

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
TIME WARNER, INC.
(TW/USPS-T12-18-23)

The United States Postal Service hereby provides responses of witness Degen to the following interrogatories of Time Warner, Inc.: TW/USPS-T12-18-23, 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.
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September 12, 1997

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

TW/USPS-T12-18. Table T12-18, attached to this interrogatory, presents a breakdown of the mail processing costs attributed by your costing method. The first three columns show cost group number, short name and variability factor, as given in Table 4 of your testimony. The remaining columns break down the attributed costs within each cost group by major groupings of activity codes, based on the data you submitted in spreadsheet TW-3e, as part of your response to TW/USPS-T12-3e. The activity code groups used are: (1) direct (codes 0010-4950); (2) mixed mail (codes 5300-5750); (3) breaks/personal needs (code 6521); (4) clocking in/out (code 6522); (5) empty equipment (code 6523); and (6) all other (codes 5020-5180, 6000-6519 and 6570-6660).

- a. Please confirm that the data in table T12-18 are consistent with your testimony. If you cannot confirm, please provide the necessary corrections and explain why they are necessary.
- b. Please confirm that if for a given cost group with non-zero variability and a given set of activity codes one divides the volume variable costs by the group variability factor, one gets the total mail processing tally costs corresponding to the given cost group and set of activity codes. If you cannot confirm, please explain.
- c. Please confirm that if one divides the mixed mail costs for each group in Table T12-18 with the corresponding variability factor, for all groups with non-zero variability, and then adds up the results, one gets total mixed mail tally costs equal to \$2,839.462 million. Please also confirm that in the LIOCATT output used for the FY96 CRA report the total mixed mail costs for segment 3 (including some non-mail processing costs) are only \$2,670.726 million. Additionally, please explain why your method seems to lead to higher costs for activity codes 5300-5750, even though it presumably is based on the same raw IOCS tallies as those used in the FY96 CRA. In particular, please identify cases where some tallies may have been assigned mixed mail activity codes under one method but not under the other, and any differences in the weighting of individual tallies that may have contributed to this apparent discrepancy.
- d. Please provide an activity code breakdown of the \$148.358 million non-variable costs that your Table 4 associates with cost group 36 (LD48 Adm).
- e. Please confirm that if one divides the "all other" costs for each group in Table T12-18 with the corresponding variability factor, for all groups with non-zero variability, and then adds up the results, one gets total "all other" tally costs equal to \$1,130.957 million. Please also confirm that in the LIOCATT output used for the FY96 CRA report the costs for these activity codes listed under mail processing are only \$599.160 million.

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

- f. Please describe the distribution keys used, in your methodology, to distribute costs associated with each of the following activity codes: 5020-6519 and 6570-6660. Are each of these activity codes distributed separately within each cost group. In particular:
1. Are costs with activity code 6231 (Express Mail) distributed based on direct tally costs within each cost group, or simply attributed to Express Mail? If neither, please explain.
 2. Are costs with Window Service activity codes (5110-5195 and 6000-6200), recorded under mail processing cost groups, distributed based on direct tally costs within each cost group, even to mail subclass that generally do not sue window service? If no, please explain.
 3. Are costs with activity codes 6220 and 6230 (Special Delivery and Registry) distributed based on direct tally costs within each cost group, or simply attributed to Special Delivery and Registry? If neither, please explain.
- g. Under your methodology for distributing mail processing costs, is there any difference in the way that you distribute: (1) non-handling costs associated with a mixed mail activity code (5300-5750); (2) costs associated with activity code 6521; (3) costs associated with activity code 6522; or (4) costs associated with activity codes 5020-5180, 6000-6519 and 6570-6660? If yes, please explain what the differences are.

TW/USPS-T12-18 Response.

- a. Confirmed. However, Table 6 of my testimony, and thus also spreadsheet TW-3e, reflect the new costing method only to a limited extent. Please see my response to ADVO/USPS-T12-1, for discussion.
- b. Not confirmed. If one divides a cost pool's volume variable costs by its variability factor, one obtains the "cost pool costs" (i.e., accrued costs) from Table 4, USPS-T-12. These are not the same as the tally costs derived from the F9250 variable. The tally costs and cost pool costs for a given operation group differ because the cost weighting system (see

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

LR-H-21) computes F9250 based on craft and CAG rather than cost pool.

- c. Not confirmed that IOCS tally costs are \$2,839.462 million. That figure can be interpreted as an estimate of volume variable costs associated with the 5300-5750 activity codes. The issue is not that the tally base for Cost Segment 3 has changed, rather the implicit tally weights have changed because the costs reported in table T12-18 are distributed volume variable costs. The following factors explain the apparent discrepancy. First, the arithmetic exercise by which the \$2,839.462 million figure was calculated does not produce IOCS tally costs, as stated in part b of this response. Second, LDC 15 costs have been distributed to the relatively small number of tallies (including mixed-mail tallies) assigned to the LD15 cost pool, so the implicit dollar weight of mixed-mail tallies in this pool is higher than the tally costs based on the F9250 variable. Third, most activity code 6521 costs in the BMC and non-MODS office groups have been redistributed to other activity codes (including mixed-mail codes), which increases the implicit dollar weights of non-6521 tallies in those pools.
- d. Please see Attachment 1 to this response.
- e. Not confirmed. The "new methodology" costs are a distribution of volume-variable costs to the "other" activity codes, not the IOCS tally

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

costs. Also note that some "other" tally costs have migrated to the mail processing component. As mentioned in my response to ADVO/USPS-T12-1 part d, some such costs were, in fact, redistributed to mail processing in the "old methodology" CRA.

- f. Please see my response to MPA/USPS-T12-1.
 - 1. Activity code 6231 costs are distributed based on direct and distributed mixed-mail tally costs in each cost pool.
 - 2. The specified costs are distributed based on direct and distributed mixed-mail tally costs in each cost pool.
 - 3. The specified costs are distributed based on direct and distributed mixed-mail tally costs in each cost pool.
- g. No.

Table T12-18: Mail Processing Costs Per Cost Group And Activity Code

Group		Variab.	Direct	Mixed	Breaks	In Out	Empty Eq.	All	Total
No.	Name		0010-4950	5300-5750	6521	6522	6523	Other	
1	bes	94.5%	350.232	129.938	86.838	10.682	58.568	7.627	643.885
2	ocr	78.6%	98.832	31.666	24.463	3.255	15.525	2.479	176.220
3	fsm	91.8%	401.956	100.478	99.247	11.866	54.453	8.538	676.538
4	ism	90.5%	460.968	69.137	88.058	11.352	25.277	7.379	662.170
5	1SackS_m	99.1%	7.276	20.478	9.349	1.010	7.189	2.040	47.341
6	mecparc	90.2%	3.401	2.321	1.181	148	1.327	288	8.666
7	spbs Oth	46.9%	31.753	21.456	14.225	2.130	10.472	1.629	81.666
8	spbs Prio	80.0%	16.867	13.083	10.221	947	4.900	356	46.373
9	manf	86.6%	257.511	66.916	76.002	10.088	28.542	6.800	445.858
10	manl	79.7%	691.059	122.965	165.513	26.211	40.901	23.185	1,069.834
11	manp	39.5%	9.302	5.922	3.893	478	3.178	947	23.719
12	priority	44.8%	40.022	25.345	17.353	2.162	11.136	3.667	99.685
13	LD15	100.3%	199.746	94.466	50.470	3.684	18.013	17.160	383.539
14	ISCAN	82.9%	8.761	21.753	8.135	790	4.168	4.502	48.109
15	1Bulk pr	72.6%	2.368	2.073	1.754	152	993	1.131	8.470
16	1CancMPP	65.4%	88.721	46.361	28.707	3.157	14.959	6.250	188.154
17	1SackS_h	52.6%	16.046	37.306	16.719	2.108	13.082	3.755	89.017
18	1OpPref	72.0%	166.403	162.604	94.884	15.019	81.148	16.637	536.694
19	1OPbulk	74.1%	74.537	66.919	42.537	7.569	36.552	5.352	233.465
20	1Platform	72.6%	59.334	316.576	101.567	14.254	110.944	44.582	647.257
21	1Pouching	82.9%	100.422	132.359	62.803	8.610	50.520	8.321	363.035
22	BusReply	79.7%	12.977	1.889	3.235	369	657	5.854	24.981
23	REWRAP	78.6%	3.345	2.996	2.368	233	634	2.668	12.245
24	1EEQMT	78.6%	930	5.801	3.670	550	25.128	3.130	39.210
25	express	44.8%	10.457	3.850	5.544	635	1.413	13.556	35.456
26	Mailgram	79.7%	80	78	0	0	41	95	293
27	1Support	78.6%	5.566	6.275	5.262	1.238	1.240	88.283	107.864
28	1MISC	78.6%	11.258	26.121	10.337	1.456	6.516	47.050	102.737
29	Registry	15.3%	6.667	1.647	2.396	234	739	7.740	19.423
30	INTL	78.6%	39.014	18.632	13.321	974	4.886	9.848	86.675
31	LD41	91.0%	6.750	6.286	1.711	309	1.008	809	16.873
32	LD42	91.0%	947	297	354	16	133	200	1,946
33	LD43	82.0%	189.763	77.008	68.350	7.852	40.752	43.963	427.687
34	LD44	82.0%	60.593	13.584	11.364	1.538	4.338	12.525	103.942
35	LD48 Exp	45.0%	271	43	130	28	14	955	1,441
36	LD48 Adm	0.0%	0	0	0	0	0	0	0
37	LD48 SpS	15.3%	5.247	842	1.594	179	394	8.037	16.292
37a	LD48 Oth	15.3%	4.985	2.004	2.190	358	1.371	8.604	19.512
38	LD49	91.0%	121.731	5.737	32.846	4.067	5.615	59.621	229.618
39	LD79	73.0%	13.658	3.847	8.297	1.514	2.607	68.506	98.430
	MODS Tot		3,579.758	1,667.060	1,176.887	157,220	689,331	554,066	7,824,322
40	Platform	53.0%	18.730	54.055	101	0	15.807	4.773	93.467
41	Allied	54.0%	44.795	55.805	0	0	23.309	1.369	125.278
42	PSM	90.0%	59.120	15.659	0	0	919	0	75.698
43	SSM	99.0%	16.487	12.927	0	0	1.076	0	30.490
44	SPB	73.0%	23.382	14.816	0	0	8.385	0	46.583
45	NMO	67.0%	8.884	7.442	0	0	3,316	0	19,642
	BMC Tot		171.399	160.704	101	0	52.811	6.142	391.158
46	Non-MODS	78.6%	1,243.385	312.274	36.326	4,353	132,182	98,530	1,827,050
	Total		4,994.541	2,140.038	1,213.314	161,573	874,325	658,739	10,042,530

Attachment 1, Response to TW/USPS-T12-18 part d

IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
1st L&P	1	1,274
1st L&P	2	4,929
1st L&P	3	59
1st L&P	5	280
PreL	1	478
PreL	2	1,607
PreL	3	0
PreL	5	78
PCds	1	0
PCds	2	0
PCds	3	0
PCds	5	0
Cds	1	0
Cds	2	152
Cds	3	0
Cds	5	0
PreC	1	0
PreC	2	53
PreC	3	0
PreC	5	0
Priority	1	111
Priority	2	730
Priority	3	0
Priority	5	4
Express	1	561
Express	2	500
Express	3	0
Express	5	0
Mailgrams	1	0
Mailgrams	2	0
Mailgrams	3	0
Mailgrams	5	0
2nd IC	1	0
2nd IC	2	0
2nd IC	3	0
2nd IC	5	0
Reg	1	0
Reg	2	367
Reg	3	49
Reg	5	83
NP	1	0
NP	2	80
NP	3	0
NP	5	0
CL	1	0
CL	2	0
CL	3	0

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IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
CL	5	0
3rd SP	1	51
3rd SP	2	190
3rd SP	3	0
3rd SP	5	0
BRCRT	1	49
BRCRT	2	479
BRCRT	3	0
BRCRT	5	0
BRO	1	316
BRO	2	804
BRO	3	0
BRO	5	211
NPCRT	1	51
NPCRT	2	186
NPCRT	3	0
NPCRT	5	0
NPO	1	98
NPO	2	299
NPO	3	0
NPO	5	59
4th ZPP	1	0
4th ZPP	2	283
4th ZPP	3	0
4th ZPP	5	0
BPM	1	0
BPM	2	107
BPM	3	0
BPM	5	0
SPC	1	0
SPC	2	89
SPC	3	0
SPC	5	0
LIB	1	0
LIB	2	0
LIB	3	0
LIB	5	0
USPS	1	100
USPS	2	51
USPS	3	0
USPS	5	101
Free	1	0
Free	2	0
Free	3	0
Free	5	0
Intl	1	57
Intl	2	160

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IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
Intl	3	0
Intl	5	0
Registry	1	208
Registry	2	306
Registry	3	22
Registry	5	179
Certified	1	469
Certified	2	995
Certified	3	0
Certified	5	51
Insurance	1	62
Insurance	2	0
Insurance	3	0
Insurance	5	0
COD	1	0
COD	2	293
COD	3	0
COD	5	0
Sp Delvry	1	0
Sp Delvry	2	0
Sp Delvry	3	0
Sp Delvry	5	0
Oth SS	1	330
Oth SS	2	1,784
Oth SS	3	0
Oth SS	5	394
5301	1	0
5301	2	0
5301	3	0
5301	5	0
5302	1	0
5302	2	0
5302	3	0
5302	5	0
5303	1	0
5303	2	0
5303	3	0
5303	5	0
5331	1	0
5331	2	0
5331	3	0
5331	5	0
5340	1	0
5340	2	0
5340	3	0
5340	5	0
5341	1	0

Attachment 1, Response to TW/USPS-T12-18 part d

IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
5341	2	0
5341	3	0
5341	5	0
5345	1	0
5345	2	0
5345	3	0
5345	5	0
5460	1	0
5460	2	0
5460	3	0
5460	5	0
5461	1	0
5461	2	0
5461	3	0
5461	5	0
5610	1	296
5610	2	1,603
5610	3	0
5610	5	53
5620	1	0
5620	2	103
5620	3	0
5620	5	0
5700	1	51
5700	2	48
5700	3	0
5700	5	0
5750	1	1,093
5750	2	2,666
5750	3	82
5750	5	1,017
5020	1	0
5020	2	0
5020	3	0
5020	5	211
5040	1	0
5040	2	0
5040	3	0
5040	5	4,625
5050	1	0
5050	2	0
5050	3	0
5050	5	51
5060	1	0
5060	2	0
5060	3	0
5060	5	0

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IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
5070	1	0
5070	2	0
5070	3	0
5070	5	277
5080	1	0
5080	2	0
5080	3	0
5080	5	340
5090	1	0
5090	2	0
5090	3	0
5090	5	59
5110	1	0
5110	2	0
5110	3	0
5110	5	104
5120	1	0
5120	2	0
5120	3	0
5120	5	358
5130	1	0
5130	2	0
5130	3	0
5130	5	0
5170	1	0
5170	2	0
5170	3	0
5170	5	130
5180	1	0
5180	2	0
5180	3	0
5180	5	0
6000	1	0
6000	2	0
6000	3	0
6000	5	1,302
6010	1	0
6010	2	0
6010	3	0
6010	5	2,378
6020	1	0
6020	2	0
6020	3	0
6020	5	1,044
6030	1	0
6030	2	0
6030	3	0

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IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
6030	5	1,105
6040	1	0
6040	2	0
6040	3	0
6040	5	602
6045	1	0
6045	2	0
6045	3	0
6045	5	305
6050	1	0
6050	2	0
6050	3	0
6050	5	116
6070	1	0
6070	2	0
6070	3	0
6070	5	571
6073	1	0
6073	2	0
6073	3	0
6073	5	342
6080	1	0
6080	2	0
6080	3	0
6080	5	278
6110	1	0
6110	2	0
6110	3	0
6110	5	50
6120	1	0
6120	2	0
6120	3	0
6120	5	681
6130	1	0
6130	2	0
6130	3	0
6130	5	111
6140	1	0
6140	2	0
6140	3	0
6140	5	0
6170	1	0
6170	2	0
6170	3	0
6170	5	13,931
6180	1	0
6180	2	0

Attachment 1, Response to TW/USPS-T12-18 part d

IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
6180	3	0
6180	5	78
6200	1	0
6200	2	0
6200	3	0
6200	5	676
6210	1	0
6210	2	244
6210	3	0
6210	5	0
6220	1	68
6220	2	0
6220	3	0
6220	5	132
6230	1	270
6230	2	344
6230	3	0
6230	5	589
6231	1	148
6231	2	181
6231	3	0
6231	5	345
6240	1	80
6240	2	450
6240	3	0
6240	5	262
6270	1	0
6270	2	0
6270	3	0
6270	5	83
6320	1	0
6320	2	0
6320	3	0
6320	5	2,461
6330	1	0
6330	2	162
6330	3	0
6330	5	2,409
6420	1	0
6420	2	150
6420	3	0
6420	5	981
6430	1	0
6430	2	2,725
6430	3	0
6430	5	2,233
6460	1	0

Attachment 1, Response to TW/USPS-T12-18 part d

IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
6460	2	0
6460	3	0
6460	5	294
6480	1	0
6480	2	0
6480	3	0
6480	5	424
6495	1	0
6495	2	0
6495	3	0
6495	5	329
6500	1	0
6500	2	0
6500	3	0
6500	5	99
6511	1	0
6511	2	0
6511	3	0
6511	5	49
6512	1	0
6512	2	0
6512	3	0
6512	5	0
6514	1	0
6514	2	0
6514	3	0
6514	5	0
6516	1	0
6516	2	0
6516	3	0
6516	5	48
6519	1	0
6519	2	0
6519	3	0
6519	5	399
6521	1	0
6521	2	50
6521	3	0
6521	5	12,538
6522	1	0
6522	2	0
6522	3	0
6522	5	1,405
6523	1	890
6523	2	1,689
6523	3	49
6523	5	822

Attachment 1, Response to TW/USPS-T12-18 part d

IOCS tally costs (\$000) assigned to LD48_Adm cost pool, by subclass/activity code and basic function

Class/ Activity Code	Basic Function	LD48_Adm
6570	1	178
6570	2	96
6570	3	0
6570	5	992
6580	1	0
6580	2	1,148
6580	3	0
6580	5	534
6610	1	0
6610	2	0
6610	3	0
6610	5	2,081
6620	1	0
6620	2	0
6620	3	0
6620	5	5,782
6630	1	186
6630	2	222
6630	3	0
6630	5	48,830
6640	1	0
6640	2	0
6640	3	0
6640	5	1,449
6650	1	0
6650	2	0
6650	3	0
6650	5	9,920
6660	1	0
6660	2	0
6660	3	0
6660	5	852

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

TW/USPS-T12-19. According to your spreadsheet TW-3e, and Table T12-18 included with TW/USPS-T12-18, the only costs associated with "breaks/personal needs" at BMC's are \$0.101 million in the "BMC Platform" cost group. Yet, according to Table VII.2 in LR-H-146, BMC costs associated with "breaks/personal needs" were \$114.666 million, of which \$74.419 million were volume variable.

- a. Please confirm that the above reflects a correct interpretation of LR-H-146 and of the data given in spreadsheet TW-3e. If not confirmed, please explain.
- b. Please provide a breakdown, by activity code, cost group and basic function, as those codes are used in spreadsheet TW-7, for the BMC costs that according to Table VII.2 in LR-H-146 are volume variable "breaks/personal needs" costs.
- c. Of the \$1,635.727 million mail processing costs and \$2,009.809 million segment 3 costs shown under activity code 6521 ("breaks/personal needs") in the FY96 LIOCAT, what portions were incurred at BMC's?
- d. When an IOCS clerk observes a BMC employee on "breaks/personal needs", will he record the employee as being on "breaks/personal needs?"
- e. Please explain as fully as possible the apparent discrepancy referred to above between Table VII.2 in LR-H-146 and the data in TW-3e.

TW/USPS-T12-19 Response.

- a., e. Please see my responses to MPA/USPS-T12-2 and ADVO/USPS-T12-3, part c. As I indicated in my response to Advo, the distributed costs in Table 6, TW-3e, and TW-7 are not used as inputs to the BY 1996 mail processing costs in Table 5 of my testimony, USPS-T-12. The Table 6 costs were reported because they were used to compute the coefficients of variation and confidence limits reported therein. Several interrogatories have pointed out small errors in the TW-3e and TW-7 data. Revised versions of these spreadsheets have been filed as TW-

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

3er.xls and TW-7r.xls in LR-H-260. Also, LR-H-260 includes spreadsheet TW-19.xls, which is similar in form to TW-7.xls/TW-7r.xls but which involves no cost redistribution of any sort. I believe that TW-19.xls may be more useful for the types of analyses for which you have attempted to use TW-3e and TW-7. A version of Table 6 from USPS-T-12 that is consistent with TW-3er and TW-7r is attached to this response.

- b. The break/personal needs tallies all have activity code 6521 and are therefore initially assigned to the "Z Breaks" pool in program BMC12. Essentially all (99.96%) of BMC break variable costs are associated with the "other" basic function (see the revised spreadsheet TW-7.xls). The remaining are in the "incoming" basic function. The redistribution does not affect the tallies' activity code or basic function, so the variable break costs for each pool in Table VII.2, on page VII-6 of LR-H-146, are all associated with activity code 6521 and (neglecting the 0.04% "incoming") the "other" basic function.
- c. The following table contains the requested data. To be comparable with the figures stated in the question, all are IOCS tally costs in millions of dollars:

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

IOCS Tally costs, activity code 6521

Category	BMC costs	All offices costs	% BMC
Mail processing	114.827	1,635.727	7.02%
Total C/S 3	134.684	2,009.829	6.70%

d. Yes.

Table 6: FY 1996 Clerks and Mailhandlers – Mail Processing
Estimated Costs and Associated Confidence Limits By Direct Cost Category (NEW methodology)
REVISED

Direct Cost Category	Est. Cost	Est Coefficient of Variation	Lower 95% Confidence Limit	Upper 95% Confidence Limit
First Class				
Letters and Parcels	2,463,776	0.54%	2,437,535	2,490,017
Presort Letters and Parcels	538,176	1.54%	521,968	554,384
Postal Cards	1,660	19.70%	1,019	2,301
Private Mailing Cards	78,218	4.10%	71,929	84,507
Presort Cards	23,069	11.72%	17,769	28,369
Priority	161,903	1.85%	156,026	167,781
Express	24,827	4.77%	22,507	27,146
Mailgrams	50	95.20%	-43	144
Second Class				
Within County	7,710	12.93%	5,756	9,664
Outside County - Regular	202,158	1.75%	195,227	209,090
Outside County - Non Profit	36,468	4.30%	33,395	39,541
Outside County - Classroom	2,103	30.13%	861	3,346
Third Class				
Third Single Piece Rate	37,763	5.84%	33,443	42,082
Bulk - Regular Carrier Route	120,210	3.57%	111,806	128,613
Bulk - Regular Other	750,199	1.09%	734,215	766,182
Bulk - Non Profit Carrier Route	12,186	6.86%	10,548	13,824
Bulk - Non Profit Other	181,672	2.37%	173,237	190,108
Fourth Class				
Parcels - Zone Rate	58,414	2.80%	55,207	61,620
Bound Printed Matter	31,996	4.17%	29,379	34,614
Special Rate	32,344	3.74%	29,976	34,713
Library Rate	7,174	8.69%	5,952	8,396
USPS	39,580	7.17%	34,020	45,140
Free for Blind/Handicapped	4,119	11.01%	3,231	5,008
International	88,680	3.96%	81,795	95,565
Registry	21,150	5.16%	19,009	23,290
Certified	13,888	7.60%	11,820	15,957
Insurance	547	37.68%	143	951
COD	1,565	25.49%	783	2,347
Sp Delvry	146	44.37%	19	273
Other Special Services	50,944	5.90%	45,051	56,838
Mixed Mail	2,142,534	0.61%	2,117,082	2,167,987
Other	2,907,299	0.44%	2,882,312	2,932,286
Total	10,042,530			

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

TW/USPS-T12-20

- a. Is it correct to interpret the table on page VII-8 of LR-H-146 as saying that total segment 3 volume variable "breaks/personal needs" costs in Non-MODS facilities were \$248.145 million, of which \$164.152 million were mail processing related? If no, please explain and give the correct figures.
- b. Is it correct to interpret the data in TW-3e as showing only \$36.326 million in activity code 6521 ("breaks/personal needs") in Non-MODS facilities? If no, please explain and provide the correct figure.
- c. Please explain the apparent discrepancy between chapter VII of LR-H-146 and TW-3e regarding "breaks/personal needs" costs in Non-MODS facilities. Please also provide an activity code breakdown, by basic function, of the costs that are indicated as "breaks/personal needs" costs in chapter VII of LR-H-146 but as something else in TW-3e.
- d. Is it correct to interpret the overhead cost data given in chapter VII of LR-H-146 as giving an overall mail processing overhead factor ("breaks/personal needs", clocking in/out and empty equipment costs divided by all other costs) equal to 31.86%? If no, please provide the figure you believe to be correct. Additionally, please explain how the overhead data given in LR-H-146, part VII, are used in this docket.

TW/USPS-T12-20 Response.

- a. Yes.
- b. Yes. However, the \$36.326 figure reflects a redistribution of most of the non-MODS 6521 costs. Please see my response to MPA/USPS-T12-2 for an explanation.
- c. The total Cost Segment 3 costs and the costs from TW-3e would not be comparable because the latter are for mail processing only. Because of the redistribution of costs in TW-3e, the 6521 costs therein cannot be reconciled with page VII-8 of LR-H-146. Please see my response to MPA/USPS-T12-2 for an explanation. The "missing" 6521 costs are

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

distributed in proportion to the non-MODS costs by activity code/basic function shown in TW-3e. Please note that the non-MODS activity code 6521 total in spreadsheet TW-19 in LR-H-260, in which no cost redistribution was performed, agree with the \$164.152 million figure for Breaks/Personal Needs in the mail processing line of the table on page VII-8.

- d. Please see my response to OCA/USPS-T12-35 for an explanation of the actual use of program NONMODEL in this docket. Without a specific reference I cannot verify the computations by which you determined the 31.86% "overall mail processing overhead factor." Based on data reported in part VII of LR-H-146, the calculation in the table on the following page results in a factor of 32.31%.

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

Development of "overall mail processing overhead factor" from data in LR-H-146, part VII.

total MODS mail processing costs excluding overhead, all pools (LR-H-146 p. VII-5)	5,801,461	total MODS mail processing costs including overhead, all pools (LR-H-146 p. VII-5)	7,824,336
total BMC mail processing costs excluding overhead, all pools (LR-H-146, table VII.1)	273,339	total BMC mail processing costs including overhead, all pools (LR-H-146, table VII.1, total columns e and f)	401,190
total non-MODS mail processing costs excluding overhead (LR-H-146, page VII-8)	1,541,111	total non-MODS mail processing costs including overhead (LR-H-146, page VII-8, numerator of "overhead factor" fraction)	1,851,110
Total mail processing costs excluding overhead	7,615,911	Total mail processing costs including overhead	10,076,636
Overhead factor (costs including overhead / costs excluding overhead)	1.3231		

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

TW/USPS-T12-21. Please refer to Attachment 1 in your response to UPS/USPS-T15-3, in which you show total activity code 6523 (empty equipment) costs equal to \$1,894.604 in million.

- a. Are these costs the volume variable or total 6523 costs?**
- b. Please confirm that in the FY96 LIOCATT output, used in the FY96 CRA report, total code 6523 costs are shown as \$1,071.751 million for mail processing and \$1,136.949 for all of segment 3.**
- c. Please confirm that in TW-3e total volume variable code 6523 costs are shown as \$874.325 million, and that if one divides the code 6523 costs in each cost group with the cost group variability and then adds the results, one gets total code 6523 costs equal to \$1,166.197 million. If you cannot confirm, please explain and give the figures you believe to be correct.**
- d. Are all the \$1,894.804 million code 6523 costs that you gave in the response referred to above empty equipment costs? If no, please explain. If yes, please provide a complete activity code breakdown, by cost group, of these costs.**
- e. Please explain fully the apparent discrepancy between the different estimates of code 6523 costs referred to above.**

TW/USPS-T12-21 Response.

- a. The intended contents of the attachment to USPS-T15-3 were IOCS tally costs (based on the F9250 variable) for activity code 6523, and the table was labeled as such.**
- b. Confirmed, noting that the cost totals reported in the question are IOCS tally costs, not volume variable costs.**
- c. Confirmed. Note, per my response to TW/USPS-T12-18 part b, that the \$1,166.197 million figure does not correspond to the total IOCS tally dollars.**

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

- d. No. *The attachment to UPS/USPS-15-3 was in error and a corrected version has been filed.*
- e. As mentioned in part d, the response to UPS was in error. There will inevitably be some discrepancy between TW-3e and the LIOCATT mail processing tally costs because the LIOCATT report uses the "old methodology" definition of mail processing rather than the new mail processing cost pools, and because of the tally weighting issues discussed in my response to TW/USPS-T12-18 parts b and c.

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

TW/USPS-T12-22

- a. Please confirm that code 6522 (clocking in/out) costs at BMC's are zero according to the data in spreadsheet TW-3e, but equal to \$10.034 million according to chapter VII of LR-H-146, and explain the difference.
- b. Please confirm that code 6522 (clocking in/out) costs at Non-MODS facilities are \$4.353 million according to the data in spreadsheet TW-3e, but equal to \$24.601 million according to chapter VII of LR-H-146, and explain the difference.
- c. Please confirm that on W/S 3.1.1 in witness Alexandrovich's WP-B \$10.037 [sic] in BMC clocking in/out costs and \$24.598 [sic] in Non-MODS clocking in/out costs are added to the total volume variable mail processing costs indicated in your testimony, giving a total of \$10,077.165 million in volume variable mail processing costs. Please also explain how this is possible, given that you presumably analyzed the whole IOCS data base, including any clocking in/out tallies that might have been recorded in BMC's and Non-MODS facilities.
- d. Are the \$4.353 million in Non-MODS clocking in/out costs shown in TW-3e, which already form part of your estimate of volume variable mail processing costs, *distinct and separate from the Non-MODS clocking in/out cost indicted in LR-H-146 and in the Alexandrovich workpapers?* Please explain your answer.
- e. Of the \$288.280 million segment 3 clocking in/out costs indicted in the FY96 LIOCAT, what portion represents clocking in/out cost at BMC's?
- f. If the BMC and Non-MODS clocking in/out costs shown in LR-H-146 are in fact part of the total volume variable costs that you show in TW-3e, then please provide a breakdown of these costs by activity code, cost group and basic function, as those codes are used in spreadsheet TW-7.

TW/USPS-T12-22 Response.

- a. Clocking in/out tallies are assigned IOCS operation code '10', so such tallies are classified as administrative in program BMC12, LR-H-146. The clocking in/out amount in Table VII.1 of LR-H-146 is based on a redistribution of 6522 costs from the administrative to the mail processing component which is performed as part of the CRA process.

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

This redistribution was not performed for any of the tables in my testimony or interrogatory responses.

- b. The volume-variable clocking in/out costs at page VII-8 of LR-H-146 are part of the non-MODS administrative cost pool. The referenced costs in TW-3e are a byproduct of disaggregating the costs from Table 6 of USPS-T-12 to cost pool for the production of TW-3e, and cannot be compared to page VII-8. Spreadsheet TW-19 in LR-H-260, which applies no cost redistribution, indicates that there are zero 6522 tallies in the non-MODS mail processing pool, consistent with page VII-8, LR-H-146.
- c. *Confirmed.* In the old methodology, all activity code 6522 costs—including clocking in/out of mail processing and window service operations—fall under the administrative component based on the IOCS operation code ('10') assigned to 6522 tallies, and must be redistributed to the correct components. The redistribution is carried out in the worksheets which develop the CRA for Cost Segment 3. In the new methodology, clocking in/out of MODS operations is correctly included in the MODS cost pools and associated tally sets, so no redistribution of 6522 costs is needed for the MODS office group. The mail processing cost pools at BMCs and non-MODS are still formed in such a way that a redistribution of 6522 costs is necessary, and a cost redistribution is performed in the CRA worksheets as noted in the question.

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

- d. They are distinct and separate, and are part of an analytical exercise separate from the production of the base year CRA.
- e. The following table contains the requested data.

IOCS Tally costs, activity code 6521

BMC costs	All offices costs	% BMC
18.626	288.280	6.46%

- f. The redistributed activity code 6522 costs for the BMCs and non-MODS offices are not part of the cost pool costs or volume variable costs reported in Table 4 of USPS-T-12, TW-3e.xls, or TW-7.xls.

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

TW/USPS-T12-23. Please assume that a clerk or mailhandler, at the time when he is intercepted by an IOCS clerk, is logged into a mail processing operation, as defined in MODS, and that he is not on a break or in the process of logging in or out. Assume also that the IOCS clerk enters all information about this employee correctly in the CODES system.

a. Under the above assumptions, please describe the IOCS activity codes that will result, assuming the employee is engaged in each of the following activities

- 1. moving one or more empty nutting truck(s);**
- 2. standing or walking with nothing in his hands;**
- 3. hanging empty sacks at a pouching rack;**
- 4. placing an empty hamper or other container to be used as a receptacle for mail at an opening unit;**
- 5. placing destination labels at empty hampers, pouches or other receptacles to be used at opening or pouching units;**
- 6. sweeping the floor;**
- 7. disposing of emptied sacks that will be reused;**
- 8. disposing of emptied pallets that will be reused;**
- 9. disposing of trash;**
- 10. moving an opening belt;**
- 11. drinking coffee;**
- 12. looking at a computer monitor;**
- 13. attending a meeting; or**
- 14. watching a football game on TV.**

To the extent that different activity codes might result under the costing methodologies used in FY96 and BY96, please describe these differences. Also, if the activity code may differ depending on what type of operation the employee is at (e.g. at a letter or flat operation), then please state the activity codes that will result at each type of operation.

b. Part II of LR-H-146 describes the steps used under your methodology to distribute IOCS tally costs. Please identify the steps under which the costs corresponding to each of the activities listed in part a above are distributed, and the program(s) used to perform the distribution. Please also state which activities lead to respectively "uncounted/empty single item", "identified container", "unidentified container" and "not handling" costs, as you use those terms.

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

TW/USPS-T12-23 Response.

- a. There is no difference in how IOCS activity codes are assigned between FY96 and BY96. The complete activity code assignment logic may be found in the programs in LR-H-21, particularly programs ALB040 and ALB105. Several activities listed above do not directly correspond to CODES IOCS options in questions 18-21 (see LR-H-49, especially chapter 11, and the hardcopy documentation to LR-H-23), in some cases because the activities would be performed by custodial or maintenance workers instead. Even if there are no data quality problems (per the preamble to the question), it is not necessarily clear how a data collector would interpret the available CODES IOCS options to classify certain activities, so the resulting activity code cannot be unambiguously specified. Finally, the activities described in subparts 11 and 14 are unlikely to be observed of an employee not on break or personal needs.**

- 1. Activity code 6523 should be assigned.**
- 2. An activity code cannot be determined from the information given. CODES IOCS instructions (LR-H-49, p. 66) are to ignore certain incidental activities of the sampled employee in favor of a labor category that fits the operation to which the employee is assigned. Based on the program ALB040 and ALB105 logic, a variety of activity codes could be assigned, including activity codes 5610,**

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

5620, 5700, 5750 and various 6XXX codes. For instance, activity code 5610 results if the employee is observed at a letter case, OCR, BCS, LSM, or letter facer/canceler, based on the question 19 response. Activity code 5620 results if the employee is at a flat case, FSM, or flat facer/canceler. Of course, in the new methodology, we have information on the type of operation independently via the MODS and BMC cost pools. See LR-H-21, especially program ALB040, for a comprehensive mapping.

3. If the question 20/21 response indicates that the employee is handling an empty sack, activity code 6523 would be assigned. If not, then assuming the question 18d, part 2 response is 'F' ("Hanging sacks"), the activity code that results is 5750.
4. Activity code 6523 should be assigned. This can happen if the question 20/21 response indicates that the employee is handling an empty hamper or other container, or if the data collector responds to question 18d part 2 with option 'H' ("Obtaining equipment for use in an operation...") without indicating a container handling in questions 20/21.
5. There is no CODES IOCS response corresponding directly to this activity. If the question 20/21 response indicates that the employee is handling an empty item or container, activity code 6523 would be

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

assigned. If the employee is not handling a piece of empty equipment, and assuming the data collector responded with one of the question 18c options, activity code 5750 would be assigned.

6. If a clerk or mailhandler were performing an incidental custodial or maintenance activity (say, for safety purposes) while clocked into a mail processing operation, then the data collector should record the appropriate labor category and not the incidental activity. See my response to subpart 2. Note also that there is no CODES IOCS response that corresponds directly to this activity for clerks and mailhandlers.
7. See the response to subpart 4.
8. See the response to subpart 4.
9. See the response to subpart 6.
10. See the response to subpart 6.
11. There is no CODES IOCS response corresponding directly to this activity. If the employee is on an official break, that should be recorded in question 18g, in which case the tally would receive activity code 6521. My understanding is that food and drink are not allowed in work areas, so the scenario you describe should not occur.

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

12. As in subparts 2 and 11, "looking at a computer monitor" is a type of incidental activity. If the employee is looking at a monitor which contains a status display for a piece of automated mail sorting equipment, see the response to subpart 2. A number of question 18g options could also fit, which would result in a 6XXX activity code.
13. If the employee is observed at a safety meeting in question 18g (other activities), the activity code is 6430. A "meeting--other" observation in question 18g would be assigned activity code 6630.
14. I am not aware of any work areas that include television sets. There may be televisions in break rooms. Employees should only be in the break room while on official breaks or while passing through for personal needs, in which case the employee would be observed on break/personal needs in question 18g and the tally would receive activity code 6521.
- b. In subparts 1 and 4, the tally would be distributed as an "unidentified container." The LR-H-146 programs are MOD3CONT, BMC3, and NONMOD3 (step 3). In the "handling" scenario under subparts 3, 7 and 8, the tally would be distributed as an "uncounted/empty single item." The LR-H-146 programs are MOD2ITEM, MOD22ITM, BMC12, and NONMOD12 (step 2). Otherwise, the tally would be distributed as "not-

**Response of United States Postal Service Witness Degen
to Interrogatories of Time Warner, Inc.**

handling." The LR-H-146 programs are MOD4DIST, BMC4, and
NONMOD4 (step 4).

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.

A handwritten signature in black ink, appearing to read "Eric P. Koetting", is written above a horizontal line.

Eric P. Koetting

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September 12, 1997