

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,
REDIRECTED FROM WITNESS VAN-TY-SMITH
(AAP/USPS-T17-1, 5, 9-10, 12-13)

The United States Postal Service hereby provides the response of witness Degen to the following interrogatories of the Association of American Publishers: AAP/USPS-T17-1, 5, 9-10, 12-13, filed on March 17, 2000 and redirected from witness Van-Ty-Smith.

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



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March 31, 2000

**Response of United States Postal Service Witness Degen
To Interrogatories of Association of American Publishers
(Redirected from Witness Van-Ty-Smith, USPS-T-17)**

AAP/USPS-T17-1. On page 8 of your testimony, you state that in Part II of LR-106 “[a] pool-specific distribution key is then applied to the volume variable cost to obtain costs in that pool for each subclass.” In addition, Table 1 of your testimony shows pool total costs for six mail processing cost pools at BMCs and shows pool total costs for eight mail processing cost pools at non-MODS facilities.

- a. With respect to the six mail processing cost pools at BMCs shown in Table 1, please describe each pool-specific distribution key that was used within each pool, the Postal Service’s justification for its choice of each distribution key and the value of that key for the Bound Printed Matter (“BPM”) subclass.
- b. With respect to the eight mail processing cost pools at non-MODS facilities shown in Table 1, please describe each pool-specific distribution key that was used within each pool, the Postal Service’s justification for its choice of each distribution key and the value of that key for the BPM subclass.

AAP/USPS-T17-1 Response.

- a. The distribution key subclass shares (including those for BPM) for the non-MODS cost pools are provided in witness Van-Ty-Smith’s Table 3; see USPS-T-17 at pages 37-38. The computational procedures are described in detail in USPS-LR-I-106. For a justification of the BMC cost pool methodology, please see Docket No. R97-1, USPS-T-12. See also the Docket No. R97-1 testimony of witnesses Panzar (USPS-T-11) and Christensen (USPS-RT-7) for a discussion of the related economic theory.
- b. The distribution key subclass shares (including those for BPM) for the non-MODS cost pools are provided in witness Van-Ty-Smith’s Table 3; see USPS-T-17 at pages 37-38. The computational procedures are described in detail in USPS-LR-I-106. For a justification of the non-MODS cost pool

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methodology, please see USPS-T-16 at pages 69-72. See also the
response to part (a).

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AAP/USPS-T17-5. Footnote 7 on page 10 of your testimony categories specific activities as allied operations. Please confirm that the activities listed (i.e., Platform) are exactly the same, when performed at non-MODS offices, MODS offices or BMCs. Please explain any answer that does not confirm this statement.

AAP/USPS-T17-5 Response.

Partly confirmed. The activities performed in MODS, BMC, and non-MODS offices under a given IOCS activity classification will not be exactly the same, because of the differing roles each type of facility plays in the Postal Service's mail processing network. However, many activities classified as (for instance) Platform activities in IOCS will be similar in different types of facilities. See also USPS-T-16 at pages 11-15 and 50-51.

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AAP/USPS-T17-9. On page 14 (lines 3-6) of your testimony, you that state “[m]ixed tallies and not-handled tallies are subsequently *distributed* to subclasses or mail classes, using all available tally information based on operational associations, from which the subclass or mail class distribution mix can be reasonably inferred.” With respect to this statement:

- a. (Please explain how non-handled tallies can be associated with individual subclasses since, as noted on page 14 (lines 1-3) of your testimony, these tallies do not contain information such as mail shape or item type that can be associated with subclasses.
- b. Please define “operational associations” and list all operational associations that were used in this case to distribute not-handled tallies to subclasses.
- c. Please define “reasonably inferred,” and provide all studies, reports, data or other evidence that you relied upon to make a determination that a distribution of not-handled tallies to the BPM subclass was based on a “reasonable” inference.

AAP/USPS-T17-9 Response.

- a. “Not-handling” costs, to the extent they are volume-variable, can be associated with subclasses of mail via the subclass shares of the volume-related “cost driver” for a given cost pool. In the case of mail processing operations, the “cost driver” is usually handlings of mail. See also USPS-T-16 at page 73 and the Docket No. R97-1 testimony cited in the response to AAP/USPS-T17-1(a).
- b. It is my understanding that witness Van-Ty-Smith’s use of the term “operational associations” refers to the association of various types of mixed-mail tallies with certain shapes of mail and/or mail classes. See my response

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to ANM/USPS-T2-6. Please note that witness Van-Ty-Smith's treatment of not-handling tallies in non-allied labor cost pools is such that they do not affect the subclass distribution key shares. See also my testimony, USPS-T-16, at pages 73-74, and my response to ANM/USPS-T2-8.

- c. See the response to part (a).

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AAP/USPS-T17-10. On page 14 (lines 21-23) of your testimony, you state that “[m]ixed item and non-empty container tallies are then distributed to subclasses by ‘filling’ the mixed/empty single items and the piece/item in non-empty containers in proportion to the direct tally subclasses from the same item and piece shapes.” Please provide any studies, reports, data or other evidence that supports the use of this procedure.

AAP/USPS-T17-10 Response.

Please see Docket No. R97-1, USPS-T-12; see also Docket No. R2000-1,

USPS-T-16 at pages 58-68.

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AAP/USPS-T17-12. On page 16 (lines 2-4) of your testimony, you state that in this docket, "the not-handling tallies for *non-allied* cost pools are proposed by the USPS to be distributed to subclasses using the direct and distributed mixed tallies within the same cost pool." Please provide any studies, reports, data or other evidence that support the use of this procedure.

AAP/USPS-T17-12 Response.

Please see the response to AAP/USPS-T17-9.

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AAP/USPS-T17-13. On page 16 (lines 9-13) of your testimony, you state that in this docket “the not-handling tallies for the *allied* cost pools are distributed to subclasses, based on the aggregated handling tallies in all distribution and allied operations for each of the BMC, MODS and non-MODS facility groupings.” With respect to this statement:

- a. Please provide any studies, reports, data or other evidence that support the use of this procedure.

- b. Please explain why the Postal Service has chosen, in this docket, to depart from the procedure for not-handling tallies for the allied cost pools relied upon by the Postal Service in Docket R97-1.

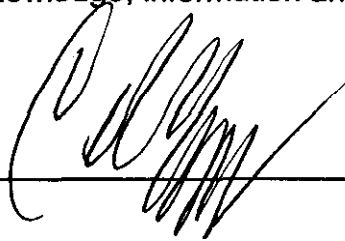
AAP/USPS-T17-13 Response.

- a. Please see USPS-T-16 at page 69 and the responses to ANM/USPS-T2-8, AAP/USPS-T16-8 and AAP/USPS-T16-9.

- b. Please see the response to part (a).

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: 3-30-00

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.



Eric P. Koetting

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