

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
THE ASSOCIATION OF AMERICAN PUBLISHERS
(AAP/USPS-T11-1-5)

The United States Postal Service hereby provides the responses of witness Meehan to the following interrogatories of the Association of American Publishers: AAP/USPS-T11-1-5, filed on March 7, 2000.

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 21, 2000

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Association of American Publishers**

AAP/USPS-T11-1 Page 1 to Exhibit USPS-11A of your testimony identifies C/S-3 Clerks and Mailhandlers costs (C/S-3 costs) for Bound Printed Matter (BPM) during Base Year 1998 in the amount of 134,482,000. In contrast, Appendix J of the PRC Opinion in Docket R97-1 estimates C/S-3 test year after rate costs (FY 1998) for BPM as 113,293,000. With respect to this comparison:

- (a) Please confirm that the proposed Base Year cost allocation of C/S-3 costs exceeds the PRC's estimate in R97-1 by 18.1%.
- (b) Please identify the factors, in order of importance, which contributed to the increase in base year 1998 C/S-3 costs allocated to BPM.

Response:

- (a) I confirm your amounts of \$134,482,000 and \$113,293,000, but I calculate the percentage change to be 18.7%, not 18.1%.
- (b) Although I do not know all possible causes, several factors that may have contributed to the difference between the PRC estimate and the actual C/S 3 costs are the following. Foremost, the PRC number is a projection based on 1996 data, while the Base Year amount in Exhibit USPS -11A uses actual 1998 data. Also, as my testimony points out, new studies were introduced that affected all classes of mail, including BPM. As stated on page 6 of my testimony, "Changes in mail processing variabilities and to the subclass distribution of volume-variable mail processing labor costs are presented by witnesses Bozzo, USPS-T-15, Degen, USPS-T-16, and Van-Ty-Smith, USPS-T-17." Please see the testimonies of witness Bozzo, Degen and Van-Ty-Smith for details on their work. Additionally, as my testimony points out on page 5, "the volumes used are the revised Revenue, Pieces and Weight

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(RPW) volumes, which are different from the FY98 volumes ... due to improvements in the RPW estimation. The revised RPW includes higher volumes and revenues for parcels. The RPW system and revised volumes are part of the testimonies of witnesses Pafford, USPS-T-4 and Hunter, USPS-T-5."

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AAP/USPS-T11-2 Page 27 to Exhibit USPS-11A of your testimony identifies C/S-7 City Delivery Carriers costs (C/S-7 costs) for BPM during Base Year 1998 in the amount of 57,550,000. In contrast, Appendix J of the PRC Opinion in Docket R97-1 estimates C/S-7 test year after rate costs (FY 1998) for BPM as 49,783,000. With respect to this comparison:

- (a) Please confirm that the proposed Base Year cost allocation of C/S-7 costs exceeds the PRC's estimate in R97-1 by 15.6%.
- (b) Please identify the factors, in order of importance, which contributed to the difference between the PRC estimate and the actual base year 1998 C/S-7 costs allocated to BPM.

Response:

- (a) I confirm your amounts of \$57,550,000 and \$49,783,000, but I calculate the percentage change to be 15.5%, not 15.6%.
- (b) Although I do not know all possible causes, several factors that may have contributed to the difference between the PRC estimate and the actual C/S 7 costs are the following. Foremost, the PRC number is a projection based on 1996 data, while the Base Year amount in Exhibit USPS -11A uses actual 1998 data. Also, as my testimony points out, new studies were introduced that affected all classes of mail, including BPM. As stated on page 7 of my testimony, witness Baron, USPS-T-12, presents modifications affecting Cost Segment 7, City Delivery, Street Activities. Please see the testimony of witness Baron for more details on his work. Additionally, as my testimony points out on page 5, "the volumes used are the revised Revenue, Pieces and Weight (RPW) volumes, which are different from the FY98 volumes ... due to improvements in

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the RPW estimation. The revised RPW includes higher volumes and revenues for parcels. The RPW system and revised volumes are part of the testimonies of witnesses Pafford, USPS-T-4 and Hunter, USPS-T-5."

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AAP/USPS-T11-3 Exhibit USPS-11A to your testimony at page 27 identifies C/S-7.3 City Delivery Carriers Elemental Load Street costs (C/S-7.3 costs) for BPM during Base Year 1998 in the amount of 22,082,000. In contrast, Appendix J of the PRC Opinion in Docket R97-1 estimates C/S-7.3 costs for BPM as 17,110,000. With respect to this comparison:

- (a) Please confirm that the proposed Base Year cost allocation of C/S-7 costs exceeds the PRC's estimate in R97-1 by 29%.
- (b) Please identify the factors, in order of importance, which contributed to the difference between the PRC estimate and actual 1998 C/S-7.3 costs allocated to BPM.

Response:

(a) Confirmed.

(b) Although I do not know all possible causes, several factors that may have contributed to the difference between the PRC estimate and the actual C/S 7.3 costs are the following. Foremost, the PRC number is a projection based on 1996 data, while the Base Year amount in Exhibit USPS -11A uses actual 1998 data. Also, as my testimony points out, new studies were introduced that affected all classes of mail, including BPM. As stated on page 7 of my testimony, witness Baron, USPS-T-12, presents modifications affecting Cost Segment 7, City Delivery, Street Activities. Please see the testimony of witness Baron for more details on his work. Additionally, as my testimony points out on page 5, "the volumes used are the revised Revenue, Pieces and Weight (RPW) volumes, which are different from the FY98 volumes ... due to improvements in the RPW estimation. The revised RPW includes higher volumes and revenues

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**for parcels. The RPW system and revised volumes are part of the testimonies of
witnesses Pafford, USPS-T-4 and Hunter, USPS-T-5."**

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AAP/USPS-T11-4 Page 22 to Exhibit USPS-11A of your testimony identifies total C/S-3 costs during the base year as 17,646,123,000. With respect to this figure:

(a) Please confirm that this figure corresponds to the total C/S-3 costs that appear on page 25 of USPS-T-17 at Table 1, part 2 of 2 (Testimony of Postal Service Witness Van-Ty-Smith).

(b) Please confirm that the C/S-3 costs identified on page 22 of Exhibit USPS-11A as "other" costs are the same costs as those that result by summing the "pool volume variable" costs that are shown in Table 1 of USPS-T-17 and subtracting those pool volume variable costs from "pool total" costs on the same table. If this relationship cannot be confirmed, please explain fully what is meant by "other" costs on page 22 of Exhibit USPS-11A.

(c) Please explain how each of the C/S-3 cost pools listed in Table 1 of USPS-T-17 correspond to the components of C/S-3 cost segments (such as Mail Processing (3.1), Window Service (3.2) and Administrative Clerks (3.3)) that appear on pages 19-22 of Exhibit USPS-11A. As part of your response, please indicate where each of the C/S-3 cost pools listed in Table 1 of USPS-T-17 is found within the C/S-3 cost segments that appear in Exhibit USPS-11A.

Response:

(a) Confirmed.

(b) Not confirmed. However, I do confirm that "other" is the difference between total accrued costs and volume variable costs. The information shown in the tables of USPS-T-17 are inputs into my cost segment 3, B workpapers and can be seen in my B workpapers in LR-I-80, file i_forms.xls, tab MODS-BASED and file CS03.xls, tab Inputs, lines 64 and 66. The relationship between witness Van-Ty-Smith's tables and Exhibit USPS-11A is that Witness Van-Ty-Smith's costs are inputs into my B workpapers, Cost Segment 3 spreadsheets.

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(c) Table 1 data of witness Van-Ty-Smith can be seen in my B workpapers in LR-I-80, file i_forms.xls, tab MODS-BASED and file CS03.xls, tab Inputs, lines 64 and 66. The Cost Segment 3 workpapers show how the cost pools listed in Table 1 of USPS-T-17 correspond to the components of C/S-3 cost segments (such as Mail Processing (3.1), Window Service (3.2) and Administrative Clerks (3.3)) that appear on pages 19-22 of Exhibit USPS-11A.

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AAP/USPS-T11-5 On page 8 (lines 20-22) and page 9 (lines 1-2) of your testimony, you state that ongoing statistical sampling systems collect data and produce estimates that underlie the costs presented in Exhibit USPS-11A. You also list four cost systems (IOCS, TRACS, CCS and RCS) that are described by three other Postal witnesses (Ramage (USPS-T-2), Xie (USPS-T-1) and Harahush (USPS-T-3)). With respect to each of these four cost systems:

(a) Please explain, in precise terms, how the output of the cost system was used in the development of the costs presented in Exhibit USPS-11A.

(b) Please list any and all changes in the procedures and methods used to calculate costs identified in Exhibit USPS-11A that were made in order to accommodate the output that was produced by any of the four cost studies. Please describe, in detail, the most significant of those changes.

Response:

(a) My B workpapers show in precise terms how the outputs of the cost systems are used in the development of the costs presented in Exhibit USPS-11A.

(b) Assuming you meant to say "systems" instead of "studies", my B workpapers, shown electronically in LR-I-80, show how the cost system data outputs are used.

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 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.



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