

DOCKET SECTION

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

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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-T12-41,
AND TW/USPS-5 REDIRECTED FROM THE POSTAL SERVICE)

The United States Postal Service hereby provides the response of witness Degen to the following interrogatories of Time Warner, Inc.: TW/USPS-T12-41, filed on October 1, 1997; and TW/USPS-T-5, filed on October 2, 1997, and redirected from the Postal Service.

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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October 15, 1997

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

TW/USPS-T12-41. Please refer to your answer to MPA/USPS-T12-8d. Your response included the filing of a spreadsheet, included in LR-H-277, which disaggregates, by activity code, the costs that were classified as Window Service and Administrative Support costs in FY1996, but were classified as Mail Processing costs in BY1996, using your new Segment 3 costing method.

- a. Please provide, in a format similar to that used in your response to MPA/USPS-T12-8d, by activity code, the costs (if any) that were classified as Mail Processing costs in costs if FY96, but were reclassified as (1) Window Service costs and (2) Administrative and Support costs in BY96. As in your response to MPA/USPS-T12-8d, please separate costs corresponding to direct, mixed item, mixed container and not handling costs.**
- b. Please provide, in a format similar to that requested above, by activity code, the costs (if any) that were classified as Window Service costs for FY96, but were reclassified as Administrative and Support costs in BY96.**
- c. Please provide, in a format similar to that requested above, by activity code, the costs (if any) that were classified as Administrative and Support costs in FY96, but were classified as Window Service costs in BY96.**

TW/USPS-T12-41 Response.

- a. The requested data will be filed in LR-H-296 as spreadsheet TW-41a.xls.

Please note that I have provided IOCS tally costs rather than volume variable costs (in the sense of my response to TW/USPS-T12-24 part a).**
- b. The requested data will be filed in LR-H-296 as spreadsheet TW-41b.xls.

As in part (a), the spreadsheet presents IOCS tally costs.**
- c. The requested data will be filed in LR-H-296 as spreadsheet TW-41c.xls.

As in part (a), the spreadsheet presents IOCS tally costs.**

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TW/USPS-5. In his response to TW/USPS-12-28e, witness Degen filed data sets tw28emod, tw28ebmc, and tw28enmd, which show the volume variable costs allocated to subclasses and special services based on counted mixed mail items, by item type and cost pool. One of the item types sometimes counted by the IOCS clerks was international sacks. At the MODS cost pool called INTL, presumably dealing with international mail, 29.8% of the volume variable costs allocated based on counting international sacks was allocated to the Periodicals subclasses. 40.7% was allocated to Express Mail, 3.6% to Priority, 13.6% to Registry and 11.1% to First Class. None was allocated to international mail. A number of other item types were also counted at the INTL cost pool, and international sacks were also counted at other cost pools. However, only at BMC's did any of these counts show international mail. At the BMC's, it appears that all mail counted in international sacks was identified as international mail, versus none in MODS offices.

- a. Please confirm that periodicals sent abroad are classified as international mail and not as part of the Periodicals subclass. If not confirmed, please explain.**
- b. Do the Periodicals volumes shown in the billing determinants and used for domestic rate design purposes include any periodicals mailed to other countries? If yes, please explain.**
- c. Is it likely that mail found in international sacks at the INTL cost pool is in fact international mail? If no, please explain.**
- d. Does the Postal Service have any explanation for why mail counted in international sacks at BMC's was always classified as international mail, but never classified as international mail when the count occurred in MODS offices?**
- e. Has any adjustment been applied, either by Degen or others using his results, to correct the apparent misclassification described above? If yes, please describe those corrections and provide references to the part(s) of the Postal Service's filing where such adjustments were made.**

TW/USPS-5 Response.

The data cited in the question reflect a misclassification that affects the response to TW/USPS-T12-28 but not the Base Year 1996 inputs. The misclassification is not of the contents of counted sacks sampled in IOCS,

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but rather of IOCS tallies for "counted" items versus other IOCS item tallies with direct activity codes. Records for counted item tallies may be identified by the presence of an alphabetic code in variable F9253B, which corresponds to question 24 responses. Prior to July 1, 1996, the valid range of values for F9253B was 'A'-'X'; for the rest of FY 1996, the valid range was 'A'-'N' (see the LR-H-23 hardcopy documentation). The latter range reflects a reduction in the number of question 24 mail categories, which was intended to mitigate potential mail identification problems related to reclassification (see my response to OCA/USPS-T12-39). When the tw28emod, tw28enmd, and tw28ebmc data sets were produced, counted item tallies were identified as tallies with F9253B values between 'A'-'N.' Tallies with F9253B values between 'O'-'X' were considered to be other (non-counted) direct item tallies, and were not represented in the data sets. In particular, F9253B values 'S'-'X' corresponded to International Mail categories in question 24 prior to July 1, 1996. The data sets understate the counted item costs for several item types. However, the understatement is most severe for international sacks, which would, naturally, be expected to contain primarily international mail. Additionally, in the tw28emod data set, costs for activity code 5461 (mixed International Mail) are classified as mixed-mail costs. Corrected data sets tw28emdr, tw28bmr, and tw28nmr will be filed in LR-H-296. Again, since the cost

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distribution programs do not make use of F9253B data, the error is irrelevant to the mixed-mail distribution procedure.

- a. Confirmed.
- b. My understanding is that the specified volumes are for domestic Periodicals.
- c. Yes. Using data in tw28emdr, 85.6% of counted international sack costs are associated with IOCS records that have International Mail activity codes.
- d. In the BMC data set, counted item tallies with activity code 5461 were classified as counted item tallies (with an International Mail activity code) rather than as mixed-mail tallies. Also see the explanation above.
- e. Invariably, some sacks are used to transport mail other than the primary subclass(es) with which they are associated. Our finding that the international sacks in the MODS INTL cost pool are 85.6% International Mail does not indicate a mail identification problem. No adjustment has been made.

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

10-15-97
Date

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.



Eric P. Koetting

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