

Before The  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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Postal Rate and Fee Changes

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Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
WITNESS SMITH TO INTERROGATORIES OF  
AMERICAN BANKERS ASSOCIATION  
AND NATIONAL ASSOCIATION OF PRESORT MAILERS  
(ABA&NAPM/USPS-T21-41-50)

The United States Postal Service hereby provides the responses of witness Smith to the following interrogatories of the American Bankers Association and National Association of Presort Mailers: ABA&NAPM/USPS-T21-41-50, filed on March 27, 2000.

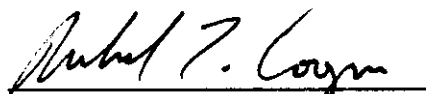
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 10, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH  
TO INTERROGATORIES OF THE AMERICAN BANKERS ASSOCIATION AND  
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**ABA&NAPM/USPS-T21-41**

Please refer to your response to ABA&NAPM/USPS-T21-2. For the classifications of piggyback factors you do have, "by cost pool . . . or by subclass" for R97-1 and R2000-1, in each instance where they are not identical please list the values for R97- 1 and R2000-1 in a table, and please explain whether the change is due to wage rates or other factors. If other factors, please explain what other factor(s).

**Response:**

I provide about 250 to 300 piggyback factors in both my Docket No. R97-1 testimony, USPS-T-45, and in my testimony for this case. Each of these piggyback factors relies on numerous test year costs as inputs. In preparing my testimony, I have not done an analysis comparing the piggyback factors from each case as you seek, for any of these 250 to 300 piggyback factors.

Apart from the general discussion of why piggyback factors change case to case as provided in my response to ABA&NAPM/USPS-T21-2, it may be of help to discuss some specific examples. Consider two cases for the operation specific mail processing piggyback factors where the change was relatively large. The test year BMC Sack Sorting Machine (BMC SSM) piggyback factor was 2.414 in my R97-1 testimony (see USPS-LR-H-77, page 232) and it is 1.935 in my current testimony (as shown in Attachment 14). The primary reason for this difference is the relatively larger growth of the volume variable SSM labor costs leading to a relative increase for the denominator. This is due to the increase in labor costs between the base years for the two cases and increases

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in the projected rise in these costs for the test years (see USPS-LR-H-77, page 194, line 15 from Docket No. R97-1 and USPS-LR-I-77, page 444, line 15).

Another factor in the increase in volume variable SSM labor costs is the higher volume variabilities for BMC labor, in particular for "Allied Labor & All Other Mail Processing" (see the Docket No. 97-1 testimony of witness Degen, USPS-T-12, page 15, and the testimony of witness Van-Ty-Smith, USPS-T-17, page 25). In addition, the non-labor costs have remained about the same (see USPS-LR-H-77, page 192, line 15 from Docket No. R97-1 and USPS-LR-I-77, page 442, line 15).

The test year Remote Barcode System (RBCS) piggyback has increased significantly between the last case and this one. It was 1.450 in Docket No. R97-1 (see USPS-LR-H-77, page 231, under the heading "mods 15 LD 15") and it is 1.958 as shown in Attachment 14 under the heading "MODS 15 LD15." This increase has two primary causes. First, the Remote Encoding Site labor projected for test year FY 2001 (see USPS-LR-I-77, page 442, line 28) is a lot lower than what was projected for test year FY 1998 (see USPS-LR-H-77, page 192, line 28). Second, as shown in these same sources, the projected capital costs are a lot higher for test year FY 2001 due to the purchase more advanced Remote Computer Reading equipment (see my response to ABA&NAPM/USPS-T21-8).

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**ABA&NAPM/USPS-T21-42**

Please refer to your response to ABA&NAPMA/USPS-T21-3. On page 2 of your response you state that you "do not have estimates for columns 3 and 4. . . by cost pool." For test year before rates costs, how do you estimate these costs if not by cost pool?

**Response:**

Test year before rates mail processing labor costs are computed by witness Kashani, USPS-T-14, as described in his testimony. His calculations are for mail processing labor costs in the aggregate, not by cost pool. His testimony provides total non-volume variable labor costs, 2,503,819 (000), in exhibit USPS-14H, page 20 for cost segment 3.1. This cost would need to be divided by cost pool to obtain the costs you request. I have not done this as a part of my testimony.

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**ABA&NAPM/USPS-T21-43**

Please refer to your response to ABA&NAPM/USPS-T21-4. With regard to your response to a., have you used single piece letter costs (other than directly measured metered letter costs) in any way in your testimony, and if so in what ways? With regard to your response to b., is your data for BMM taken from sources which directly measure BMM costs, or is your data taken from sources which measure (i) single piece non-metered letter costs or (ii) single piece metered letter costs, which you then infer are good proxies for BMM?

**Response:**

With respect to your question concerning my response to part a., I have used single-piece letter costs as an input in the calculations of piggyback factors and costs by shape as described in my testimony. The results that I provide for First-Class single-piece letters are shown in the first line of Attachment 17, page 1, the first two lines of Attachment 17, page 2, the first line of Attachment 18, page 1 and the first two lines of Attachment 18, page 2.

With regard to my response on part b, if BMM refers to "bulk metered mail," then my BMM costs are based on "(ii) single piece metered letter costs," as discussed by witness Miller in his response to ABA&NAPM/USPS-T24-20.

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**ABA&NAPM/USPS-T21-44**

Please refer to your response to ABA&NAPM/USPS-T21-17. Please answer the question as to why a residential rent index is used to escalate commercial/warehousing facility space. Are you applying a DRI residential rent escalator from FY1992 forward, as indicated at page 12, line 6 of your testimony, or are you apply the DRI index from FY1996 forward as indicated in your response? With response to your answer to c., for this case and R97-1 and R94-1 and MC95-1, which costs have been the binding costs actually used as costs in the case, the historical costs, or the DRI adjusted imputed rent costs? If you have only calculated these for FY1992 and FY1998, how do you know for costing purposes whether to use the book cost cap, or the imputed rent figure?

**Response:**

As indicated in my response to 17a, I use the DRI Rent-Residential index to escalate (or deflate) imputed rents, because this same index is used in our rollforward forecasts of rental costs. It is used to reflect changes in the average rental rates, whether up or down. I have used the DRI Rent-Residential index from FY 1992 forward.

As to which cost is binding, in all four cases you cite, the volume variable imputed rents exceeded book cost and were capped at book cost. Book cost provided the upper bound. In each of these cases and for each fiscal year, volume variable imputed rents and book costs are computed to determine if imputed rents need to be capped. The "book" rental rate per square foot (for payments to private lessors) was provided in my response to ABA&NAPM/USPS-T21-17c for FY92 and FY98. This is not needed to check whether to use the book cost as a cap for volume variable imputed rents.

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**ABA&NAPM/USPS-T21-45**

Please refer to your response to ABA&NAPM/USPS-T21-20. Please answer the question on volume variability changes between this and the last rate case, subject matter which appears to be within the scope of your testimony from page 1, lines 4-7. Provide the differences in mail processing equipment related volume variabilities between this cast and R97-1, and explain what factor(s) account for the difference. If you are unable to do so, please refer the question to a witness who can answer it.

**Response:**

See the testimony of witness Bozzo, USPS-T-15 at pages 126-127, and 132-

133.

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**ABA&NAPM/USPS-T21-46**

Please refer to your response to ABA&NAPM/USPS-T21-24. You state there is IOCS data for automation letters. Is it available by rate category and if so which ones?

**Response:**

It is available for one rate category, which is First-Class Automation Carrier Route Letters. This category is abbreviated as "FC LTR\_P C\_RT" in my Attachments 17 and 18.



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**ABA&NAPM/USPS-T21-47**

Please refer to your response to ABA&NAPM/USPS-T21-29. If your answer means each RBCS site is increasing its facility space by 13%, please explain why, e.g. addition of more keying in operations. If your answer means something different, please explain what it means.

**Response:**

My response means that in projecting the FY 2001 RBCS space, I have increased the amount of RBCS space (at remote encoding sites and at plants) from FY 1998 by essentially the same percentage as projected for the overall facility space growth.

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**ABA&NAPM/USPS-T21-48**

Please refer to your response to ABA&NAPM/USPS-T21-30. Does your answer indicate that more attention is being paid by the postal Service to improving productivity for Standard A mail than for First Class workshared letter mail?

**Response:**

No, my answer does not address the amount of attention being paid to improving the productivity of different classes of mail. My answer to this question, as well as to ABA&NAPM/USPS-T21-14, was an attempt to explain witness Kashani's use of the distribution key contained in my Attachment 9, page 1.

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**ABA&NAPM/USPS-T21-49**

Please refer to your response to ABA&NAPM/USPS-T21-31. a. This question asked you about piggybacks for certain carrier costs in your Attachment 11, not mail processing costs. Please answer the question or refer it to a witness who can.

**Response:**

The piggyback factors for First-Class Presort and Standard A Regular are the same for city carriers and vehicle service drivers in the base year as indicated in my Attachment 10. The differences in test year piggyback factors, shown in Attachment 11, arise from the process of rolling forward the costs to the test year. For instance a primary difference between First-Class Presort and Standard A Regular, in the case of city carrier costs, is that the labor costs per piece grow at a lower rate for First-Class Presort due to DPS savings. The indirect costs are not affected in the same way leading to a higher piggyback factor for First-Class Presort. (For information on DPS savings and their distribution see USPS-LR-I-126 and also see USPS-LR-I-95, page 12.)

For vehicle service drivers, these piggyback factors decline between the base year and test year, with the decline dependent on the rate of mail volume growth. The subclasses with the fastest growth have the largest declines. This stems from the different effect of mail volume growth on vehicle service driver costs and the indirect costs for vehicle service drivers. First-Class Presort is growing at a slower rate than Standard A Regular and therefore its piggyback factor is higher.

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**ABA&NAPM/USPS-T21-50**

Please refer to your response to ABA&NAPM/USPS-T21-32. a. Please answer the question asked.

**Response:**

Although I believe my prior answer was responsive, I am willing to provide additional information. On part a, I confirm that the greater the labor cost to which a piggyback factor is applied, the larger the total cost and indirect costs. Nevertheless, with respect to part b, it is important to consider that test year and base year piggyback factors will differ to some degree due to different rates of growth for labor and all other costs. As a result, using the base year piggyback factors along with test year labor costs will lead to an under- or overestimate of all other costs.

DECLARATION

I, Marc A. Smith, hereby declare, under penalty of perjury, that the foregoing Docket No. R2000-1 interrogatory responses are true to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Marc A. Smith

4/10/2000  
Date

## 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.

  
Richard T. Cooper

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April 10, 2000