

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 INTERROGATORIES OF
THE ASSOCIATION OF AMERICAN PUBLISHERS
(AAP/USPS-T16-1 - 6, 8 - 9)

The United States Postal Service hereby provides the responses of witness Degen to the following interrogatories of the Association of American Publishers: AAP/USPS-T16-1 - 6, 8 - 9, filed on March 14, 2000. Number 7 was redirected to Dr. Bozzo.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 28, 2000

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-1. On page 8 (lines 9-13) of your testimony, you discuss the Postal Service's use of base year and test year estimates of volume-variable costs for mail processing. Please confirm that if the percent of volume variability used by the Postal Service for a particular pool of mail processing costs during the base year in this case is higher than the actual volume variability of that cost pool, the predicted level of attribution for that cost pool during the test year will be higher than the actual volume variable costs for that pool experienced by the Postal Service during the test year. Please provide a complete explanation for any answer that does not confirm this statement.

AAP/USPS-T16-1 Response.

I can confirm only that if the base year measured volume-variability factor (or "variability") for a cost pool is higher than the actual variability for that cost pool, then the measured base year volume-variable costs will be higher than the actual base year volume-variable costs. It is my understanding that whether the test year volume-variable costs would also be overstated depends on additional factors including—but not necessarily limited to—the difference between the measured base year and actual test year variabilities, the difference between the forecasted and actual test year volumes, and the presence of cost reduction and other program adjustments affecting the cost pool in the rollforward model.

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-2. On page 10 (lines 11-13) of your testimony, you state that "[e]conometric models are well-suited to measuring expected changes in cost as volume changes, but are ill-suited for predicting changes in the underlying technology." With respect to this statement, please explain fully why econometric models are ill-suited for predicting changes in the underlying technology.

AAP/USPS-T16-2 Response.

Please see the response to OCA/USPS-T16-2.

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-3. On page 12 (lines 8-11) of your testimony, you discuss an hours and workload recording system for BMCs known as the Productivity Information Reporting System ("PIRS"). Please identify and provide all manuals and other USPS documents that fully describe the current PIRS system.

AAP/USPS-T16-3 Response.

Please see Docket No. R97-1, Tr. 19/8719-8723 and Tr. 19/8677-8687.

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-4. On page 44 (lines 18-20) of your testimony, you state that "[i]n total, volume variability of manual parcel sortation should be substantially less than 100 percent, primarily because set-up and take-down time are substantial relative to time spent actually sorting the parcels." In view of this statement, please explain why in this case, the Postal Service used a pool volume variability function of .997 for manual parcels at non-MODS offices as shown in Table 1 on page 25 of you [sic] testimony.

AAP/USPS-T16-4 Response.

I assume that the "Table 1" reference is to page 25 of witness Van-Ty-Smith's testimony (USPS-T-17). For the requested explanation, please see witness Bozzo's testimony, USPS-T-15, at pages 133-135.

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-5. On page 50-51 of your testimony, you discuss platform operations. Please confirm that your description of platform operations pertains both to BMCs and MODs offices. Please identify any portion of your description that applies only to BMCs or to MODs offices.

AAP/USPS-T16-5 Response.

Partly confirmed. Much of the cited description applies to both the MODS and BMC platform operations. However, the portions of the cited description dealing with handling of collection mail will not apply to BMCs. Additionally, some portions of the description are related to relatively narrow processing windows for First-Class Mail, and will not apply equally since the BMCs primarily process Standard Mail (A and B).

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-6. On page 50 (line 19) of your testimony, you state that "[t]he waiting time is not volume variable." With respect to this statement, please explain the extent to which any costs associated with waiting time in platform operations have been included as volume variable costs for platform operations at BMCs in this proceeding.

AAP/USPS-T16-6 Response.

The IOCS-based volume-variability method employed for BMC operations classifies all tallies with activity code 6210 (waiting time in Platform acceptance activities) as non-volume-variable, regardless of the type of office. Thus, the Postal Service does not treat any BMC costs associated with activity code 6210 tallies as volume-variable. See also page II-56 of Docket No. R2000-1, USPS LR-I-106, and section 3.1.1 of Docket No. R97-1, USPS LR-H-1.

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-8. On page 69 (lines 11-14) of your testimony, you state that "[t]o compensate for the use of 100 percent volume-variability for the allied cost pools, the not-handling tallies in those pools are distributed to subclasses using a key developed for all cost pools in Cost segment 3.1." With respect to this statement, please explain fully the derivation of the new distribution key for not-handling tallies, how it differed from previous keys used for not-handling tallies and how this key affected the mail processing costs distributed to Bound Printed Matter ("BPM") in this case.

AAP/USPS-T16-8 Response.

For the requested detailed description of the treatment of allied labor not-handling tallies, including a description of the previous not-handling methodology, please see witness Van-Ty-Smith's testimony at pages 16-17 and USPS LR-I-106. To indicate the effect of the distribution key changes for BPM, in the table attached to this response, I compare the BY98 BPM distribution key shares for MODS allied labor cost pools presented by witness Van-Ty-Smith with the corresponding estimated shares using the previous method, employed in the Postal Service's FY98 CRA.

Comparison of BPM distribution key shares, MODS allied labor cost pools

Cost Pool	FY98 BPM Distribution Key Share (USPS method)	BY98 BPM Distribution Key Share
		USPS-T-17, Table 3 ("Col Pct")
1Bulk pr	0.13%	0.32%
1SackS_m	1.76%	1.0%
1OpBulk	1.25%	0.85%
1OpPref	0.76%	0.61%
1Platform	1.01%	0.65%
1Pouching	0.37%	0.41%
1SackS_h	1.49%	0.86%
1SCAN	0%	0.28%

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers**

AAP/USPS-T16-9. On page 69 (lines 16-20) of your testimony, you state "[t]he broad distribution of allied costs is used as a compromise, since the Postal Service was not ready to resubmit a method incorporating estimated volume-variabilities for allied costs pools. This compromise yields reasonable results (i.e. subclass costs) when compared to those based on estimated volume-variabilities and distribution keys specific to each cost pool." With respect to this statement:

- (a) Please provide a complete set of calculations showing the derivation of mail processing costs for BPM that results from adopting the "compromise" proposal and from adopting estimated volume variabilities and distribution keys for each cost pool. Please explain fully why this compromise is "reasonable" for BPM.**
- (b) Please provide all workpapers and supporting calculations showing the derivation of mail processing costs for BPM that would have resulted from adopting the Postal Service's estimated volume variabilities for allied cost pools in conjunction with any other alternative distribution keys for not-handling tallies that were considered by the Postal Service but not proposed in this case.**

AAP/USPS-T16-9 Response.

- a. The "compromise" is embodied in the BY98 mail processing costs presented by witness Van-Ty-Smith; see USPS-T-17 and USPS LR-I-106 for details.**

The final Cost Segment 3.1 volume-variable costs are presented in Exhibit USPS-11A of witness Meehan's testimony, USPS-T-11. The Fiscal Year 1998 (FY98) CRA, computed per the Postal Service's previous method, uses the Docket No. R97-1 variabilities and distribution keys, the latter not incorporating the broad distribution of not-handling tallies. It is my understanding that the Segments and Components Report from the FY98 CRA was filed under the Commission's periodic reporting requirements.

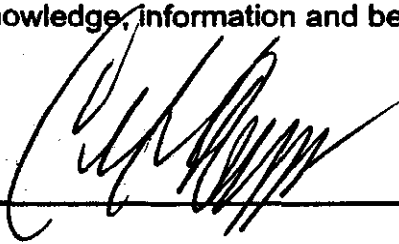
**Response of United States Postal Service Witness Degen
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My statement that the compromise was reasonable was not specifically focused on BPM. I believe that the compromise method is reasonable in that it leads to *relative* costs are closer to those that would be obtained from the use estimated volume-variability factors for allied operations than a method that employed 100 percent volume-variability factors without the broad distribution of not-handling tallies. I am not saying that the compromise methodology always provides a good approximation of the costs that would result from use of estimated allied labor variabilities. Rather, I am simply saying that the use of the 100 percent variability assumption with the broad not-handling distribution is better than the use of the 100 percent variability assumption alone.

- b. There are no alternative distribution keys considered by the Postal Service other than those resulting from the Docket No. R97-1 methods and the method proposed for the BY98 CRA.

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.



Date: 3-27-00

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", is written over a horizontal line.

Eric P. Koetting

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