

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
ALEXANDROVICH TO INTERROGATORIES OF DIRECT MARKETING
ASSOCIATION, INC. REDIRECTED FROM WITNESS MODEN
(DMA/USPS-T4-27, 28(a), 29, 30(e), 33, 35, AND 37)

The United States Postal Service hereby provides the responses of witness Alexandrovich to the following interrogatories of Direct Marketing Association, Inc.: DMA/USPS-T4-27, 28(a), 29, 30(e), 33, 35 and 37, filed on August 26, 1997, and redirected from witness Moden.

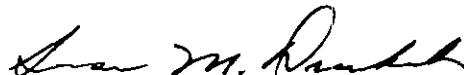
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Susan M. Duchek

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September 9, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ALEXANDROVICH
TO INTERROGATORIES OF DMA
REDIRECTED FROM WITNESS MODEN

DMA/USPS-T4-27. Please describe the peak load cost adjustment in Cost Segment 3 and explain which mail categories and classes are affected by this adjustment. If the affected mail categories include "pref [preferential] mail" and "nonpref [nonpreferential] mail," please describe those terms and which mail classes are included in these categories.

Response:

The peak load cost adjustment or the premium pay adjustment is done for night shift differential and Sunday premium pay for non-BMC mail processing labor costs. As shown in Workpaper A-2 of my testimony, pages 1-4.1, the volume variable night shift differential and Sunday premium pay at non-BMCs are deducted from all classes (excluding special services) and redistributed in the following way. Nonplatform volume variable night shift differential and Sunday premium pay are distributed to "pref mail," or First- Class and Periodicals, in proportion to the non-platform, non-BMC volume variable costs with night shift differential and Sunday premium pay, respectively, for each subclass and category. Platform volume variable night shift differential and Sunday premium pay are distributed to all classes in proportion to platform, non-BMC volume variable costs with night shift differential and Sunday premium pay, respectively, for each subclass and category. See also USPS-T-5 Workpaper A-1, pages 123-126.1, USPS -T-5 Workpaper B-3, Worksheet 3.0.13 and LR-H-146, pages V-13 to V-19. This reduces the night shift differential and Sunday premium pay distributed to "nonpref mail" which is Standard Mail (originally third-class and fourth-class).

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The logic of this adjustment and the general methodology employed is the same as done previously since Docket No. R87-1. As indicated in my response to DMA/USPS-T4-37, the calculations have been modified to be consistent with the testimonies of witnesses Bradley, USPS-T-14, and Degen, USPS-T-12.

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DMA/USPS-T4-28. Please identify, describe and produce all studies or reports conducted since 1988 by the USPS concerning:

- a. the general nature and quantification of mail processing peak load and premium pay costs and the attribution of such costs to mail classes, including:
 - i) whether specific amounts of premium pay costs can be causally related to particular classes of mail.
 - ii) whether specific amounts of overtime costs are causally related to particular classes of mail.
 - iii) whether mail processing capacity is less or greater than demand at particular time intervals, both for total demand and pref mail demand.
- b. the flexibility of mail processing labor capacity, including the use and flexibility of both regular and supplemental staff (including Part Time Flexible employees) and limitations on labor flexibility such as advance notice requirements, restrictions on the use of supplemental labor and limits on overtime (whether due to collective bargaining agreements or otherwise).
- c. mail deferral patterns, including the frequency, length and extent of mail deferral by class and the reasons for such deferral.
- d. mail arrival patterns, including fluctuations in arriving mail volumes by sub-class, by hour, Tour, day, week and AP.
- e. the relationship between mail arrival rates, peak processing requirements and staffing patterns (including staff levels and composition).
- f. the relative productivities of manual, mechanized and automated processing and how such productivity varies with fluctuating mail volumes.

Response:

- a. The Postal Service has no reports or studies on these issues. However, work in this area has been reported in the following papers by staff and contractors of the

Postal Service:

Crew, Michael A., Paul R. Kleindorfer, and Marc A. Smith. "Peak-Load Pricing in Postal Services." *Economic Journal* (September, 1990): 793-807.

Crew, Michael A., and Paul R. Kleindorfer. *The Economics of Postal Service*. Boston: Kluwer Academic Publishers, 1992, pp. 35-91.

Crew, Michael A., Paul R. Kleindorfer, and Marc A. Smith. "Peak Loads and Postal Services: Some Implications of Multi-Stage Production" In *Managing Change in the Postal and Delivery Industries*. Boston: Kluwer Academic Publishers, 1997, pp. 42-64.

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b.-f. Answered by witness Moden.

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DMA/USPS-T4-29. Please explain whether the Postal Service is satisfied that the current peak load cost adjustment methodology is an accurate measure of the mail processing cost differential between pref and nonpref mail.

Response:

The Postal Service is unaware of any reason why the logic of the premium pay adjustment, which has been applied since Docket No. R84-1, is no longer valid.

Thus, the Postal Service is satisfied that the peak load cost adjustment (or premium pay adjustment) is appropriate.

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DMA/USPS-T4-30. Please respond to the following by providing separate answers for (1) nonpref mail in general and (2) Standard (A) in particular:

- a. Please describe the Postal Service's current service standards including when such standards require this mail to be processed.
- b. Please identify, describe, and produce any reports or studies concerning the overall service performance of nonpref mail including the percentage of nonpref mail that meets its service standards and the number of days by which various classes within nonpref mail are delayed beyond their service standards.
- c. Please describe the consequences when nonpref mail does not meet its service standards.
- d. Please confirm that service standards do not require that USPS process nonpref mail during premium pay hours. If not confirmed, please explain fully.
- e. Please confirm that the deferability of nonpref mail lowers peak load costs. If not confirmed, please explain fully.
- f. Please provide a profile of mail processing of nonpref mail by hour, Tour, day, week and AP.
- g. Please explain whether nonpref is routinely deferred to level workloads, including the degree to which it is deferred beyond the peak period in which First Class mail must be processed to meet its service standards.
- h. Please describe, identify, and produce all studies and reports analyzing the extent to which nonpref mail processed during premium pay periods reflects processing voluntarily deferred to those periods.
- i. Please describe, identify, and produce all studies and reports analyzing the extent to which nonpref mail is not responsible for mail processing overtime costs and premium costs related to non-processing functions (such as delivery unit costs).

Response:

a.-d., f.-i. Answered by witness Moden.

e. Confirmed for both nonpref mail in general and Standard A in particular.

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DMA/USPS-T4-33. Please describe the marginal cost differential between processing pref mail and nonpref mail. Please explain whether the service standard differences between pref and nonpref mail (including the facts that pref mail must be processed during premium pay periods and that nonpref mail is deferrable) cause marginal costs for pref mail to be higher than for nonpref mail. If you cannot confirm, please explain fully.

Response:

This is discussed in the testimonies of Drs. Kleindorfer, Panzar and Wells in Docket Nos. R84-1 and R87-1.

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DMA/USPS-T4-35. Please describe, identify and produce any studies or reports conducted by the USPS concerning the causation of premium pay costs outside of mail processing functions (including, but not limited to, delivery units).

Response:

It is my understanding that the Postal Service does not have such studies.

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DMA/USPS-T4-37. Please explain any changes in the Postal Service's proposed cost methodology concerning the mail processing peak load adjustment in R97-1 as compared to the Commission's R94-1 methodology. Please confirm that the base year peak load adjustment conforming to the Commission's R94-1 methodology is reflected in Attachment 1 to the Presiding Officer's Ruling No. R97-1/7.

Response:

It is my understanding that the mail processing premium pay adjustment (or peak load adjustment) used in the FY1996 CRA is the same as that used by the Postal Rate Commission and the Postal Service in previous years. Changes were made to the mail processing premium pay adjustment for the base year as compared to the FY 1996 CRA.

There are two changes which have been made in the premium pay adjustment which stem from the work of witnesses Bradley, USPS-T-14 and Degen, USPS-T-12. The first change is in the calculation of the volume variable premium pay. The variabilities of witness Bradley are incorporated in line 6 of W/S 3.0.13 of my workpaper B-3, based on LR-H-146, pages V-14 and V-17. The second change is in the calculation of the distribution keys for distributing the night shift and Sunday premiums. These distribution keys (which are my Workpaper A-1, Manual Input Requirements, components 544, 659, 660, 655) are the sum of variable costs by cost pool associated with night shift and Sunday pay premiums as developed in part V of LR-H-146.

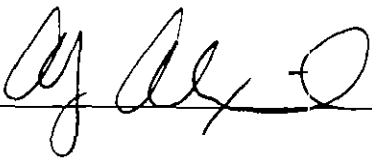
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I am not familiar with Attachment 1 to Presiding Officers' Ruling No. R97-17.

However, to the extent that the Commission seems to believe that Attachment 1
reflects its peak load adjustment, then I have no reason to disagree.

DECLARATION

I, Joe Alexandrovich, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

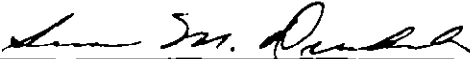


A handwritten signature in cursive script, appearing to read "Joe Alexandrovich", is written above a horizontal line.

Dated: 9/9/97

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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