

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 MEEHAN TO INTERROGATORIES OF
PITNEY BOWES, INC.
(PB/USPS-T11-16, 17(a)-(c), 19-23, 26(a), 27, 28-32
and PB/USPS-T33-5 REDIRECTED FROM WITNESS FRONK)

The United States Postal Service hereby provides the responses of witness Meehan to the following interrogatories of Pitney Bowes, Inc.: PB/USPS-T11-16, 17(a)-(c), 19-23, 26(a), 27, 28-32, filed on March 7, 2000, and PB/USPS-T33-5, filed on March 8, 2000, and redirected from witness Fronk. Interrogatories PB/USPS-T11-14, 15, 17(d), 18, 25, and 26(b) were redirected to the Postal Service. Interrogatory PB/USPS-T11-24 was redirected to witness Tayman.

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 21, 2000

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-14. To how many retail outlets does the Postal Service distribute stamps through its stamp distribution network?

Response:

Redirected to the Postal Service.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-15. Please refer to your response to OCA/USPS-48. What was the estimated value of all postage stamps in the hands of the public (in aggregate) in Base Year 1998?

Response:

Redirected to the Postal Service.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-16. Please refer to your response to PB/USPS-T11-12(a).

- a. Does the \$54,245,804 for vending personnel costs in FY 1998 include all personnel who service the machines? (Note: for this purpose, a service is defined as: replenish/refill items vended by the machine and/or collect revenue generated by the machine).
- b. Is the \$54,245,804 for direct personnel costs only, or does it include any applicable piggybacks?
- c. If piggybacks are not included, what is the applicable piggyback factor, and what does it cover?

Response:

- a. Yes, I am informed that this is the case.
- b. I am told that this figure, as reported by the Retail group, includes some applicable additional costs such as supervisor costs of \$4,359,664 and maintenance labor costs of \$5,424,580. This figure is a total personnel cost.
- c. Piggybacks for vending are discussed in my response to PB/USPS-T11-12(b). In addition to those listed in PB/USPS-T11-12(b), the Retail group also reported an additional \$41,700 of miscellaneous maintenance costs.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-17. During Base Year 1998, how much did the Postal Service spend to operate its stamps-by-phone program?

- b. In what cost segment(s) were these costs recorded?
- c. Are these costs classified as volume variable?
- d. What was the amount of revenues generated by the stamps-by-phone program?

Response:

- a. Data are not collected separately for the stamps-by-phone program, so that amount is not available.
- b. Since the data are not collected, I am not able to tell you in which cost segments the costs are recorded.
- c. Since the data are not collected, I am not able to tell you if the costs are classified as volume variable.
- d. Redirected to the Postal Service.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-18. For Base Year 1998, please provide for (i) First-Class letters, flats and IPPs, and (ii) cards the percentage that was stamped, metered and permit, and indicate the source of the data. If the percentages provided in response to this question do not add up to 100 percent, please provide an explanation for the balance.

Response:

Redirected to the Postal Service.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-19. Please refer to your response to PB/USPS-T11-12(a).

- a. In what cost segment(s) does the Postal Service record the \$36,000,000 expense for stamps by mail?
- b. Please explain whether the Postal Service classifies the \$36,000,000 as a volume variable or institutional cost.

Response:

- a. The information is not available to break out the \$36,000,000 by cost segment, except for the \$1.3 million provided in PB/USPS-T11-10. See PB/USPS-1 for cost segment information on the \$1.3 million.
- b. Since the information cannot be broken out by cost segment, I cannot tell you if it is volume variable or institutional, other than that provided in PB/USPS-1.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-20 Is the mailing cost to fulfill orders for stamps by mail (and any orders received via the internet) included in the \$36,000,000 expense for stamps by mail, or are any costs of registry and penalty mail in addition to the \$36,000,000?

- a. If such costs are not included in the \$36,000,000, what is your best estimate of mailing cost to fulfill stamp orders?
- b. In what cost segment(s) are such costs recorded?
- c. Are such costs classified as volume variable or institutional?

Response:

- a. I am told that the \$36 million includes an estimate of all mailing costs.
- b. See the response to PB/USPS-T11-19(a).
- c. See the response to PB/USPS-T11-19(b).

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-21. When distributing supplies of stamps and accountable paper to its retail outlets, does the Postal Service use Registered Mail?

- a. If so, what portion of the costs of registry should be charged for this internal use?
- b. Are such costs classified as volume variable or institutional?

Response:

Yes, I am told that this is the case.

- a. These Registry costs are charged to USPS Penalty Mail.
- b. These costs are classified as institutional.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-22. When distributing supplies of stamps and accountable paper to its retail outlets, does the Postal Service use surface or air transportation?

- a. What is the cost for such transportation?
- b. In what cost segment is the cost for such transportation recorded?
- c. Is this transportation expense classified as volume variable or institutional?

Response:

I am told that when distributing supplies of stamps and accountable paper from the stamp distribution outlets to retail outlets, the supplies go out with the rest of the mail, which is carried on surface transportation, generally in trucks.

- a. The cost for this is not tracked separately typically, so the cost is not available.
- b. Since these costs typically are not tracked separately, I am not able to tell you in what cost segment the cost for such transportation is recorded, although generally, highway (i.e. truck) purchased transportation is recorded in Cost Segment 14.
- c. Since these costs are not tracked separately typically, I am not able to tell you whether the expenses are volume variable or institutional.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-23. Please refer to your response to PB/USPS-T11-5.

- a. Are any of the costs provided in that response treated as volume variable?
- b. Has the Postal Service computed a piggyback factor for stamp distribution network personnel?

Response:

- a. Yes. Specifically, all stamp distribution network personnel costs are institutional.

As my revised response to PB/USPS-T11-5 reports, the cost for the artists who create stamp designs is not \$782,212, as stated in the original response, but is actually \$524,012. The amounts that are volume variable are below.

Account No.	Amount(\$)	Cost Segment/Component	Percentage Volume Variable
Artists			
52359	512,012	16/177	59.8
52327	12,000	18/210	0
Stamp Advisory Committee			
52101	83	16/177	59.8
52111	4,375	16/177	59.8
52174	539	16/179	0
52359	102,729	16/177	59.8
52419	2,210	16/177	59.8
52331	186	18/210	0
52454	4	18/211	0
56315	75,750	18/211	0
51401	478	18/191	0
56301	23,490	18/211	0
56805	57,596	18/211	0
56617	42	20/1437	0
52436	1,795	16/179	0
54165	35	15/168	0

Note: Component 168 = Utilities – Telephone Services

Component 1437 = Other Interest

Component 211 = Miscellaneous Expenses

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

Component 210 = Supplies and Services

Component 191 = Total HQ and Field Service Unit Personnel Costs

Component 177 = Postal Supplies and Services

Component 179 = HQ Printing and Reproduction

b. No.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-24. Please provide the productive hourly wage rate for clerks and mailhandlers in FY 1998, FY 1999, and the rate that was used in the roll-forward model for Test Year 2001.

Response:

Redirected to witness Tayman.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-25. The *Financial and Operating Statements* for Accounting Period (A/P) 13, FY 1998, page 5, indicates that Year-to-Date metered postage amounted to \$24,696.4 million.

- a. Was the above-cited value for metered postage derived from money that was transferred from the Trust Fund for metered postage, or was it derived from ODIS mail samples? What was the equivalent value for FY 1999?
- b. If ODIS samples were the basis for deriving the above-cited value for metered postage, does the amount for metered postage include "meter strips" printed by USPS retail terminals and recorded by ODIS as "metered"? (As opposed to "stamped"?)
- c. If your response to the preceding question is affirmative, how much of the revenue shown under "metered postage" was generated through application of USPS-applied metered postage during Base Year 1998? What was the equivalent amount for FY 1999?
- d. How much of the revenue shown under "metered postage" was generated through application of mailer-applied metered postage during Base Year 1998? What was the equivalent amount for FY 1999?
- e. Please provide a breakdown of the amounts of metered postage applied by the USPS as a part of window service activities within Service Categories such as shown on the Revenue Pieces and Weight (RPW) report by Class of Mail and Special Services (*i.e.* Single Piece Letters, Flats, and IPPs, etc).

Response:

Redirected to the Postal Service.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-26. Please refer to your response to PB/USPS-T11-12, your statement that "W/S 3.2.1 column 9 shows the cost of selling stamp[s] at the window of \$759,673,000, of which 350,361,000 is volume variable . . ."

- a. Please explain how the Postal Service classifies the non-volume variable portion of the \$759,673,000 cost of selling stamps at windows? That is, how is the \$409,312,000 classified by the Postal Service?
- b. Please explain how the Commission classifies the non-volume variable portion of the \$759,673,000 cost of selling stamps at windows? That is, how is the \$409,312,000 classified by the PRC?

Response:

- a. It is classified as institutional.
- b. Redirected to the Postal Service.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-27. We note that your work paper W/S 3.2.1 - Window Service VVC, on Page 3, under line 56, Stamps, Cards and Metered, contains:

Two lines (57 and 58) for Stamps, leading to Total stamps on line 59;

Two lines (60 and 61) for Cards, leading to Total cards on line 62 ; and

Three lines (63, 64, and 65) for Metered, leading to Total metered on line 66.

The first of these sets of lines, summed in column 9, produces the total cost of selling stamps at windows, which you cited in your response to PB/USPS-T11-12 (\$759,673,000). Please explain what constitutes and differentiates the data for stamps on lines 57 and 58, cards on lines 60 and 61 and metered on lines 63, 64, and 65.

Response:

Line 57 is the IOCS activity code, 5040, which is "At Window Serving a Customer – Selling Stamps.

Line 58 is the IOCS activity code, 6040, which is "Window Related Activity – Selling Stamps."

Line 60 is the IOCS activity code, 5050, which is "At Window Serving a Customer – Selling Cards."

Line 61 is the IOCS activity code, 6050, which is "Window-Related Activity – Selling Cards"

Line 63 is the IOCS activity code, 5070, which is "At Window Serving a Customer – Setting Meters"

Line 64 is the IOCS activity code, 6070, which is "Window-Related Activity – Setting Meters"

Line 65 is the IOCS activity code, 6073, which is "Window-Related Activity – Off-Site – Setting Meters."

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

See LR-I-80, file CS03, tab Inputs, lines 123-129 and USPS-LR-I-1, Summary
Description of USPS Development of Costs by Segments and Components, FY1998,
Table B-2, pages B-18 and B-19 for the listing of activity codes and definitions.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-28. How much did the Postal Service spend to print stamped envelopes in FY 1998?

- a. To what extent is the cost of printing stamped envelopes treated as (i) volume variable, (ii) attributable, and (iii) institutional?
- b. How much did the Postal Service spend to print stamped envelopes in FY 1999?
- c. Are any other costs associated with stamped envelopes? If so what are they (description/references) and how much was incurred in FY 1998?

Response:

As shown in Component 248, p. 72 of Workpaper A-1, the BY 1998 stamped envelope printing costs were \$9,123,000.

- a. Component 248 is totally volume variable.
- b. Stamped envelope printing costs were \$8,578,000 in FY 1999.
- c. Like any other envelope, stamped envelopes incur costs such as mail processing, transportation and delivery once they are mailed. Refer to Exhibit USPS-11A, pages 2, 4, 6, and 8, for other stamped envelope costs.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-29. How much did the Postal Service spend to print stamped cards in FY 1998?

- a. To what extent is the cost of printing stamped cards treated as (i) volume variable, (ii) attributable, and (iii) institutional?
- b. How much did the Postal Service spend to print stamped cards in FY 1999?
- c. Are any other attributable costs associated with stamped cards? If so what are they (description/references) and how much was incurred in FY 1998?

Response:

As shown in Component 248, page 72 of Workpaper A-1, stamped card printing costs were \$3.2 million in BY 1998.

- a. Component 248 is totally volume variable.
- b. In FY 1999, the stamped card printing costs were: \$3.2 million.
- c. Like any other card, stamped cards incur costs such as mail processing, transportation and delivery once they are mailed.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-30. During FY 1998 how much did the Postal Service spend on institutional costs associated with meters? In your response please address separately such costs as (i) on-site meter resetting and examinations, (ii) the meter approval process (iii) (RSE) personnel costs, (iv) any support contracting costs, such as Carnegie Mellon for security testing, or Planning Research Corp (PRC) for database consulting, or the Booz Allen contract with Merrifield. Should these contracts be no longer exist, please describe all such contracts which incurred expenses during the base FY 1998, and indicate the total amount of such expense.

Response:

Total costs incurred by the Postal Service in FY 1998 associated with meters are not available. The costs that are available, I am informed, represent costs incurred by Postage Technology Management (PTM), formerly known as Metering Technology Management, within Postal Service Headquarters. These costs totaled \$8.2 million in FY 1998. Other costs incurred by the Postal Service associated with meters include items such as time spent performing on-site meter resetting and examinations, Engineering personnel assisting in the meter evaluation and approval process, finance time in performing accounting functions such as entering meter installations and withdraws in MATS, costs associated with the acceptance and reconciliation of postage payment from meter customers, and costs associated with audits performed by the Inspection Service. The costs associated with these activities are not available, except those that witness Mayo provides for test year volume variable costs for on-site meter service, including meter access, meter resets and examinations, and meter check-in/outs, based on witness Davis' unit cost estimates. See USPS-LR-I-168, WP-32, at 4 and USPS-T-30, at 18.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

- (i) As noted above, the costs associated with on-site meter resetting and examinations are not available, except that test year special service costs are provided in USPS-LR-I-168, WP-32, at 4.
- (ii) I am informed that the costs associated with the meter approval process are included in the \$8.2 million in costs noted above except for the costs incurred relating to Engineering personnel that assist in the meter evaluation and approval process. These costs are not accounted for separately.
- (iii) I am informed that personnel costs relating to PTM of \$1 million are included in the \$8.2 million in costs noted above. As indicated above, other personnel costs are incurred by the Postal Service that are not available.
- (iv) I am informed that supporting contract costs incurred by the Postal Service, including amounts paid to Carnegie Mellon and Planning Research Corporation (PRC), are included in the \$8.2 million in costs noted above. The contract with Booz, Allen was managed by the Engineering group at Merrifield, as such these costs are not included in the \$8.2 million noted above. The costs relating to the Booz, Allen contract were \$789 thousand in FY 1998.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.**

PB/USPS-T11-31. Please identify all other institutional costs associated with meters and meter activity such as licensing, check in/check out and tracking. Examples of such programs include but are not necessarily limited to:

- (1) CMLS
- (2) MATS
- (3) any costs for IBIP
- (4) Also indicate the amount of fees paid by meter users

Response:

Except as noted in the response to PB/USPS-T11-30, costs associated with meters and meter activity are not available.

- (1) I am informed that costs associated with the operation of CMLS are included in the \$8.2 million noted in the response to PB/USPS-T11-30.
- (2) I am informed that costs associated with the operation of MATS are included in the \$8.2 million noted in the response to PB/USPS-T11-30, except for the finance time in performing accounting functions such as entering meter installations and withdraws into MATS.
- (3) I am informed that costs associated with IBIP are included in the \$8.2 million noted in the response to PB/USPS-T11-30.
- (4) For information on the revenues for meters, please see the response of witness Mayo to PB/USPS-T33-4 to be filed on March 22, 2000.

Response of United States Postal Service Witness Meehan
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-32. Please refer to your response to PB/USPS-T11-4.

- a. During Base Year 1998, what was the cost (including depreciation) for the 168 mobile self-powered post offices and 30 mobile post office trailers.
- b. In what cost segment(s) were these costs recorded?
- c. Are these costs classified as volume variable?

Response:

- a. I am informed that these costs are not tracked at the national level, so the costs are not available.
- b. These costs are not tracked separately, however all postal depreciation is in Cost Segment 20.
- c. Since these costs are not tracked separately, I cannot tell you if these costs are classified as volume variable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MEEHAN
TO INTERROGATORY OF PITNEY BOWES
(Redirected from witness Fronk, USPS-T-33)**

PB/USPS-T33-5. For Fiscal Year 1998 please provide all Postal Service expenses incurred on account of its meter program, including but not limited to (i) the cost of check-in check-out, (ii) the cost of meter reset fees, (iii) any costs chargeable to the interest on advance deposits for CMRS accounts, and (iv) other (please specify).

RESPONSE:

Please see my response to interrogatory PB/USPS-T11-30.

DECLARATION

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

Karen B Meehan

3/21/00

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 cursive script, appearing to read "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

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March 21, 2000