

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-T1-18-25)**

The Direct Marketing Association, Inc. hereby provides responses of witness
Buc to the following interrogatories of the United States Postal Service (USPS/DMA-T1-18-
25).

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

Respectfully submitted,

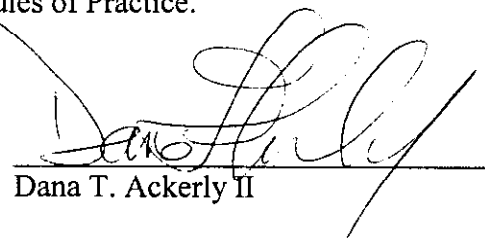


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CERTIFICATE OF SERVICE

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 30, 2000

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-18. Please refer to AttC-dma-t-1.xls that accompanies your testimony.

- a. Please confirm that the "AFSM Productivity" in column [3] is an estimated throughput of the AFSM 100 and is not pieces sorted per workhour. If you do not confirm, please explain.
- b. Please explain if you believe the throughput takes into account the time the AFSM is not feeding mail due to scheme changes, sweeping, jams, and other operational stoppages.
- c. Please explain why for column [1] "Direct Cost per Handling" you assume a volume variability factor of 1.0, instead of what was contained in the LR-I-90 mailflow models?
- d. Please provide the same information in your DMA AFSM100 Clerk TY Savings chart using the volume variability factors found in LR-I-90.

Response

(a) Not confirmed. In her testimony, Postal Service witness Kingsley stated that the throughput of the AFSM 100 is approximately 17,000 pieces per hour. USPS-T-10 at 11; Tr. 5/1838 (Kingsley). The 15,000 pieces per hour figure in column [3] represents productivity (in terms of pieces fed per workhour) times crew size. USPS-LR-I-90, R2000_1_Flats Cost Model_Final USPS.xls, worksheet "Productivities," column (1) and footnotes [7] and [8].

(b) The 17,000 pieces per hour throughput provided by witness Kingsley does not take these factors into account. If the AFSM productivity figure in USPS-LR-I-90, worksheet "Productivities," Column (1) is analogous to the other figures in the same column, then it does take these factors into account. This is because the other productivity figures in this column are actual productivities from MODS.

Furthermore, at the June 14-15, 2000 PostCom Postal Policy and Operations Conference, I am informed that Nick Barranca (USPS Vice President of Operations Planning) stated that the actual productivity of the AFSM 100 in the field has been approximately 16,000 pieces per machine-hour.

(c) I used average direct cost per handling rather than marginal direct cost per handling because I believe that average cost is the proper cost construct when talking about large changes in the system.

(d) See attached spreadsheet.

AFSM 100 Savings Comparison

AFSM 100 Cost Savings Comparison - Marginal Productivities
(all numbers in thousands)

	DMA	USPS	Difference
	[1]	[2]	[3]=[1]-[2]
Total Savings	\$ 312,516	\$ 169,379	\$ 143,137

Sources:

[1] Attachment C, pg 2.

[2] Attachment C, pg 3.

USPS AFSM 100 Clerks TY Savings

Attachment to
USPS/DMA-T1-18

USPS AFSM 100 Clerks Test Year Savings - Marginal Productivities

Clerks Workhour Savings (hours)	Hourly Clerk Wage Rate	Clerks Workhour Cost Savings (thousands)
[1]	[2]	[3]=[1]*[2]
6,052,003	\$ 27.99	\$ 169,379

Sources:

[1] Docket No. R2000-1, Tayman, Tr. 2/322.

[2] Docket No. R2000-1, USPS-LR-I-126, PRG_ANAL-revised.xls, 'Data'. Hourly wage rate obtained from dividing Clerk/Mailhandler Avg. Personnel Cost (50,125) by Workhours Per Workyear (1,791).

DMA AFSM 100 Clerks TY Savings

Attachment to
USPS/DMA-T1-18

DMA AFSM Clerks Test Year Savings Using Marginal Productivities

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
		Direct Cost per Handling (cents)	Plant/Delivery Unit Manual IS Factor	AFSM Productivity (units/hour)	Number of Machines	Operational Hours per Workday	Operational Days per Year	Total Sorts Per Year (millions)	Allocated Sorts (millions)	Total Cost Savings
S	IS - Manual, Plant	4.774	26.10%							
	IS - Manual, Delivery Unit	3.112	73.90%							
	IS - AFSM 100	0.769	N/A							
	Difference*	2.776		15,000	166.5	20	313	15,634	5,628	\$ 156,258

		Direct Cost per Handling	AFSM Productivity (units/hour)	Number of Machines	Operational Hours per Workday	Operational Days per Year	Total Sorts Per Year (millions)	Allocated Sorts (millions)	Total Cost Savings
P	IP - FSM 881 OCR/BCR	2.331							
	IP - AFSM 100	0.769							
	Difference**	1.562	15,000	166.5	20	313	15,634	10,006	\$ 156,258

TOTAL SAVINGS

\$ 312,516

Sources:

* Difference (IS only) is calculated by taking 26.10% of the difference between IS - Manual, Plant and IS - AFSM 100 added to 73.90% of the difference between IS - Manual, Delivery Unit and IS - AFSM 100 per Docket No. R2000-1, LR-I-90, R2000_1_Flats Cost Model_Final USPS.xls, 'Data', Plant/Delivery Unit Manual IS Factor.

** Difference (IP only) selected as conservative estimate as smallest difference between cost of current sort and cost of AFSM 100 sort.

[1] Docket No. R2000-1, LR-I-90, R2000_1_Flats Cost Model_Final USPS.xls, 'Mailflow Model Costs', Cents per Piece Handling.

[2] Docket No. R2000-1, LR-I-90, R2000_1_Flats Cost Model_Final USPS.xls, 'Data', Plant/Delivery Unit Manual IS Factor.

[3] Docket No. R2000-1, LR-I-90, R2000_1_Flats Cost Model_Final USPS.xls, 'Productivities', Footnotes [7] and [8]

[4] LR-I-83, page I-12

[5] Kingsley, TR.5/1961.

[6] Kingsley, TR.5/1960.

[7] = [3]*[4]*[5]*[6]

[8] = Allocated Sorts is the number of sorts allocated to each scenario to yield equal cost savings, Kingsley, TR.5/1660.

[9] = [8]*[1]

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
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USPS/DMA-T1-19. Please refer to your response to USPS/DMA-T1-2(a), where you state:

Please note that I have read only the Commission's Decisions and the Postal Service's requests in omnibus rate cases from R76-1 through R97-1. I do not believe the Postal Service has ever employed in its requests for contingencies the framework the Commission has outlined in its decisions. Thus, I do not believe that any of the requests is reasoned.

Please explain how you were able to determine that the basis for the contingency in Docket R76-1 was not reasoned with respect to the Commission's framework when you have not read the Commission's Opinions prior to Docket R76-1.

Response

I did not make such a determination with respect to the USPS request in R76-1. To the best of my knowledge, the Postal Service has never employed in its requests for contingencies the framework the Commission has outlined in its decisions. It is possible, however, that I am mistaken with respect to the filings in R74-1 and R76-1.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE**

USPS/DMA-1-20. Please refer your response to USPS/DMA-T1-4. Please confirm that the amount you show for equity at the end of the year before filing for Docket No. R2000-1 is a negative \$446 million. If you do not confirm, please explain.

Response

Confirmed.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
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USPS/DMA-T1-21. Please refer to your response to USPS/DMA-T1-5 where you state:

[P]lease note that the Postal Service has continued to carry equity at book value rather than market value. As witness Tayman confirmed on April 19, 2000 in response to DMA/USPS-T9-58, the appraised value of Postal Service headquarters is \$76.8 million. It is carried on the books at a very small fraction of that amount. I suspect that if the Postal Service rationally managed its real estate by selling real estate in selected high value areas and relocating some operations, it could not only restore equity to a positive value, but also eliminate the need for prior year losses as a component of the revenue requirement.

- (a) Do you consider yourself an expert on real estate? If so provide your credentials.
- (b) Do you consider yourself an expert on accounting theory? If so provide your credentials.
- (c) Do you consider yourself an expert on the Postal Service's operations network? If so provide your credentials.
- (d) Is it your testimony that the Postal Service should increase the value of real estate on its books to market value? If so, please provide any basis for this position other than your personal opinion. Please provide examples of other entities, private or public, that carry real estate on their books at market value and provide the source(s) of your information.
- (e) What would happen to depreciation expense if USPS real estate were revalued to market value and what effect would this have on postage rates? Please explain your answer fully and include calculations supporting your response.

Response

- (a) No.
- (b) No.
- (c) No.
- (d) My testimony does not address the issue of whether real estate should be carried at market rather than book value.
- (e) I do not have enough information to be able to determine what would happen to depreciation expenses if USPS real estate were revalued to market value. The Postal Service has declined to provide market values of its real estate in response to DMA interrogatories in this case and in the previous case, so I do not have data on book versus market value, nor on appropriate depreciation lives. However, it is important to remember that land is not depreciated, so the new method would not affect its depreciation.

The change would probably reduce rates. Any increase in depreciation expense would most likely be more than offset by the elimination of Prior Years Losses.

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USPS/DMA-T1-22. Please refer to your response USPS/DMA-T1-9.

- (a) Please confirm that the state of the economy is useful in evaluating the appropriate level of contingency only to the extent that it could affect Postal Service test year revenues and expenses. If you do not confirm please explain.
- (b) Please confirm that one recent result of low unemployment is tight labor markets. If you do not confirm please explain.
- (c) Please confirm that, according to many economists and the Federal Reserve, tight labor markets have recently resulted in pressure to increase wages. If you do not confirm please explain.
- (d) Please confirm that the Federal Reserve has recently been raising interest rates and that the purpose of doing so is to slow down economic growth. If you do not confirm please explain.
- (e) Please confirm that a slowdown in economic growth could have an adverse effect on Postal Service volume and revenue growth. If you do not confirm please explain.
- (f) Please confirm that higher interest rates would increase Postal Service borrowing costs. If you do not confirm please explain.
- (g) Please confirm that fuel costs have recently risen dramatically and are currently much higher than was assumed in the Postal Service's revenue requirement. If you do not confirm please explain.

Response

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed. Given that the Postal Service believes, however, that its employees receive a compensation premium, it is not clear how much tighter labor markets will exert pressure on wages of Postal Service employees.
- (d) Confirmed although it is not clear that growth is actually slowing.
- (e) Confirmed.
- (f) Confirmed. Note, however, that the potential exposure is relatively small and may be somewhat offset by interest earned.
- (g) Confirmed that they have risen and are higher.

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USPS/DMA-T1-23. Please refer to USPS/DMA-T1-9 where you state that "at a high level, economists often characterize the state of the economy as a function of two factors: inflation and unemployment."

(a) Please confirm that economic growth as measured by GDP or GNP, which you have neglected to mention in your answer, is also a significant indicator of the state of the economy. If you do not confirm, please explain.

(b) Please confirm that economic growth as measured by GNP and GDP has recently been exceptionally high. If you do not confirm, please explain.

(c) Please refer to the A/P 8 FOS and confirm that mail volume and revenue growth through Accounting period 8 are below plan despite record growth in the overall economy. If you do not confirm, please explain.

Response

(a) Economic growth is an indicator of the state of the economy. Growth is correlated with unemployment rates.

(b) Confirmed that growth has been high.

(c) Confirmed.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
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USPS/DMA-T1-24. Please refer to your response to USPS/DMA-T1-11 and to the Commission's Opinion and Recommended Decision in Docket R97-1, Appendix C, page 1 of 2. Please confirm that the amount recommended by the Commission for test year (FY 98) supervisor costs was \$3.420 billion, or \$98 million less than the \$3.518 billion originally estimated by the Postal Service. If you do not confirm please explain.

Response

Confirmed.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
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USPS/DMA-T1-25. Please refer to your response USPS/DMA-T1-12.

(a) Is it your testimony that a savings in clerk workhours resulting from the introduction of automated equipment will automatically result in a proportional reduction in supervisor workhours, regardless of what decisions are made by management regarding the supervisory requirements of the new operating environment? If your answer is yes, please explain how you know this to be true.

(b) Is it possible that the new operating environment created by the introduction of automated equipment could result in additional complexities and supervisor responsibilities within the new operation? If you do not believe this is possible, please explain why.

Response

(a) No, my testimony is that if supervisory workhours vary directly with clerk workhours, then a savings in clerk workhours from the introduction of automation equipment will, *ceteris paribus*, result in supervisory workhour savings. If management changes the supervisory requirements of the new operating environment, the *ceteris paribus* conditions will no longer hold.

(b) Many things are possible that are not likely. Although it is possible that a new operating environment created by the introduction of automation equipment could add complexity and supervisory responsibilities, I did not find any indication in the testimony of its witnesses that the Postal Service believes this has happened.

DECLARATION

I, Lawrence G. Buc, do hereby declare under penalty of perjury that the answers to the foregoing Docket No. R2000-1 interrogatories are true to the best of my knowledge, information and belief.

Dated: June 30, 2000



Lawrence G. Buc