

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 2000

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R2000-1

**RESPONSES OF THE DIRECT MARKETING ASSOCIATION, INC.
WITNESS BUC TO INTERROGATORIES OF THE
UNITED STATES POSTAL SERVICE
(USPS/DMA-T1-13-17)**

The Direct Marketing Association, Inc. hereby provides responses of witness Buc to the following interrogatories of the United States Postal Service (USPS/DMA-T1-13-17).

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

Respectfully submitted,

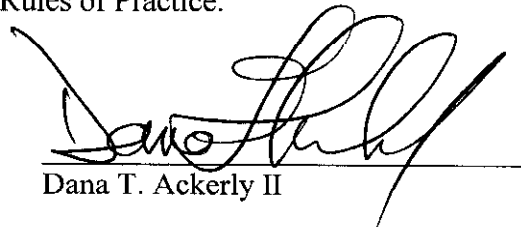


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Counsel for the Direct Marketing
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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Commission's Rules of Practice.



Dana T. Ackerly II

Dated: June 23, 2000

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USPS/DMA-T1-13 Please refer to AttC-dma-t-1.xls that accompanies your testimony.

- a. Please provide the source for the IS-Manual, Delivery Unit amount of 3.273 that appears in column [1].
- b. Please provide the source for the IS-AFSM 100 and IP-AFSM 100 direct costs per handling of 0.941 cents. Please confirm that these direct costs only relate to the AFSM 100s processing of barcoded mail. If you do not confirm, please explain fully.
- c. Please provide the calculation underlying the 313 operational days per year shown in column [6].
- d. Please refer to the table below that provides Attachment C information in a format similar to that provided in Table 6 of your testimony.

AFSM Cost Savings Estimates

<u>Number of Machines</u>	<u>Workhour Savings per Machine</u>	<u>Total Workhour</u>	<u>Cost Savings (\$ dollars)</u>
166.5	79,246	13,194,427	369,312,000

- i. Please confirm that the number of machines appears in column [4] and the cost savings appears in column [9] of Attachment C. If you do not confirm, please explain fully.
 - ii. Please confirm that dividing the cost savings of 369,312,000 by the hourly wage rate of \$27.99 shown in footnote 4 of Table 6 of your testimony yields the total workhour amount of 13,194,427. If you do not confirm, please explain fully.
 - iii. Please confirm that dividing the total workhour amount of 13,194,427 by 166.5 machines yields 79,246 workhour savings per machine. If you do not confirm, please explain fully.
- e) Please confirm that USPS witness Kingsley, TR.5/1961 describes the number of AFSM operational hours per day as being in the range of 12-20 hours per day. If you do not confirm, please explain fully.

Response

- (a) The IS-Manual, Delivery Unit amount of 3.273 cents per piece is incorrect. The correct figure is 3.339. An errata will be filed to accompany these responses. Correcting this error increases the cost savings by approximately \$2.2 million.
- (b) The source for the IS-AFSM 100 and IP-AFSM 100 direct costs per handling of 0.941 cents is USPS-LR-I-90, worksheet 'Mailflow Model Costs', cell M49, with a modification to assume a volume variability factor of 1.00. Confirmed that USPS-LR-I-90 uses this figure only for barcoded flats. My analysis of USPS-LR-I-90 indicates

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that the 0.941 cents per sort figure is for an AFSM 100 sort when the Video Coding System (VCS) is not being used. Because the Postal Service would only use the VCS when its benefits justify its costs, ignoring both the costs and the benefits of the VCS (as I have done) understates AFSM 100 cost savings.

- (c) Witness Kingsley stated on oral cross examination that AFSM 100s will be used six or more days a week and 52 weeks a year. Tr. 5/1960 To be conservative, I assumed that they would only be used six days a week. I calculated 313 by multiplying 6/7 times 365 and rounding to the nearest integer.
- (d) All confirmed.
- (e) Witness Kingsley indicates that the phase 2 machines will run from between 12 and 20 hours per day while the phase 1 machines will run 20 hours per day. The savings I developed were only for phase 1 machines.

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USPS/DMA-T1-14 Please confirm that you exclude piggyback costs from your analysis. If you do not confirm, please explain fully how the piggyback costs are included in your analysis and provide all calculations showing their inclusion.

Response

Confirmed.

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USPS/DMA-T1-15 Please confirm that USPS LR-I-83, page I-12 indicates that the AFSM 100 requires more floor space (square feet) than either the FSM 881 or the FSM 1000. If you do not confirm, please explain fully.

Response

Confirmed. Note that I made no adjustments to the USPS's estimate of the floor space requirements for the AFSM 100s.

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USPS/DMA-T1-16 Please indicate if your analysis considers any other cost impacts from deploying the AFSM 100. For example, does your analysis consider any allied labor cost impacts? If your analysis does not include any additional costs, please explain why not. If your analysis does include additional costs, please explain the rationale and provide all calculations showing their inclusion.

Response

My analysis does not consider any cost impacts other than the ones I presented. It does not consider allied labor cost impacts for two reasons: (1) I did not find any discussion of allied cost impacts in USPS testimony; and (2) although it seems likely that allied costs as a percentage of total flat processing costs will increase following the introduction of the AFSM 100, it seems unlikely that allied cost per piece will increase.

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USPS/DMA-T1-17 Please confirm that you assume the USPS will realize 100% of your calculated cost savings in the test year. If you do not confirm, please explain why you believe the Postal Service will not realize 100% of the savings and provide all evidence you rely on for your judgment. If you do confirm, please explain why you believe the Postal Service will realize the entire 100% of the savings and provide all evidence you rely on for your judgment.

Response

My analysis assumes that the Postal Service will realize 100 percent of the Test Year cost savings that I calculated. This seems reasonable given that every number I used in my calculations was provided by the Postal Service or derived from numbers it provided. In my opinion, my analysis is conservative and understates the probable cost savings in the following ways: (1) the cost savings I calculated entirely ignored savings from the second deployment of AFSM 100s in the test year; (2) the cost savings I calculated ignored the savings that will result from paying AFSM 100 clerks at a lower rate than the manual clerks and keyers that the AFSM 100s will replace; and (3) the cost savings I calculated assumed that half of the cost savings from the AFSM 100 deployment will come from replacing low cost sorts, whereas some of the savings will come from replacing higher cost sorts.

DECLARATION

I, Lawrence G. Buc, declare under penalty of perjury that the answers to interrogatories USPS/DMA-T1-13-17 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed June 23, 2000

Lawrence G Buc