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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DEGEN TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-T12-16-20)

The United States Postal Service hereby provides responses of witness Degen to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T12-16-20, filed on July 31, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 14, 1997

Response of United States Postal Service Witness Degen
to Interrogatories of Office of the Consumer Advocate

OCA/USPS-T-12-16. Please refer to lines 1-17, page 5 of your testimony. This section lists three criticisms of existing clerk and mailhandler costing and the Postal Service's response to these criticisms.

a. Please identify which of the responses addresses the problem of an increase in "not-handling-mail tallies."

b. Does the proportion of "not-handling-mail tallies" decrease due to the application of MODS-based cost pools? Please explain.

c. Does the number of "not-handling-mail tallies" decrease due to the application of MODS-based cost pools? Please explain.

d. Please confirm that the FY 1996 number of "not-handling-mail tallies" is the same, regardless of how the new cost pools are defined. If you do not confirm, please explain.

e. Does the proportion of "not-handling-mail tallies" decrease due to a change in the assumption that mail processing direct labor and overhead costs are 100 percent volume variable? Please explain.

f. Does the number of "not-handling-mail tallies" decrease due to a change in the assumption that mail processing direct labor and overhead costs are 100 percent volume variable? Please explain.

g. Does the proportion of "not-handling-mail tallies" decrease due to a change in the method used to distribute mixed-mail costs? Please explain.

h. Does the number of "not-handling-mail tallies" decrease due to a change in the method used to distribute mixed-mail costs? Please explain.

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Response to OCA/USPS-T12-16.

a. The increase in not-handling-mail tallies was a problem insofar as the old methodology used the associated tally dollar values to form a single pool of variable overhead costs, which were distributed to subclass in proportion to the mail processing direct labor CRA cost component. Since the new methodology does not alter IOCS, it does not impact the number or proportion of not-handling-mail tallies according to the old methodology's definition of not-handling-mail. It addresses the problem, however, in that the MODS-based cost pools include the dollars that would have been classified as variable overhead under the old method. The MODS-based cost pool dollars do not rely on not-handling-mail tallies in any way. Further, the overhead dollars are being distributed more accurately, i.e., using distribution keys specific to each cost pool.

b. No. See the response to part a.

c. No. See the response to part a.

d. Confirmed. See the response to part a.

e. No. See the response to part a.

f. No. See the response to part a.

g. See the response to part a. Note that the definitions of mixed-mail and not-handling-mail for the purpose of distribution key formation have changed in the new methodology. Please see my testimony, USPS-T-12, at 9, and Section II of LR-H-146.

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h. Please see the answer to part g.

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OCA/USPS-T12-17. Please refer to lines 16-17, page 5 of your testimony. You state "I believe these revisions result in more accurate estimates of attributable cost."

a. Does the accuracy of the attributable cost estimates depend on the sampling error associated with those estimates? Please explain.

b. Have you compared the relative sampling error of cost estimates under the new costing approach for base year 1996 to those produced under the previous methodology for FY 1995? Please provide the results of any such comparison.

c. Have you compared the relative sampling error of cost estimates under the new costing approach for base year 1996 with the sampling errors associated with FY 1996 cost estimates produced under the old methodology? Please provide the results of any such comparison.

d. Is there any sampling error or other uncertainty about the estimates of volume variability you apply to each of the cost pools? If there is, what is its magnitude and how it is accounted for in assessing the reliability of final attributable cost estimates for clerks and mailhandlers?

e. Please provide any additional comparisons that have been made to determine whether the new costing methodology has a significant effect on the statistical reliability of estimates produced.

Response to OCA/USPS-T12-17.

a. The accuracy of the estimates depends in part on the sampling error associated with them. I believe the revisions to the costing methodology produce more accurate observations for several reasons. First, the MODS-based cost pool formation does not depend on a sampling system. Second, the volume-variable overhead costs are part of the variable cost pools and are distributed to subclass using pool-specific keys—a much finer and more accurate level of distribution than the old methodology (see the answer to OCA/USPS-T12-16, part a). Third, mixed-

mail costs such as costs associated with activity code 5750 (mixed mail with no class or shape data) are incorporated in the cost pool dollars, and the distribution of these costs has been refined using the mail operation and mail identification information collected in IOCS questions 21 and 24.

b. No.

c. Yes. The coefficients of variation presented in Table 2 and Table 6 of my testimony were computed with such a comparison in mind. The coefficients of variation in Table 2 were computed using the method employed by witness Steele for Docket No. R94-1. The methodology for Table 6 is described in LR-H-146, Part IX.

d. Naturally, there is a degree of uncertainty associated with the variability regression results In USPS-T-14, witness Bradley discusses the motivation for his regression equations at some length, including factors which would motivate the presence of a random disturbance term. I have not attempted to estimate the standard errors of the variabilities, but the regression results presented in witness Bradley's workpapers should provide the necessary information. The coefficients of variation in Table 6 are conditional on witness Bradley's reported variabilities.

e. We have not conducted any other comparisons.

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OCA/USPS-T12-18. Please refer to hard copy documentation for library reference H-23 and to the instructions for completing IOCS question 24 (pages 133-34, H-49). Please explain how the data from question 24 is recorded on the IOCS file. Include in your response sufficient detail so that the responses to question 24 can be recreated from the data fields described in library reference H-23.

Response to OCA/USPS-T12-18.

I do not believe it is possible to re-create the question 24 response from the file in LR-H-23. My understanding is that the detailed question 24 data are stored separately from other IOCS data, and the version of the IOCS tally file with divided item records, used by the LR-H-146 programs and to produce the LR-H-23 file, is generated by merging these files. Please see program ALB898, LR-H-21.

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OCA/USPS-T12-19. Please refer to IOCS equations 21D, page 92 of library reference H-49. This question asks for the percent of the container taken up by items and pieces by type.

a. Please confirm that the responses to question 21D are represented by the values in variables F9901-F9919, F9420, and F9421 of the IOCS data file. If you do not confirm, please provide the correct variable numbers.

b. Please explain how the data collectors are instructed to measure the proportions that they enter for this question. For example, is there a uniform method used to measure how much of the container is taken up by each item or piece type?

c. Please confirm that the data collectors just "eye-ball" the container and enter a rough estimate for the percentages. If you do not confirm, please provide more detail than provided in library reference H-49 on how these percentages are measured.

d. Please confirm that by using "eye-ball" approximation method, almost all percentages are reported as either multiples of five or 10 percent. If you do not confirm, please provide a frequency table showing the proportion of non-zero values for these variables that are a multiples of five, multiples of 10, and neither.

e. Suppose that as a rule, data collectors almost always entered multiples of five (5, 10, 15, . . ., 100) for the nonzero responses to question 21D. Would such a practice constitute a potential source of nonsampling error? Please explain.

f. Were the data collectors instructed to enter only multiples of five to complete the data requested in question 21D? If so, please provide a copy of that instruction.

g. If two different data collectors were to independently record information for question 21D, it is likely that they would record essentially the same information? Please provide any documents prepared by or for the Postal Service relating to whether this question could be answered consistently by different data collectors.

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Response to OCA/USPS-T12-19.

a. Confirmed.

b. Please see the IOCS Field Operating Instructions, LR-H-49, at 92-93.

c. Confirmed.

d. Confirmed. The following table provides a frequency table of the non-zero percentages recorded on "identified" container tallies taken at MODS offices.

Frequency distribution of non-zero values for F9901-F9919, F9420, F9421.

Category	Frequency
100%	3,365
Other multiple of 5%	6,308
Other	269

e. Such a practice would reduce the precision of the recorded percentages in variables F9901-F9919, F9420, and F9901, in much the same way as a length measurement would be made imprecise using a ruler without fine gradations. Note that this will not necessarily affect the container cost distributions. For containers with only one type of item, the precision issue is moot, since the recorded percentages are normalized so as to sum to 100% (see lines 166-206 of program MOD1DIR, LR-H-146).

f. No, and as the table in part d of this response indicates, there are cases in which data collectors entered values which are not multiples of 5.

g. I don't know. This question is impossible to answer without testing. To the best of my knowledge, such a test has never been done. Clearly, for such a test to be meaningful, it would be necessary to analyze the results from a large number of data collectors and test articles, to determine whether any differences were statistically discernible.

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OCA/USPS-T12-20. Please refer to line 431 of program MOD1POOL, library reference H-146. This line refers to a value of '0300' for the variable F262 (activity code).

a. Please confirm that this activity code is not described in LR-H-1. If you do not confirm, please provide a page reference. If activity code 0300 is defined in another library reference, please provide a citation to the appropriate library reference and page number.

b. Please explain what an activity code of 0300 represents.

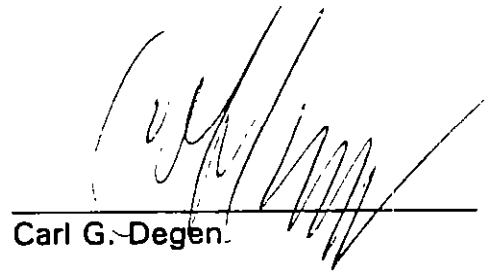
OCA/USPS-T12-20 Response.

a. Not confirmed. Please see LR-H-1, page B-17. Table B-3, "Special Services Codes—Mail Connected" lists the special service codes. Per the note to the table, the four digit activity code corresponding to 030 (Form 3547/3579) is 0300.

b. Form 3547 is the Notice to Mailer of Correction in Address postal card. Form 3579 is the Undeliverable 2nd, 3rd, 4th Class Matter label.

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.



Carl G. Degen

Date: 8/14/97

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.

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August 14, 1997