I-9, page 148. The cost pools I develop, exclude product specific costs.

- a. The computer forwarding system (or CFS) is the equipment used for processing pieces to be forwarded or returned to sender.
- b. Depreciation increases in the test year due to the purchase of CFS Flat Forwarding Terminals (FFT) and the Computer Forwarding Control System (CFCS). See USPS-LR-I-126, pages 5 and 7 for a description of these programs.

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- 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 FY 1998? For FY2001, actual estimated costs?
- c. What index or other factor is used to escalate this cost?

**Response:**

- a. See my response to ANM/USPS-T21-1, part f and ANM/USPS-T21-2, parts f and g.
- b. Imputed rents are capped at book costs as described in my response to ABA&NAPM/USPS-T21-18 for both the base year and test year.
- c. Imputed rents are escalated using the DRI Rent-Residential Index as described in my response to ABA&NAPM/USPS-T21-17.

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**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?

**Response:**

The FY2001 facility space for RBCS is increased over the FY 1998 by approximately 13 percent, which is the projected overall growth in facility space, once we exclude the equipment categories for which only deployments affect space usage. This overall growth is called the "General Growth Factor" which is line 7 of page I-13 of USPS-LR-I-83.

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**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%).

**Response:**

As explained in my response to ABA&NAPM/USPS-T21-14 these percentages

are the distribution key for the savings of the program Improve Function 4

Productivity. They do not indicate the percentage decline in labor costs for each subclass.

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**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.

**Response:**

- a. As indicated in my response to ABA&NAPM/USPS-T21-2, piggyback factors are simply the ratio of the relevant costs contained in the test year costs of witness Kashani, USPS-T-14. Differences across subclass piggyback factors will occur if the relationship of indirect costs is not the same to all direct labor in a function (such as city carriers). For example, mail processing piggyback factors differ across subclasses as shown in Attachment 11. Such differences can be explained by the fact that each subclass will use a different mix of processing operations, operations which have different operation specific piggyback factors. We don't have a set of corresponding "operation specific" piggyback for city carriers or other functions, but such differences do reside in each function, leading to differences in piggyback factors across subclasses.
- b. The special delivery messengers craft is consolidated into the clerks in FY 1999. Their work is now done by clerk /messengers. (See witness Kashani, USPS-T-14, pages 5 to 9.)

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**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?

**Response:**

a.-b. These questions have a premise that piggyback factors should remain constant year to year, or only change due to some limited set of factors. As indicated in my response to ABA&NAPM/USPS-T21-2, piggyback factors are simply the ratio of the relevant costs contained in the base year and test year costs of witnesses Meehan, USPS-T-11 and Kashani, USPS-T-14, respectively. If wage rates change faster or slower for clerks than for maintenance staff then the piggyback factors, which contain these costs in their numerators and denominators will change. In many cases, test year piggyback factors are higher than base year piggyback factors due to investments to enhance equipment, particularly labor saving investment. The increase in investment will raise test year depreciation costs, while the labor savings will lead to lower labor costs – leading to a higher piggyback factor in the test year.

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**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?

**Response:**

- a. The basis for the development of the separate piggyback factors for MPBCS, DBCS and CSBCS is shown in USPS-LR-I-77, page 442. This data reflects the data obtained from our accounting, engineering and IOCS sources. It would appear that DBCSs are less labor intensive given these costs.
- b. See my response to ABA&NAPM/USPS-T21-25. In addition, "RBCS: Other Workroom" includes all RBCS equipment at the plant except LMLMs. All RBCS related costs are included in the RBCS cost pool piggyback factor of 1.958 in Attachment 14, page 1. However, witness Miller, USPS-T-24, uses the separate piggyback factors for LMLM and RBCS: Remote Encoding in his processing cost models. In addition, the additional RBCS: Other Workroom costs of \$109,317,075 for the test year (covering costs for the IPSS, RCR, and OSS) is incorporated into the cost modeling directly by witness Miller, without a piggyback factor.

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- c. The LMLM is described by witness Kingsley, USPS-T-10, at page 6. The costs developed for the LMLM piggyback factor are shown in USPS-LR-I-77, at page 443. This shows that the equipment related costs (columns 5-7) for LMLMs are unusually high relative to labor costs, since these equipment related costs are about the same as the labor costs.



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**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.

**Response:**

Your initial statement, prior to parts a and b, is incorrect. The development of processing labor cost by cost pool, as done by witness Van-Ty-Smith, USPS-T-17, is based on payroll costs by Labor Distribution Code (LDC). Implicit in the division of the costs by LDC are the difference wage rates for the different types of work by LDC (see pages 5-6 of witness Van-Ty-Smith's testimony). For instance the grade level is generally higher in manual distribution operations as compared to automated distribution. The distribution of costs to cost pools would reflect that and thereby consider that in the distribution of costs to subclasses.

- a. It is possible that seniority would tend to lower the base wage of those working in premium periods as you suggest. However, it is difficult to predict this since if the operational needs for the premium and non-premium periods are different due to a different mix of operations in

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premium and non-premium times, then that could also affect the relative base wages. In addition, if senior clerks tended to move to daytime administrative work, then this would have less affect on the mail processing relative premium and non-premium wages. I was not able to find any wage data by time of day, or premium vs. non-premium periods with which to examine this question. So we can not give an answer on this question.

b. Not applicable.

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**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?

**Response:**

See my testimony, page 27, lines 14 to 19.

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**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" (& 1.190). or b.) that for "Total Standard (A) (&., 1.177).

**Response:**

See my responses to ABA&NAPM/USPS-T21-2 and 31. As indicated in these responses, piggyback factors are a reflection of the base year and test year costs, not a determinant of them.

DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R2000-1 interrogatory responses are true to the best of my knowledge, information, and belief.




Marc A. Smith

3/17/2000

Date

## 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.

  
Richard T. Cooper

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March 17, 2000