

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SECKAR TO INTERROGATORIES OF
THE AMERICAN BUSINESS PRESS
(ABP/USPS-T26-18-20)

The United States Postal Service hereby provides responses of witness Seckar to the following interrogatories of the American Business Press: ABP/USPS-T26-18-20, filed on September 25, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 8, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS SECKAR TO FOLLOW-UP
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ABP/USPS-T26-18. Your response to ABP/USPS-T26-5 stated that "These costs [actual mail makeup and their associated costs] are generated using, in part, benchmark costs that are comprised of MODS cost pools." Please identify which costs of actual mail makeup are not benchmark costs that are comprised of MODS cost pools, the source of those costs, and the location of those costs in your testimony, or in any other documents, testimony, exhibits or library references filed to date by USPS in this case.

RESPONSE:

All of the costs presented in the actual mail makeup scenario are benchmark costs in the sense that they are all in the CRA benchmark. However, if you are requesting identification of the costs that are generated without the benchmark (*or, alternatively the MODS costs pools*), then these are the modeled costs. The modeled costs are made up of a weighted combination of piece distribution costs and bundle sorting costs. It is important to note that the modeled costs are adjusted by the benchmark through the use of the CRA-adjustment factors. Accordingly, all of the final costs presented for the actual mail makeup scenario are in benchmark cost for the associated flat CRA line item.

The sources of the piece distribution costs are the mailflow models and cash flow pages contained in Sections 1-5 of LR-H-134. The source of the bundle sorting costs is the bundle sorting model contained in Section 6 of LR-H-134, while the source of the Periodicals Carrier Route costs is Sections 2.4 and 3.4 of LR-H-134.

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ABP/USPS-T26-19.

- (a) Your answer to ABP/USPS-T26-8 states that the “proportional adjustment 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.” Why is it necessary to “reconcile” benchmark costs that are based on MODS cost pools if MODS cost pools indeed reflect the actual work environment and layout of processing and distribution facilities, BMCs, and non-MODS facilities?
- (b) If the “modeled cost” for Periodicals Regular rate must be weighted to be consistent with the CRA benchmark costs, and USPS can collect the benchmark costs through MODS (or through other sources that you have been asked to identify in ABP/USPS-T-26-18), what is the purpose of aggregating and calculating “modeled” costs that are unaffected by volumes that are in the final analysis adjusted to a pre-existing figure?

RESPONSE:

- a. It is not necessary to reconcile the benchmark costs. The weighted model costs, however, must be reconciled. There are certain costs that are not contained in the mailflow and bundle sorting models, such as allied labor costs and platform costs. Therefore, the modeled costs must be adjusted in order to include such costs and to adjust other costs to be on the same level as the CRA benchmark cost. This latter type of adjustment is discussed in the response to ABP/USPS-T26-8(b), “...piece distribution and bundle sorting costs contained in the [weighted] 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.”

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- b. It is not clear what is meant by the phrase “modeled costs that are unaffected by volumes.” As indicated in the response to ABP/USPS-T26-20 all the costs developed within USPS-T-26 are volume variable.
- The CRA benchmark costs that are collected through MODS are available at the shape specific CRA line item level (for example, Periodicals Regular Rate or Periodicals Nonprofit.) However, rates exist at a finer level of detail, the rate category level. The purpose of calculating modeled costs is to develop costs at the rate-category level for worksharing activities. The purpose of aggregating these costs is to express them at the benchmark level to generate the CRA-adjustment factors. Then the modeled costs that exist at the rate category levels can be adjusted to the CRA level.

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ABP/USPS-T26-20. Referring to your response to ABP/USPS-T-14(b), please explain in your own words why costs that do not vary according to worksharing level (e.g. platform costs) are volume variable costs.

RESPONSE:

All costs studied within the scope of USPS-T-26 testimony are volume variable costs. As discussed in LR-H-1, page vi, "...'volume-variable cost' refer to costs that vary with small increases and decreases in volume." Thus, more or less mail volume will cause costs, the volume variable costs, to change. Only a subset of these costs will vary with worksharing levels. These costs vary with both factors, volume and worksharing. Costs that do not vary according to worksharing level are still a subset of volume variable costs. These costs are incurred independently of presorting and the effect of mailer-applied barcodes, but are affected by fluctuations in mail volume.

As an example, consider unloading flats from a truck at the platform. The cost associated with this activity would change if there is only one sack of flats as opposed to 100 sacks of flats. It is evident from this example that the total cost of unloading a truck with 100 sacks would be more than the total cost of unloading a truck with one sack. Alternatively, the cost associated with unloading the truck would not change if there were 100 5-digit sacks versus if there were 100 3-digit sacks. In this instance, the total cost to unload 100 3-digit sacks is the same as the total cost to unload 100 5-digit sacks, in either case it is the cost to unload 100 sacks.

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In the above example, the activity of unloading a truck at the platform is volume variable, as illustrated in the first part of the discussion. However, this volume variable activity is not a worksharing related activity, as is illustrated by the second part of the discussion.

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.

Paul G. Seckar

Date: 10/8/97

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.

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Kenneth N. Hollies

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