

DOCKET SECTION

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 THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS DEGEN
AND MOTION FOR LATE ACCEPTANCE (OCA/USPS-T12-61 AND 62)

The United States Postal Service hereby provides responses of witness Alexandrovich to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T12-61 and 62, filed on September 11, 1997 and redirected from witness Degen.

The Postal Service also moves that these responses be accepted one day late. In preparing the responses, it was discovered that there were certain minor errors in the premium pay adjustment, and the extra time was used to prepare an Attachment showing the impact on base year volume variable costs.

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


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Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990; Fax -5402
September 26, 1997

Response of United States Postal Service Witness Alexandrovich
to
Interrogatories of OCA
(Redirected from Witness Degen, USPS-T12)

OCA/USPS-T12-61. Please refer to the response to DMA/USPS-T4-27. This response states that witness Alexandrovich's Workpaper A-2 performs the premium pay adjustment and distributes the volume variable night shift differential and Sunday premium pay to "pref mail" or to all classes depending on whether the premium pay was for nonplatform or platform work. In response to DMA/USPS-T4-37, witness Alexandrovich states that the distribution keys for premium pay are developed in part V of H-146.

- a. Please describe the process used to redistribute premium pay.
- b. Please provide formulas describing the distribution keys developed in H-146 for use in distributing premium pay.

Response to OCA/USPS-T12-61

- a. The first step in redistributing premium pay is the computation of the non-BMC volume variable night-shift differential and Sunday premium pay which is the amount of premium pay to be redistributed. Total night shift differential and Sunday premium pay are shown in my Workpaper B-3, W/S 3.0.13, line 5. The percentages of these costs which are volume variable non-BMC mail processing, is given at line 6. These percentages are derived as follows. LR-H-146, page V-14, shows the percentage of clerk and mailhandler direct tallies involving night-shift differential premium pay which is for mail processing at non-BMCs to be 96.31. When multiplied times the average mail processing labor variability for MODS 1 & 2 operations of 76.5 (see witness Degen, USPS-T-12, Table 4) this provides 73.68 percent as shown at page V-14. This differs from that reported at W/S 3.0.13 line 6 (73.45%) due to not updating this workpaper on the last base year revision. Attachment 1, however, shows

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that the impact, of correcting this and the other inputs noted below, on volume variable costs is minimal. LR-H-146, page V-17, shows the percentage of clerk and mailhandler direct tallies involving Sunday premium pay which is for mail processing at non-BMCs to be 92.35. When multiplied times the average mail processing labor variability for MODS 1 & 2 operations of 76.5 (see witness Degen, USPS-T-12, Table 4) this provides 70.65 percent as shown at page V-14. This differs from that reported at W/S 3.0.13 line 6 (70.44%) due to not updating this workpaper on the last base year revision. The percentages of line 6 are applied (multiplied) to line 5 to obtain line 7, which are the amounts to be deducted from all classes (except special services) and redistributed (as done in my workpaper A-2, pages 1-4 and as indicated in my previous response to DMA/USPS-T4-27). The corrections noted above change the amount of premium pay to be deducted and redistributed from \$424,652,000 (as indicated in my workpaper A-2, page 2) to \$425,965,000. The associated change in volume variable costs, as noted above, is shown in Attachment 1.

The second step is to divide the night shift differential and Sunday premium pay between non-platform and platform. This calculation is done in conjunction with developing the distribution keys. For night shift differential premium pay, direct tallies for non-BMC facilities during the

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hours when night differential applies are divided between platform and non-platform in two ways. For MODS facilities, platform tallies are those defined to be in the platform cost pool (see LR-H-146, program MOD1POOL, lines 108 and 299 to 368) and non-platform are the remainder. For non-MODS platform tallies are those traditionally associated with opcodes 7 and 8 (as shown at LR-H-146, program PREMITOT, lines 222 to 223). The volume variable cost for each direct tally (as defined in Mr. Degen's response to TW/USPS-T12-24a) is summed for platform and non-platform tallies, respectively, resulting in costs of 35,853 and 2,470,480, as shown in LR-H-146, pages V-14 to V-16. These costs are to be used in my Workpaper B-3 W/S 3.0.13 lines 8 and 9 to compute the percentage of night shift differential premium pay for platform and non-platform as shown in line 11 and 12 and as developed in lines 14 and 15. In fact, 35,799 and 2,469,942 are used due, again, to not updating these inputs on the last revision of the base year. These weighted direct tally costs by CRA line, shown in LR-H-146, pages V-15 to V-16 for First-Class and Periodicals are used to distribute the W/S 3.0.13 line 14 nonplatform night shift differential premium pay as shown in my workpaper A-2, pages 1-4. Again, there is a slight difference in the distribution keys used in my workpaper A-2 as compared to those shown in LR-H-146, pages V-15 and V-16 for the reasons indicated above.

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The same method is used to split Sunday premium pay between platform and non-platform (see LR-H-146 pages V-18 to V-19) and distribute the non-platform Sunday premium pay (at W/S 3.0.13, line 14) as shown in my workpaper A-2, pages 1-4. The minor corrections discussed in connection with the distribution of night shift premium apply to the distribution of Sunday premium as well. As noted above, the change in volume variable costs of making these corrections is shown in Attachment 1.

- b. The distribution keys used to distribute premium pay, shown in LR-H-146 pages V-15 to V-16 and V-18 to V-19, are the volume variable costs for the direct tallies which are divided between platform and non-platform and by CRA category or line. The volume variable costs for a tally are as defined in Mr. Degen's response to TW/USPS-T12-24a. That response shows the formula for the computation of volume variable cost for a tally. This formula is also defined in LR-H-146, program PREMITOT, lines 49-62 for non-MODS and lines 164-168 for MODS. The direct tallies are divided between platform and non-platform as described above in subpart a.

Estimated Impact on Base Year Volume Variable Costs by Category
Due to Correcting for Minor Errors in Premium Pay Adjustment

	Net Impact	Total Volume Variable Costs in USPS-T-5
First Class:		
Letters and Parcels	305	12,046,631
Presort Letters	26	3,804,528
Single Piece Cards	9	429,135
Presort Cards	5	125,994
	-	-
	-	-
Priority Mail	(14)	1,584,229
Express Mail	(6)	342,623
Mailgrams	0	432
	-	-
	-	-
Second Class:		
In-county	(2)	75,056
Outside County:		
Regular	16	1,448,904
Nonprofit	3	317,766
Classroom	0	14,874
	-	-
	-	-
Third Class:		
Single Piece	(11)	188,355
Regular Car Rt Presort	(35)	1,821,927
Regular Other Presort	(196)	4,164,366
Non-prof Car Rt Presort	(2)	136,575
Non-profit Other Presort	(49)	969,720
	-	-
	-	-
Fourth Class		
Zone Rate Parcel Post	(20)	694,997
Bound Printed Matter	(10)	285,041
Special Fourth	(9)	226,526
Library Rate	(2)	47,835
	-	-
	-	-
Penalty Mail USPS	(4)	196,097
	-	-
	-	-
Free Mail	1	26,406
	-	-
	-	-
International Mail	(5)	1,158,518
	-	-
	-	-
Registry	-	83,098
Certified	-	283,016
Insurance	-	36,296
COD	-	19,683
Special Delivery	-	3,494
Money Orders	-	122,986
Stamped Envelopes	-	10,930
Special Handling	-	1,136
Post Office Boxes	-	529,560
Other	-	146,217
	-	-
TOTALS	0	31,342,951

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OCA/USPS-T12-62. In response to DMA/USPS-T4-27, witness Alexandrovich explains how the volume variable night shift differential and Sunday premium pay at non-BMCs are redistributed. He goes on to state in response to DMA/USPS-T4-29 that "the Postal Service is satisfied that the peak load cost adjustment (or premium pay adjustment) is appropriate."

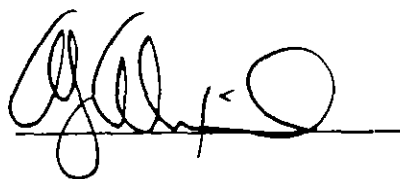
- a. Please explain the distinction between volume variable and nonvolume variable premium pay.
- b. Please explain why any portion of premium pay should not be volume variable.
- c. Please explain why any portion of peak load cost should not be volume variable.

Response to OCA/USPS-T12-62

- a. The distinction between volume variable and nonvolume variable premium pay is the same as the distinction between volume variable and nonvolume variable non-premium or regular pay.
- b. The basis for nonvolume variable premium pay is the same as the basis for nonvolume variable non-premium pay or regular pay. If premium pay grows less than proportionally with increases in volume (in total or per volume in particular), then a portion of accrued premium pay is non-volume variable. An implicit assumption in our methodology is that the volume variabilities obtained by witness Bradley, USPS-T-14, for each cost pool apply to all costs within the cost pool.
- c. Please see my response to subpart b. The only "peak load cost" (as I understand the term) that is included in the base year that is the subject of my testimony are those relating to the premium pay adjustment.

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 black ink, appearing to read "Joe Alexandrovich", written over a horizontal line.

Dated: 9/26/97

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.



Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990; Fax -5402
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