POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-T14-1)

The United States Postal Service hereby provides the response of witness

Bradley to the following interrogatory of the Office of the Consumer Advocate: OCA/
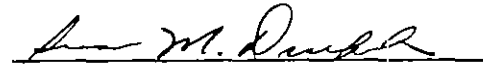
USPS-T14-1, filed on August 14, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 28, 1997

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OCA/USPS-T14-1. Please refer to page 1 of USPS-14B where you state "This system variability is applied to non-MODS offices and certain general support operation in MODS offices." Is it your testimony that the variabilities you calculated for MODS offices are appropriate for application to non-MODS offices? If so, please provide all justification for your assumptions concerning these two types of facilities.

OCA/USPS-T14-1 Response:

As I state on page 90 of my testimony:

> There is currently no system for recording hours and piece-handings for individual activities in non-MODS offices.

The absence of piece handling data makes it impossible to econometrically estimate a variability for activities in the non-MODS offices, so another approach must be found. One approach, of course, would be to continue to assume that the variability is 100 percent in all operations at non-MODS offices. However, given the compelling evidence that the variabilities at MODS offices are significantly below 100 percent, this approach would require assuming that activities in non-MODS offices are greatly different from activities in MODS offices. Please keep in mind that the variability calculations are done at the activity level, not the facility level, so the appropriate comparison is between activities in non-MODS offices and activities in MODS offices.

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Witness Moden describes the nature of the activities in non-MODS offices on page 22 of

his testimony:

> [T]he equipment and mailflows are similar to those at facilities
> reporting to MODS, and the factors accounting for volume
> variability would thus be much the same regardless of facility
> size.

This similarity suggests that variabilities from activities in MODS offices would serve as

good proxies for the variabilities for similar activities in non-MODS offices. It also speaks

against making strong assumptions about differences in variabilities for activities in non-

MODS offices from those at MODS offices.

Because there is not a workhour reporting system that readily calculates cost pool by

activity for non-MODS offices, the most straightforward way to form the non-MODS proxy

variability is by simply using the "system" or average value from the MODS offices. Yet,

the application of the MODS system variability may raise the question of the distribution

of costs across activities in MODS and non-MODS offices. For example, to the extent non-

MODS offices have less automated and mechanized equipment, the MODS system

variability could overstate the variability at non-MODS offices.

An alternative approach is to apply the MODS-based variabilities on a disaggregated basis.

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For example, the IOCS tallies from the non-MODS offices could be used to form sub-pools

for non-MODS costs by sorting activity. The corresponding MODS-based activity-specific

variabilities could then be applied to the individual sub-pools. As the following table

shows, however, the results are quite similar when the non-MODS variability is calculated

at the disaggregated level. In fact, the average variability from the disaggregated analysis

is slightly below the MODS system variability. The disaggregated non-MODS variability

is 77.9 percent and the MODS system variability is 78.6 percent.

The following table produces the IOCS-based cost sub-pools for the non-MODS offices,

which I received from witness Degen. I then multiplied the accrued cost for each of these

cost sub-pools by the corresponding MODS-based variability to calculate the volume-

variable costs for each sub-pool. The overall average variability is calculated by summing

the total volume variable costs across the sub-pools ($1,725,175,000) and dividing by the
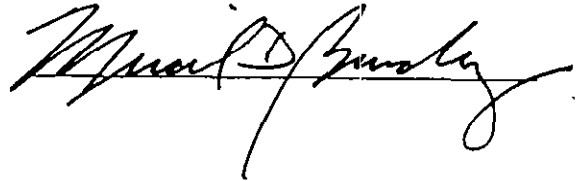
total accrued costs ($2,214,032,000).[1]

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[1]Two of the calculations require additional discussion. First, the cost pool entitled
"All Processing Other than Distribution" is allied labor and I used the average variability
from the four allied labor activities at the MODS offices as a proxy for this sub-pool.
Second, the cost pool entitled "Manual Sorting-Mixed Shapes" does not break out the cost
by shape. I thus assume that the mixed shaped distribution in this manual cost sub-pool
reflects the distribution across the three shape-specific non-MODS manual sorting sub-
pools. The variability that is applied to the "Manual Sorting-Mixed Shapes" sub-pool is thus
the average variability for the shape-specific manual cost pools in non-MODS offices.

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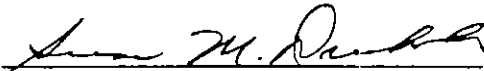| Non-MODS Sub-Pool	MODS-Based Proxy Variablity	Accrued Cost	MODS-Based Variability	Volume-Variable Cost
Manual Letter Sorting	Manual Letter	$844,769	79 7%	$673,281
Manual Flat Sorting	Manual Flat	$379,035	86 6%	$328,244
Manual Parcel Sorting	Manual Parcel	$101,457	39.5%	$40,076
Manual Sorting - Mixed Shapes	Manual Letter, Flat & Parcel	$318,419	78.6%	$250,264
Mechanized Letter Sorting	LSM	$12,528	90.5%	$11,338
Mechanized Flat Sorting	FSM	$2,300	91.8%	$2,112
Automated Letter Sorting - OCR	OCR	$2,279	78 6%	$1,791
Automated Letter Sorting - BCS	BCS	$51,564	94 5%	$48,728
Other Distribution - Express	Express Mail	$14,286	44.8%	$6,400
Other Distribution - Mech Parcels	Mechanized Parcel	$338	90.2%	$305
Other Distribution - SPBS Other	SPBS Non-Priority	$762	46.9%	$357
All Processing Other than Distribution	Average Allied Labor	$486,295	74.5%	$362,280
Total Processing		$2,214,032	77.9%	$1,725,175

DECLARATION

I, Michael D. Bradley, declare under penalty of perjury that the foregoing

answers are true and correct, to the best of my knowledge, information, and belief.

Dated: _August 28, 1997_

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.

Susan M. Duchek

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