

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 DIRECT MARKETING ASSOCIATION, INC.
(DMA/USPS-T12-2-8)

The United States Postal Service hereby provides responses of witness Degen to the following interrogatories of the Direct Marketing Association, Inc.: DMA/USPS-T12-2-8, filed on August 29, 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


Eric P. Koetting

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September 12, 1997

Response of United States Postal Service Witness Degen
to Interrogatories of the Direct Marketing Association, Inc.

DMA/USPS-T12-2. Please refer to page 9, line 14 through page 10, line 3 of your direct testimony. Please provide the percentage of mixed mail containers that are "identified containers" and the percentage of containers "for which the contents are not identified." Please also provide the percentage of items that are identified or counted and the percentage of items that are not identified or counted.

DMA/USPS-T12-2 Response.

The following tables provide the requested information.

Volume-Variable Costs (\$000)

Containers	MODS	NONMODS	BMCS	TOTAL	Percent
Direct	22,918	4,108	1,467	28,493	3.29%
Identified 1/	358,811	56,720	23,356	438,887	50.67%
Unidentified 2/	35,651	7,896	5,046	48,593	5.61%
Empty 3/	277,964	51,187	21,038	350,189	40.43%
TOTAL	695,344	119,911	50,907	866,162	100.00%

1/ see LR-H219, TW/USPS-T12-6b, col. for mx_Conts

2/ see Attachment 1, response to TW/USPS-T12-9b, obtained by subtracting vol-var costs for actv code 6523 from total

3/ see Attachment 1, response to TW/USPS-T12-9b, vol-var costs for actv code 6523

Volume-Variable Costs (\$000)

Items	MODS	NONMODS	BMCS	TOTAL	Percent
Direct (incl. counted) 1/	847,154	176,897	46,292	1,070,343	78.46%
Uncounted 2/	52,280	5,540	7,749	65,569	4.81%
Empty 3/	182,933	32,399	12,898	228,230	16.73%
TOTAL	1,082,367	214,836	66,939	1,364,142	100.00%

1/ see LR-H219, TW/USPS-T12-6b, direct items + counted items

2/ obtained by subtracting mx_items col. costs in LR-H219 from total in Attachment 2, response to TW/USPS-T12-9d.

3/ see Attachment 2, response to TW/USPS-T12-9d.

Response of United States Postal Service Witness Degen
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DMA/USPS-T12-3. Please refer to page 6, line 14 through page 7, line 6 of your direct testimony in which you state that "all activities of an employee clocked into a mail processing MODS operation are counted as part of that mail processing operation, even if the data collector observed the employee working somewhere else" and that this method "ensures(s) an accurate distribution" of mail processing costs.

- a. in what way does your revised costing method create a "more accurate distribution" of mail processing labor costs if an employee is actually working in an activity for which he is not clocked in, as noted in the IOCS tally.
- b. If an employee is clocked into a particular activity as reflected in a MODS operation code, what is the probability that he is actually working on that activity?

DMA/USPS-T12-3 Response.

- a. The method described in the referenced section of USPS-T-12 is more accurate in that it ensures consistency between the cost pools and the sets of tallies used to distribute costs.
- b. We do not employ MODS data at the full three-digit level of detail.

Please see witness Bradley's testimony, USPS-T-14 at 25, for discussion.

I believe that the MODS activity at the operation group level and the employee's activity are consistent in the vast majority of cases.

However, the available data do not allow me to compute the requested probability.

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DMA/USPS-T12-4. Please refer to page 7, line 17 through page 8, line 6 of your direct testimony.

- a. For tallies taken at MODS offices, please describe, by cost pool, what percentage of the tallies were based on (1) a valid MODS code; (2) a MODS code assigned by application of IOCS questions 18 and 19; and (3) an IOCS operations code.
- b. With reference to your response to sub-part a. (2), please explain the process by which a MODS code was assigned from IOCS questions 18 and 19.
- c. With reference to your response to sub-part a. (3), please explain how IOCS operations codes were "translated" into MODS operations codes.

DMA/USPS-T12-4 Response.

- a. The requested information may be found in my response to NAA/USPS-T12-1.
- b.-c. The procedure is to associate certain IOCS responses with MODS cost pools. For instance, if the question 19 response is 'B' (OCR), the tally is assigned to the OCR/ cost pool. If the IOCS operation code is '19' ("Registry Only"), the tally is assigned to the Registry cost pool. Note that the IOCS operation code is based on the question 18 response, so the distinction between the two is artificial. Please see LR-H-146 at II-6, and the source code to program MOD1POOL, lines 297-390, LR-H-146. Note that this use of question 18 and 19 responses is to estimate the MODS code *into which the employee was clocked* for the small number of cases where the actual MODS code was missing or invalid.

Response of United States Postal Service Witness Degen
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DMA/USPS-T12-5. Please refer to page 8, lines 14-16 of your direct testimony. Please explain which cost pools do not have adequate workload measures, which "related cost pools" were used as proxies, the process of determining which related cost pools would be used to calculate the relevant cost pool workloads, and the method used to calculate the relevant cost pool workload.

DMA/USPS-T12-5 Response.

Please see witness Bradley's testimony, USPS-T-14 at pages 86-90, for the requested explanation.

Response of United States Postal Service Witness Degen
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DMA/USPS-T12-6. Please refer to page 8, lines 12-14, and footnote 16 of your direct testimony. Please explain whether workload data (including volumes) for allied operations have been collected. If "yes" please provide this data and explain whether you believe this data should be substituted for the use of direct distribution operations data as a proxy for allied operation workload.

DMA/USPS-T12-6 Response.

The collection of workload drivers for some of the allied operations is still work in progress without a final timeline. If cost driver data specific to the allied operation pools were available, I agree with witness Bradley that such data would permit a potentially useful refinement of the approach based on direct operations workload (see USPS-T-14, footnote 8).

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DMA/USPS-T12-7. Please refer to page 9, lines 14, through page 10, line 3, of your direct testimony. Please describe the procedure used by the data collector to allocate the respective column of a mixed mail container. ("identified container") into various shapes and/or items. Please describe the "shapes" and "items" used in this process.

DMA/USPS-T12-7 Response.

Please see my response to OCA/USPS-T12-19.

Response of United States Postal Service Witness Degen
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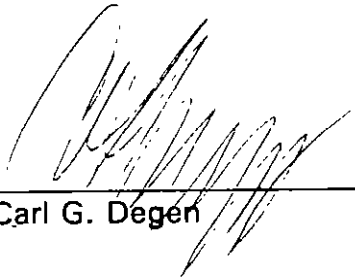
DMA/USPS-T12-8. Please refer to page 9, lines 13 through 17, of your direct testimony. Please explain whether the Postal Service considered distributing volume-variable overhead costs to subclasses across all cost pools as opposed to "within the cost pool where they are incurred." If "yes," explain why you chose to distribute such costs within a given cost pool. If "no," please explain fully.

DMA/USPS-T12-8 Response.

Yes. While distribution keys are formed and volume variable costs are distributed within cost pools, please note that the distribution key formation methodology recognizes that in some cases, the appropriate distribution key for not-handling-mail tallies should be based on direct and distributed mixed-mail tallies across groups of operations which cause those costs. For instance, not-handling tallies in the mail processing support ('1SUPPORT') cost pool are distributed on direct and distributed mixed-mail tallies in all Function 1 mail processing cost pools rather than to the direct and distributed mixed-mail tallies which incidentally fall in the 1SUPPORT pool. Please see LR-H-146 at II-11 and II-15 and the source code to programs MOD4DIST and NONMOD4 for further detail.

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.

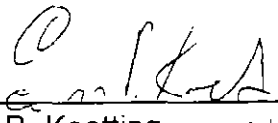


Carl G. Degen

Date: 9-12-97

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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