BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SECKAR TO INTERROGATORIES OF THE AMERICAN BUSINESS PRESS (ABP/USPS–T26—1–5, 7–8, 9(B), 9(D), 10(C), 11–12, 14–17)

The United States Postal Service hereby provides responses of witness Seckar to the following interrogatories of the American Business Press: ABP/USPS–T26—1–5, 7–8, 9(B), 9(D), 10(C), 11–12, and 14–17, filed on September 5, 1997. Interrogatories ABP/USPS–T26—6, 9(A), 9(C), 10(A-B), and 13 were redirected to witness Moden.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-1. Define the term "CRA subclass costs" as used at USPS-T-26, p.10; line 20.

RESPONSE:

The use of the term "CRA subclass costs" at page 10, line 20 of USPS-T-26 is perhaps too general. A more specific description would be "shape-specific CRA line item costs." These costs are the benchmark costs discussed at USPS-T-26, lines 16 through 18 of page 11.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-2. Define and explain the term "de-averaged benchmark costs" as used by you on p. 10, line 21 of your testimony, and on p. 11, lines 16-17 of your testimony.

RESPONSE:

Please refer to my ABP/USPS-T26-1 response for an explanation and definition of benchmark costs. The term "de-averaged benchmark costs" refers to the individual rate category components of the benchmark. For further explanation, please refer to USPS-T-26, page 12, lines 6 through 8.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-3. Define and explain the term "rate category" as used by you at p. 11, line 20.

RESPONSE:

Although line 20 of USPS-T-26, page 11 does not use the term "rate category," this term is used throughout USPS-T-26 to refer to the mail types for which unique rates exist. These are displayed at USPS-T-26, pages 5 through 9, in Table III-1, in column 1, and Tables III-2 through Table-5, in column 2.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-4. By "CRA subclass costs" do you mean in whole or in part the costs that are listed in Tables III-1 to III-5, under the "Actual Mail Makeup" approach? If your answer is anything but an unqualified yes, please define the term "CRA subclass costs" as you use it in these tables and explain what, if any, relation the term has to "actual mail makeup" costs.

RESPONSE:

No. The term "CRA subclass costs" is defined in my response to ABP/USPS-T26-1. The term "CRA subclass costs" has no specific relation to actual makeup costs. Actual mail makeup costs exist at the rate category level, not the CRA subclass level.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-5. Are both the "modeled" and "actual" costs that you refer to on pp. 11-12 derived from the MODS cost pools as developed and distributed by Witnesses Bradley and Degan in this proceeding?

RESPONSE:

No. The term "modeled" as used on page 11, lines 20 through 22, refers to a weighted combination of piece distribution and bundle sorting costs as developed in the models. For further details, please refer to USPS-T-26, page 23, lines 21 through 23, and page 24, lines 1 through 2. These costs are not derived using MODS cost pools.

Pages 11 and 12 of USPS-T-26 make no reference to "actual" costs. However, if the reference is to the actual mail makeup and their associated costs, a discussion of these is provided on pages 11 through 12. These costs are generated using, in part, benchmark costs that are comprised of MODS cost pools. The benchmark costs, and subsequently the MODS cost pools, as used in USPS-T-26 are obtained from the analysis presented in LR-H-106. Please refer to LR-H-106, page III-5 for the source of the MODS cost pools in the benchmark costs.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-6. On p. 13, lines 4 and 19-21, you observe that automated and non-automated flats have different mail makeup, density, and eligibility requirements.

a. Could the difference be explained in part by the greater incentive, for example, for periodicals that currently are non-automated and sacked to consolidate 3-digit and 5-digit packages in 3-digit and 5-digit sacks, as compared with packages of automation-compatible periodicals, as shown in Table A-2, Ex. USPS-T-26J p. 4.

b. Will the increased ability to sort flats mechanically that are now nonmachinable, by deployment of the FSM 1000, reduce the makeup differences between flats that are now automated and those that are not? Please explain your response.

RESPONSE:

Redirected to witness Moden.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-7. Referring to Table A-2, USPS-T-26J, please define a "basic" presort level for containers.

RESPONSE:

The term "basic container presort level" is used to refer to any container that contains mail which receives the basic rate. Mixed ADC and ADC containers are basic presort level containers in the Test Year. Mixed states, state, optional SDC, ADC, optional SCF, and non-unique three-digit containers are basic presort level containers found in the Periodical Mail Characteristics study as summarized on pages 43 through 47 of LR-H-134, Sections 2 and 3.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-8.

a. Please define and explain your term "CRA adjustment factors" (p. 14, line 23).

b. Do the mail processing costs "beyond piece sorting and bundle sorting" (p. 14, lines 22-23), which comprise "constant" mail entry costs, include all costs included in cost Segment 3, except for piece distribution and bundle sorting?

RESPONSE:

a. For a complete discussion of CRA Adjustment factors, including their development, purpose, and application; please refer to Section IV(E) of USPS-T-26. As discussed on lines 18 and 19 of USPS-T-26, page 24, "The proportional benchmark cost is divided by the weighted modeled cost to form a proportional adjustment factor to the CRA level." This factor is used to adjust the weighted modeled costs so that they reconcile with the proportional CRA-benchmark cost, and is the proportional CRA adjustment factor. The fixed element of the benchmark cost is the fixed CRA adjustment factor. These two factors are the "CRA adjustment factors" referred to at line 23 of page 14.

b. No. Cost segment 3 contains window service and administrative costs in addition to mail processing costs. Please see USPS-T-5, Exhibit A, pages 19 through 22 for further detail on cost segment 3 components. Further, It is important to remember that piece distribution and bundle sorting costs contained in the modeled costs could be more or less than the piece distribution and bundle sorting costs contained in the proportional

benchmark cost, for reasons discussed by witness Daniel in response to POIR No.1 Question 8.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-9. On p. 16 of your testimony, lines 15-17, you state that for "all basic rate flats mail," piece distribution included in the models includes outgoing primary and secondary operations, the ADC, the SCF, the incoming primary and secondary operations.

a. Describe in detail the operations that are performed at the ADC.

b. Does the model assume that incoming primary and/or secondary operations are not done at a SCF?

c. Do SCF operations include, in actual practice, incoming and secondary functions that otherwise would be performed at a five-digit delivery station or branch? If your answer is affirmative, please supply whatever statistics are available to describe the percentage of flats and/or periodicals for which incoming primary and secondary distribution is done at sectional facilities centers.

d. If the basic flats mail is dropshipped to an ADC or to a SCF, how would the model change?

RESPONSE:

a. Redirected to witness Moden.

b. No.

c. Redirected to witness Moden.

d. No changes need to be made to the model for those instances when flats of the appropriate presort level are dropshipped to an ADC or an SCF. In such instances the subset of operations the mail requires depends upon the specific presort levels of the dropshipped mail. The models account for the presort level of all mail, both dropshipped and other, through the use of the mail entry compositions.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-10. On p. 19, USPS-T-26 (lines 9-10), you refer to packages in 3-digit sacks that need to be sorted to containers for transfer to incoming primary or secondary operations, or for dispatch to delivery units.

a. If "dispatch to delivery units" occurs for packages originally enclosed in 3-digit sacks, does this mean that the incoming primary and secondary distribution could be made either at the SCF or at the delivery unit at a branch or station?

b. If the response to (a) is affirmative, explain why distribution is done at an SCF rather than at a "delivery unit" at delivery station or branch.

c. By "delivery unit," do you mean the in-office carrier piece distribution operation or all piece distributions made by clerks and by carriers at the delivery five-digit post office or station?

RESPONSE:

a. Redirected to witness Moden.

b. Redirected to witness Moden.

c. I use the term "delivery unit" to refer to a unit at which carriers conduct delivery activities. However, the reference is to incoming secondary sorting for 5-digit bundles and opening unit activities for carrier route bundles. These activities are performed by clerks and mail handlers, rather than carriers.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-11.

a. Please explain why 50.8% of all 5-digit bundles require bundle sorting or opening unit preparation prior to going to the incoming secondary operation and why 49.2% of these bundles do not (USPS-T-26, p. 19, line 24.)

b. Does the distribution and opening unit preparation described in lines 22-25, at page 19, of your testimony take place only at the destination SCF, or could it occur at a delivery station or branch, or at both types of facilities?

c. Please confirm that your responses to 12(a) - (b) also apply to 3-digit containers (p. 20, lines 10-14). If there is a distinction between 3 and 5-digit bundles distribution (as distribution is described in responses (a) - (b)), please identify and explain what they are.

RESPONSE:

a. The 50.8 percent figure reflects the percentage of time that 5-digit bundles receive a bundle sorting and/or opening unit preparation prior to going to the incoming secondary operation. The remaining 49.2 percent of the time, 5-digit bundles are sent directly to the incoming secondary operation, where any bundle sorting and/or opening unit preparation occur as part of the incoming secondary operation.

b. Both. If the incoming secondary operation takes place at the SCF, then the bundle sorting and/or opening unit preparation described in lines 22-25 at page 19 of USPS-T-26 takes place at the SCF. If the incoming secondary operation takes place at a delivery station or branch, the bundle sorting and/or opening unit preparation can take place at either type of facility.

c. If this question is referring back to subparts a and b of interrogatory ABP/USPS-T26-11 and not subparts a and b of interrogatory ABP/USPS-

T26-12, then confirmed. At the point prior to the incoming secondary operation, all mail has been sorted to the 5-digit level. Thus, at that point, it does not matter if the mail began in a 3-digit container, or any other container presort level.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-12. What is meant by the term "presort pallets," as used on p. 22, line 1, and what kind of pallet is not a presort pallet?

RESPONSE:

I use the term "presort pallets" to refer to any pallet of mail entered by a mailer that has been presorted to a valid level.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-13.

a. In your discussion of carrier route mail distribution, how would the handling in opening unit and bundle distribution operations referred to at USPS-T-26, p. 22, lines 6-12, differ if carrier route packages were placed on ADC, SCF, 3-digit and 5-digit pallets or enclosed in sacks sorted to the foregoing presort levels?

b. After a pallet is broken up, are the packages on the pallet re-containerized by USPS at the particular facility to which the pallet was sent?

RESPONSE:

a - b. Redirected to witness Moden.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-14.

a. Is the "fixed element of the benchmark cost" as used on p. 25, USPS-T-26, a volume variable cost or an institutional cost?

b. If it is a volume-variable cost, why is the cost not "affected by work sharing levels" as stated at p. 25, lines 5-6?

c. Referring to USPS-T-14 (Bradley), Table 1 at 9, explain why MODS-derived platform costs, which are shown to have a variability of volume of 73%, are included in the "proportional benchmark," USPS-T-26, p. 24, line 18, and are also included in the "fixed" element of the benchmark cost, which is added to each of the rate category costs. USPS-T-26, p. 25, lines 4-7.

RESPONSE:

a. It is volume variable. The benchmark includes all volume variable mail processing costs that are captured in the CRA for a specific product by shape. Therefore, the benchmarks include all direct and indirect volume variable mail processing costs. Because the fixed element of the benchmark cost represents a portion of the benchmark cost, it too is volume variable.

b. The term "fixed" is in reference to worksharing levels, not volume. Volume variable costs vary with volume. They can be either fixed, in which case they do not vary according to worksharing levels, or they can be proportional, in which case they vary according to worksharing levels. Please refer to witness Hatfield's response to POIR No.1, Question 7 for further discussion of fixed and proportional costs.

c. Page 5 of Exhibit USPS-T-26A and page 6 of Exhibit USPS-T-26B through Exhibit USPS-T-26E display the treatment of platform costs as fixed costs. The references cited in the question do not discuss platform

costs. Therefore, it is unclear what information within USPS-T-26 suggests that platform costs are in the proportional benchmark and the fixed benchmark costs.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-15. Please clarify your statement on p. 26, USPS-T-26, lines 5-6, that periodicals data exist only for the automation and non-automation types in contrast to "machinable and non-machinable" data for First-Class and Standard A, given that USPS-T-26F displays three tables, at pp. 4-6, each of which lists costs for machinable and non-machinable periodicals.

RESPONSE:

The paragraph spanning lines 2 through 6 on page 26 of USPS-T-26 discusses mail entry compositions that are derived from mail characteristics data. Thus, the statement in question details the level at which Periodicals mail entry compositions exist. Unique Periodicals mail entry compositions exist for automation mail and nonautomation mail. This is a direct result of unique sets of Periodicals mail characteristics data existing only for automation mail and nonautomation mail. Please refer to LR-PRR-2 in Docket No. MC96-2, and LR-H-190 for further details.

The mail entry compositions for First-Class and Standard Mail (A) are unique for three types of mail: automation mail, machinable mail, and nonmachinable mail. As shown on lines 3 through 4 of USPS-T-26, "This is a result of the First-Class [Mail characteristics] data and the Standard Mail (A) [mail characteristics] data existing for all three mail types: automation, machinable, and nonmachinable." Please refer to LR-H-134, Sections 1 through 4 for an illustration of how the mail entry compositions are used to generate costs for the different mail types.

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-16.

a. Is the source of the bar-coded volumes for regular rate periodicals shown in column 1 (USPS-T-26, p. 7) in the constant mail entry model the same source for volumes shown as part of the TYBR billing determinants for regular rate automation periodicals flats, USPS-T-34, Work paper RR-F, p. 1?

b. If your answer to part "c" is negative, identify both sources.

RESPONSE:

a. If the citations in this question are meant to be to LR-H-134, Section 2, page 8, column 1and USPS-T-34, Workpaper RR-E, p. 1, then yes, they have the same source.

b. Not applicable, however, there is no subpart (c).

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO
INTERROGATORIES OF AMERICAN BUSINESS PRESS

ABP/USPS-T26-17.

a. In connection with your discussion of planned test year equipment development, do you assume that the test year deployment of FSM 1000 will include bar-code readers affixed to the 221 FSM 1000 machines that you describe at USPS-T-26, p. 34?

b. If your answer to part (a) is affirmative, do the costs for "automation basic flats" shown in the appendices to your testimony take into account additional productivity and cost savings achievable by deployment of bar-code readers combined with the FSM 1000?

c. If your answer to part (b) is affirmative, what are the additional projected savings?

d. If your answer to part (a) is negative, do you agree that FSM 1000 machines with Bar-Code Readers would have productivities that would produce lower unit costs in the flow model than are currently shown in your exhibit, USPS-T-26B?

RESPONSE:

a. No.

b. Not applicable.

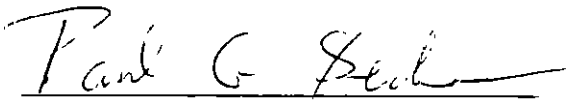
c. Not applicable.

d. Although I have not studied the FSM 1000 equipped with a Bar-Code Reader, I do not believe machinable nonbarcoded mail would be affected. The automation mail would have lower costs if the productivity with the Bar-Code Reader were higher than the FSM 1000 without the Bar-Code Reader. The nonmachinable mail would have lower costs if the productivity with the Bar-Code Reader were higher than the FSM 1000 without the Bar-Code Reader and some of the nonmachinable mail had mailer-applied barcodes. The lower costs in both cases are contingent

upon the rate structure not changing when the Bar-Code Reader is deployed.

DECLARATION

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



Date: September 19, 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.

for Kenneth N. Hollies

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