

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

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
THE OFFICE OF THE CONSUMER ADVOCATE WITNESS SMITH
(USPS/OCA-T4-36-43)

Pursuant to rules 25 and 26 of the Rules of Practice and procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to the Office of the Consumer Advocate witness Smith:

USPS/OCA-T4-36-43.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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June 15, 2000

USPS/OCA-T4-36. Please refer to your testimony at page 59, footnote 86. You describe Figure 1 as “a short-run diagram relating small changes in hours and TPH.” Please confirm that the description of Figure 1 as representing the “short-run” relationship is your interpretation of the diagram, not Mr. Degen’s. If you do not confirm, please explain.

USPS/OCA-T4-37. Please refer to pages 59-61 of your testimony, particularly footnote 88, where you discuss Figure 4 from Mr. Degen’s testimony, USPS-T-16. In the footnote, you state that you “believe the true cost structure is the line he has labeled ‘100% Volume-Variability.’”

- a. Please confirm that Mr. Degen generated the simulated data in Figures 2 through 4 “by adding random noise to the underlying hours and pieces relationship plotted in Figure 1,” as you state at page 59, lines 7-9 of your testimony. If you do not confirm, please explain.
- b. Please confirm that the “underlying hours and pieces relationship... in Figure 1” is represented in Figure 4 by the set of ten lines crossing the “100% Volume-Variability” line. If you do not confirm, please explain.
- c. Please confirm that the set of ten lines crossing the “100% Volume-Variability” line, by construction, represent the actual non-stochastic portion of the process that generated the simulated data presented in Figure 4. If you do not confirm, please explain.
- d. Please confirm that the line labeled “100% Volume-Variability” line, by construction, does not represent the actual non-stochastic portion of the

process that generated the simulated data presented in Figure 4. If you do not confirm, please explain.

USPS/OCA-T4-38. Please refer to your testimony at page 63, lines 1-16, where you present your re-interpretation of Figure 5 from Mr. Degen's testimony, USPS-T-16.

- a. In "Mr Degen's theory of the mail processing network," is mail volume the only factor that will determine the design and size of a mail processing plant? If you claim that it is, please provide a detailed citation to the portions of Mr. Degen's testimony that you use to support your answer.**
- b. Please confirm that that assumption that the "optimal capacity" for plant A is at the point labeled A in Figure 5, which you state at page 63, line 3, of your testimony, is your assumption, not Mr. Degen's. If you contend that the assumption is Mr. Degen's, please provide a detailed citation to the portion of USPS-T-16 that identifies point A as the "optimal capacity" for plant A.**
- c. Please confirm that that assumption that the "optimal capacity" for plant B is at the point labeled C in Figure 5, which you state at page 63, line 6, of your testimony, is your assumption, not Mr. Degen's. If you contend that the assumption is Mr. Degen's, please provide a detailed citation to the portion of USPS-T-16 that identifies point C as the "optimal capacity" for plant B.**
- d. Is it correct to interpret the cited portion of your testimony as indicating that you believe point C would also represent the "optimal capacity" for plant A, if**

plant A's volume were to increase from TPH_0 to TPH_1 ? If not, please explain what you contend point C represents for plant A.

- e. In your interpretation of Figure 5, does the point labeled B represent a sub-optimal operating point for plant A? If it does not (i.e., if point B is optimal), please explain the sense in which point A represents the optimal capacity for plant A, as you assume at page 63, line 3, of your testimony.
- f. Please confirm that at point B, the TPH are the same as at point C (i.e., TPH for both points is TPH_1), but the workhours (or "real" labor costs) are lower for point B than at point C (i.e., $H_1 < H_1'$). If you do not confirm, please explain fully.

USPS/OCA-T4-39. Please refer to your testimony at page 40, lines 12-14. You state, "Postal Service investments in capital to reduce operating costs indicate a long-run approach is applicable to the analysis."

- a. Please confirm that the antecedent of "the analysis" is Dr. Bozzo's volume-variability analysis. If you do not confirm, please explain.
- b. Please confirm that you advocate modifying the volume-variability analysis to capture the effects of planned capital deployments intended to reduce operating costs. If you do not confirm, please explain.
- c. Does it follow from your statement that you believe that a "short-run" approach would not capture the effects of planned capital deployments intended to reduce operating costs? If not, please explain why a "short-run"

approach would not also be applicable for the reason given in the quoted statement from your testimony.

- d. Please confirm that the Postal Service's rollforward model accounts for, among other things, the effects on the Postal Service's future costs of planned deployments of capital equipment between the base year and test year. If not, please explain your understanding of how the rollforward model treats planned deployments of capital equipment.

USPS/OCA-T4-40. Please refer to your testimony at page 40, line 21, to page 41, line 1. You indicate that field operating data "probably measure mail processing at a variety of disequilibrium points" and that "accordingly" you "advocate that the regression analysis should be performed on data means." Please explain why it follows from the observation that field operating data represent "disequilibrium points" that "the regression analysis should be performed on data means." Please provide relevant citation(s) to the econometric literature, to the extent you use it to support your response.

USPS/OCA-T4-41. Please refer to your testimony at page 35, lines 5-6. You state, "the depreciation rates being used appear to be based on accounting data." Please provide detailed citation(s) to the material upon which your statement is based.

USPS/OCA-T4-42. Please refer to your testimony at page 35, lines 14-15. You state, "Older machines will maintain their operability as they depreciate through increased maintenance." Please explain whether, in your view, an "older" machine that requires "increased maintenance" has the more, less, or the same productive capability as a newer machine that requires less maintenance.

USPS/OCA-T4-43. Please refer to your testimony at page 35, line 20, to page 36, line 1. You state, "maintenance labor is carried in another account but is a complement to machine operating time. Accordingly, the study is seriously deficient without consideration of management and maintenance hours."

- a. Please confirm that "maintenance labor" is recorded in cost segment 11 in both the Postal Service's and Commission's versions of the Cost and Revenue Analysis (CRA). If you do not confirm, please explain.
- b. Please confirm that supervisory labor is recorded in cost segment 2 in both the Postal Service's and Commission's versions of the CRA. If you do not confirm, please explain.
- c. With respect to your statement that "maintenance labor... is a complement to machine operating time," is it your understanding that the primary direction of causality between "operating time" and "maintenance labor" is that operating time causes the need for maintenance labor, or that maintenance labor causes the need for operating time?
- d. By "consideration of management and maintenance hours," do you mean a new analysis of costs in cost segment 2 and/or cost segment 11, an

investigation of the possible effects of management and maintenance hours on cost segment 3 costs, or both?

- e. If your response to part (d) indicates that the "consideration" means, or includes, an investigation of the possible effects of management and maintenance hours on cost segment 3 costs, please confirm that you have no quantitative evidence that indicate whether the factors you list would actually affect the results of Dr. Bozzo's study. If you do not confirm, please explain fully.
- f. If your response to part (d) indicates that the "consideration" means, or includes, a new analysis of costs in cost segment 2 and/or cost segment 11, do you contend that it is, as a general matter, inappropriate to revise the cost methodology for one cost segment unless the methodologies for all related cost segments are simultaneously revised? Please explain fully.

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 "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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