

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  
MAGAZINE PUBLISHERS OF AMERICA  
(MPA/USPS-T16-12-15)

The United States Postal Service hereby provides the responses of witness  
Degen to the following interrogatories of Magazine Publishers of America:  
MPA/USPS-T16-12-15, filed on March 23, 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



Eric P. Koetting

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April 7, 2000

Response of United States Postal Service Witness Degen  
To Interrogatories of Magazine Publishers of America, Inc.

MPA/USPS-T16-12. Please refer to your response to DMA/USPS-T16-2, where you describe results from the 1995 Platform Study: "For tallies where the employee was working 'inbound transportation,' 57% of weighted handling tallies represented mail or equipment where the next operation was recorded as 'another operation.'" Please also refer to the section of your response to the same interrogatory, where you state: "Of the 164 handling tallies recorded for employees working outbound transportation, 41% of the weighted tallies represented mail from another operation within the facility." Please confirm that, according to the 1995 Platform Study, a portion of the work load in the platform operation is driven by work load in other operations.

MPA/USPS-T16-12 Response.

Confirmed that the Platform Study data support the conclusion that a portion of platform workload is driven by other operations. Strictly speaking, the Platform Study data indicate the movements of mail within the facility, not patterns of cost causation as such.

Response of United States Postal Service Witness Degen  
To Interrogatories of Magazine Publishers of America, Inc.

MPA/USPS-T16-13. Please refer to your Testimony, at page 50, lines 2-8, where you state: "The platform operation group covers a range of activities. Workers clocked into the platform are responsible for unloading inbound trucks (with the exception of some local collection runs, which may be unloaded by workers clocked into culling and cancellation), determining where the mail needs to be taken, moving the mail to staging areas in the plant, moving the mail between operations, moving the mail from the final sorting operation to the outbound dock, and loading outbound trucks." Based upon your description of platform activities, please confirm that if the volume of mail requiring piece-sorting increased, costs in allied labor operations would also increase.

MPA/USPS-T16-13 Response.

Confirmed, other things held equal. Note that the percentage increase in the relevant costs would be expected to be smaller than the percentage increase in volume requiring piece sorting, reflecting the factors that lead to less than 100 percent volume-variability.

Response of United States Postal Service Witness Degen  
To Interrogatories of Magazine Publishers of America, Inc.

MPA/USPS-T16-14. Please refer to Witness Christensen's rebuttal testimony in Docket No. R97-1, USPS-RT-7, at pages 8-9, where he states: "Suppose that workhours in the manual flats operation did, in fact, depend on both the handlings in the operation and on handlings in letter automation operations. The correct procedure in this case would be to separately identify pools of volume-variable cost associated with each cost driver, and then to distribute each pool of volume-variable cost in proportion to the subclass distribution of the respective cost driver."

- a. Please confirm that your operational analysis, partially described in the passages quoted in MPA/USPS-T16-12 and MPA/USPS-T16-13, indicates that volumes at non-allied operations are a driver of a portion of allied costs.
- b. Please confirm that the econometric analyses of allied costs provided by Witness Bozzo in response to MPA/USPS-T15-1 and by Witness Bradley in Docket No. R97-1 (USPS-T-14) are consistent with the conclusion in (a).
- c. Pending a complete quantitative analysis of the variability of allied costs with respect to all relevant cost drivers, please confirm that there is sufficiently strong operational and econometric evidence that non-allied volumes drive a portion of allied costs to warrant an adjustment in the allied distribution keys used in the current case to reflect the role of non-allied volumes in driving allied costs.
- d. As an interim adjustment pending a complete quantitative analysis of the variability of allied costs with respect to all relevant cost drivers, please confirm that one way to reflect the cost-driving role of non-allied volumes in the allied distribution keys would be to distribute some portion of allied labor costs using a distribution key based upon tallies from non-allied operations.
- e. Please confirm that the not handling portions of the allied labor cost pools could be distributed broadly as an interim adjustment to reflect the role of non-allied volumes as drivers of allied costs, as described in (d).
- f. Please confirm that the mixed-mail portions of the allied labor cost pools could be distributed broadly as an interim adjustment for the role of non-allied volumes as drivers of allied costs, as described in (d).

MPA/USPS-T16-14 Response.

- a. Confirmed. In effect, the volumes at sorting (or other appropriate "non-allied" operations) drive a portion of allied labor costs indirectly by causing various

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types of mail handling and related work in the allied operations. Note, however, that the cost drivers of allied operations can be characterized in several (non-exclusive) ways, including the description above (see also witness Christensen's testimony at Docket No. R97-1, Tr. 34/18226), but also in terms of the handlings of mail in the allied operations.

- b. Confirmed.
- c. Confirmed that it is my opinion that there is sufficient operational and quantitative evidence to permit the implementation of a volume-variable cost distribution procedure using the approach described by witness Christensen at Docket No. R97-1, Tr. 34/18225. Any appropriate "adjustment" for the specified reason would need to be consistent with witness Christensen's approach.
- d. Confirmed, but not all adjustments would necessarily be appropriate.
- e. Confirmed to whatever extent that such a procedure could be justified in terms of the volume-variable cost distribution approach described by witness Christensen at Docket No. R97-1, Tr. 34/18225. Note that there is no a priori reason why costs associated with not-handling tallies should be considered to be any more or less associated with non-allied operations than costs associated with handling tallies.

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- f. The fundamental issue with mixed-mail distribution is inferring the subclass contents of the associated items and/or containers. "Broad" distribution of mixed-mail across cost pools, in the context of a distribution methodology that makes appropriate use of the information contained in item and container tallies, may be justifiable for that purpose. Note that the Postal Service's method makes use of a broadened distribution of "identified" containers in the MODS and BMC platform and non-MODS allied labor cost pools; see the response to MPA/USPS-T16-4(a) and USPS-T-17 at page 15.

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MPA/USPS-T16-15. Please refer to Witness Bozzo's Testimony (USPS-T-15) at page 136, footnote 70, where he states: 'Mr. Degen's analysis also indicates that allied operations should be expected to have lower volume-variability factors than sorting operations.' Please refer further to your Testimony at page 69, lines 16-18, where you state that, "(t)he Postal Service was not ready to resubmit a method incorporating estimated volume-variabilities for allied cost pools." Finally, please refer to your Testimony at page 69, lines 1-3, where you state: "Pending further study of allied labor cost causation, the 'not handling' portions of the allied labor cost pools should be distributed broadly."

- 1 Please confirm that your operational analysis "indicates that allied operations should be expected to have lower volume-variability factors than sorting operations."
- b. Please confirm that the econometric estimates of the variability of allied costs provided by Witness Bozzo in response to MPA/USPS-T15-1 and by Witness Bradley in Docket No. R97-1 (USPS-T-14) are consistent with the conclusions of your operational analysis described in (a).
- c. Pending a complete quantitative analysis of the variability of allied costs with respect to all relevant cost drivers, please confirm that there is sufficiently strong operational and econometric evidence that allied volume-variabilities are below 100 percent to warrant an adjustment in the current case to reflect that fact.
- d. As an interim adjustment pending a complete quantitative analysis of the variability of allied costs with respect to all relevant cost drivers, please confirm that one way to reflect the true lower allied volume-variabilities would be to use variability estimates for allied costs that are substantially below 100 percent.

MPA/USPS-T16-15 Response.

- a. Confirmed.
- b. Confirmed.
- c. Confirmed that it is my opinion that there is sufficiently strong qualitative and quantitative evidence that volume-variability factors are below 100 percent in

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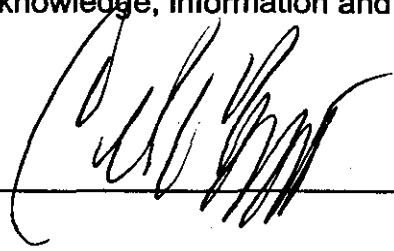
allied labor operations to warrant appropriate "adjustments" to the allied labor distribution methodology, such as that described at page 69 of my testimony.

d. Confirmed.



# 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.

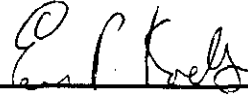


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Date: 4-6-00

## 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 "Eric P. Koetting", written over a horizontal line.

Eric P. Koetting

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April 7, 2000