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
ADVO, INC.
(ADVO/USPS-T12—1-6)

The United States Postal Service hereby provides responses of witness Degen to

the following interrogatories of Advo, Inc.: ADVO/USPS-T12—1-6, filed on August

22, 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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ADVO/USPS-T12-1. Please refer to Tables 2 and 6 of your testimony,
relating to FY 1996 Clerk/Mailhandler Mail Processing costs.

(a) Please confirm that the only difference between the estimated costs by
subclass shown in these tables is that Table 2 shows results using the "old
methodology" while Table 6 shows results using the "new methodology." If
not, please explain any other differences that affect these estimated costs.

(b) Both Tables 2 and 6 show separate costs for "mixed mail" and "other"
that are not distributed to the subclasses. Please explain separately what
these costs represent.

(c) Do the "mixed mail" and "other" mail processing costs in Table 2 and 6
represent the totality of "mixed mail" and "other" costs, or just a portion of
such costs? If the latter,

　　(1) Specifically describe and quantify what portions of total "mixed
mail" and "other" costs are and are not reflected in these figures.

　　(2) Are some portions of total "mixed mail" and "other" costs already
distributed to the subclasses in these tables? If so, specifically describe and
quantify the type and amounts of such distributed costs, explain how such
costs were distributed, and quantify the amounts so distributed by
subclass/rate category.

(d) Please confirm that combined "mixed mail" and "other" costs constitute
49.6 percent of the total costs shown in Table 2 (old methodology) and 50.3
percent of total costs shown in Table 6 (new methodology). If not
confirmed, please provide the correct percentages and explain how they were
derived.

ADVO/USPS-T12-1 Response.

a. Confirmed, however the terms "old methodology" and "new

methodology" should be clarified as follows. The costs in Table 2 reflect

the "old methodology" in the following way:

- Mail processing is defined in terms of IOCS operation codes

- Costs are determined by summing tally dollar weights by activity code
  (which are "rolled up" to the cost categories shown)

The costs do not reflect the following elements of the old methodology:

- Mixed-mail is not distributed to subclass

- Costs for variable and institutional overhead activities are not identified
  as such

The costs in Table 6 reflect the "new methodology" in the following way:

- Mail processing is defined in terms of new cost pools

- Costs are determined by distributing volume variable costs to activity
  code using IOCS tally dollar distribution by cost pool

- Volume variable costs by cost pool are from Table 4, USPS-T-12

The costs in Table 6 do not reflect the following elements of the new
methodology:

- "Mixed-mail" is defined in terms of the same IOCS activity codes as
  the mixed-mail line of Table 2

- The distribution keys do not reflect distributions of mixed-mail and not-
  handling-mail tallies (with the exception of certain activity code 6521
  costs in the BMC and non-MODS pools).

It should be noted that neither table is employed as an input to the FY
1996 or BY 1996 CRA.

b. Please see my response to TW/USPS-T12-3, and spreadsheet TW-3e in LR-H-219 for a detailed list of the activity codes underlying the mixed-mail and other categories. As explained in part a, the costs in Table 2 are the IOCS tally dollars for tallies with mixed-mail and other activity codes, while the mixed-mail costs in Table 6 are a distribution of volume variable costs to tallies with mixed-mail codes in each of the cost pools.

c. The totality of mail processing tally costs is reflected in Table 2 and the totality of mail processing volume variable costs is reflected in Table 6, according to the respective definitions of mail processing. Some activity code 6521 costs were redistributed to other activity codes in the BMC and non-MODS costs underlying Table 6. Please see Attachment 1 to MPA/USPS-T12-2 for an alternate breakdown of the BMC and non-MODS costs without the redistribution of the 6521 costs.

d. Confirmed. Please note that this does not imply that mixed-mail costs increase under the new methodology, other things equal. For instance, in the old methodology, some "other" costs must be redistributed to mail processing from the administrative and window service components of Cost Segment 3 in the CRA worksheets, since some tallies representing mail processing work (e.g., clocking in or out of a mail processing operation) are assigned administrative IOCS operation codes.

ADVO/USPS-T12-2. Please confirm that the following table accurately reflects, subject to rounding, the differences between the estimated costs shown in your Table 2 (old methodology) and Table 6 (new methodology). If you cannot confirm, please provide a table in comparable format that shows the correct differences.

ADVO/USPS-T12-2 Response.

Confirmed.

Response of United States Postal Service Witness Degen
to Interrogatories of Advo, Inc.

ADVO/USPS-T12-3. Please refer to Tables 5 and 6 of your testimony.

(a) Please confirm that the estimated costs by subclass in Table 6 reflect distributed volume-variable costs by subclass under the "new methodology," before distribution of "mixed mail" and "other" costs to the subclass.

(b) Please confirm that the "Total" column in the last page of your Table 5 reflects distributed volume-variable costs by subclass under the "new methodology," after distribution of "mixed mail" and "other" costs to the subclasses.

(c) Please confirm that the only difference between the estimated total costs by subclass in these two tables is that Table 5 reflects the distribution to the subclasses of the "mixed mail" and "other" costs shown in Table 6. If you cannot confirm, please explain fully why not.

ADVO/USPS-T12-3 Response.

a. Confirmed with the addition that the costs in Table 6 are distributed to

   cost categories ("mixed mail" and "other") in addition to those

   corresponding to subclasses of mail or special services.

b. Confirmed.

c. Confirmed, however note that the data in Table 6 are not an input to the

   programs in LR-H-146, so it is not literally true that the mixed-mail and

   other costs from Table 6 are redistributed to obtain Table 5. Rather,

   Table 5 is based on distribution keys in which mixed-mail and not-

   handling-mail tallies have been distributed to subclass. Table 6 is based

   on distribution keys in which mixed-mail and not-handling mail tallies

   (generally) have not been distributed to subclass.

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ADVO/USPS-T12-4. *Tables 2 (old methodology) and 6 (new methodology)
show estimated costs by subclass before distribution to the subclasses of
the "mixed mail" and "other" costs listed at the bottom of those tables.
Table 5 (new methodology) shows estimated costs by subclass after
distribution of the "mixed mail" and "other" costs. Please provide a table
corresponding to Table 5 showing estimated costs by subclass after
distribution of the "mixed mail" and "other" costs under the* <u>old</u>
methodology.

ADVO/USPS-T12-4.

In the "old methodology," mixed-mail costs are distributed to subclass using

the LIOCATT program. See USPS-T-12 at 4. The relevant LIOCATT output

data may be found in the LIOCATT ALA850P22 report, basic function total,

mail processing functional component, available electronically in the

Microsoft Excel spreadsheet ws03.xls, LR-H-196. The "other" costs are

distributed (or assigned to institutional) in several places in the CRA

worksheets. The closest thing to a distribution of the "other" costs by the

old methodology is the "mail process [variable] overhead (3.1)" column of

the FY 1996 CRA. However, this sub-component is not constructed

identically to the "other" line in Table 2, in part because certain tallies are

redistributed among the Segment 3 cost components in the worksheets. In

Attachment 1 to this response, I computed an "old method" cost distribution

by summing several columns of data in the W/S 3.1.1 section of ws03.xls,

LR-H-196, with the overhead column from the CRA report. This computation

appears to account for most of the IOCS costs in Table 2 which are

distributed to subclass. In addition, the Remote Encoding Center (REC) cost

distribution is included in the attachment to improve comparability with Table

5, which includes REC costs via the LD15 cost pool. As IOCS does not

sample RECs, there are no corresponding IOCS tally costs in Table 2 of

USPS-T-12.

Attachment 1, Response to ADVO/USPS-T12-4

"Old Method" costs with distribution of mixed-mail and variable overhead

Line No.	(1) CLASS, SUBCLASS, SPECIAL SERVICE	(2) LIOCATT Mail Proc.	(3) Remote Encoding Centers 6570	(4) Central Mail Markup (14) 6580	(5) Postage Due (00)	(6) FY 96 CRA Overhead Mail Process	(7) Subtotal	(8) Total
	Column Source			W/S 3.1.1, ws03.xls, LR-H-196		FY 96 CRA	sum c3..c5	sum c2, c3, c7
1	First-Class Mail:							
2	Letters and sealed parcels	4,050,869	282,249	34,786	13,128	1,411,180	1,459,094	5,792,212
3	Presort letters and sealed parcels	865,607	56,905	23,534	1,717	303,196	328,447	1,250,959
4	Postal cards	2,828	0	0	0	905	905	3,733
5	Private post cards	129,523	9,291	2,293	437	45,402	48,132	186,946
6	Presort private post cards	33,469	1,944	808	156	11,893	12,857	48,270
7	Total First-Class Mail	5,082,297	350,389	61,421	15,438	1,772,576	1,849,435	7,282,121
8	Priority Mail	342,552	0	746	602	110,760	112,108	454,660
9	Express Mail	52,740	0	112	556	17,217	17,885	70,625
10	Mailgrams	94	0	0	0	31	31	125
11	Second-Class Mail:							
12	Within County	12,358	0	213	0	3,976	4,189	16,547
13								
14	Regular rate publications	344,216	1,246	7,139	0	114,093	121,232	466,694
15	Nonprofit publications	59,625	0	2,201	0	20,974	23,175	85,800
16	Classroom publications	3,588	0	0	0	1,177	1,177	4,765
17	Total Second-Class Mail	422,787	1,246	9,553	0	140,220	149,773	573,806
18	Third-Class Mail:							
19	Single piece rate	67,860	2,036	3,482	739	22,077	26,298	96,195
20	Bulk rate - carrier presort	201,718	4,735	835	139	61,843	62,817	269,270
21	- other	1,288,309	24,186	3,675	881	392,125	396,681	1,709,177
22	- subtotal	1,490,027	28,921	4,510	1,020	453,968	459,498	1,978,446
23	Bulk rate - nonprofit carrier presort	22,240	0	134	0	6,689	6,823	29,063
24	- other	310,884	4,777	577	263	94,227	95,067	410,728
25	- subtotal	333,124	4,777	711	263	100,916	101,890	439,791
26	Total Third-Class Mail	1,891,011	35,734	8,703	2,022	576,961	587,686	2,514,432

"Old Method" costs with distribution of mixed-mail and variable overhead

Line No.	CLASS, SUBCLASS, SPECIAL SERVICE	LIOCATT Mail Proc. Centers	Remote Encoding 6570	Central Mail Postage 6580 Markup (14)	Due (00)	Overhead Mail Process	Subtotal	Total
	Column Source	W/S 3.1.1, ws03.xls, LR-H-196				FY 96 CRA	sum c3, c5	sum c2, c3, c7
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
27	Fourth-Class Mail:							
28	Parcels (zone rate)	135,356	0	294	169	40,647	41,110	176,466
29	Bound printed matter	65,284	0	773	90	19,718	20,581	85,865
30	Special fourth-class rate	67,691	0	185	400	20,334	20,919	88,610
31	Library rate	15,582	0	26	0	4,646	4,672	20,254
32	Total Fourth-Class Mail	283,913	0	1,278	659	85,345	87,282	371,195
33	Penalty - U.S. Postal Service	68,535	1,909	4,715	820	29,380	34,915	105,359
34 35	Free mail for blind, handicapped, and servicemen	8,475	0	136	0	2,867	3,003	11,478
36	International Mail	195,765	5,045	261	689	66,144	67,094	267,904
37	Total All Mail	8,348,170	394,324	86,925	20,786	2,801,501	2,909,212	11,651,706
49	Total Special Services	142,892	2,107	4,329	26,644	42,692	73,665	218,664
50	Total	8,491,062	396,431	91,254	47,430	2,844,193	2,982,878	11,870,370

ADVO/USPS-T12-5. Column 2 of the following table shows the total costs
by subclass after distribution of "mixed mail" and "other" costs from the last
column of your Table 5 (new methodology). In column 1, please provide the
comparable costs by subclass, after mixed mail/other cost distribution, under
the old methodology. In columns 3 and 4, please provide the absolute and
percentage differences by subclass between the new and old methodology.

ADVO/USPS-T12-5 Response.

Data which may be used to complete the table are provided in Attachment 1

to ADVO/USPS-T12-4.

ADVO/USPS-T12-6. Please confirm that the following table accurately
reflects the differences between the CRA FY 1996 and Base Year
attributable costs by subclass for Cost Segment 3.1, Clerk/Mailhandler – Mail
Processing – Direct Labor. If you cannot confirm, please provide the
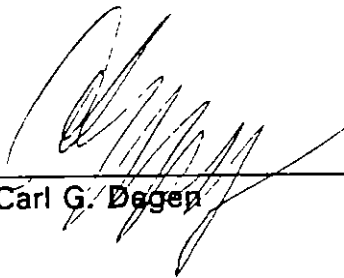corrected costs and differences.

ADVO/USPS-T12-6 Response.

Confirmed subject to the following clarification. The data in the table are the

Cost Segment 3.1 totals from the FY 1996 and BY 1996 CRAs. For FY

1996, this is the sum of the "mail process direct labor (3.1)", "mail process

[variable] overhead (3.1)", and "mail process fixed (3.1)" sub-components.

In the BY 1996 CRA report, the column labeled "mail process direct labor

(3.1)" contains total costs for the mail processing component.

Since the definitions of the cost components that make up Cost Segment 3

has changed, but the definition of Cost Segment 3 has not, I believe that a

more appropriate "apples-to-apples" comparison would be of the "total C/S
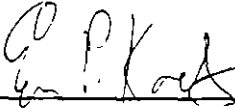
03" columns in the FY and BY CRA reports.

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: 9-5-97

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

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September 5, 1997