

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, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DEGEN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T12-26-29)

The United States Postal Service hereby provides responses of witness Degen to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T12-26-29, filed on August 8, 1997.


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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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August 22, 1997

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

OCA/USPS-T12-26. Please refer to line 01080001 of program MOD2ITEM, H-23. This line computes $DOLLAR = WGT * KEY / KEYTOT$.

- a. Please confirm that this code subdivides the weight of a distributed item tally into weights for records created to match activity codes that exist for the distributed item's pool and item type. If you do not confirm, please explain.
- b. Please confirm that the values for the variables KEY and KEYTOT were computed at lines 00830004 - 00940004 of program MOD1DIR. If you do not confirm, please explain and provide a citation to the program code that calculated these variables.
- c. Please confirm that at line 00940004 of MOD1DIR, the variable KEYTOT represents the sum of KEY values for a given POOL/HANDLING combination. If you do not confirm, please explain the relationship between KEY and KEYTOT.
- d. Please confirm that the values of KEY and KEYTOT include weight from observations deleted at line 00330001 of program MOD2ITEM. If you do not confirm, please explain.
- e. Please confirm that after deleting observations at line 00330001 of program MOD2ITEM, the KEYTOT variable may no longer represent the sum of the KEY variable for POOL x HANDLING combinations that had observations deleted. If you do not confirm, please explain why deleting observations that contribute to a sum does not affect the sum.
- f. Please confirm that less than 100 percent of the weight (or cost) of items is distributed whenever the values of KEY sum to less than KEYTOT for a particular POOL x HANDLING combination. If you do not confirm, please explain. If you do confirm, please explain why this weight reduction was necessary.

OCA/USPS-T12-26 Response.

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Not confirmed. The referenced line of program MOD2ITEM deletes tallies handling containers which have direct activity codes. The deleted

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

observations form complete POOL x HANDLING combinations that are not part of the distributing sets for single mixed-mail items and items in identified containers. Deleting these records removes the KEYs and KEYTOT values for the container HANDLING values in their entirety, without affecting the relationship between KEY and KEYTOT values for the shape and item HANDLING values.

- e. Not confirmed. Please see the answer to part d.
- f. Confirmed that, hypothetically, less than 100 percent of the weight would be distributed if the sum of the values of KEY were less than KEYTOT for a POOL x HANDLING combination. However, KEYTOT is the sum of the KEY values for each POOL x HANDLING combination in program MOD2ITEM. The distribution procedure in program MOD2ITEM does not carry out a "weight reduction."

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

OCA/USPS-T-12-27. Please isolate the impact of the new mixed mail costing methodology for CAG A-J clerk and mailhandlers by comparing the distributed mixed mail costs for base year 1996 and CRA 1996.

OCA/USPS-T12-27 Response.

Please see Attachment 1 to this response for a comparison. Note that the meaning of "distributed mixed mail costs" in the FY 1996 mail processing costs is significantly different from the meaning in the BY 1996 costs. This is because the BY 1996 methodology changes the definition of the mail processing component, the definition of mixed-mail, and the treatment of mixed-mail tallies. What I present as "distributed mixed mail costs" for BY 1996 is the difference between the mail processing volume-variable costs by subclass from the attachment to my response to OCA/USPS-T12-14, and a cost distribution in which volume-variable costs are distributed to the mixed items as if they were a distributing group of tallies. This is similar to the construction of the mixed-mail line in Table 6, USPS-T-12, except that the mixed-mail definition is now that of the BY 1996 methodology. The FY 1996 mail processing costs before the mixed-mail redistribution are from the LIOCATT ALA85OP5 report, Mail Processing functional component. The LIOCATT mixed-mail distribution is the difference between the LIOCATT ALA85OP16 output, which the Postal Service has filed with the Commission

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

as part of its periodic reporting requirements, and the LIOCATT ALA850P5
report, the relevant sections of which are included in Attachment 1.

Sheet2

Attachment 1, OCA/USPS-T12-27

Class	C1 BY 1996 MODS-based mail processing costs, with distributed mixed mail	C2 MODS-based mail processing costs, no mixed- mail redistribution	Difference (C1- C2)	FY1996 LIOCATT ALA85OP5 - Mail Processing Functional Component
First-Class				
Letters and Parcels	4,651,604	3,861,473	790,131	2,774,291
Presort Letters and Parcels	1,063,229	854,311	208,919	610,728
Postal Cards	3,215	2,454	761	1,914
Private Mailing Cards	136,714	120,235	16,479	88,659
Presort Cards	36,429	31,766	4,663	23,057
Priority	477,900	294,410	183,490	227,307
Express	84,336	51,379	32,956	45,061
Mailgrams	74	74	0	62
Second-Class				
Within County	15,159	12,349	2,809	9,235
Outside County - Regular	461,194	334,551	126,644	243,518
Outside County - Non Profit	80,614	60,231	20,383	44,429
Outside County - Classroom	5,632	3,256	2,377	2,485
Third-Class				
Third Single Piece Rate	78,094	60,839	17,255	44,705
Bulk - Regular Carrier Route	285,660	195,616	70,045	143,958
Bulk - Regular Other	1,539,858	1,198,270	341,588	875,057
Bulk - Non Profit Carrier Route	28,882	20,673	8,208	15,565
Bulk - Non Profit Other	366,703	289,799	76,904	210,843
Fourth-Class				
Parcels - Zone Rate	156,649	95,292	61,357	74,699
Bound Printed Matter	73,211	48,607	24,603	37,768
Special Rate	67,077	47,991	19,085	37,353
Library Rate	16,065	10,968	5,097	8,503
USPS	77,503	60,800	16,702	47,651
Free for Blind/Handicapped	10,014	6,845	3,169	5,197
International	206,955	149,309	57,646	111,892
Registry	42,211	30,042	12,170	66,830
Certified	18,483	17,271	1,212	26,792
Insurance	771	589	182	668
COD	1,817	1,816	1	2,454
Special Delivery	243	243	0	875
Other Special Services	76,234	63,457	12,778	72,284
Mixed Mail	0	2,117,614	-2,117,614	2,664,224
Total	10,042,528	10,042,530	-2	8,518,063

Note: Totals may not agree due to rounding

**Response of United States Postal Service Witness Degen
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OCA/USPS-T-12-28. Please state the first year that IOCS data was collected on the contents of containers and of items. Please provide all documents relating to studies and tabulations for years since then that examine the effect of potential new mixed mail methodologies on the clerk and mailhandler attributable cost distributions.

OCA/USPS-T12-28 Response.

The collection of quantitative data on the contents of mixed-mail to which the top piece rule does not apply began with the introduction of CODES IOCS in FY 1992. Prior to FY 1992, data collectors responded to question 24 (which then covered any mixed-mail not subject to the top piece rule) by simply marking the mail categories and shapes observed in the "counted" mixed-mail on the IOCS tally form. The September 1991 release of Handbook F-45 instructed data collectors to answer question 24 by entering piece counts by mail category and shape for counted items, in essentially the same way as described in LR-H-49. For recording container contents in question 21D, data collectors were instructed to enter counts of loose pieces of mail (by shape) and items in the containers, or to make a non-quantitative mark indicating the presence of items and shapes of loose mail if counting was not possible due to dispatch constraints. A January 1992 revision to question 21D changed the procedure to the current system of recording percentages of volume occupied by each item type and shape of loose mail present in the container.

**Response of United States Postal Service Witness Degen
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I am not aware of any Postal Service studies which explored the effect of alternative mixed-mail distribution methods, nor of any analyses which attempt to isolate the mixed-mail distribution other than my response to OCA/USPS-T12-27. The mixed-mail distribution method proposed by UPS witness Blaydon in Docket No. R94-1 is the only non-Postal study of which I am aware.

**Response of United States Postal Service Witness Degen
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OCA/USPS-T12-29. Please refer to your response to OCA/USPS-T-12-5a. Please confirm that the MODS based cost pools used in your testimony are defined identically to those used by witness Bradley to construct cost pool variability estimates. If you do not confirm, please describe any differences. If you do confirm, please provide a citation to witness Bradley's construction of MODS based cost pools.

OCA/USPS-T12-29 Response.

Not confirmed. In several cases, the MODS operation groups defined for variability estimation are subsets of the MODS operation groups defined for cost pool formation. However, the cost pools are defined consistently in that we do not assign a MODS number one way for cost pool formation and another way for variability estimation. The differences reflect witness Bradley's judgment as to whether certain MODS operations should be included in a pool for variability estimation. Typically, these are operations which are reported by a small number of offices, which are being phased out, or which have not been widely deployed in the time period covered by his analysis. The excluded operations constitute only small portions of pool costs. For instance, the SPFSM and FSM 1000 operations excluded from witness Bradley's FSM regression constitute 0.054% of the MODS hours in the FSM pool. Implicitly, the estimated MPFSM/FSM-BCR variability is applied as a proxy for the SPFSM and FSM 1000.

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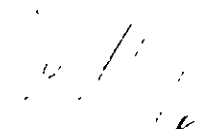
The following table lists the MODS numbers excluded from witness
Bradley's estimated variabilities.

Cost Pool	MODS codes not included in the directly estimated equation	% of cost pool costs "excluded" (see LR-H-146, Part I)
BCS	292, 295, 299, 860-869, 910-911	0.28%
OCR	840-847, 850-857	2.26%
FSM	191, 194-197, 441-444, 446, 448	0.05%
LSM	088-089, 091, 093-099	2.05%
LDC 15	771, 774, 776	1.63%

Please see LR-H-148 for details on the construction of witness Bradley's
MODS data set for variability estimation.

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.



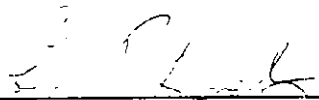
Carl G. Degen

Date: _____

8-22-97

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.



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
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August 22, 1997