

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 BRADLEY (USPS-T-14) TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA (MPA/USPS-T14-1-5)

The United States Postal Service hereby provides responses of witness Bradley (USPS-T-14) to the following interrogatories of Magazine Publishers of America: MPA/USPS-T14-1-5, filed on September 17, 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



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October 1, 1997

Response of United States Postal Service Witness Bradley
to
Interrogatories of MPA

MPA/USPS-T14-1. Please refer to your statement on page 6 of your testimony that “witness Degen has disaggregated total mail processing labor costs into activity-specific cost pools. I follow his approach and estimate cost elasticities at the activity level”.

- a. Did you conduct any independent appraisal of the appropriateness of Witness Degen’s activity-specific cost pools for your variability analysis. If yes, please explain your analysis and provide any written documentation of your assessment. If no, please explain why you did not.
- b. If you did not conduct any independent analysis of the activity-specific cost pool disaggregation, please describe the type of analysis you would have undertaken to determine whether, and how, to disaggregate mail processing labor costs, had you done so.

MPA/USPS-T14-1 Response:

- a. Yes. As I explain on page 27 of my testimony:

In estimating econometric equations, I was faced with a choice of the appropriate level of analysis. One important consideration in making that choice is the homogeneity of the cost driver. It is preferable to specify a model in which the cost driver represents a relatively homogeneous activity. In the technology of mail processing, this homogeneity occurs at the level of the activity, like manual letter sorting or mechanized flat sorting. The cost driver is essentially the same for all of the individual operations within this activity, but is very different across activities. I thus chose to estimate the equations at the level of the activity.

In addition, because of the local variations in recording hours and volume described above, the MODS data are most reliable at the level of the activity. The activity is defined as a group of three-digit MODS codes all associated with the same technology. For example, workers “clock in” to an operation and a site records those hours under that three-digit code.

Response of United States Postal Service Witness Bradley
to
Interrogatories of MPA

Workers clock into the piece of equipment that they are working on, but may or may not "relock" when the sort scheme is changed. For this additional reason, I pursue my econometric analysis at the activity level.

- b. Not applicable.

Response of United States Postal Service Witness Bradley
to
Interrogatories of MPA

MPA/USPS-T14-2 Please refer to pages 7-8 and 90 of your testimony where you discuss activities for which you were unable to estimate cost elasticities, in particular activities at non-MODS offices and sorting of mail at stations and branches and your selection of proxy variability for these costs.

- a. Does the system variability from MODS offices apply to both non-MODS offices and stations and branches of MODS offices? If not, what is the variability for stations and branches.
- b. Please describe any alternative variability assumptions or calculations you considered for non-MODS offices. Please explain why you rejected each alternative considered.

MPA/USPS-T14-2 Response:

- a. The system variability is applied to non-MODS offices. In the case of stations and branches for MODS facilities, I used the variability from the corresponding MODS activity. For example, for manual sorting at stations and branches I recommended using the MODS variability for manual letter and flat sorting. A complete listing of the proxy variabilities used for stations and branches is provided in Table 20 on page 90 of my testimony.
- b. Please see the response to OCA/USPS-T14-1.

Response of United States Postal Service Witness Bradley
to
Interrogatories of MPA

MPA/USPS-T14-3 Please refer to your testimony at page 12 where you discuss the appropriateness of using MODS hours by accounting period as the dependent variables in your labor cost equations. Please confirm that using accounting period data will not capture the variability of mail processing labor costs within an accounting period. If you do not confirm, please explain.

MPA/USPS-T14-3 Response:

Not confirmed. I agree that by using accounting period data, I cannot describe the short-term dynamics of mail processing labor costs within the month. However, certain types of variability will be captured by the accounting period data. For example, if piece handlings for each week in a particular accounting were higher than the values for the same week in the previous accounting period, then the measured piece handlings for that accounting period would exceed those of the previous accounting period.

Response of United States Postal Service Witness Bradley
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Interrogatories of MPA

MPA/USPS-T14-4 Please refer to page 13 of your testimony where you describe the inclusion of a lagged TPH term in your equations and page 55 where you discuss coefficients for the lagged piece-handling terms.

- a. Please provide all sources of information on which you relied to conclude that “The nature of the labor adjustment process in mail processing facilities is such that current staffing may depend not only upon volume in the current period but also upon volume in the previous period.”
- b. Please explain in which “cases” the coefficients on the lagged piece-handling terms are “still important” even though they are much smaller than the current piece-handling coefficients.
- c. Please confirm that because you add the current and lagged terms to calculate the elasticity, the net effect of adding the lagged piece-handling term to your analysis is to increase variability estimates for each activity-specific cost pool. If you do not confirm, please explain fully.

MPA/USPS-T14-4 Response:

- a. Please note that the statement is not a conclusion but a proposition. The basis for the proposition that staffing may depend upon volume in the previous period was based upon the expert opinion of mail processing operations experts.
- b. The cases I was referring to were those mail processing activities in which the size of the estimated coefficient on the lagged piece handling term was material.

Response of United States Postal Service Witness Bradley
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- c. Not confirmed. Confirmation would require assuming that the sum of the coefficients on the current and lagged piece handling terms when the model is estimated with both included would exceed the coefficient on the current coefficient when the lagged term is excluded.

Response of United States Postal Service Witness Bradley
to
Interrogatories of MPA

MPA/USPS-T14-5 Please refer to page 18, footnote 8, of your testimony where you discuss the difficulty of measuring workload for allied activities at MODS offices.

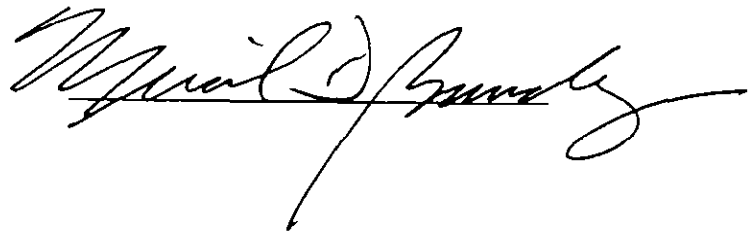
- a. Please provide any written reports or papers you prepared for the Postal Service discussing possible future research on direct cost drivers for allied activities.
- b. Please describe your involvement, if any, in the preliminary study underway to begin to collect data on direct cost drivers for the platform.

MPA/USPS-T14-5 Response:

- a. I have not written any such reports or papers.
- b. During formulation of the study, I was involved in discussions about what the appropriate cost drivers might be. I have not been involved in the study since it began.

DECLARATION

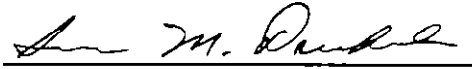
I, Michael D. Bradley, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script that reads "Michael D. Bradley". The signature is written in black ink and is positioned to the right of the declaration text.

Dated: Sept. 30, 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.



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