

**Official Transcript of Proceedings**

*Before the*

**UNITED STATES POSTAL RATE COMMISSION**

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 13

DATE: Wednesday, October 22, 1997

PLACE: Washington, D.C.

PAGES: 6708 - 7343

**ANN RILEY & ASSOCIATES, LTD.**

1250 I St., N.W., Suite 300  
Washington, D.C. 20005  
(202) 842-0034

1                               BEFORE THE  
2                               POSTAL RATE COMMISSION

3   - - - - - X

4   In the Matter of:                               :

5   POSTAL RATE AND FEE CHANGES       :   Docket No. R97-1

6   - - - - - X

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8                               Third Floor Hearing Room  
9                               Postal Rate Commission  
10                              1333 H Street, N.W.  
11                              Washington, D.C. 20268

12  
13                              Volume 13  
14                              Wednesday, October 22, 1997

15  
16                      The above-entitled matter came on for hearing,  
17   pursuant to notice, at 9:30 a.m.

18  
19   BEFORE:

20                      HON. EDWARD J. GLEIMAN, CHAIRMAN  
21                      HON. GEORGE W. HALEY, VICE CHAIRMAN  
22                      HON. W. H. "TREY" LeBLANC, III, COMMISSIONER  
23                      HON. GEORGE A. OMAS, COMMISSIONER  
24                      HON. H. EDWARD QUICK, JR., COMMISSIONER

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11	ANDREW JOSEPH ALEXANDROVICH				
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16	RICHARD PANTELUNAS				
17	BY MS. DUCHEK	7183			
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## P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we resume hearings in Docket R97-1. Postal Witnesses Thress, Tolley, Alexandrovich, and Patelunas are scheduled to appear today.

It certainly is a pleasure to be here today. On this date last year I was wandering around in Saint Mark's Square in Venice. It was almost as nice as the hearing room, and it wasn't nearly as cold, either.

Mr. Koetting, I've not seen a response to the October 10 motion to compel responses to interrogatories. Most of the discovery requests at issue were addressed to the Postal Service as an institution. Could you please determine during our mid-morning or lunch break whether answers will be filed and when?

MR. KOETTING: I'm sorry, Mr. Chairman, who was the moving party in that?

CHAIRMAN GLEIMAN: For the life of me at this point I can't remember. I remember we had a motion to compel. Response was due on the tenth, and I'll have to go back and look again. Didn't do my homework; came in late this morning.

MR. KOETTING: I'll see what I can do.

CHAIRMAN GLEIMAN: I'll see if I can get you the rest of the info during the mid-morning break.

1                   Similarly an inquiry concerning Interrogatory  
2   OCA/USPS-8, Presiding Officer's Ruling No. 45 directed that  
3   certain information be provided in response to that  
4   discovery request. Under the special rules, that  
5   information should have been filed on the 17th. I think  
6   some of the information may provide a helpful context for  
7   evaluating the due-process issues related to our library  
8   reference situation, and if you could please check on that  
9   one.

10                  MR. KOETTING: That one I can fill you in on,  
11   because I've been checking on that myself, and the  
12   individual working on that was under the impression that  
13   that compelled answer was due on this coming Friday, and  
14   that is the date that everyone is working towards. And I  
15   anticipate that we will be answering on Friday. I can tell  
16   them that they're late, but since it's sort of a broadcast  
17   to compile information from a lot of sources, I think it  
18   would be hard for us to get it together any quicker than  
19   that.

20                  CHAIRMAN GLEIMAN: As long as we have it along  
21   with the other responses to the three motions, I think  
22   that'll be sufficient for our purposes, and I thank you.

23                  One more item. This session of hearings has been  
24   continuing on a daily basis for almost three weeks, and  
25   during that time counsel have been prepared, relatively

1     concise, and unfailingly polite to both the bench and each  
2     other, and I want to compliment all of you and express  
3     publicly my appreciation for the assistance you provided me,  
4     and a special thanks to Postal Service counsel for the  
5     assistance that they've offered us in getting the packages  
6     of designated written cross-examination whipped into shape  
7     each day. A lot of paper, and their help was greatly  
8     appreciated.

9             Without this level of cooperation, it just simply  
10     would not have been possible for us to keep on schedule, and  
11     again, we appreciate everyone's efforts in that regard.

12             Does any participant have a procedural matter that  
13     they wish to raise before we begin this morning?

14             Mr. Koetting, if you're prepared to identify your  
15     first witness.

16             MR. KOETTING: Thank you, Mr. Chairman. The  
17     Postal Service calls as its first witness this morning  
18     Thomas Thress.  
19     Whereupon,

20                     THOMAS EDWIN THRESS,  
21     a witness, was called for examination by counsel for the  
22     United States Postal Service and, having been first duly  
23     sworn, was examined and testified as follows:

24                     DIRECT EXAMINATION

25             BY MR. KOETTING:



1           Q     Could you please state your full and complete name  
2     for the record.

3           A     Thomas Edwin Thress.

4           Q     Mr. Thress, I'm handing you a copy of a document  
5     entitled direct testimony of Thomas E. Thress on behalf of  
6     the United States Postal Service, which has been designated  
7     as USPS-T-7. Are you familiar with this document?

8           A     Yes.

9           Q     Was it prepared by you or under your supervision?

10          A     Yes.

11          Q     If you were to testify orally today, would this be  
12     your testimony?

13          A     Yes.

14               MR. KOETTING: Mr. Chairman, I'm handing two  
15     copies of the direct testimony of Thomas E. Thress on behalf  
16     of the United States Postal Service, USPS-T-7, to the  
17     reporter, and request that they be accepted into evidence.

18               CHAIRMAN GLEIMAN: Are there any objections?

19               Hearing none, the testimony and exhibits of  
20     Witness Thress are received into evidence, and as is our  
21     practice, they will not be transcribed.

22                               [Direct Testimony and Exhibits of  
23                               Thomas E. Thress, Exhibit No.  
24                               USPS-T-7 was marked for  
25                               identification and received into

1 evidence.]

2 CHAIRMAN GLEIMAN: Mr. Thress, have you had an  
3 opportunity to examine the packet of designated written  
4 cross-examination that was made available earlier today?

5 THE WITNESS: Yes.

6 CHAIRMAN GLEIMAN: If those questions were asked  
7 of you today, would your answers be the same as those you  
8 previously provided in writing?

9 THE WITNESS: Yes.

10 CHAIRMAN GLEIMAN: Are there any corrections to  
11 the package?

12 THE WITNESS: Yes, Mr. Chairman. The docket room  
13 did its job faithfully, it was designated in, but one party  
14 did designate responses that were not Mr. Thress' so we have  
15 removed from the packet Witness Crum's responses to  
16 RIAA/USPS-T-28, Nos. 1, 2, 3, and 5, which were designated  
17 and included in the packet but are not Mr. Thress'  
18 responses.

19 CHAIRMAN GLEIMAN: Again we thank you for your  
20 assistance in that regard. If you'd please hand two copies  
21 to the reporter, I'll direct that the designated written  
22 cross-examination of Witness Thress be accepted into  
23 evidence and transcribed into the record at this point.

24 [Designation of Written

25 Cross-Examination of Thomas E.

1 Tress was received into evidence  
2 and transcribed into the record.]  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

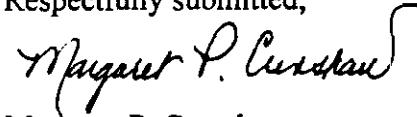
DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS THOMAS E. THRESS  
(USPS-T7)

The parties listed below have designated answers to interrogatories directed to witness Thress as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
American Business Press	ABP\USPS: Interrogatories T7-1-5.
Direct Marketing Association, Inc.	DMA\USPS: Interrogatories T7-1, and 3-4. NAA\USPS: Interrogatories T7-3-7, 9 and 11. NAA\USPS: Interrogatories T6-4, 7 and 9-11, redirected from witness Tolley.
Mail Order of Association of America	NAA\USPS: Interrogatories T7-1-13. NAA\USPS: Interrogatories T6-4-7 and 9-11 redirected from witness Tolley. RIAA\USPS: Interrogatories T28-1-3 and 5, redirected from witness, Crum.
McGraw-Hill Companies	MH\USPS: Interrogatories T7-1-6 and 10. DMA\USPS: Interrogatory T7-3. NAA\USPS: Interrogatory T7-4 and 11.
National Newspaper Association	MH\USPS: Interrogatories T7-2 and 3.
Newspaper Association of America	NAA\USPS: Interrogatories T7-1 and 3-13. NAA\USPS: Interrogatories T6, 4-7 and 9-11, redirected from witness Tolley DMA\USPS: Interrogatory T7-3. MH\USPS: Interrogatories T7-4 and 10.
Office of the Consumer Advocate	ABA\USPS: Interrogatories T25-1, redirected from witness Hatfield, T32-5, redirected from witness Fronk. ABP\USPS: Interrogatories T7-1-5. DMA\USPS: Interrogatories T7-1-4. MH\USPS: Interrogatories T7-1-10. NAA\USPS: Interrogatories T6-4-7, and 9-11,

NAA\USPS: redirected from witness Tolley  
Interrogatories T7-1-13.

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw". The signature is written in black ink and is positioned above the printed name and title.

Margaret P. Crenshaw  
Secretary

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA

NAA/USPS-T7-1. Please identify all of your professional assignments in which you have estimated own-price and cross-price elasticities of demand for the purpose of developing Ramsey prices. Please summarize the assignment, identify the nature of the business and the client, and identify any published or other publicly available papers that arose out of the assignment.

RESPONSE:

This is the first time in which price elasticities estimated by me and presented by me in testimony have been formally used for the purpose of developing Ramsey prices. I have, however, been actively participating in the development of Postal price elasticities since my arrival at RCF in 1992, and RCF, in conjunction with the Postal Service, has been exploring the development of Ramsey prices using our elasticities over this entire time period. Moreover, it is my understanding that our elasticities (i.e., those presented in Dr. Tolley's testimony) were used by Professor Sherman in his testimony in Docket R94-1 to derive Ramsey prices. Please see his testimony, OCA-T-400, in that docket. In fact, Postal Service witness Foster also testified about the Ramsey implications of the rates he was proposing using our elasticities. See R94-1, Tr.7/3432-42. Additional Ramsey analysis with our elasticities was presented by AMMA-MASAI witness Thomas Leonard, Tr.23/11109-55.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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NAA/USPS-T7-2. Please describe the corporate relationships between RCF Economic and Financial Consulting, Inc. cited at page 1 of your testimony and RCF, Inc. cited at page 1 of Professor Tolley's testimony.

RESPONSE:

The company, RCF Economic and Financial Consulting, Inc. cited at page 1 of my testimony and RCF, Inc., cited at page 1 of Professor Tolley's testimony are the same company.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA**

NAA/USPS-T7-3. Please refer to the purpose and scope of your direct testimony at page 2.

- a. Please confirm that the purpose of your testimony is to provide demand equations, including demand elasticity estimates, to support the development of volume forecasts. If you cannot confirm this statement, please state the purpose of your testimony.
- b. Is it also the purpose of your testimony to estimate own-price and cross-price elasticities of demand to support Dr. Bernstein's calculation of Ramsey prices for postal services?
- c. In your opinion, are the own-price and cross-price elasticities that you estimated from historical data for the historical mail categories sufficiently accurate and comprehensive to be used to calculate Ramsey prices for the new subclasses of mail? Please explain your response fully.

**RESPONSE:**

- a. Confirmed.
- b. My testimony was not developed explicitly for the purpose of providing price elasticities to Mr. Bernstein. However, I was aware of Mr. Bernstein's intended use of my elasticities at the time at which I was preparing my testimony.
- c. Yes. The purpose of estimating own-price and cross-price elasticities to be used in volume forecasting is to provide the best possible estimates of changes in the demand for Postal services that are the result of changes in Postal rates. The use of price elasticities in calculating Ramsey prices is to provide the best possible estimates of changes in the quantity of Postal services demanded as a result of changes in Postal rates. The purpose of the price elasticities in both cases, therefore, is to enable one to quantify changes in demand. Hence, since the use of price elasticities is the same in both cases, I would fully endorse the use of my own- and cross-price elasticities in developing Ramsey prices.



RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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NAA/USPS-T7-4. Please refer to your direct testimony at page 9, lines 21-4 and page 10, lines 1-3. Do you believe that it is also "necessary and prudent" for Dr. Bernstein to incorporate additional non-econometric information into his Ramsey pricing analysis? Please explain any negative response fully.

**RESPONSE:**

My discussion at page 9, line 21 through page 10, line 3 refers to the need for Professor Tolley to take account of factors which may not be reflected in my demand equations but which may, nevertheless, be expected to affect mail volume in the forecast period. This is meant to recognize the fact that volume forecasting is not a pure science, but that quality volume forecasting is also an art that should not be limited by a pure application of strict mathematical models.

The non-econometric information incorporated by Professor Tolley into his forecasts is incorporated into his before-rates volume forecast. The forecasted impact of the Postal Service's proposed rates, i.e., the difference between the before-rates and after-rates volume forecast, does not incorporate non-econometric information, but is instead calculated directly as a function of the price elasticities of demand, which are taken directly from my testimony. Since Mr. Bernstein uses Dr. Tolley's before-rates volume forecast as his basis for calculating Ramsey prices, Mr. Bernstein's work incorporates the non-econometric information used by Dr. Tolley.

(One could, perhaps, claim that the forecasted shift of mail from Standard ECR into the Standard Regular subclass employs "non-econometric information". For a discussion of this issue, please see my response to NAA/USPS-T7-7-8. Also, it should be pointed out that this shift would not be expected to occur under the Ramsey prices proposed by Mr. Bernstein in his testimony.)

I do not believe that it would be appropriate for Mr. Bernstein to introduce additional non-econometric information into his Ramsey pricing analysis. In particular, I would strongly caution against subjectively changing cross-price elasticities without re-estimating the econometric results given these new cross-price elasticities, as own-price elasticities of Postal services have been found to be quite sensitive to changes in cross-price elasticities with respect to other Postal services (compare, for example, the econometric results presented in my testimony with those cited in my answer to NAA/USPS-T7-7(c-d) below).

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA**

**NAA/USPS-T7-5.** Please refer to your discussion of cross-volume effects at pages 23-6 of your direct testimony.

- a. Is the "response rate" shown in equation II.5 at page 24 equal to the average number of first class letters sent in response to a standard bulk piece, the percentage of standard bulk mail pieces that receive any response (one or more), or something else? Please explain your response.
- b. Please refer to Table II-2 at page 24. Do the figures in the table represent the number of responses generated, the response rate (as defined in the previous question), the elasticity as defined in Equation II.5, or something else? Please explain your response.
- c. Please refer to page 24, lines 27-8 and page 25, lines 1-2.
  - i. Please provide the source for the estimate of 2.5 pieces of mail per response.
  - ii. Please explain what you mean by describing this estimate as "conservative."
- d. Please explain why you relied on Household Diary Study data for 1987 and 1988 to develop response rates.
  - i. Why didn't you use data from more recent Household Diary Studies?
  - ii. Please explain whether you consider the 1987/1988 data relevant in 1997? If so, why?

**RESPONSE:**

- a. The response rate in equation II.5 is equal to the average number of First-Class letters generated in response to a Standard bulk mail piece. Depending on what is meant in your question, this is not necessarily equivalent to the "average number of first class letters sent in response to a standard bulk piece," as a single "response" to an advertising piece may be followed up by a bill or a series of bills and payments if a product is ordered.
- b. Despite what, in retrospect, appears to be a sub-optimal title, the figures in Table II-2 represent elasticities as defined in equation (II.5).

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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c. i. The estimate of 2.5 pieces of mail per response was taken from Dr. Tolley's testimony in earlier rate cases (c.f., USPS-T-2, R94-1, page I-55, lines 13-16).

ii. I describe this estimate as "conservative" because it may well be the case that certain advertising mail may generate far more than 2½ pieces of First-Class Mail. As I note in my testimony (page 25, lines 2-6), it is quite simple to envision a case where a response to a piece of direct mail advertising may generate 3, 4, or even more pieces of mail.

For example, if the initial response to a piece of direct mail advertising is made by mail, and this piece of mail is followed up by a bill, followed by a bill-payment, then one piece of direct mail advertising would have been responsible for generating 3 pieces of First-Class Mail in this case. If the bill-payment were followed up by a receipt from the company, then this single piece of direct mail advertising would have been responsible for generating up to four pieces of First-Class Mail in this case. Finally, if a consumer were to respond to a piece of direct mail advertising from a credit card company, this single piece of direct mail advertising may well generate 24 or more pieces of First-Class Mail per year (12 monthly credit card bills together with 12 monthly bill-payments).

d. I decided to rely on 1987/1988 data as was done by Professor Tolley in R94-1, rather than using more recent Household Diary Study data due to concerns about under-estimating the response to direct mail advertising if more recent Household Diary Study data is used.

The rate at which consumers initially respond to direct mail advertising by mail has fallen considerably between 1987, when 29 percent of household-to-nonhousehold mail was in response to advertising, and 1995, when only 12 percent of household-to-nonhousehold mail was identified as being in response to advertising. (source: 1995 Household Diary Study, Table 4-48).

While this decline in responses by mail would have led to a decrease in the estimated elasticities presented in my testimony, it does not, in fact, reflect a true decline in response rates to direct mail advertising, but, instead, is indicative of a change in the means of initially responding to direct mail advertising, away from an initial response by mail toward an initial response by alternate sources (fueled in large part by the increased use of 800 numbers). This movement of the initial response away from the mail has not, however, led to a similar reduction in other mail generated by responses to advertising (e.g., bills, bill-payments, receipts), all of which are still predominantly sent through the mail.

The choice then was taken to be a choice between accurately estimating the volume impact of the initial response to direct mail advertising at the risk of understating the volume impact of subsequent mail-pieces generated by the direct mail advertising such as bills and bill-payments if one were to use recent Household Study data, or over-stating the initial response to direct mail advertising but obta

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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more reasonable estimate of the subsequent mail-pieces generated by direct mail advertising if one were to use the earlier Household Diary Study. It is my opinion that the benefits of more accurately estimating the follow-up pieces of mail outweigh the costs of possibly over-estimating the mail generated due to initial responses to direct mail advertising. Consequently, the older 1987/88 data was used as a more comprehensive measure of the overall response to direct mail advertising than more recent data which excludes non-mail initial responses to advertising.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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NAA/USPS-T7-6. Please refer to your discussion of the cross-price elasticities between First-Class letters and Standard bulk regular mail at pages 27-9 of your direct testimony.

- a. Please describe in detail what types of mail are included in the mail described as "advertising-only component of first class letters" shown in Table II-3 at page 27. Does this include mailings that include a mixture of both bills or statements and advertising pieces? If not, why is such mail excluded from the cross-price elasticity calculations?
- b. Please refer to page 28, lines 20-2. Please define the criteria used to determine that the cross-price elasticity of .0125 between carrier route Standard mail and First Class letters can be disregarded.
- c. Is it your conclusion that excluding the .0125 cross price elasticity between carrier route Standard mail and First Class letters is appropriate when using these elasticities to calculate Ramsey prices? Please explain your response.
- d. Please refer to page 26, lines 18-9.
  - i. Please explain fully why you have used the same own-price elasticity (-0.500) for noncarrier-route and carrier-route advertising-only letter mail.
  - ii. Why didn't you use the own-price elasticity of Standard ECR mail for carrier-route advertising-only letter mail and the own-price elasticity of Standard Regular for noncarrier-route advertising-only letter mail?
- e. Please explain why you have used data from the 1991 Household Diary Study in Table II-3, rather than more recent data.
  - i. Please confirm that according to the 1995 Household Diary Study, 3.1 percent of nonpresort letters were advertising only. (Table 4-36, page IV-95)
  - ii. Please confirm that according to the 1995 Household Diary Study, 9.0 percent of 3/5-digit (and ZIP+4) presort letters were advertising only, compared to the 1991 figure of 7.9 percent.
  - iii. Please confirm that according to the 1995 Household Diary Study,

# RESPONSE OF POSTAL SERVICE WITNESS THRESS TO INTERROGATORIES OF NAA

19.7 percent of carrier-route presort letters were advertising only, compared to the 1991 figure of 13.6 percent.

- iv. Please confirm that according to the 1995 Household Diary Study, 24.1 percent of carrier-route presort letters were advertising only, compared to the 1991 figure of 13.6 percent.

If you cannot confirm any of the above figures, please provide the correct figures.

- f. Please explain why you used data from the 1993 RPW reports, rather than the most recent RPW data in Table II-3.
- g. Please re-compute the cross-price elasticities calculated on page 28 of your direct testimony using the data from the 1995 Household Diary Study and the most recent RPW data.

## RESPONSE:

a. The "advertising-only component of first class letters" refers to mail sent as First-Class letters whose sole purpose was advertising. The intention was to focus on that mail which could have alternately been sent as third-class, or Standard bulk, mail. Mailings which include a mixture of bills and statements as well as advertising pieces were not considered, because the effective price of the advertising portion of this mail is negligible, so that it did not seem likely that users of this type of mail would ever consider sending instead two pieces of mail, one First-Class mail-piece containing the bill and/or statement (which would likely cost as much as the combined First-Class mail-piece) and a second piece of third-class mail containing only the advertising, at a significant additional cost to the mailer.

b. The value of 0.0125 was excluded for two reasons. First, as noted on page 28, lines 20-22 of my testimony, this value is "virtually non-existent". This "criterion" is purely subjective. In addition to the subjectively small value of the estimated cross-price elasticity between First-Class letters and Standard ECR mail, however, classification reform has made it less likely that carrier-route mailers would consider First-Class letters to be a reasonable alternative to Standard ECR mail.

As a result of classification reform, First-Class Mail is only eligible for a carrier-route presort discount if it is prebarcoded and is sent to a carrier route for which the discount is offered. The carrier-route discount is only offered at approximately 1/3 of all Post Offices. As a result, the volume of First-Class letters which receive a carrier-route discount has fallen by more than 60 percent since classification reform. On the other hand, mailers may continue to receive carrier-route presort discounts for Standard mail

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which is not prebarcoded and which is sent to any Post Office. Given this disparity in requirements, it therefore seems unlikely that a mailer paying Standard ECR rates would consider switching to First-Class letter rates which would not enable the mailer to benefit from worksharing to the extent to which the mailer is currently benefitting.

c. I believe that it would be appropriate to exclude the 0.0125 cross-price elasticity in calculating Ramsey prices for the same reasons discussed in my answer to part b. above.

d. The use of a single own-price elasticity for all advertising-only letter mail was made as a general simplification. It is important to understand that the own-price elasticity of Standard Regular mail presented in my testimony of -0.382 is dependent on the cross-price elasticity with respect to First-Class letters of 0.130. If one were to re-estimate the 0.130 figure using the own-price elasticity of -0.382, and then proceed to use the revised cross-price elasticity figure to re-calculate the own-price elasticity of Standard Regular mail, this would result in an own-price elasticity different from -0.382. Hence, at some point, one must simply take the own-price elasticity as given. I chose a value of -0.500 because that was the value used by Professor Tolley in his R94-1 testimony.

e. i. Confirmed. This is the same figure as I used in my testimony.

ii. Confirmed. Please note, however, that the advertising-only figure from the 1994 Household Diary Study was 6.0 percent, so that the average of these two figures is extremely close to the value of 7.9 percent which I used in my testimony.

iii. Confirmed.

iv. Confirmed.

In comparing the data cited above with the figures used in my testimony, it is apparent that, with the exception of carrier-route presort First-Class letters, which are ultimately excluded from my conclusions in my testimony (see my response to b. above), these data would have yielded comparable results to those I obtained. Consequently, I decided to use 1991 Household Diary Study to provide consistency with Professor Tolley's R94-1 testimony, which used 1991 Household Diary Study data.

f. I used 1993 RPW data to retain consistency with Professor Tolley's R94-1 testimony.

g. Re-computing the cross-price elasticities calculated on page 28 of my direct testimony using the data from the 1995 Household Diary Study and the most recent

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RPW data yields an estimated cross-price elasticity of Standard Regular mail with respect to First-Class letters of 0.123 and a cross-price elasticity of Standard ECR mail with respect to First-Class letters of 0.0173. These results are quite similar to the values of 0.130 and 0.0125 presented in my testimony, supporting my reliance upon these latter figures.

Attachment 1 accompanying this response presents the mathematical derivation of these figures.



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ATTACHMENT 1 ACCOMPANYING NAA/USPS-T7-6

The following is excerpted from my testimony, page 26, line 10 through page 28, line 19. The data used in my testimony is replaced, however, with data from the 1995 Household Diary Study and GFY 1996 RPW reports.

**Calculation of Cross-Price Elasticity**

According to the 1995 Household Diary Study, 6.7 percent of First-Class letters were classified as advertising-only. (1995 Household Diary Study, Table 4-33, p. IV-86). Thus, as a reasonable estimate, approximately 6.7 percent of First-Class letters would be expected to be substitutable with Standard bulk regular mail.

Making some assumptions, it is possible to use the Household Diary Study to estimate an expected cross-price elasticity between First-Class letters and Standard bulk regular mail. The following assumptions were used:

- The own-price elasticity of advertising-only letters is -0.500, approximately equal to the own-price elasticity of Standard bulk regular mail
- Advertising mail shifts between comparable presort categories: i.e., noncarrier-route presort letters substitute with Standard Regular mail and carrier-route presort letters substitute with Standard Enhanced Carrier Route mail
- The maximum reasonable shift of advertising mail is a shift of total postage costs

According to the 1995 Household Diary Study, 3.1 percent of nonpresort letters were advertising-only, 9.0 percent of 3/5-digit presort letters were advertising-only, and 19.7 percent of carrier-route presort letters were advertising-only (1995 Household Diary Study, Table 4-36, p. IV-95). This yields the following data:

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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**ADVERTISING-ONLY COMPONENT OF FIRST-CLASS LETTERS**

	Volume (millions of pieces)	Revenue (millions of dollars)	Revenue per Piece
Nonpresort letters	1,678.674	657.018	\$0.391391
3/5-digit presort	3,259.219	904.525	\$0.277528
Noncarrier-route presort	4,937.893	1,561.543	\$0.316237
Carrier-route presort	560.198	148.713	\$0.265464
Total	10,435.984	3,271.799	\$0.313511

Source: 1995 Household Diary Study and GFY 1996 RPW reports

**STANDARD BULK REGULAR VOLUME AND REVENUE BY PRESORT CATEGORY**

	Volume (millions of pieces)	Revenue (millions of dollars)	Revenue per Piece
Non-Carrier-Route Presort	30,150.508	6,323.599	\$0.209734
Carrier-Route Presort	29,180.737	4,298.520	\$0.147307
Total	59,331.244	10,622.119	\$0.179031

Source: GFY 1996 RPW reports

Combining the data above, cross-price elasticities between mail categories of First-Class letters and Standard bulk regular can be generated as follows.

A one percent rise in the price of noncarrier-route presort letters leads to a loss of noncarrier-route letters revenue of

$$- (4937.893) \cdot (0.005) \cdot (\$0.316237) = \$7.808$$

Assuming that this shifts entirely into non-carrier-route Standard bulk regular mail, this leads to an increase in non-carrier-route Standard bulk regular volume of

$$(\$7.808) / (\$0.209734) = 37.227$$

yielding a cross-price elasticity for non-carrier-route Standard bulk regular mail with

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respect to noncarrier-route presort First-Class letters of

$$100 \cdot (37.227) / (30150.508) = 0.123$$

A one percent rise in the price of carrier-route presort letters leads to a loss of carrier-route presort letters revenue equal to

$$(560.198) \cdot (0.005) \cdot (\$0.265464) = \$0.744$$

Assuming that this revenue shifts entirely into carrier-route presort Standard bulk regular mail, this leads to an increase in carrier-route Standard bulk regular mail volume of

$$(\$0.744) / (\$0.147307) = 5.048$$

yielding a cross-price elasticity for carrier-route Standard bulk regular mail with respect to carrier-route presort First-Class letters of

$$100 \cdot (5.048) / (29180.737) = 0.0173$$

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**NAA/USPS-T7-7.** Please refer to your discussion of "How to Send Mail-Based Advertising" at pages 66-8 of your direct testimony.

- a. Is it your testimony that the cross-price elasticity between Standard Regular mail and Standard ECR mail is zero, or is it your testimony that you have been unable to estimate a satisfactory cross-price elasticity? Please explain your response.
- b. Please refer to page 67, lines 22-3 and page 68, lines 1-2. In your opinion, is it reasonable to ignore the positive cross-price elasticity for the purposes of calculating Ramsey prices? Please explain your response.
- c. Please provide the regression output for the equations for Standard Regular and Standard ECR mail that include cross-price terms.
- d. Please provide the regression output for an equation for Standard Regular mail in which the cross-price elasticity with Standard ECR mail is Slutsky-Schultz constrained to be consistent with the cross-price elasticity of .141 in the Standard ECR mail equation.
- e. Please refer to page 67, lines 14-22. Has Standard ECR mail been uniformly less expensive than Standard Regular mail when user costs are included? Please explain your response.
- f. Please refer to page 67, lines 14-16. If Standard ECR mail does not continue to be uniformly less expensive than Standard Regular mail, would you expect a larger cross-price elasticity between the two services? Please explain your response.
- g. Please confirm that all mail entered as Standard ECR mail could be entered instead as Standard Regular mail. If you cannot confirm, please describe what ECR mail could not be entered as Standard Regular mail.

**RESPONSE:**

- a. It is my testimony that, based on the evidence available to me, my best estimate of the cross-price elasticity between Standard Regular and Standard ECR mail is equal to zero historically.
- b. Please see my response to part a. above.
- c. The regression output for the demand equation for Standard Regular mail which

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includes a cross-price with respect to Standard ECR mail is presented in Workpaper 3 accompanying my testimony at pages 284 - 288. The regression output for the demand equation for Standard ECR mail which includes a cross-price with respect to Standard Regular mail is presented in Workpaper 3 accompanying my testimony at pages 309 - 313.

d. Please see Attachment 1 accompanying this response.

e. Yes. User costs, as they are defined in my testimony refer to the cost to mailers of doing additional work in order to receive worksharing discounts, above and beyond the basic work required to send mail within a particular category of mail. In the case of Standard ECR mail, the basic category of mail requires mail to be carrier-route presorted. Hence, the cost of carrier-route presorting is not considered a user cost in my testimony as I define the term.

f. Yes. As I state on page 67 at lines 11 - 13, "the decision of an advertiser between using Regular and Enhanced Carrier Route mail would be based solely on which subclass of mail were less expensive for the advertiser's purposes." If, as proposed by the Postal Service, some Standard Regular rates were set below Standard ECR rates for some mail, I would expect the users of this particular type of mail to shift from the Standard ECR subclass into the Standard Regular subclass in response to this change in the relative prices of the two subclasses.

g. Confirmed.

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## ATTACHMENT 1 ACCOMPANYING NAA/USPS-T7-7

Demand Equation for:  
Sample Period :

Standard Regular  
1984Q1 TO 1997Q2

### Non-Seasonal Variable Coefficients

	Coefficients	Std. Error	T-ratio
CON	-6.641205	1.543662	-4.302241
PCE	1.681499	0.493757	3.405518
GDIST	0.012000	0.000000	0.000000
RULE94	0.006713	0.000000	0.000000
CPM_NWS	0.789102	0.342623	2.303119
CPM_TV	0.150732	0.336369	0.448115
P_PRINTING	-0.175455	0.522581	-0.335747
WPIP1	-0.337601	0.220559	-1.530662
WPIP4	-0.263168	0.255002	-1.032021
P_PCE_COMP	-0.073748	0.020474	-3.602133
PX1_3U	0.028288	0.055754	0.507362
lag1	0.035514	0.018927	1.876338
lag2	0.039104	0.031950	1.223893
lag3	0.027095	0.032675	0.829211
lag4	-0.000000	0.000000	0.000000
PX3R_CR	0.020347	0.039740	0.512013
lag1	0.026231	0.013406	1.956580
lag2	0.028936	0.022760	1.271376
lag3	0.020074	0.023249	0.863455
lag4	0.000000	0.000000	0.000000
PX3R_NCRU	-0.252254	0.062887	-4.011257
lag1	-0.137985	0.037737	-3.656434
lag2	-0.044471	0.040522	-1.097454
lag3	-0.000466	0.036603	-0.012729
lag4	-0.000000	0.000000	0.000000

### LONG RUN PRICE ELASTICITIES

	PX1_3U	PX3R_CR	PX3R_NCRU	Sum
current	0.028288	0.020347	-0.252254	
lag1	0.035514	0.026231	-0.137985	
lag2	0.039104	0.028936	-0.044471	
lag3	0.027095	0.020074	-0.000466	
lag4	-0.000000	0.000000	-0.000000	
Sum	0.130000	0.095589	-0.435176	-0.209587

Root-F Stat

2081452.709002

1434252.265015

-3.935228

-1.895264

# RESPONSE OF POSTAL SERVICE WITNESS THRESS TO INTERROGATORIES OF NAA

## REGRESSION DIAGNOSTICS

Sum of Square Resids	0.019621
Mean Sq. Error	0.000633
Standard Error of Model	0.025158
Durbin-Watson	2.140211
R-Square	0.982430
Adj. R-Square	0.969960
Degrees of Freedom	31.
F-Statistic	78.788
Significance of F	0.000 %

## ANNUAL MECHANICAL NET TRENDS

	Govt. Mail as a Class	Govt. Mail Distributed
5-year Net Trend	1.002258	0.999786
4-year Net Trend	1.004948	1.001657
3-year Net Trend	1.001320	0.999866
2-year Net Trend	1.003446	1.001262
1-year Net Trend	0.998786	0.994442

## COEFFICIENTS USED IN MIXED ESTIMATION OF PERMANENT INCOME ELASTICITY

Point Estimate	Standard Error
0.629500	0.025863

## CHOSEN K-SQUARE VALUES

PX1_3U	0.243472
PX3R_CR	0.486115
PX3R_NCRU	0.153138

# RESPONSE OF POSTAL SERVICE WITNESS THRESS TO INTERROGATORIES OF NAA

## OLS Residuals

### AUTOCORRELATION STRUCTURE OF RESIDS

Lag	Auto- Correlation	Partial Auto- Correlation	Standard Error	T-stat on Partial
1	-0.056197	-0.056274	0.137361	-0.409682
2	-0.019329	-0.023056	0.138675	-0.166259
3	-0.182759	-0.209645	0.140028	-1.497167
4	-0.216971	-0.252241	0.141421	-1.783616
5	-0.000584	-0.025170	0.142857	-0.176191
6	0.160398	0.125499	0.144338	0.869480
7	0.060546	-0.044133	0.145865	-0.302560
8	-0.138926	-0.252186	0.147442	-1.710406
9	-0.216337	-0.256934	0.149071	-1.723563

## Current-Stage Residuals

### AUTOCORRELATION STRUCTURE OF RESIDS

Lag	Auto- Correlation	Partial Auto- Correlation	Standard Error	T-stat on Partial
1	-0.071328	-0.071427	0.137361	-0.519996
2	0.035505	0.030649	0.138675	0.221015
3	-0.095559	-0.101282	0.140028	-0.723299
4	-0.162358	-0.187477	0.141421	-1.325663
5	-0.102652	-0.126368	0.142857	-0.884573
6	0.164244	0.191034	0.144338	1.323521
7	-0.100460	-0.170816	0.145865	-1.171057
8	-0.189264	-0.313589	0.147442	-2.126864
9	-0.080725	-0.111507	0.149071	-0.748013



# RESPONSE OF POSTAL SERVICE WITNESS THRESS TO INTERROGATORIES OF NAA

## Seasonal Coefficients

	Coefficients	Std. Error	T-ratio
SEPT	0.086998	0.149305	0.582684
OCT	0.846798	0.127034	6.665917
LF DEC10	-0.391835	0.119352	-3.283030
DEC11_12	-0.391835	0.119352	-3.283030
DEC13_15	-0.391835	0.119352	-3.283030
DEC16_17	-0.391835	0.119352	-3.283030
DEC18_19	-0.391835	0.119352	-3.283030
DEC20_21	-0.391835	0.119352	-3.283030
DEC22_23	-0.391835	0.119352	-3.283030
DEC24	-0.391835	0.119352	-3.283030
HOLIDAY	1.319010	0.194997	6.764255
JAN MW	0.044031	0.040420	1.089335
MARCH	0.044031	0.040420	1.089335
TAX	0.044031	0.040420	1.089335
APR16_MAY	0.044031	0.040420	1.089335
JUNE	0.044031	0.040420	1.089335

## SEASONAL INDEX -- unadjusted

	Fall	Winter	Spring	Summer
1984	0.062976	0.110351	0.044031	0.029947
1985	0.095747	0.123462	0.044031	0.029442
1986	0.103229	0.116652	0.044031	0.029954
1987	0.110711	0.109842	0.044031	0.029454
1988	0.108516	0.103031	0.044031	0.028455
1989	0.104126	0.072894	0.044031	0.027955
1990	0.117543	0.092816	0.044031	0.027200
1991	0.136897	0.086005	0.044031	0.026694
1992	0.144379	0.079195	0.044031	0.026706
1993	0.149665	0.065574	0.044031	0.025997
1994	0.137794	0.048803	0.044031	0.025491
1995	0.145275	0.035437	0.044031	0.024986
1996	0.158693	0.055358	0.044031	0.023710
1997	0.185528	0.041738	0.044031	0.024228

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RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA

SEASONAL MULTIPLIERS -- normalized

	Fall	Winter	Spring	Summer
1985	1.075687	1.074264	0.982452	0.959911
1986	1.031596	1.047253	0.973896	0.960137
1987	1.039042	1.039832	0.973603	0.959656
1988	1.039152	1.035145	0.975838	0.961040
1989	1.037671	1.012914	0.984096	0.968547
1990	1.055903	1.025334	0.976514	0.960430
1991	1.066756	1.015439	0.973699	0.957106
1992	1.074660	1.008435	0.973591	0.956866
1993	1.080646	0.996604	0.975449	0.958072
1994	1.074552	0.986822	0.982124	0.964227
1995	1.084912	0.974983	0.983399	0.964990
1996	1.099332	0.986978	0.975862	0.956587
1997	1.116979	0.970334		

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RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA

REGRESSION RESIDUALS  
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	Fall	Winter	Spring	Summer
1984	0.006758	0.028783	-0.049767	0.024698
1985	-0.018692	0.001357	-0.005431	-0.010247
1986	0.002616	0.003985	0.000666	0.006471
1987	0.003276	-0.013418	0.028725	0.000101
1988	0.019382	-0.027350	-0.012699	-0.024892
1989	0.008522	-0.014366	-0.006926	-0.020041
1990	-0.003979	0.010388	0.051169	0.026719
1991	-0.009198	0.036723	-0.015441	-0.020118
1992	0.016997	0.004305	-0.003443	0.010575
1993	-0.030204	-0.022739	0.024869	0.018875
1994	-0.015533	-0.011566	-0.023092	-0.005195
1995	0.007126	0.030474	0.016515	-0.003921
1996	0.016715	-0.019404	-0.014621	-0.002945
1997	-0.003080	0.001521		

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA

NAAUSPS-T7-8. Please refer to your calculations of the migration of ECR Basic Letters to Automation 5-Digit Letters at pages 224-226 of your direct testimony.

- a. Please identify the data source and the numerical values used for developing the 33.28 percent and 31.33 percent figures shown at page 224, line 14.
- b. Please provide a detailed explanation of the assumption at page 225, lines 3-7. Please explain why you believe this assumption is reasonable.
- c. Please explain all reasons why an ECR letter cannot be automated. What prevents the mailer from barcoding an ECR letter.
- d. Please confirm that the current ECR basic letter rate is 15.0 cents and the current ECR automation basic letter rate is 14.6 cents. If you cannot confirm these figures, please provide the correct rates.
- e. Please confirm that the difference between the current ECR basic letter rate and the ECR automation basic letter rate is 0.4 cents per piece. If you cannot confirm this figure, please provide the correct figure.
- f. Is it possible that a mailer of an ECR letter which could be automated may not have done so because the cost of applying the barcode exceeded the 0.4 cents rate discount? Please explain your response fully.
- g. Please refer to page 226, lines 2-5. If your response to part (f) above is yes, are the shares of ECR letters that could potentially qualify for automation 5-digit rates understated? Please explain fully.
- h. Please identify the data source and the numerical values used for developing the 17.187 percent and 14.927 percent figures shown at page 225, line 9.
- i. Please compute the impact on your fixed weight price variable for Standard ECR mail that results solely from the rate change specified by Witness Moeller (USPS-T-36) at page 28, lines 5-13. Please provide your workpapers.
- j. Please compute the impact on your fixed weight price variable for Standard Regular mail that results solely from the rate change specified by Witness Moeller (USPS-T-36) at page 28, line 5-13. Please provide your workpapers.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA

- k. Please identify all reasons why you did not consider this shift to be a cross-price elasticity effect between Standard Regular and Standard ECR mail.

RESPONSE:

a. The figure 33.28 percent is calculated as 1 minus 66.72 percent. The 66.72 percent figure comes from the testimony of Sharon Daniel, USPS-T-29, Appendix I, page 38, line 10. The figure 31.33 percent is calculated as 1 minus 68.67 percent. The 68.67 percent figure comes from the testimony of Sharon Daniel, USPS-T-29, Appendix III, page 38, line 10.

b. Standard ECR mailers have several options with regard to the preparation of their mail. Mailers may have rate incentives to either prebarcode their mail or to walk-sequence their mail depending upon the density of their mailings. If mailers walk-sequence their mail, thereby qualifying for either the High Density or Saturation rate category, then the Postal Service offers no rate incentive for these mailers to prebarcode their mail. Hence, in analyzing the share of mail which is likely to be prebarcoded, it seems prudent to exclude High Density and Saturation mail from consideration. For the same reasons, it also seems prudent to exclude ECR nonletters from consideration at this point, since the Postal Service offers no prebarcode discounts for ECR nonletters.

The remaining mail – "non-high-density, non-saturation, enhanced carrier route letters" – may be prebarcoded and receive the Automation ECR letters discount, or it may not receive this discount. Mail of this type may not receive a prebarcode discount for one of two reasons: either because the mail is not prebarcoded, or because the mail is not eligible for the Automation ECR letters discount (because it is sent to a non-qualifying Post Office).

I have assumed, on page 225 at lines 3-7, that all ECR mail which is not prebarcoded will not be prebarcoded in the Test Year, regardless of the level of the ECR automation discount proposed by the Postal Service. This assumption is necessary because of a lack of historical data on the effect of changes in the Automation ECR letters discount on Automation ECR letters volume, since this discount has only existed since July 1, 1996. This assumption was considered to be reasonable in light of the fact that ECR mailers are generally quite sophisticated mailers, and would therefore be expected to be able to prebarcode their mail quite easily and inexpensively if they chose to do so. Hence, it seemed more reasonable to suppose that the reason why ECR mailers may choose not to prebarcode their mail would be due to either a general desire to not prebarcode or an inability to prebarcode as opposed to a simple discount-based decision based exclusively on the 0.4 cent discount offered by the Postal Service.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA**

c. An ECR letter may not be automated if the address information is insufficient to enable the mailer to determine the appropriate delivery-point barcode (e.g., mail sent to an apartment building which lacks the apartment number), or if the mailer lacks the necessary equipment to spray on a delivery-point barcode.

d. Confirmed.

e. Confirmed.

f. This is possible, but, as explained in my answer to part b. above, I would consider this to be unlikely.

g. No. The relevant discount associated with barcoding for mail which could be sent as either Standard Regular Automation 5-digit letters or Standard ECR Basic letters is the difference in rates between Standard Regular Automation 5-digit letters (16.0 cents) and Standard ECR Basic letters (16.4 cents), or 0.4 cents, not the difference between ECR basic and ECR automation rates.

In the Postal Service's proposal, the proposed discount for Automation 5-digit letters (relative to ECR basic letters) is equivalent to the current Automation ECR letters discount. Hence, there are no mailers for whom the current Automation ECR letters discount would not induce them to prebarcode their mail, but for whom the proposed discount associated with Automation 5-digit letters would induce them to prebarcode their mail, as these discounts are equivalent.

h. The 17.187 percent figure is calculated on page 215 of my testimony at lines 1-5. The 14.927 percent figure is calculated on page 218 of my testimony at lines 30-34.

i-j. The after-rates volume forecasts presented by Dr. Tolley in his testimony (USPS-T-6) do not depend upon a single fixed-weight price index for Standard ECR mail nor a single fixed-weight price index for Standard Regular mail. Rather, Dr. Tolley calculates a separate fixed-weight price index for each category of mail which he forecasts.

Dr. Tolley takes account of the rate relationship referred to at USPS-T-36, page 28, lines 5-13, by forecasting separately the volume of Standard ECR Basic letters that will remain Standard ECR Basic letters after R97-1 and the volume of Standard ECR Basic letters that will shift into Standard Regular Automation 5-Digit letters after R97-1. These volumes are separated based on the after-rates share forecasts of these two categories developed at pages 224 - 226 of my testimony. In addition, he calculates separate after-rates fixed-weight price indices for these two categories of mail, to reflect that these categories of mail will face different rates after the implementation of R97-1 rates.

The before-rates fixed-weight price index for both of these types of mail are calculated using the Standard ECR Basic letters rates currently in effect and the

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA**

1997Q1 Standard ECR Basic letters billing determinants, and are equal to \$0.138142 (see LR-H-171, file STDAR97.WK4). The after-rates fixed-weight price index for mail expected to remain as ECR Basic letters was calculated using the Standard ECR Basic letters rates proposed in witness Moeller's testimony and the 1997Q1 Standard ECR Basic letters billing determinants, and was equal to \$0.151911 (see LR-H-172, file STDAR97A.WK4). The after-rates fixed-weight price index for mail expected to migrate into Standard Regular Automation 5-digit letters was calculated using the Standard Regular Automation 5-digit letters rates proposed by witness Moeller and the 1997Q1 Standard Regular Automation 5-digit letters billing determinants, and was calculated to be equal to \$0.151552.

k. I would consider this shift to be a cross-price effect between Standard Regular and Standard ECR mail, and it is possible to use my testimony at pages 224 - 226 to calculate the implied cross-price elasticity between these two subclasses at the rates proposed by the Postal Service. This cross-price elasticity is, however, a function of the rates proposed by the Postal Service in this case, and would not be applicable to an alternative rate proposal where Standard ECR rates were priced uniformly below Standard Regular rates.

# RESPONSE OF POSTAL SERVICE WITNESS THRESS TO INTERROGATORIES OF NAA

NAA/USPS-T7-9. Please provide confidence intervals at the 90 percent confidence level for all own-price and cross-price elasticities developed in your testimony and used by Mr. Bernstein in his Ramsey pricing analysis.

## RESPONSE:

Confidence intervals have been calculated according to the following formula:

$$b = \beta \pm 1.645 \cdot se_{\beta}$$

where  $b$  reflects the confidence interval about  $\beta$ , where  $\beta$  is the elasticity presented in my testimony, and  $se_{\beta}$  is the standard error of this estimate. See, for example, Principles of Econometrics, by Henri Theil, 1971, pp. 93-95.

90% Confidence Intervals of Own- and Cross-Price Elasticities			
	Lower Bound	Point Estimate	Upper Bound
<b>Single-Piece First-Class Letters</b>			
Own-Price Elasticity	-0.374104	-0.189240	-0.004376
<b>Cross-Price Elasticities</b>			
Single-Piece Cards	-0.002939	0.005403	0.013745
Standard Regular	NA	0.019000	NA
Worksharing Discount	NA	-0.164441	NA
<b>Workshared First-Class Letters</b>			
Own-Price Elasticity	-0.571806	-0.289173	-0.006540
<b>Cross-Price Elasticities</b>			
Workshared Cards	-0.004268	0.005679	0.015626
Standard Regular		0.035000	
Worksharing Discount	0.086816	0.221618	0.356420
<b>Stamped Cards</b>			
Own-Price Elasticity	-1.150847	-0.168128	0.814591
<b>Private First-Class Cards</b>			
Own-Price Elasticity	-1.157685	-0.943717	-0.729749
<b>Cross-Price Elasticities</b>			
First-Class Letters	-0.036131	0.196545	0.429221
<b>Periodical Regular Rate Mail</b>			
Own-Price Elasticity	-0.229582	-0.143253	-0.056924
<b>Periodical Within County Mail</b>			
Own-Price Elasticity	-0.656614	-0.529948	-0.403282
<b>Periodical Nonprofit Mail</b>			
Own-Price Elasticity	-0.457362	-0.227916	0.001530



**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA**

	Lower Bound	Point Estimate	Upper Bound
<b>Periodical Classroom Mail</b>			
Own-Price Elasticity	-1.619004	-1.178480	-0.737956
<b>Standard Regular Mail</b>			
Own-Price Elasticity	-0.554443	-0.381623	-0.208803
Cross-Price Elasticities			
First-Class Letters	NA	0.130000	NA
<b>Standard ECR Mail</b>			
Own-Price Elasticity	-0.869705	-0.597747	-0.325789
<b>Standard Bulk Nonprofit Mail</b>			
Own-Price Elasticity	-0.181325	-0.135814	-0.090303
<b>Standard Parcel Post Mail</b>			
Own-Price Elasticity	-1.246106	-0.964630	-0.683154
Cross-Price Elasticities			
Priority Mail	NA	0.446591	NA
<b>Standard Bound Printed Matter</b>			
Own-Price Elasticity	-0.517483	-0.335169	-0.152855
<b>Standard Special Rate Mail</b>			
Own-Price Elasticity	-0.571958	-0.362036	-0.152114
<b>Standard Library Rate Mail</b>			
Own-Price Elasticity	-0.734181	-0.634333	-0.534485
<b>Standard Single-Piece Mail</b>			
Own-Price Elasticity	-0.988422	-0.654259	-0.320096
<b>Registered Mail</b>			
Own-Price Elasticity	-0.761277	-0.413446	-0.065615
<b>Insured Mail</b>			
Own-Price Elasticity	-0.231765	-0.104733	0.022299
<b>Certified Mail</b>			
Own-Price Elasticity	-0.435643	-0.286960	-0.138277
<b>COD Mail</b>			
Own-Price Elasticity	-0.461235	-0.182013	0.097209
<b>Money Orders</b>			
Own-Price Elasticity	-0.518277	-0.391378	-0.264479

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA**

NAA/USPS-T7-10. Please refer to page 38, lines 30-31 and page 39, lines 3-4 of your direct testimony.

- a. Do the "crossover dummy variable" and the "crossover dummy variable interacted with a time trend" represent a component of a cross-price elasticity? Please explain your response.
- b. How should these variables be interpreted for the purpose of developing Ramsey prices?

**RESPONSE:**

a. The crossover variables in the private First-Class cards equation model substitution out of third-class bulk regular mail and into private First-Class cards as a result of a change in the relative rates of these two subclasses in R87-1. While this does represent a cross-price phenomenon, it would not be appropriate to term this a cross-price "elasticity" as this relationship is not a function of percentage changes in prices, but is, instead, a function exclusively of relative prices.

In other words, the only relevant relationship between First-Class cards and Standard Regular rates is which rates are lower, so that, for example, increasing First-Class cards rates which are already greater than Standard Regular rates would not be expected to lead to any substitution out of private First-Class cards and into Standard Regular rates.

b. Because the crossover variables are not a true cross-price elasticity, they are irrelevant to the calculation of Ramsey pricing. If, however, Ramsey pricing leads to a rate crossover similar to what was observed in R87-1, then it may be appropriate to incorporate the crossover variables into one's forecast of volumes under Ramsey prices.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA**

**NAA/USPS-T7-11.** Please refer to page 66, lines 4-12.

- a. Do the newspaper and magazine price variables used in the Standard mail demand equations include delivery costs?
- b. If your answer is affirmative, is it correct to assume that the coefficients for these variables may incorporate cross-price elasticity effects between Standard and Periodical mail? Please explain your response.

**RESPONSE:**

- a. The newspaper and magazine price variables used in the Standard mail demand equations are measures of the price of newspaper and magazine advertising per 1,000 consumers reached. Hence, they do not explicitly include delivery costs. The price of newspaper and magazine advertising may implicitly reflect delivery costs, however, in two ways. First, newspaper and magazine publishers may attempt to pass along increases in delivery costs in the advertising rates that they charge, in order to ameliorate the impact of these costs on subscription rates. In addition, to the extent that delivery costs are reflected in higher subscription rates, this may act to reduce circulation, thereby increasing the cost of reaching 1,000 consumers even if the monetary cost to advertisers is unchanged.
- b. To the extent that magazine and newspapers are delivered by the Postal Service, there may be expected to be some cross-price relationship between Standard and Periodical mail reflected in the coefficients for these variables presented in my testimony, although I would expect this effect to be fairly small.

# RESPONSE OF POSTAL SERVICE WITNESS THRESS TO INTERROGATORIES OF NAA

NAA/USPS-T7-12. Please refer to your discussion of the parcel post demand equation at page 90, lines 18-27 and page 91, lines 1-18.

- a. Please explain why it is necessary to include all of the following variables: the price of parcel post, the price of UPS service, and a time trend "to reflect change in the relationship of UPS and parcel post prices."
- b. Is it possible that the coefficient on this time trend may reflect own-price elasticity effects? Please explain your responses.
- c. Please explain why the coefficient on the time trend is negative, while the percentage of parcel post volume for which UPS rates are greater appears to generally increase from 1970 to 1991 as shown in Table II-17 at page 89.

## RESPONSE:

- a. The time trend in the UPS equation is not included "to reflect change in the relationship of UPS and parcel post prices." This quote refers to the reason why the time trend was truncated in 1990Q1. The time trend reflects non-price induced substitution away from parcel post mail volume (primarily into UPS) throughout the 1970s and 1980s.
- b. I do not believe that the time trend is reflecting any own-price effects. As I note in my response to part c. below, the time trend coefficient is negative over the period from 1971 through 1989, in spite of a general (albeit modest) increase in the attractiveness of parcel post rates relative to UPS rates. I consider this to be strong evidence that this time trend reflects non-price factors which caused parcel post volume to decline over this time period, independent of changes in parcel post volume attributable to changes in the price of parcel post mail.  
In addition, neither extending the time trend throughout the sample period nor removing the time trend from the parcel post equation altogether lead to a significant change in the econometric estimate of the parcel post own-price elasticity.
- c. The coefficient on the time trend is negative to reflect a significant decline in parcel post volume from 1971 through 1989. In light of the fact that the percentage of parcel post volume for which UPS rates are greater increased somewhat from 1970 to 1990, it would appear that this decline in parcel post volume was not the result of the relative prices of parcel post and UPS, but was, instead, due to non-price factors such as perceived quality of service.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NAA

NAA/USPS-T7-13. Please refer to your discussion of the logistic market penetration variable beginning at page 149. Is it possible that the coefficient for this variable may reflect long-term own-price or cross-price elasticity effects that are not reflected in the four period lag structure used for most price variables in your equations? Please explain your response.

RESPONSE:

It is quite possible that the logistic market penetration variables used in my testimony may, in fact, be driven in part by price effects which contributed to the market penetration observed historically. I do not believe that it would be correct to characterize these price effects as "long-term" effects, however.

For example, while the substitution from special rate into bound printed matter volume modeled by the market penetration variables in these demand equations was driven in part by the fact that bound printed matter was priced below special rate mail, this shift was a unique phenomenon and could not be properly characterized as a constant price elasticity effect. Rather, this represented a crossover effect, similar to the case described in my response to NAA/USPS-T7-10. That is, allowing mailers to shift from special rate into the less expensive bound printed matter subclass led to a large shift of mail volume between these two subclasses. Pricing bound printed matter even less expensive relative to special rate mail, however, would not be expected to lead to a significant shift of volume between these two subclasses.

Given the current rules of the Postal Service (in terms of qualifying for bound printed matter versus special rate mail) and the current rate relationship of these two subclasses, the own-price elasticities cited in my testimony (of -0.335 for bound printed matter and -0.362 for special rate mail) are exhaustive in modeling volume changes due to changes in price.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORY OF ABA RE-DIRECTED FROM WITNESS HATFIELD

ABA/USPS-T25-1.

1. a. If your rationale is to move mail into higher degrees of presortation in setting your First Class automation and presort discounts, what evidence do you have or did you collect that there is any more mail that can move between these rate categories?
- b. Have you or the USPS performed any studies showing that mail would move from the basic to the 3 digit rate as a result of these relative price changes?

RESPONSE:

a. I performed an extensive econometric analysis of the share of First-Class Mail that has been presorted and automated since 1988. The theory used in making this analysis is developed in my testimony at page 160, line 1 through page 184, line 4. The results of my analysis for First-Class letters are presented at page 184, line 11 through page 192, line 10 of my testimony. This analysis concluded that there still exists some potential for growth in the volume of automated First-Class letters in general, and in the share of those letters that are presorted to the 3- or 5-digit level in particular. In addition, there is significant evidence that movement from single-piece into workshared First-Class Mail is still possible (see, e.g., pp. 21, line 1 through 22, line 5, p. 30, ll. 10-19, and p. 33, ll. 1-6 of my testimony).

On the basis of this analysis, the volume of First-Class automated First-Class letters are projected to increase significantly from 1997 through 1999, even in the absence of Postal Service rate proposals, as evidenced in Exhibit USPS-6A, Table 2. In addition, the share of this mail that is presorted to the 3- and 5-digit level is projected to increase as well. The relevant portion of this exhibit is summarized below.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORY OF ABA RE-DIRECTED FROM WITNESS HATFIELD**

	<u>GFY 1997</u>	<u>GFY 1998</u>	<u>GFY 1999</u>
<b>First-Class Letters, Flats, and IPPs</b>			
<b>Automation</b>			
Basic Letters	4,052.971	4,284.950	4,517.139
3-Digit Letters	19,222.873	20,642.546	22,155.433
5-Digit Letters	8,748.237	9,375.321	10,020.098

Automation basic letters volume is projected to increase over this time period by 11.5 percent. By comparison, the volume of automation 3-digit letters is projected to increase by 15.3 percent over this same time period, while the volume of automation 5-digit letters is projected to increase by 14.5 percent.

Overall, the number of automated First-Class letters is expected to increase by 14.6 percent over the next two years, while the share of these automation First-Class letters that are presorted to the 3-digit and 5-digit level is expected to increase over this same time period. As noted above, these forecasts are based on an econometric analysis of the growth of these worksharing categories since 1988. These results suggest that there exist continuing opportunities for the Postal Service to encourage further automation as well as further presortation of automated First-Class Mail.

b. I present projections of the share of First-Class Mail sent via the various worksharing categories in Tables IV-2 (before-rates) and IV-3 (after-rates) of my testimony at pp. 227 and 229, respectively. The relevant results are summarized below for 1998Q1, the first quarter for which new rates are expected to be in effect:

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORY OF ABA RE-DIRECTED FROM WITNESS HATFIELD

	<u>Before-Rates</u>	<u>After-Rates</u>
Nonautomation Presort	13.968%	13.001%
Automation Letters		
Basic	10.269%	10.448%
3-Digit	49.176%	50.147%
5-Digit	22.163%	22.614%
Carrier-Route	3.747%	3.101%
Automation Flats		
Basic	0.110%	0.113%
3/5-Digit	0.566%	0.578%

The share of First-Class letters that are expected to be sent as automated 3-digit letters is projected to increase by 0.97 percent, due to the proposed decreases in the discounts associated with both nonautomated presort and automated basic First-Class letters. If the nonautomated presort discount is left unchanged, the projected share of workshared First-Class letters sent as automated 3-digit letters is predicted to increase from 49.176 percent to 49.349 percent, in spite of a proposed reduction in the 3-digit automation discount from 6.6¢ to 6.5¢ (relative to the single-piece First-Class letters rate), due to the proposed change in the relative prices of automated basic and 3-digit First-Class letters.



**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORY OF ABA&EEI&NAPM  
RE-DIRECTED FROM WITNESS FRONK**

ABA&EEI&NAPM/USPS-T32-5. Speaking to retail presort FCLM at page 24 of your testimony, you state: "I reduced the discount somewhat in order to increase the incentive for mailers to prebarcode their mail and thus to further the automation goals of the Postal Service."

a. Is there any evidence in the USPS testimony in this case which demonstrates that a reduction in the retail presort FCLM incentive to a level below the USPS-measured cost difference between such mail and the Bulk Metered FCLM Benchmark would result in a larger migration of mail from retail presort to automated FCLM than the migration of mail from retail presort to single piece FCLM? If your answer is other than "no", please explain your answer.

**RESPONSE:**

a. The impact of the reduction in the retail presort First-Class letter discount on the volume of presort nonautomated First-Class letters as well as on the volume of automated First-Class letters and flats is imbedded in the share forecasts by presort and automation categories presented in section IV of my testimony. The reduction in the presort nonautomated letters discount from 2.5¢ to 2.0¢ proposed by Mr. Fronk serves to reduce the opportunity cost associated with mailers not taking advantage of this discount. This, in turn, will make prebarcoding a more attractive option for certain mailers.

The impact of the reduction in the retail presort First-Class letter discount on the volumes of single-piece First-Class letter mail and total workshared First-Class letter mail is implicit in the inclusion of the average worksharing discount in the forecasting equations associated with both single-piece and workshared First-Class letters.

The Test Year after-rates volume forecast of First-Class letters can be made in several stages in order to isolate the individual impacts of these factors on First-Class Mail volume. In Table 1 accompanying this response, the Test Year after-rates forecast is made in three stages.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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In the first step, prices are changed with no change to any worksharing discounts (this is, of course, impossible as a practical event, but is instructive in separating price effects from discount effects on First-Class Mail volumes). This can be thought of as a baseline forecast if the Postal Service were to leave its worksharing discounts unchanged. In this case, the volumes of First-Class letters that are sent single-piece, nonautomated presort, and automated are all reduced by between 0.4 and 0.8 percent due to the Postal Service's proposed rate increase.

In column (2) of Table 1, the automation discounts are changed to those being proposed by witness Fronk in this case. The nonautomation presort discount is left unchanged in this experiment, however, at 2.5¢. The reduction in automation discounts being proposed by witness Fronk leads to a further reduction in the volume of automated First-Class letters and flats of 283.898 million pieces (35,605.522 - 35,889.420). This volume shifts relatively proportionally between single-piece First-Class letters (approximately 140 million pieces) and nonautomated presort letters (approximately 160 million pieces).

Finally, if the nonautomation presort discount is changed from 2.5¢ to 2.0¢, the result is the R97-1 Test Year after-rates forecast, which is presented in column (3) of Table 1. The reduction in the nonautomation presort discount leads to a decline in the volume of nonautomated presort letters of 631.881 million pieces (4,855.407 - 5,487.288). Of this total, 572.253 million pieces (36,177.775 - 35,605.522), or more than 90 percent, will be automated, while only 101.966 million of these pieces are forecasted to shift into the First-Class single-piece category as a result of this change.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORY OF ABA&EEI&NAPM RE-DIRECTED FROM WITNESS FRONK**

**Table 1 Accompanying Response to ABA&EEI&NAPM/USPS-T32-4  
Step-by-Step Analysis of R97-1 Test Year After-Rates Volume Forecast  
of First-Class Letters**

First-Class Letters	Before-Rates Forecast	(1)		(2)		(3)	
		All Discounts Unchanged	Change from B-R to (1)	Nonautomated Discount Unchanged	Change from (1) to (2)	After-Rates Forecast	Change from (2) to (3)
Single-Piece	54,394.309	54,168.509	(225.799)	54,311.421	142.912	54,413.387	101.966
Nonautomated Presort	5,369.390	5,324.359	(45.030)	5,487.288	162.929	4,855.407	(631.881)
Automated	36,137.599	35,889.420	(248.178)	35,605.522	(283.898)	36,177.775	572.253

## RESPONSE OF POSTAL SERVICE WITNESS THRESS TO INTERROGATORIES OF ABP

**ABP/USPS-T7-1.** At page 46, line 16, you state that "the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical." Provide (or, if voluminous, merely identify) all information and data on which you relied, and, if not relied upon, all information and data of which you are aware that are relevant to this statement.

### RESPONSE:

Initially, I think it is important to understand exactly what role the quote to which you refer plays in my testimony. This quote, that "the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical," was made as a probable explanation for the observed price elasticity of Periodical Regular mail of -0.143 which I cite at page 46, line 13 of my testimony. Even if this statement is not true in some cases, for certain mailers, however, the fact remains that my best estimate of the own-price elasticity of demand for Periodical Regular mail is -0.143. In a strict sense, therefore, the data on which I relied for this statement was my own econometric analysis as documented in my testimony at pages 44 through 55, especially pages 46-47 and 52 (see also Workpaper 1, pp. 126-134).

I came to this particular hypothesis about why Periodical Regular mail is relatively price-inelastic based on my personal experiences with regards to the published prices of magazines. For example, the subscription card insert in a recent issue of Time magazine advertised a subscription rate of \$1.15 per issue. In contrast, the average price paid for Periodical Regular mail is 22.56¢ (see, my Workpaper 1, Table 1-17). Even if the full cost of postage were incorporated into Time's subscription rates, this would lead one to conclude that postage costs account for less than 20 percent of the total cost of Time magazine.

In fact, even this estimate of 20 percent is a significant over-estimate of the percentage of the total cost of preparing and delivering a magazine that is spent on postage, because it excludes advertising revenue and revenue from non-subscribers (i.e., newsstand sales), both of which serve to reduce the total share of revenue that is spent on postage costs.

Table 1 accompanying this response uses data on total revenue and circulation of the largest magazines in the United States (from Advertising Age, June 16, 1997) to estimate the percentage of total revenue which is spent by periodicals on postage. Total revenue is used here as a proxy for the total cost of preparing and delivering periodicals. Based on the analysis in Table 1, postage represents just under 7 percent of the total cost of preparing and delivering a magazine. I would characterize the figure 7 percent as "relatively minor."

Advertising Age did not provide a total number of subscribers, but listed only paid circulation (which includes newsstand sales). Hence, the percentages in Table 1 will overstate the share of total revenues that are spent on postage costs to the extent that paid circulation overstates the number of subscribers. For example, approximately one-third of TV Guide's circulation revenue comes from newsstand sales. If the postage costs for TV Guide in Table 1 were calculated using this figure, the percentage of total

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ABP

costs for TV Guide in Table 1 were calculated using this figure, the percentage of total revenue spent on postage by TV Guide would fall to approximately 9.5 percent. People magazine receives more than half of its circulation revenue from newsstand sales, suggesting that the percentage of total revenue spent on postage for People magazine may be as low as 2.2 percent.

Of course, the analysis presented in Table 1 focuses only on the largest periodical mailers. Even across the largest periodical mailers, the relative importance of postage as an input cost is quite different, ranging in Table 1 from as little as 1.9 percent of total revenue to as much as 14.2 percent of total revenue. It may, in fact, be the case, that there are certain publications for which the percentage of total revenue spent on postage may even exceed 14.2 percent. Nevertheless, I believe that the 6.9 percent cumulative figure cited in Table 1 is supportive of my general statement that "the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical."

Taken in totality, the above discussion suggests why I would maintain that the price of postage represents a relatively minor component of the total cost of preparing and delivering a periodical.

**Table 1 Accompanying ABP/USPS-T7-1  
Percentage of Total Revenue Spent on Postage  
Top 10 Magazines by Gross Revenue, 1996**

Name	Total Revenue	Paid Circulation	Average Delivery Cost Periodical Regular Mail	Approximate Total Postage Cost	Percentage of Total Revenue Spent on Postage
TV Guide	\$1,077,584,000	13,013,938	\$11.761161	\$153,059,025.360	14.20%
People	\$906,431,000	3,449,852	\$11.761161	\$40,574,266.203	4.48%
Sports Illustrated	\$787,342,000	3,173,639	\$11.761161	\$37,325,680.527	4.74%
Time	\$708,146,000	4,102,168	\$11.761161	\$48,246,259.967	6.81%
Reader's Digest	\$543,643,000	15,072,260	\$2.714114	\$40,907,834.453	7.52%
Newsweek	\$532,703,000	3,194,769	\$11.761161	\$37,574,193.867	7.05%
Better Homes & Gardens	\$474,695,000	7,605,325	\$2.714114	\$20,641,720.357	4.35%
PC Magazine	\$348,395,000	1,151,473	\$5.880581	\$6,771,329.904	1.94%
Business Week	\$323,187,000	893,771	\$11.761161	\$10,511,784.992	3.25%
<b>Cumulative</b>	<b>\$5,702,126,000</b>	<b>51,657,195</b>		<b>\$395,612,095.631</b>	<b>6.94%</b>

sources: Total Revenue, Paid Circulation figures come from Advertising Age (June 16, 1997)

Average Delivery Cost, Periodical Regular Mail equals average revenue per-piece (for second-class regular rate mail from GFY 1996 RPW report)  
times number of issues per year (52 except for Reader's Digest (12), Better Homes & Gardens (12), and PC Magazine (12))

Approximate Total Postage Cost equals Average Delivery Cost times Paid Circulation

Percentage of Total Revenue Spent on Postage equals Approximate Total Postage Cost divided by Total Revenue

note: Parade Magazine, which is the 7th-largest magazine according to Advertising Age is not included here,  
because Parade pays no postage costs, since it is bundled with Sunday newspapers.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ABP

ABP/USPS-T7-2. In your testimony at page 46 and your testimony at page 44, lines 14-16, you seem to assume that subscribers pay for all periodicals sent through the mail. Are you aware that periodicals can qualify for the periodicals rate if they are sent to subscribers who request, but do not actually pay for, them? How, if at all, would recognition and inclusion of this fact change your testimony?

RESPONSE:

I am aware that some periodicals, which qualify for Periodical mail rates, are requested by consumers who do not pay for a subscription. This information does not change the basic point made in my testimony at page 44, lines 14-16. On page 44, at lines 16-17, I state that "[i]n addition to affecting the price of newspapers and magazines by being incorporated into subscription rates, the price charged by the Postal Service will also affect the demand for Periodical mail directly by affecting publishers' decisions over how to deliver their periodicals." Hence, even for those periodicals for which no subscription price is paid, the price of Periodical mail charged by the Postal Service may still have some effect on the volume of such periodicals.

For those publications for which the "subscriber" pays nothing, the price of sending the publication through the mail is still borne by someone. This someone may be the publisher, who may be induced to provide fewer free copies or reduce the size of the publication if postage rates were increased. Alternately, some publishers may increase the rates which they charge to advertisers to advertise in their publications, which may, in turn, be passed along by advertisers to the consumers of their products (i.e., the readers of the periodical). Finally, depending on the nature of the publication, the increased cost of postage may be passed along indirectly to the "subscriber". For example, for members of an organization for whom one benefit of membership is a free subscription to a member newsletter or magazine, the price of membership would be expected to implicitly incorporate a "price" of the periodical, so that, if postage rates were increased, the organization may find it necessary to raise membership fees.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ABP

ABP/USPS-T7-3. You claim, at page 46, that changes in postage would have a "relatively modest impact on subscription rates." Would that statement be equally true if the rates proposed by Postal Service witness Bernstein were implemented?

RESPONSE:

It would certainly be less true of a change in rates from the current rates offered by the Postal Service to the rates proposed by Mr. Bernstein, although the impact may still be relatively modest.

For example, consider a periodical with subscription rates of \$1.50 per issue and current postage rate of 22¢, or very nearly the average rate of Periodical Regular mail. According to witness O'Hara, Periodical regular rates will go up by an average of 3.5 percent under the Postal Service's proposal (USPS-T-30, page 29, line 19), so that this mailer's rates are increased by approximately 0.8¢. If all of this increase in postage were passed on in the subscription rate, this would raise the subscription price by a maximum of 0.8¢ per issue, or approximately 0.5 percent.

Under the rates proposed by witness Bernstein, the average price of Periodical regular mail would increase by 109 percent (47.24¢ + 22.56¢), so that this mailer's rates would be increased by approximately 24¢. If all of this increase in postage were passed on in the subscription rate, this would raise the subscription price by a maximum of 24¢ per issue, or approximately 16 percent.

I suppose the question of whether an increase of 16 percent would constitute a "relatively modest impact" is ultimately a subjective one.



RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ABP

ABP/USPS-T7-4. In terms of the impact of increases in postage rates for periodicals, and with respect to periodicals when there is no monetary payment by the subscriber, what impact would you examine (because there is no subscription rate).

RESPONSE:

Please see my response to ABP/USPS-T7-2 where I describe the ways in which postage rates would affect the demand for periodical mail for which no subscription rate is paid directly.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ABP

ABP/USPS-T7-5. In response to ABP/USPS-T7-3, you calculated an assumed subscription price increase of 16% for a periodical with a subscription price of \$1.50 per issue and were unwilling to state whether a 16% price increase would be "modest." Assume a subscription price of \$.75 and a resulting price increase of 32%. Are you able to offer an opinion on whether a 32% price increase is modest, or is that, too, "ultimately subjective"?

RESPONSE:

I would not consider a 32% price increase to be modest, although I would still maintain that the term "modest" is, by definition, a subjective one. For example, one could look at this scenario and evaluate the price increase purely in terms of dollar amount and conclude that a 24¢ price increase is modest. As I indicated in my response to ABP/USPS-T7-3, the only thing that I can state with certainty is that the price increase proposed by the Postal Service for Periodical regular mail in this case is more modest than the price increase implied by Mr. Bernstein's Ramsey prices.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION

DMA/USPS-T7-1. On page 68 of your direct testimony you indicate that the sign of the cross price elasticity of Standard A regular mail with respect to the price of Enhanced Carrier Route mail was "implausible if one expects these two subclasses to be substitutes for one another." You also indicate that you found the cross price elasticity of enhanced carrier route with respect to the price of Standard A regular to be of the correct sign, but too high in magnitude. You further state that "[h]ence, no cross-price substitution was modeled between Standard Regular and Enhanced Carrier Route mail in the demand equations presented and discussed here." Does this imply that you fit demand equations for Standard Regular and Enhanced Carrier Route that are not presented in your testimony? If so, please provide the specification for these equations, the parameter estimates, and the results of any statistical tests or regression diagnostics you performed.

RESPONSE:

The equations to which you refer are found in Workpaper 3, "Choice Trail Results for Modeling of Demand Equations", accompanying my testimony. Alternate equations for Standard bulk mail are presented on pages 3-250 through 3-328. The equation for Standard Regular mail which includes a cross-price elasticity with respect to Standard ECR mail is presented at pages 284 - 288 of Workpaper 3 accompanying my testimony. The equation for Standard ECR mail which includes a cross-price elasticity with respect to Standard Regular mail is presented at pages 309 - 313 of Workpaper 3 accompanying my testimony.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION

DMA/USPS-T7-2. On page 69 of your direct testimony you state that "[t]he regressions were not begun starting in 1983Q1 based on a comparison of regression results starting in 1983Q1 and those starting in 1984Q1." Please provide the specification for the regressions starting in 1983Q1 and the results, including parameter estimates and all statistical tests and regression diagnostics.

RESPONSE:

Regressions were run which used the same demand specifications as presented in my testimony, but were estimated over a sample period beginning in 1983Q1. The results of these equations are presented at pages 259 - 273 of Workpaper 3, "Choice Trail Results for Modeling of Demand Equations", accompanying my testimony.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION

DMA/USPS-T7-3. a) Does the cross-price elasticity of Standard A ECR mail with newspapers and radio mean that they both get additional advertising revenues when ECR rates increase?

b) Would newspaper and radio also get additional advertising revenues as a result of increases in the Standard A Regular rates?

c) Please provide an estimate of how much additional advertising revenues newspapers and radios will receive as a result of the Postal Service's proposed increase (i) for Standard A ECR and (ii) for Standard A Regular mail.

RESPONSE:

a) Yes.

b) Standard A Regular mail has a cross-price elasticity with respect to the price of newspaper advertising, but not with respect to radio advertising in the equations presented in my testimony. Hence, newspapers would be expected to receive additional advertising revenues as a result of increases in Standard Regular rates, while radio would not.

c) It is possible to use the Standard A demand equations presented in my testimony to provide a rough approximation to how much additional advertising expenditures will be made on newspaper and radio advertising. This figure includes expenditures made in preparing these advertisements, so that this figure will be somewhat greater than the increase in additional newspaper and radio advertising revenues.

Using the Slutsky-Schultz condition (see my testimony at pp. 142-144) to estimate the cross-price elasticities of newspaper and radio advertising with respect to direct mail advertising, and estimating the share of direct mail advertising expenditures which are spent to purchase postage as approximately 25 percent, the estimated increase in newspaper and radio advertising expenditures resulting from the Postal Service's proposed rate increase is approximately equal to the following:

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION

- Increase in Newspaper advertising expenditures due to change in Standard ECR rates ~ \$160 million
- Increase in Radio advertising expenditures due to change in Standard ECR rates ~ \$40 million
- Increase in Newspaper advertising expenditures due to change in Standard Regular rates ~ \$160 million

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION

DMA/USPS-T7-4. In the past several cases, Dr. Tolley has used the Z variable in demand estimates for Standard A mail. Please explain why you no longer use this variable.

RESPONSE:

The Z-variables used by Dr. Tolley were included in his demand equations for third-class bulk mail to reflect significant increases in third-class mail volumes in the late 1970s and early 1980s due to "the increased use of targeted direct mail advertising, made possible by improvements in computer-driven technology." (Docket No. R94-1, USPS-T-2, p. I-47, ll. 8-10). I do not include z-variables in my demand specifications for Standard A mail in part because my sample period for these equations, which begins in 1984Q1, excludes the period for which the z-variable was most prominent, namely the late 1970s and early 1980s. In addition, I model the enhanced profitability of direct mail advertising due to technological innovations somewhat more explicitly by including the price of computer equipment directly in my demand equation for Standard Regular mail.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF MCGRAW-HILL

MH/USPS-T7-1.

(a) Please confirm that in estimating the own-price elasticity of demand for Periodicals Regular mail, you did not take into account the extent to which Periodicals mailers respond to an increase in Periodicals postal rates by reducing the size and/or weight of mailed periodicals (or by increasing the size and/or weight of mailed periodicals by less than otherwise). If you do not confirm, please explain fully.

(b) Please confirm that had you taken into account the factor referred to in part (a) above, your estimate of the own-price elasticity of demand for Periodicals Regular mail may have been higher. If you do not confirm, please explain fully.

RESPONSE:

(a) Confirmed. My econometric estimation uses fixed-weight price indices that do not reflect changes in the average size and/or weight of mailed periodicals as a result of changes in Postal rates.

(b) Not entirely confirmed. To the extent that mailers change the size and/or weight of their mailings, but do not change the volume of periodicals mailed, this would have no effect on my price elasticity, which measures a change in the piece volume of Periodical mail attributable to a change in Postal rates.

To the extent that mailers are able to reduce the size and/or weight of their mailings, however, this may serve to reduce the aggregate impact of a Postal rate increase. If this factor were taken into account, the estimated own-price elasticity could be higher.

On the other hand, if mailers adjust the size and/or weight of their mailings for reasons other than changes in Postal prices, the effects of such changes would be incorrectly incorporated into the own-price elasticity. In such a case, the use of a price index which attempted to incorporate changes in the size and/or weight of Periodical mail would result in an estimated own-price elasticity that is biased away from zero.



**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF MCGRAW-HILL**

**MH/USPS-T7-2.**

(a) Please confirm that your estimate of the own-price elasticity of demand for Periodicals Regular mail does not take into account newspaper volumes that are presently delivered by alternate systems. If you confirm, please explain fully why you did not take that factor into account. If you do not confirm, please explain fully and precisely how that factor was taken into account.

(b) Please confirm that in estimating the own-price elasticity of demand for Periodicals Regular mail, you did not include any variable for the cost of alternate newspaper delivery systems. If you confirm, please explain fully why you did not include any such variable. If you do not confirm, please explain fully and precisely how that variable was included.

(c) Please confirm that had you taken into account the factors referred to in parts (a) and (b) above, your estimate of the own-price elasticity of demand for Periodicals Regular mail may have been higher. If you do not confirm, please explain fully.

(d) Please confirm that in estimating the own-price elasticity of demand for Periodicals Regular mail, you did not take into account alternate delivery of Periodicals mail by electronic means (e.g., through computer networks, CD-ROMs, etc.). If you confirm, please explain fully why you did not take that factor into account. If you do not confirm, please explain fully and precisely how that variable was included.

(e) Please confirm that had you taken into account the factor referred to in part (d) above, your estimate of the own-price elasticity of demand for Periodicals Regular mail may have been higher. If you do not confirm, please explain fully.

**RESPONSE:**

(a)-(b) Not entirely confirmed. The own-price elasticity of Periodicals mail reflects the extent to which volume is affected by a change in the price charged by the Postal Service to deliver Periodical mail. As I note in my testimony at page 44 (lines 16-19), there are two principal means by which Periodical mailers may reduce Periodical mail volume in response to changes in Postal rates: "In addition to affecting the price of newspapers and magazines by being incorporated into subscription rates, the price charged by the Postal Service will also affect the demand for Periodical mail directly by affecting publishers' decisions over how to deliver their periodicals." Hence, my own-price elasticity estimate implicitly models the extent to which alternate delivery is a feasible alternative for Periodical mail.

I did not explicitly include either the volume or the cost of alternate delivery systems due

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF MCGRAW-HILL**

to a lack of available data. In order for a variable to be included in the Periodical mail demand equations as specified in my testimony, I must be able to obtain a quarterly time series dating back to 1971. I am unaware of any such data which measure either the volume or cost of alternate delivery systems.

(c) Only if the price of Periodical mail charged by the Postal Service is positively correlated with the price of alternate delivery. If these prices are independent, however, so that alternate delivery prices are not increased whenever the Postal Service raises its rates, then my own-price elasticity estimate would be unaffected by the introduction of the price of alternate delivery. (see, for example, Jan Kmenta, Elements of Econometrics, 1971, p. 394)

If, on the other hand, alternate delivery rates are increased with changes in Postal rates, then my omission of this variable, while understating the own-price elasticity of Periodical Regular mail, would not adversely affect the use of my demand equation for either volume forecasting or the setting of Ramsey prices, since my understatement of the negative volume impact of a change in Postal rates would be offset at least somewhat by an understatement of the positive volume impact of a change in the price of alternate delivery which would be brought about by the change in Postal rates.

(d) Confirmed. Please see my response to parts (a) and (b) above. Dr. Tolley did, however, take these factors into account in making his volume forecasts, by his inclusion of a negative net trend in the forecasting equations associated with Periodical mail volume. Please see his discussion of electronic alternatives at pages 86, 97, and 104-105 of his testimony in this case (USPS-T-6).

(e) See my response to part (c) above.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF MCGRAW-HILL

MH/USPS-T7-3. Please explain fully your testimony on p. 7 (lines 23-24) and p. 8 (line 1) that "the correspondence between the Periodical mail market and the Periodical mail class may not be exact."

RESPONSE:

In order to model a demand equation for a product, it is necessary for one to define the relevant market. In this case, I have defined the relevant market of interest as the demand for the Periodical mail class. There may, however, be mail which is sent through the Postal Service and which serves the same basic purpose as Periodical mail -- i.e., is periodical in nature and could be classified as a magazine, newspaper, journal, or newsletter -- but which is not sent as part of the Periodical mail class. I was thinking specifically about some smaller newsletters or journals which may be sent via First-Class Mail due to an inability or lack of desire on the part of mailers to use the Periodical mail class. In addition, it is possible that some periodical mail (by which I mean mail that is periodicals as defined above) could be sent as Standard A mail.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF MCGRAW-HILL**

**MH/USPS-T7-4.** With reference to your response to NAA/USPS-T7-11(b):

(a) Please confirm that in estimating the own-price elasticity of demand for Periodicals Regular mail, you did not take into account any cross-price relationship between Standard and Periodicals mail. To the extent that you do not confirm, please explain fully and precisely how that factor was taken into account.

(b) Please confirm that had you taken into account the factor referred to in part (a) above, your estimate of the own-price elasticity for Periodicals Regular mail may have been higher. If you do not confirm, please explain fully.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed, although to the extent that the prices of Periodical and Standard mail are positively correlated, then my omission of the cross-price elasticity with respect to Standard mail, while understating the own-price elasticity of Periodical Regular mail, would not adversely affect the use of my demand equation for either volume forecasting or the setting of Ramsey prices, since my understatement of the negative volume impact of a change in Periodical mail rates would be essentially offset by an understatement of the positive volume impact of a change in Standard mail rates.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF MCGRAW-HILL

MH/USPS-T7-5.

(a) Please confirm that while you took into account user costs (i.e., the cost to mailers of satisfying worksharing requirements, see USPS-T-6, p. 16, lines 18-22) in estimating the own-price elasticities of demand for First-Class and Standard A mail, you did not take into account user costs in estimating the own-price elasticity for Periodicals Regular mail. If you do not confirm, please explain fully.

(b) Please confirm that had you taken into account user costs, your estimate of the own-price elasticity of demand for Periodicals Regular mail may have been higher. If you do not confirm, please explain fully.

(c) Please explain fully why you did not take into account user costs in estimating the own-price elasticity of demand for Periodicals Regular mail.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) User costs for First-Class and Standard A mail are calculated by estimating share equations for the various presort and automation categories of First-Class and Standard A mail, which are documented in section IV of my testimony. I did not estimate share equations for the worksharing categories of Periodical Regular mail. Consequently, I was not able to estimate the costs to mailers of worksharing Periodical Regular mail.

RESPONSE OF POSTAL SERVICE WITNESS THRESS  
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MH/USPS-T7-6.

(a) Please confirm that in estimating the own-price elasticity of demand for Periodicals Regular mail, you did not take into account the extent to which increases in Periodicals postal rates deter the start-up (and/or mailing) of new periodicals. To the extent you do not confirm, please explain fully and precisely how that factor was taken into account.

(b) Please confirm that had you taken into account the factor referred to in part (a) above, your estimate of the own-price elasticity of demand for Periodicals Regular mail may have been higher. If you do not confirm, please explain fully.

(c) Please confirm that estimates of demand elasticities are necessarily subject to substantial uncertainty. To the extent you are unable to confirm, please explain your answer fully.

RESPONSE:

(a) Not confirmed. The own-price elasticity presented in my testimony implicitly accounts for reductions in mail sent by existing Periodical mailers as well as reductions in the number and/or size of new entrants into the Periodical market as a result of changes in postal rates. Hence, the difference between Dr. Tolley's Test Year before-rates forecast of Periodical Regular mail of 7,172.571 million and his after-rates forecast of 7,147.574 million reflects the impact of mailers who would choose to cease mailing altogether as well as mailers who would choose to merely reduce the size of their mailing.

(b) Not applicable. See my response to part (a).

(c) Although I would not agree with the term "substantial" your statement is generally true. Estimates of demand elasticities are necessarily subject to uncertainty.

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MH/USPS-T7-7.

(a) In estimating "the impact of a change in postal prices ... on subscription rates," please explain fully whether it would be more relevant to consider the price of postage as a percentage of subscription rates rather than as a percentage of the "total cost of preparing and delivering a periodical."

(b) Please confirm that 15-20 percent is more than a "relatively minor component" of either a subscription rate or (if different) of the total cost of preparing and delivering a periodical. To the extent that you do not confirm, please explain your answer fully.

(c) If you knew (assuming it is true) that the average postal rate per piece for Periodicals Regular mail represented on average 15 percent or more of the corresponding subscription rates or (if different) of the total cost of preparing and delivering the periodicals in question, and you were asked to reconsider in that light your estimate of the own-price elasticity of demand for Periodicals Regular mail, what additional investigation and/or analysis and what adjustments in methodology and/or calculation would be appropriate in order to arrive at a more reliable estimate of the own-price elasticity of demand for Periodicals Regular mail? Please explain your answer fully.

RESPONSE:

(a) It is not necessarily the case that Periodical mailers will incorporate increases in postage rates entirely into their subscription prices. For example, as I noted in my responses to ABP/USPS-T7-2 and NAA/USPS-T11(a), publishers may increase advertising rates in response to increases in Postal rates. This would thereby enable these publishers to recoup some of this additional cost without having to increase subscription rates. Alternately, publishers may also recoup these costs by increasing the cover price of their publications. Finally, publishers may choose to absorb some of the increase in postage themselves, in the form of lower profits, rather than pass this cost on to subscribers.

Because of this plethora of available means by which a publisher may incorporate the price of postage, I believe that it would be more appropriate to consider the price of postage relative to the total cost of preparing and delivering a periodical, as opposed to the subscription price of a periodical.

(b) Please see my responses to ABP/USPS-T7-3 and ABP/USPS-T7-5. I would agree that

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15-20 percent may be more than "a relatively minor component" of the total cost of preparing and delivering a periodical. I am not convinced, however, that this is a realistic assessment of the true share that postage is of the total cost of preparing and delivering a periodical.

The relevance of the quote to which you are referring within the context of my testimony is revealed at lines 17-19 of my testimony, where I state that "the impact of a *change* in postal prices would be expected to have a relatively modest impact on subscription rates." (emphasis added). The real price of Periodical Regular mail has increased by approximately 44.2 percent over the past ten years. Even if I accepted your estimate of 15 percent, this leads to the conclusion that this 44.2 percent change in 15 percent of the total costs of preparing and delivering a periodical has led to a 6.6 percent change in the total cost of preparing and delivering a periodical that is due to changes in postage rates (44.2% times 15%). I would certainly maintain that a change of 6.6 percent over a ten-year period would be "a relatively modest impact on subscription rates."

(c) Please see my response to ABP/USPS-T7-1. As I explained there, this quote was made as a probable explanation for the observed price elasticity of Periodical Regular mail of -0.143, but that it did not play a role in my arriving at that price elasticity. Even if I were convinced that postage represented 50 percent of the cost of preparing and delivering a periodical, I would not have changed my analysis that resulted in an own-price elasticity of -0.143, although I would certainly have altered my hypothesis for the reason as to why this value was so low.



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MH/USPS-T7-8. With respect to your response to ABP/USPS-T7-1, please confirm that total publishing revenue is not necessarily a reliable proxy for the total cost of preparing and delivering a periodical. To the extent that you do not confirm, please explain your answer fully.

RESPONSE:

If the market for periodicals is a competitive one, then total publishing revenue should be exactly equal to the total cost of preparing and delivering periodicals, if, by "cost" one includes normal economic profits. I believe this to be a reasonable approximation in this case. If one were to exclude normal economic profits from one's calculation of cost, then your statement could be confirmed. However, I believe that this would be inappropriate within the context of this discussion. In particular, publishers may have the option of forgoing profits in response to increases in other costs (including postage), so that the full increase of these costs would not necessarily be borne by consumers, thereby mitigating the extent to which increases in postage costs may be expected to lead to a decline in the demand for periodicals.

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MH/USPS-T7-9. With reference to your testimony on p. 47, lines 23-24, on p. 48, lines 3-10, and on p. 50, lines 13-21, please confirm that under your analysis, an estimated own-price elasticity of demand for Periodicals Regular mail (-.143) that is 37.3 percent lower than the estimated own-price elasticity of demand for Periodicals Nonprofit mail (-.228) is sufficiently implausible as to cast some doubt on the estimated elasticity for Periodicals Regular mail. To the extent you are unable to confirm, please explain your answer fully.

RESPONSE:

Not confirmed. I have no reason to expect Periodical Regular and Periodical Nonprofit mail to have the same demand elasticities. As I stated on page 47, lines 23-24, "[t]he basic theory of demand for the preferred categories of Periodical mail is expected to be similar to the theory [for Periodical Regular mail]." By this I mean to suggest that one might expect the same factors to affect these demands, although I would not suggest that one would expect them to affect these demands to the same extent. On page 50, at lines 16-17, I offer one hypothesis as to why Periodical Nonprofit mail volume is more price-elastic than Periodical Regular mail volume, namely that "nonprofit periodicals have a somewhat greater degree of substitution with other alternatives, including cable television." In addition, I would suggest that Periodical Nonprofit mail may be more amenable to alternate delivery. For example, a church may choose to stop mailing out newsletters if the price of postage increases significantly and instead distribute them in church on Sunday. The price of postage may also represent a greater percentage of the total cost of preparing a periodical, particularly if, as I explain in my response to MH/USPS-T7-8, profit is considered one "cost" of preparing a for-profit periodical. Any of these hypotheses may explain the observed difference in the own-price elasticities associated with Periodical Regular and Periodical Nonprofit mail.

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MH/USPS-T7-10. (a) Please confirm that the own-price elasticity of demand estimated for Periodicals (second-class) Regular mail in Docket R90-1 was  $-.291$ , more than twice as high as the own-price elasticity of demand estimated by you for Periodicals Regular mail in this proceeding. If you do not confirm, please explain fully.

(b) To the extent you are able to do so, please explain fully any factors that would cause the own-price elasticity of demand for Periodicals (second-class) Regular mail to decline by more than 50 percent during this period.

RESPONSE:

(a) Confirmed.

(b) The own-price elasticity presented by Dr. Tolley in the most recent omnibus rate case, R94-1, was  $-0.145$ . This differs by less than 1.5 percent from my estimate of  $-0.143$ . The introduction of cable television usage as an explanatory variable in the second-class regular rate equation was the source of the decline in the estimated own-price elasticity of second-class regular rate mail between R90-1 and R94-1.

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NAA/USPS-T6-4. Please refer to the cross-price and cross-volume effects between single-piece First Class letters and Standard A mail shown in Table 2 (page 38 of your direct testimony):

- a. If single-piece First Class letters are a positive function of Standard A volume, and Standard A mail volume is a negative function of Standard A prices, does the cross-volume coefficient include a "second-order" cross-price effect? Please explain your response.
- b. For the purposes of developing Ramsey prices, should any price effects inherent in the cross-volume term be included in the cross-price elasticities. Please explain your response.
- c. Please confirm that the own-price elasticities for Standard A Regular and Standard A ECR mail are, on average, approximately -0.5, the cross-volume elasticity for Standard A ECR mail is 0.04, and the estimated cross-price elasticity between First Class single piece letters and Standard A Regular is 0.019. If you cannot confirm any of these elasticities, please provide the correct elasticity.
- d. Given the elasticities listed in part (c) above, please confirm that the changes in the price of Standard A mail will have little or no long-term effect on forecast single-piece first-class letter mail, since the cross-price and cross-volume effects offset one another? Please explain your response.

RESPONSE:

- a. Yes. An increase in Standard A prices will lead to a decrease in the volume of Standard A mail volume. A decrease in the volume of Standard A mail volume will lead to a decrease in the volume of single-piece First-Class letters. Hence, an increase in Standard A prices will indirectly lead to a decrease in the volume of single-piece First-Class letters.

This cross-price effect implicit in the cross-volume coefficients is not, however, a traditional cross-price effect as this term is usually used. In particular, there is no symmetric dependence of Standard mail on the price of single-piece First-Class letters.

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A traditional cross-price elasticity can be thought of as reflecting the choice of an individual consumer choosing from among various alternatives. With regard to the cross-volume effects modeled in the single-piece First-Class letters equation, the change in First-Class letters volume resulting from an increase in the price of Standard mail is not because mailers have chosen to shift their mail from First-Class letters into the Standard class. Rather, it is a reduction in mail that would have otherwise been sent in response to Standard mail. Hence, this relationship between First-Class and Standard mail volumes would not necessarily have the same implications as a direct cross-price effect.

In addition, the cross-volume effect embodies changes in First-Class letter volumes due to more than simply changes in the price of Standard A mail. Factors other than price which influence the volume of Standard A mail volume will also affect the volume of single-piece First-Class letters through this cross-volume effect. The cross-volume effects of these non-price factors are clearly not cross-price effects.

b. Please see the response of witness Bernstein to ADVO/USPS-T31-1.

c. Generally confirmed. The own-price elasticity of Standard Regular mail is -0.382; the own-price elasticity of Standard ECR mail is -0.598; the average of these two figures is approximately -0.49. The cross-volume elasticity of single-piece First-Class letters of 0.04 is with respect to the sum of Standard A Regular and ECR mail volume.

d. Generally confirmed. The direct effect of a change in the price of Standard Regular mail on single-piece First-Class letters volume is measured by the cross-price elasticity

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of 0.019. The indirect effect of a change in the price of Standard Regular mail on single-piece First-Class letters volume through the impact of a change in the price of Standard Regular mail on Standard Regular mail volume is equal to -0.015 (cross-volume elasticity of 0.04 times own-price elasticity of Standard Regular mail of -0.382). Hence, the aggregate impact of a change in the price of Standard Regular mail on single-piece First-Class letters volume is approximately equal to 0.004 (0.019 - 0.015).

The indirect impact of a change in the price of Standard ECR mail on single-piece First-Class letters volume is equal to -0.02 ( $.04 \cdot (-0.598)$ ).

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NAA/USPS-T6-5. Please refer to your discussion of user costs at page 41 of your direct testimony. Please explain in detail how the 11.17 percent effect was calculated, and indicate the change in user cost that was associated with the 11.17 percent decline.

**RESPONSE:**

Please see my testimony at page 30, lines 10 - 19. The 11.17 percent figure is calculated as the net effect of changes in the time trend and trend squared variables over the past five years on single-piece First-Class letters volume.

The time trend had an average value of 58.4 five years ago (1990Q4 - 1991Q3). The value of the time trend in the final four quarters of the regression period (1995Q4 - 1996Q3) was 77, 78, 79, and 80, respectively. Quarterly multipliers are calculated for single-piece letters for each of the four quarters by taking the ratio of the current value of the time trend to the base value of the time trend (58.4), raised to the coefficient of the time trend from the single-piece First-Class letters equation (2.371). The same thing is then done with the trend squared variable (coefficient of -0.331). The resulting time trend multipliers are then multiplied by the trend squared multipliers for each quarter, yielding the following aggregate trend multipliers:

1995Q4	0.8962
1996Q1	0.8903
1996Q2	0.8845
1996Q3	0.8786

The weighted average of these multipliers minus one is then equal to -11.17 percent.

I discuss the use of these time trends in my equations on page 21, line 1 through page 22, line 5 of my direct testimony. These time trends serve to model the impact of

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declining user costs on single-piece First-Class letters volume. They do not, however, explicitly model user costs, so that it is not possible to use this information to make a statement about the change in user costs over this time period.



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NAA/USPS-T6-6. Please refer to your discussion of user costs at page 45 of your direct testimony. Please explain in detail how the 23.91 percent effect was calculated, and indicate the change in user cost that was associated with the 23.91 percent decline.

**RESPONSE:**

Please see my testimony at page 33, lines 1 - 6. The 23.91 percent figure is calculated as the effect of the change in the time trend variable over the past five years on workshared First-Class letters volume.

The time trend had an average value of 58.4 five years ago (1990Q4 - 1991Q3). The value of the time trend in the final four quarters of the regression period (1995Q4 - 1996Q3) was 77, 78, 79, and 80, respectively. Quarterly multipliers are calculated for workshared letters for each of the four quarters by taking the ratio of the current value of the time trend to the base value of the time trend (58.4), raised to the elasticity of the time trend from the workshared First-Class letters equation (0.727). This yields the following multipliers:

1995Q4	1.2228
1996Q1	1.2343
1996Q2	1.2458
1996Q3	1.2572

The weighted average of these multipliers minus one is then equal to 23.91 percent.

I discuss the use of the time trend in my equations on page 21, line 1 through page 22, line 5 of my direct testimony. The time trend serves to model the impact of declining user costs on workshared First-Class letters volume. It does not, however, explicitly model user costs, so that it is not possible to use this information to make a statement about the change in user costs over this time period.

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NAA/USPS-T6-7. Please refer to your direct testimony at page 68 lines 9 to 13.

- a. Does this observed behavior indicate that a cross-price elasticity exists between private cards and Standard A mail? Please explain any negative response.
- b. In light of this observation, please explain why no Standard mail price term appears in the forecasting equation for private cards.

RESPONSE:

- a. No. The volume shift referred to in Dr. Tolley's testimony was the result of a unique pricing phenomenon, which priced a portion of First-Class cards below the price of third-class bulk regular mail. This caused some mailers to shift to the now less-expensive First-Class cards subclass. The relevant factor which caused this mail to shift subclasses was not a change in the absolute price of either third-class bulk regular mail or First-Class cards, but was simply a change in which of these two subclasses was more expensive. Hence, it would not be correct to refer to this effect as a cross-price elasticity effect, as that term is generally used in my testimony.
- b. Changes in the price of third-class mail which did not change the relationship between the prices of First-Class cards and third-class bulk regular mail (i.e., did not change which of the two subclasses was more expensive) have not been observed to lead to substitution between these two subclasses. Consequently, no cross-price elasticity is modeled between First-Class cards and Standard bulk mail.

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NAA/USPS-T6-9. With regard to the inclusion of the prices of substitutes in the econometric analysis:

- a. Please explain generally why the prices for substitutes to Standard A Regular and ECR mail were included in the econometric analysis, while prices for substitutes to First-Class Mail were not included.
- b. If specific prices for substitutes were excluded from the Standard A equations, would the estimated own-price elasticities for Standard A mail be lower (in absolute value)?
- c. If specific prices for substitutes for First-Class Mail were included in the econometric analysis, would the own-price elasticities for First-Class Mail be higher (in absolute value)?

RESPONSE:

a. I am not entirely sure what substitutes for First-Class Mail are being referred to by your question. In general, prices of substitutes were not included in the demand equation for First-Class Mail because most First-Class Mail has relatively few alternatives, due to the Private Express Statutes. For example, according to the Household Diary Study, more than 43 percent of First-Class Mail received by households was either bills or statements. I can think of no reasonable alternative to the Postal Service for delivering this mail. In addition, many potential substitutes for First-Class Mail are not widely used (e.g., electronic bill-payments) and are priced such that it does not appear that there would be significant price-substitution between these alternatives and First-Class Mail. For example, the marginal price of sending one E-Mail message, once one has already purchased a computer and modem and subscribed to an online service is zero. It is not clear, therefore, what "price" of E-Mail one would include in a demand equation for First-Class Mail.

The only non-Postal substitute for First-Class Mail for which there may be some

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small cross-price elasticity that I can think of is long-distance telephone service. Long-distance telephone service would primarily substitute for household-to-household mail. Yet, not including greeting cards and packages, which provide a distinct product from long-distance telephone service, household-to-household mail represented only 3.1 percent of total First-Class Mail in 1995 (1995 Household Diary Study, Table 4-10). This suggests that any cross-price elasticity between First-Class Mail and long-distance telephone service would likely be extremely small.

I was not able to find a reliable price series for long-distance telephone service that did not also incorporate the price of local telephone service. I would not expect there to be substitution between First-Class Mail and local telephone service, however. Since the breakup of AT&T, however, the prices of local and long-distance service have behaved quite differently, as local telephone service is still a monopoly product, while the long-distance market has become progressively more competitive. Hence, I do not believe that an aggregate price index which combines both of these markets would be appropriate for measuring the price of either of these markets separately. In light of the relatively small fraction of First-Class Mail for which long-distance telephone service may be a close substitute, however, I did not view the lack of a cross-price elasticity with respect to long-distance telephone service to be a significant shortcoming of my First-Class demand equations.

Prices of substitute goods were included in the Standard A demand equations, on the other hand, because Standard A mail has more available substitutes. In addition, advertisers would be expected to consider price to be a significant factor in choosing between alternate advertising media, as is evidenced by the strong, significant cross-media price elasticities of Standard A mail presented in my testimony.

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b. No.

c. Only if these prices were positively correlated with the price of First-Class Mail.

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NAA/USPS-T6-10. Please refer to your direct testimony at page 58. You observe that advertising represents an increasing share of First Class letter mail.

- a. Please describe the substitute forms of advertising available to First Class letter mailers?
- b. Did you consider the inclusion of the prices for substitute advertising in the equation for First Class letter mail? If no, please explain why not. If yes, please explain what substitute advertising prices were considered, provide the results of any alternate regression equations, and explain why these prices are not found in the final First Class letter mail equation.

RESPONSE:

- a. First-Class advertising mail may also be sent as Standard A mail or First-Class cards. In addition, advertisers may choose between direct-mail advertising and alternate advertising media, as described in my testimony at page 66, lines 1 - 12.
- b. Substitution with First-Class cards and Standard A mail are explicitly modeled in my demand equations. I did not attempt to include the prices of substitute advertising media (i.e., the CPM series used in the Standard A equations) in the demand equation for First-Class letters, because the overwhelming majority of First-Class letter mail is not advertising and it is not possible to isolate First-Class advertising mail from First-Class non-advertising mail for the purposes of modeling separate demand equations.

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NAA/USPS-T6-11. With regard to the disparate consumption elasticities of Standard A Regular mail and Standard A Nonprofit mail:

- a. Please confirm that the personal consumption expenditure elasticity for Standard A Regular mail is 1.6. If you cannot confirm this elasticity, please provide the correct figure.
- b. Please confirm that the personal consumption expenditure elasticity for Standard Nonprofit mail is 0.6. If you cannot confirm this elasticity, please provide the correct figure.
- c. Given the elasticities in part (a) and (b) above, is it reasonable to conclude that commercial (for-profit) advertising mailers have been able to gain more volume through targeting (see Mr. Thress' testimony at page 74 lines 19 to 22) than have non-profit mailers. Please explain your response, and identify all other factors which contribute to the disparate consumption elasticities.

RESPONSE:

a. Confirmed

b. Confirmed

c. Yes. I observe on page 79 at line 24 through page 80 at line 6 of my testimony that it appears as if Standard bulk nonprofit mail volume has not grown as a result of technological improvements to the extent that Standard Regular mail has grown. One possible explanation for this is that the share of nonprofit advertising that is direct mail advertising was considerable even before the recent boom in for-profit direct mail advertising, due to preferential rate treatment of nonprofit advertisers by the Postal Service, so that technological improvements have led to relatively little additional growth in direct mail nonprofit advertising "simply because there has been relatively little non-

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direct mail nonprofit advertising which could have been induced to shift into Standard bulk nonprofit mail volume due to technological considerations." (p. 80, ll. 3-6) As evidence of this, Standard bulk nonprofit mail volume is affected less than half as much as Standard Regular mail volume by changes in the prices of alternate advertising media.

It may also be the case, however, that nonprofit advertising is simply not as strongly influenced by the general economy. For example, as the economy expands, the number of people in need of charity may decline as there will be fewer people who are unemployed or otherwise distressed financially. Hence, there may be somewhat less of a need for nonprofit advertising in prosperous times. On the other hand, during economic downturns, there will be a greater need for charity organizations, due to growing numbers of unemployed and financially distressed individuals. This counter-cyclical need for charity may also help to lower the overall correlation of nonprofit advertising and general economic conditions.



1 CHAIRMAN GLEIMAN: Is there any additional written  
2 cross-examination?

3 If not, that brings us to oral cross-examination.  
4 Three parties have requested oral cross-examination of the  
5 witness: American Business Press, McGraw Hill Companies,  
6 and the National Newspaper Association. Does any other  
7 party wish to cross-examine?

8 MR. WIGGINS: Mr. Chairman, the AMMA also has some  
9 questions, and I apologize for not having designated our  
10 intention to do that.

11 CHAIRMAN GLEIMAN: If you have no objection, we'll  
12 proceed with American Business Press, and then we'll pick up  
13 with you a bit later on.

14 MR. FELDMAN: Thank you, Mr. Chairman. A bit  
15 later on, maybe sooner than we think, because I'm going to  
16 at this point decline cross-examination and reserve  
17 followup. Thank you.

18 CHAIRMAN GLEIMAN: Would you like to give it a  
19 shot, Mr. Wiggins?

20 MR. WIGGINS: Absolutely, Mr. Chairman.

21 CROSS EXAMINATION

22 BY MR. WIGGINS:

23 Q You testify -- I'm Frank Wiggins for the AMMA.  
24 You testified at page 226 of your testimony, if you have  
25 that handy, that the -- and I'm reading beginning at line

1 13, the after-rates volume of this category, and that's ECR  
2 base five-digit letters, is included in the after-rates  
3 volume of automation five-digit letters reported by  
4 Dr. Tolley in his testimony.

5 A Yes.

6 Q And as I read your testimony on pages 224 through  
7 226, you are calculating that volume, the 3.3-odd billion  
8 pieces of mail to migrate from ECR basic to regular --  
9 standard regular five-digit automation?

10 A Technically what I am calculating is the share of  
11 ECR letters that will migrate to automation five-digit.  
12 That is turned into an actual number in the volume  
13 forecasting spreadsheets, the volume forecasting methodology  
14 of Dr. Tolley. So I -- I think it would be more technical  
15 to say I am testifying to the percentage, to the share of  
16 how much mail that is, the actual 3.3 billion number of  
17 pieces would be more technically calculated by Dr. Tolley,  
18 although I cite the number in my testimony.

19 Q I'm not quite sure that I understand the  
20 difference. You present in your testimony, and I am looking  
21 now still at page 226, at lines 16 and 17, you present a  
22 number. Are you disclaiming that number?

23 A No, no. What I'm saying is this is kind of where  
24 Dr. Tolley and my testimony get a little blurry, I think.

25 Technically, the reason this discussion is here is

1 because I am testifying to the shares of the various work  
2 sharing categories. And technically the numbers at pages  
3 226 on lines 4 and 5 are -- are what come out of my  
4 testimony, what come out of the math of my testimony. I get  
5 to the share, the 29.6 percent of regular ECR basic letter  
6 could potentially -- of ECR letters could potentially  
7 qualify for automation five-digit rates. That percentage  
8 translates to a test year after rates volume of 3.3 billion  
9 pieces.

10 Q Did -- did --

11 A I -- I mean, I'm willing to testify to the  
12 accuracy of the 3.3 billion pieces but, in terms of the 3.3  
13 billion pieces is the result of applying that 29.6 percent  
14 share to a base volume and multiplying by a rate effect  
15 multiplier which is described in Dr. Tolley's testimony.

16 Q So you gave Dr. Tolley the 29.643 percent number?

17 A Correct.

18 Q And he applied it to numbers that he had otherwise  
19 calculated; is that right?

20 A Yes.

21 Q So that the 3.3 billion piece number effectively  
22 is the result of the calculations by you that we see in the  
23 preceding pages?

24 A Yes.

25 Q Not Dr. Tolley's application of trends and

1 cross-elasticities and the rest of that?

2 A Correct. Yeah.

3 Q So that migration number, though there is some  
4 subtle interface between you and Dr. Tolley, that 3.3  
5 billion piece migration number is effectively a consequence  
6 of your calculation?

7 A Yes, it is effectively calculated by me. Sure.  
8 I'm sorry.

9 Q No, no, we're here to get clear about these  
10 things.

11 Is it right that the real engine of your  
12 calculation, the thing that sort of without which you could  
13 not have done it is the 33 -- and I'm talking only about  
14 regular, not nonprofit, now and in what follows --

15 A Okay, that's fine.

16 Q That appears on page 224 at line 14 of your  
17 testimony?

18 A The 33.28 percent is a number that is required in  
19 order to do the calculation.

20 Q You couldn't do the calculation without that?

21 A Yes.

22 Q And that number, if I correctly understood your  
23 answer to an interrogatory, is the complement to a number  
24 that you got from Ms. Daniel?

25 A Yes.

1 Q And am I right in thinking that that 33.28 percent  
2 number represents the number of ECR letters that are entered  
3 at a Postal facility eligible to receive automation mail?

4 A Eligible to receive -- eligible to receive an  
5 automation ECR discount. Yes.

6 Q Ok, right. In other words, either Postal  
7 facilities that have the CSBCS machine or Postal facilities  
8 which sort mail manually?

9 A Yes.

10 Q And you go on to testify, and this is over at page  
11 225, and I am reading from lines 5 and 6.

12 A Okay.

13 Q That current automation basic ECR letters  
14 represent exactly 33.28 percent of potentially bar coded  
15 regular ECR letters?

16 A Yes.

17 Q Does -- does that entail the assumption that every  
18 letter that is entered at one of those eligible Postal  
19 facilities that we talked about in my last question?

20 A Yes.

21 Q Is either an ECR automation letter or an ECR  
22 high-density or saturation letter?

23 A No.

24 Q Can you explain that answer for me?

25 A No, what that 33.28 percent assumes that there

1 are -- there are four types of mail, four types of ECR  
2 letters received at -- well, received anywhere. And  
3 received particularly with ~~ECR, BCS~~<sup>CSBCS</sup> or manual, there are  
4 automation ECR letters, there are high-density and  
5 saturation letters and there are letters which are not bar  
6 coded.

7           The assumption entailed in that paragraph is that  
8 those letters that are not bar coded will continue to not be  
9 bar coded. They are not bar coded for some reason that is  
10 not expected to change in the test year but there are still  
11 letters received at these places which are not bar coded.  
12 The assumption is if a mailer puts together a mailing and  
13 bar codes his mail, he will get an automation discount for  
14 on average 33.28 percent of those letters. The remaining --  
15 because on average 33.28 percent of those letters will go to  
16 a Post Office for which that discount is available. The  
17 remaining then 67 percent of his letters are going to Post  
18 Offices for which he cannot get that discount but which  
19 could otherwise be bar coded.

20           So that's what I mean by saying that what we  
21 observe as automated ECR letters is 33 percent of what we  
22 could potentially observe as automated ECR letters if the  
23 automated ECR discount were available to all ECR mail.

24           Q     Say again for me the conclusion about the letters  
25 that are entered at the postal facilities that are eligible

1 to offer the automated discount. You said that those postal  
2 facilities receive four kinds of mail?

3 A Right.

4 Q They receive automation mail, ECR automation.

5 A Yes.

6 Q They receive ECR high-density.

7 A Yes.

8 Q They receive ECR saturation?

9 A Yes.

10 Q And they receive some basic.

11 A Yes, they do.

12 Q And yet you conclude that current automation basic  
13 ECR letters represent exactly 33.28 percent of potentially  
14 bar-coded. So that what you're saying to me is that among  
15 the population of ECR automation, ECR saturation, ECR  
16 high-density, and ECR not bar-coded -- ECR basic.

17 A Right.

18 Q That those letters that fall in my fourth finger  
19 here, the ECR basic, are not bar-coded but could be?

20 A No. No. If we look at the non-CS BCS and  
21 non-manual-sort post offices.

22 Q The 67 percent.

23 A The 67 percent. Those post offices, I'm saying we  
24 can think that those post offices are also getting these  
25 same four types of mail. They're getting high-density

1 letters. They're getting saturation letters. They're  
2 getting what could have -- what could be automated letters.  
3 And they're getting basic letters.

4 But there are no automation discounts available at  
5 those post offices, so these last two types of mail are  
6 being combined. There's no distinction being made between  
7 the automated and the nonautomated basic letters. And I'm  
8 essentially assuming that the proportion of those letters  
9 which could be automated if a discount were available to  
10 those people is the same proportion as we currently observe  
11 at the post offices where a discount is available.

12 Q That's the 17 percent.

13 A Yes.

14 Q So that when you proceed to divide 17.187 --

15 A Yes.

16 Q Which is a number that one can observe at page --

17 A 17.187 is derived --

18 Q 220, 227 of your testimony, right?

19 A Yes. That number is actually derived at the top  
20 of page 215 of my testimony.

21 Q At page what?

22 A 215.

23 Q Okay, but it --

24 A Well, it appears.

25 Q But it shows up on Table 4-2 of your --



1 A Yes.

2 Q Of your testimony. And that is the projected 1997  
3 quarter 3 standard enhanced carrier route automation letters  
4 population; correct?

5 A Yes.

6 Q From whom do you get that?

7 A The Postal Service's data system. That's the --  
8 as I said, it's derived on page 215. It's the historical  
9 percentage of --

10 Q Right.

11 A Automation carrier route letters from the first  
12 two quarters of '97, just projecting the same percentage  
13 forward.

14 Q Okay. And in your calculation, what you say that  
15 you're doing and the formula, is it line 12 of page 225?

16 A Yes.

17 Q You divide the 17.187 percent by 33.28 percent.

18 A Yes.

19 Q And say for me what the result of that division is  
20 meant to yield? Characterize the mail.

21 A That mail is the percentage of ECR letters which  
22 would be automated if the Postal Service offered an ECR  
23 automation discount at all post offices.

24 Q Without regard to the limitation of postal --

25 A Correct.

1 Q Facilities --

2 A Yes.

3 Q That have --

4 A Correct.

5 Q The processing machine or manual. And does that  
6 assume that all of the mail at those postal -- that once you  
7 remove the constraint on the postal facility characteristics  
8 and say you can enter it anyplace, it assumes that all mail  
9 that is now ECR mail that is not saturation, that is not  
10 high-density, and that is not automation will be bar-coded?

11 A It assumes it could be -- I -- can you repeat your  
12 question? I'm not sure I followed it.

13 Q Sure. I'm just trying to understand -- I thought  
14 I did understand and I think you just told me that I  
15 didn't -- the logic of the arithmetic that you're performing  
16 here, and I'm just trying to get straight on just what your  
17 assumptions are.

18 We've got mail right now, today, which is ECR mail  
19 and you said it has -- it can be one of four types?

20 A Yes.

21 Q It can be automation, that is the 17 percent  
22 number?

23 A Yes.

24 Q It can be saturation -- it can be high density, it  
25 can be saturation or it can be basic?

1 A Yes.

2 Q The number that you got from Ms. Daniels or the  
3 complement of the number that you got from Ms. Daniels tells  
4 us the percentage of ECR letters that are entered at Postal  
5 facilities eligible for granting the automation, ECR  
6 automation discount, correct?

7 A Yes.

8 Q That is a 33.28 number?

9 A Yes.

10 Q Now, what you are doing here at line 12 of page  
11 225 is dividing the 17.187 by the 33.28 and I am asking you  
12 whether that arithmetic performance assumes that every  
13 letter which is entered at a Postal facility not eligible  
14 for granting the automation discount which is not high  
15 density or saturation will be bar coded?

16 A No, it does not assume that.

17 Q Okay, can you tell me -- tell me the logic there?

18 A Yeah. It assumes that the same percentage of that  
19 mail could be bar coded as the percentage of mail at Post  
20 Offices for which the automation discount is available is  
21 barcoded.

22 Q And what's the -- what's the basis for that  
23 assumption? What do you know about that mail that tells you  
24 that's a smart thing to think?

25 A I literally know nothing about that mail. I can

1     only assume that -- I can only assume that that mail is  
2     probably very similar to the mail that's sent to CSBCS and  
3     manual sort offices. I have no reason to believe that there  
4     is anything fundamentally different about the types of mail  
5     that goes to these two.

6           Q     Nor do you have any reason to believe that there  
7     is anything fundamentally similar, correct?

8           A     That would be correct.

9           Q     You're kind of agnostic on this question?

10          A     Yeah.

11          Q     You just really don't know?

12          A     Yes.

13          Q     You then go on, I think, to assume, after you make  
14     some corrections for the density requirement of regular  
15     automation five digit?

16          A     Yes, the 86 percent number or whatever it is.

17          Q     You then go on to assume that all of the mail that  
18     you have assumed will be bar coded, will be eligible for --  
19     will migrate to and be eligible for the regular automation  
20     five-digit discount; is that right?

21          A     Yeah, after adjusting for density requirement,  
22     yes.

23          Q     I said that, right.

24          A     Yes.

25          Q     Do you know whether there are any other -- this is

1 non -- at present, nonautomation mail, correct? It's ECR  
2 regular?

3 A It -- it receives no automation discount at  
4 present.

5 Q Well, and we don't know, you just told me, whether  
6 it's automation eligible because nobody's tested it.

7 A True.

8 Q Do you know whether there are any requirements for  
9 automation eligibility in the regular automation five-digit  
10 other than density that might preclude the entry of that  
11 mail into that category of rate?

12 A It is my understanding that there are no  
13 requirements for the automation five-digit rate except for  
14 density that are different from the current rates for the  
15 ECR automation discount with the exception for the Post  
16 Office at which it is received. So that I am assuming that,  
17 since we observed that 17 percent out of a potential 33  
18 percent of this mail is bar coded now, I have no reason to  
19 believe that 17 percent -- that that proportion of the other  
20 67 percent couldn't just as easily meet the same  
21 requirements.

22 Q Do you think that the only thing required for  
23 automation eligibility is bar coding?

24 A My understanding of the requirement is that you  
25 must have a -- is that the mail must have a delivery point

1 bar code sprayed on the piece which would mean you need the  
2 ability to spray the bar code, you also need the information  
3 sufficient to develop the bar code.

4 Q Is there anything else in your understanding  
5 that's required for automation eligibility, things about the  
6 face of the mail piece, for example?

7 A I'm not an expert on the requirements for  
8 automation but, again, all I am assuming is that I'm  
9 observing the proportion of mail at Post Offices where they  
10 offer an automation ECR. I'm observing the proportion of  
11 that mail that meets whatever bar code requirements there  
12 are.

13 So long as the bar code requirements for  
14 automation five digit are the same, I -- I would maintain  
15 that that's a reasonable assumption.

16 Q But you haven't examined the other requirements  
17 for automation eligibility?

18 A You know, I've looked at them in the past but it's  
19 been a while. I don't know exactly what they are now.

20 Q But you haven't sought to test your assumption of  
21 this transference between the 17 percent and the 67 percent  
22 with respect to those other requirements for automation  
23 eligibility?

24 A I haven't formally but, again, I don't -- I don't  
25 see the relevance, or the relevance in my mind --

1 Q That's for the Commission to decide, I think.

2 A Okay, the relevance in my mind is to -- no not the  
3 relevance of your question, I'm sorry. I think the  
4 relevance of the requirements are whether the requirements  
5 for automation five-digit are fundamentally the same as the  
6 current requirements for automation enhanced carrier route.  
7 And my impression is that they are the same.

8 Q All based on the assumption that the mail that is  
9 not being automate is not being automated only because it's  
10 being delivered to a nonautomation eligible Postal facility;  
11 is that right? That's the core of your --

12 A Yes.

13 Q Okay. You testified, I think, in answer to an  
14 interrogatory that the 66.72 number from which you take the  
15 complement of the 33 percent number came to you from page 38  
16 of 43 of Appendix I of Ms. Daniel's testimony; is that  
17 right?

18 A Yes.

19 Q Do you have that handy?

20 A No, I don't.

21 MR. WIGGINS: May I approach the witness,  
22 Mr. Chairman?

23 CHAIRMAN GLEIMAN: Certainly.

24 BY MR. WIGGINS:

25 Q And this page from Ms. Daniel's testimony which is

1 in evidence tells you that it was derived from Library  
2 Reference H-138. That may have been subsequently corrected  
3 but the right reference, I believe, is H-128.

4 Did you look behind? And your number, if I've got  
5 it right, is from line 10?

6 A Yes.

7 Q Did you look behind this presentation by  
8 Ms. Daniels to determine how that number was derived?

9 A No, I did not.

10 Q Let me represent to you, subject, obviously, to  
11 your check and correction, that the 66.72 number, if you  
12 look at the electronic spreadsheets that support H-128, was  
13 derived by multiplying the three lines that I've underscored  
14 on this, line 3 multiplied by line 6 multiplied by line 11.  
15 And let me further represent to you, subject, obviously, to  
16 your check and correction that each of those lines, 3, 6 and  
17 11, is itself the product of an averaging calculation. Or  
18 numbers divided by numbers. You have that hypothesis in  
19 head?

20 A Sure.

21 Q Methodologically, do you have any difficulty --  
22 and the 66.72 number, if I wasn't clear about this, is  
23 purely a calculation, is purely a result of that  
24 multiplication that I've just described to you. Do you have  
25 any methodological objection to the vitality and validity of



1 the 66.72 number created that way?

2 A I haven't really thought about this issue but, no.

3 Q What if I further represented to you, subject  
4 again to your check and correction, that there is a high  
5 correlation between the three numbers being multiplied  
6 together to create the 66.72 number? Would that cause you  
7 any unrest in the confidence that you place in that number?

8 A Again, I haven't really thought about this issue  
9 and I am not sure how qualified I am to speak on it. I  
10 think I understand what you are trying to say and I mean,  
11 mathematically, I see your point. But I really am not  
12 qualified to give an opinion as to the validity of it.

13 Q Okay, I appreciate that. But if the 66.72 number  
14 isn't a number in which one could confide great confidence,  
15 then your calculation of the migration, which is based on  
16 the complement of that number, would also be something about  
17 which one could scratch his head at least?

18 A My calculation is based on the number 66.72  
19 percent. If you had a basis for believing that number were  
20 some different number then my calculation would also use  
21 that different number and result in a different number, yes.

22 MR. WIGGINS: Thank you, Mr. Chairman. I have  
23 nothing further.

24 CHAIRMAN GLEIMAN: McGraw-Hill.

25 MR. BERGIN: Thank you, Mr. Chairman.

## 1 CROSS EXAMINATION

2 BY MR. BERGIN:

3 Q Good morning, Mr. Thress.

4 A Good morning.

5 Q For the record, my name is Tim Bergin. I  
6 represent the McGraw-Hill Companies. I have a few questions  
7 for you.8 Would you agree, Mr. Thress, that periodicals  
9 regular mail is highly work-shared mail?

10 A Yes.

11 Q That means that periodicals mailers do a  
12 considerable amount of presortation of their mail?

13 A Yes.

14 Q And bar-coding of their mail?

15 A Yes.

16 Q And the cost to mailers of performing such  
17 work-sharing is referred to as users costs; is that correct?

18 A Yes.

19 Q And users' costs are considered by economists as  
20 part of the overall price of the delivery of mail?

21 A Yes.

22 Q On top of postage prices?

23 A In general, yes.

24 Q Because mailers have to pay the user costs as well  
25 as the postage.

1           A     Right, it's part of the total price that the  
2     mailer would pay; yes.

3           Q     And do I understand your testimony correctly that  
4     user costs have been generally declining in recent years?

5           A     That's been my observation with respect to First  
6     Class and Standard A mail. I haven't observed the user  
7     costs or estimated the user costs of periodical mail, which  
8     I think is where we're going with this, but --

9           Q     Right.

10          A     In general, yes.

11          Q     And declining user costs of course could offset  
12     increases in postal rates?

13          A     To some extent; yes.

14          Q     And therefore declining user costs could mitigate  
15     the volume effect, the volume response to an increase in  
16     postal rates?

17          A     I think it's important to understand relative to  
18     what. If you're looking at the price of mail in 1996  
19     relative to the price of mail in 1998, then yes, I would  
20     agree that if user costs fall over that time period, but  
21     postal rates increase over that time period, the total cost  
22     to the mailer will increase less than the postage rate.

23                 If you're comparing what would the costs to the  
24     mailer be in 1998 without a rate increase relative to what  
25     would the cost be to the mailer in 1998 with a rate

1     increase, then the user costs -- I would have no reason to  
2     assume that the user costs wouldn't just be the same in both  
3     cases, because you're talking about the same period in time.  
4     For any given point in time if the postal rates go up 10  
5     cents I would expect the price to the mailer at that point  
6     in time to go up 10 cents.

7           Q     For any point in time, but over time user costs to  
8     the extent they are declining there's a trend of  
9     declining --

10          A     Yes, yes.

11          Q     Represent an offset.

12          A     Over time, yes.

13          Q     If they are declining over time, there is a period  
14     of decline in user costs. So is it fair to say then that  
15     it's important to take into account user costs in estimating  
16     the own price elasticity of demand for mail subclasses?

17          A     If possible it is a factor that would be expected  
18     to affect cost. I have no independent estimate of user  
19     costs for periodical mail. The user costs that I use in  
20     explaining the behavior of First Class and Standard A mail  
21     are econometrically estimated user costs based on observing  
22     the shares of those types of mail that are taking advantage  
23     of various work-sharing options.

24                 I have no comparable analysis for periodical mail,  
25     so in the absence of that analysis, I think it would -- I

1 would have no basis for picking a number to include in the  
2 regression. One has to include an actual number. One has  
3 to include an actual time series of user costs. I can't  
4 just pull numbers out of the air, or I don't think it would  
5 necessarily be a wise thing to do.

6 Q What is the reason that you didn't have the data  
7 to estimate to take account of user costs for periodicals  
8 mail --

9 A I don't have --

10 Q As opposed to First Class and Standard A mail?

11 A I don't have -- I don't have nor am I aware of  
12 regular quarterly data breaking periodical regular mail down  
13 by work-sharing category. I'm only aware of -- that that is  
14 done in billing determinants which we receive on an annual  
15 basis, so I don't have sufficient data to estimate those --  
16 to estimate those equations.

17 Q That data could not have been derived from the  
18 billing determinants?

19 A I really don't know.

20 Q Have you looked into the question as to whether  
21 user costs could be taken into account for purposes of  
22 periodicals regular own price elasticity?

23 A No, I really haven't. That issue hasn't really  
24 come up in my work or in my conversation with the Postal  
25 Service. This is not something that they've asked me to do.

1 It's not something that I've independently investigated.

2 CHAIRMAN GLEIMAN: Could I ask both of you to  
3 either speak up or pull the mikes closer? I guess after  
4 three weeks -- you don't have an excuse, Witness Thress, but  
5 the rest of us have been at this for three weeks, so we're  
6 kind of, you know, worn down at this point.

7 THE WITNESS: Sorry, Mr. Chairman.

8 MR. BERGIN: I'm sorry.

9 THE WITNESS: Is that better?

10 CHAIRMAN GLEIMAN: Yes. I mean, I can read the  
11 transcript later, but we've got to make sure that the  
12 transcript can hear you, so, if you will.

13 BY MR. BERGIN:

14 Q Do you have any idea, Mr. Thress, to what extent  
15 the failure to take into account user costs in estimating  
16 regular periodicals own price elasticity could have affected  
17 the estimate, how much of a difference it would have made  
18 had you taken into account user costs?

19 A I can't imagine it would have -- that it would  
20 have made very much difference. In reviewing the  
21 interrogatory about this question last night I did some kind  
22 of back-of-the-envelope calculations. The current price of  
23 periodical regular mail is about 22 cents. If that price  
24 were to go up 10 percent, that would be an increase of 2.2  
25 cents, and with our -- with the price elasticity of minus

1 .143 that I estimate, that would imply a decline in volume  
2 of 1.43 percent. If user costs were a penny, so that the  
3 price including user costs were 23 cents, a 2.2-cent  
4 increase would calculate to a 9.6-percent increase, and a  
5 volume decline of 1.43 percent resulting from a price  
6 increase of 9.6 percent would imply an elasticity of minus  
7 .149. So that would be a difference of six one-thousandths,  
8 .006.

9 Q Assuming that user costs are simply a penny.

10 A Well, it's important to keep in mind that user  
11 costs are going to be less than whatever discounts the  
12 Postal Service offers, because if it costs more to mailers  
13 to do the work-sharing, they would choose not to do it, so I  
14 can't believe that user costs would be more than one or two  
15 cents, although I'm not intimately familiar with the  
16 discounts available in periodical regular mail.

17 Q But to the extent that they are higher than a  
18 penny, then the impact of a failure to take account of user  
19 costs in terms of underestimating own price elasticity is  
20 greater, obviously.

21 A It would be somewhat greater, although -- the  
22 other thing to keep in mind is in terms of forecasting, if  
23 one were to take account of user costs, the percentage  
24 increase proposed by the Postal Service in R97 would be a  
25 smaller percentage, because you'd be taking a constant penny

1 percentage. In other words, the Postal Service is proposing  
2 increasing rates from, I don't know, 22.8 cents to 23-1/2  
3 cents, something like that. Let's just say 22 to 24 cents,  
4 which is about 10 percent. That's actually overstating what  
5 the Postal Service is proposing. I'm just picking numbers.

6 If user costs were 2 cents, however, so that you  
7 started with 24 cents, the Postal Service proposal would  
8 still only increase those rates by 2 cents, so that the  
9 percentage increase in postal rates would be a smaller  
10 percentage. You would have a higher price elasticity that  
11 you would be applying to a smaller percentage price change,  
12 and I'm fairly confident you would end up at pretty much the  
13 same place in terms of making a volume forecast.

14 Q But you would be dealing with the higher  
15 elasticity in that circumstance.

16 A You would be dealing with a higher elasticity  
17 offset by a smaller percentage increase in postage rates.

18 Q Mr. Thress, McGraw-Hill Interrogatory No. 2 --

19 A Yes.

20 Q Asked you to confirm -- and I'm referring to  
21 subpart (c) at this point -- that had you taken into account  
22 the volume of newspapers delivered by alternate delivery as  
23 well as the cost of alternate newspaper delivery, that your  
24 estimate of the own price elasticity for periodicals regular  
25 mail could have been higher for that reason as well. And



1 McGraw-Hill Interrogatory 2(d) asked you to confirm that had  
2 you taken into account the alternate delivery of magazines  
3 by electronic means, that your own price elasticity estimate  
4 for periodicals could have been higher for that reason as  
5 well.

6 And you responded as I understand it that this  
7 would be true so long as the alternate delivery rates  
8 increased in correlation with the postal rate increase.

9 A Yes.

10 Q Is that a fair statement?

11 A Correct.

12 Q And can you please explain the basis for that  
13 statement, the logic?

14 A Econometrically what is done -- the goal of  
15 econometrics is to estimate the impact on in this case  
16 volume of a change in a particular factor, holding all other  
17 factors constant. Literally what is done in econometrics is  
18 measures the change in volume, in this case due to a change  
19 in the price of postage holding constant the other factors  
20 that are included within the regression. So the assumption  
21 underlying that is that all other factors that haven't been  
22 included in the regression are likewise held constant given  
23 a change in the price, in this case of the price of postage.

24 If instead whenever the price of postage changes  
25 or there's a correlation between the changes in the price of

1 postage and changes in some variable which affects the  
2 volume of periodical mail but is not included in the  
3 regression, then changes in the price of -- in the estimated  
4 change in the price -- due to the price of postage will  
5 incorporate to some extent the effects of these external  
6 variables.

7           If the variable you've omitted is not correlated,  
8 however, with the price of postage, so that when the price  
9 of postage changes, there's no expectation that this other  
10 variable changes in the same way or in the opposite way,  
11 then the assumption and the basic assumption that all of the  
12 omitted -- that all other things being held constant is  
13 generally maintained, and there's no bias in the estimated  
14 elasticity.

15           Q       I'd like to see if I can sort of get a layman's  
16 translation of that. I think I understand where you are  
17 going, but for example let's say there's an increase in  
18 postal rates and you don't see a substantial volume  
19 response, but then you consider the further factor that the  
20 price of the alternative rises in conjunction with the rise  
21 in postal rates, and therefore your estimate of elasticity  
22 is somewhat higher because you attribute the lack of, the  
23 apparent lack of a volume response in part to the fact that  
24 the alternative prices rose instead of simply attributing it  
25 to inelasticity of consumer demand.

1           Is that an attempt to get at the logic in layman's  
2 terms?

3           A     Yes. Basically, if every time the Postal Service  
4 raises its rates, go to the extreme.

5           If every time the Postal Service raises its rates  
6 for periodical mail, competitors simultaneously raise their  
7 rates by the same percentage amount. Then simply including  
8 the price of periodical mail only will pick up the aggregate  
9 effect of changes in postal prices and changes in competitor  
10 prices, and if at some future date then the Postal Service  
11 raised its rates by a great deal plus competitors didn't,  
12 then you might observe a much stronger volume effect in that  
13 case because now you would be focusing solely on that own  
14 price effect as opposed to also looking at the effect of the  
15 competitor price.

16          Q     I see.

17          A     I'm not sure that clarified, but --

18          Q     Well, that is helpful. Thank you.

19                Is it fair to say then that to the extent that an  
20 apparent lack of volume response to an increase in postal  
21 rates reflects a lack of practical alternatives because the  
22 prices of the alternative products are rising parallel with  
23 the postal rates -- that the own price elasticity estimate  
24 has to take that lack of, should take the lack of practical  
25 alternatives into account?

1           A     Can you rephrase that? I am not sure I understand  
2 your question.

3           Q     Well, in other words, in response to an increase  
4 in postal rates, mailers are sensitive and they are looking  
5 for alternatives. They would make a volume response but  
6 when they turn to the alternatives they find that the prices  
7 of the alternatives have increased in tandem with the postal  
8 rates, therefore there is no apparent volume response but  
9 only because there is no practical alternative.

10                   Is this a factor that --

11           A     Yes. I mean certainly the extent to which there  
12 are available alternatives will affect the price elasticity.  
13 I think that is generally true.

14           Q     In McGraw-Hill 2(c) you go on to state that "For  
15 purposes of volume forecasting and Ramsey prices any  
16 underestimate of the own price elasticity for periodicals  
17 regular for failure to take into account alternate delivery  
18 would be at least somewhat offset by an understatement of  
19 the positive volume impact of a change in the price of  
20 alternate delivery."

21                   What did you mean by "at least somewhat" offset?

22           A     Essentially in econometrics for purposes of  
23 forecasting out into the future, to the extent that <sup>there</sup>~~they~~ are  
24 omitted variables that may or may not be correlated with  
25 included variables so that the included variable

1 elasticities are going to incorporate the impact of those  
2 things.

3           There is an assumption in forecasting that any  
4 correlation between the variables that's been true  
5 historically will continue to be true in the forecast  
6 period.

7           So if historically alternate delivery prices have  
8 risen exactly in tandem with postal rates, then the forecast  
9 will be perfectly accurate if in the future that continues  
10 to be the case, and in the future alternate delivery prices  
11 rise perfectly in tandem with postal rates.

12           If, however, alternative delivery rates in the  
13 future rise but not perfectly in tandem -- they rise  
14 slightly more or slightly less -- then your forecast would  
15 be off slightly to that same extent.

16           Q     And to the extent that alternate delivery prices  
17 rise by 5 percent in response to a 10 percent increase in  
18 postal rates?

19           A     Again, if historically they have always risen in  
20 that way and in the forecast period they will again rise in  
21 that way, then your forecast will be fine.

22           If historically for every 10 percent increase in  
23 postal rates alternate delivery has risen 5 percent and in  
24 the forecast period the Postal Service proposes a 10 percent  
25 rate increase but alternate delivery responds with, say,

1     only a 4 percent rate increase, then the forecast would be  
2     slightly less accurate, although would still be  
3     fundamentally accurate.

4           Q     But in this situation addressed by McGraw-Hill  
5     Interrogatory 2, we really have no idea to what extent there  
6     would be an offset since we have no historical data on  
7     alternate delivery prices.

8           A     True. No -- the basic assumption of econometrics  
9     and forecasting, and it is a universal assumption that is  
10    not always explicitly stated, is that any correlation  
11    between variables you have included and variables you have  
12    excluded will continue in the forecast period and will -- at  
13    approximately the same level, the same degree of  
14    correlation, so that omitted variables that historically  
15    have moved with variables you have included will in the  
16    forecast period continue to move with those same variables  
17    in fundamentally the same way.

18          Q     In response to McGraw-Hill Interrogatory Number 4,  
19    you confirm that your estimate of the own price elasticity  
20    for regular periodicals mail may have been understated for  
21    the additional reason that you did not take into account the  
22    cross price relationship between Standard A Mail and  
23    periodicals. Is that a fair statement?

24          A     Yes.

25          Q     Am I correct in my understanding that this cross

1 price relationship arises from the fact that mailers may  
2 include the postal costs in their advertising rates, the  
3 rates they charge for advertising?

4 A Yes.

5 Q With the result that if postal rates go up and  
6 therefore a publisher's advertising rates go up, then ads  
7 may migrate from periodicals to Standard A or vice versa?

8 A Correct.

9 Q Do advertisers tend to be price-sensitive in this  
10 regard?

11 A That's been my observation econometrically, yes.

12 Q Is it fair to say that this would represent a  
13 constraint on the extent to which postal rate increases  
14 could be recouped by publishers through advertising rates?

15 A Yes.

16 Q And would you agree that the -- a high editorial  
17 publication, which by definition does not carry substantial  
18 advertising, doesn't have the option to recoup postal rate  
19 increases through advertising?

20 A I mean at the extreme a publication that doesn't  
21 include advertising obviously can't raise its advertising  
22 rates.

23 Q Would you agree that in view of that fact a high  
24 editorial publication would have a higher, tend to have a  
25 higher own price elasticity of demand than a lower editorial

1 publication?

2 A I have no basis econometrically for assuming, but  
3 I mean certainly my price elasticity is an average of all  
4 periodical mailers.

5 Based on the logic that you have just laid out,  
6 that would -- could certainly be an argument suggesting that  
7 high editorial publishers would have a higher price  
8 elasticity, but I wouldn't want to go so far as to say that  
9 in general high editorial publishers definitely have a  
10 higher price elasticity.

11 There may be offsetting factors that would suggest  
12 that they have lower. I really don't know.

13 But the fact that they are higher editorial and  
14 therefore by definition lower advertising is one factor that  
15 would point toward a higher own price elasticity. I would  
16 think so.

17 Q Would you agree that to the extent that postal  
18 rate increases are absorbed by publishers, that they could  
19 have a significant substantial impact on profits?

20 A They could have an impact, yes, certainly.

21 Q I believe you made the statement in your testimony  
22 at page 46 that the impact of Postal rate increases on total  
23 costs and revenues would not, necessarily, in your view, be  
24 substantial; is that correct?

25 A Yes, that's my opinion. But that is a subjective



1 statement.

2 Q Well, now I am altering the focus. We are talking  
3 about publications that are absorbing the Postal rate  
4 increases and the measure is the impact of those increases  
5 on profits as opposed to total revenues.

6 You would agree that, given this framework, the  
7 impact would be substantially greater?

8 A Again, my focus is on periodical mail in general.  
9 Certainly a publisher who chose to completely absorb a  
10 postage rate increase and totally offset profits with it and  
11 not pass any of that on to subscribers or advertisers,  
12 certainly that would, almost, by definition, be a greater  
13 percentage increase than the percentage increase on his  
14 total cost of publishing, yes.

15 Q And if a publisher felt constrained to do this in  
16 lieu of passing on the increases in Postal rates to  
17 subscribers, would you agree that the publisher would  
18 therefore tend to be quite sensitive to the increase in  
19 Postal rates since it affects profits and therefore  
20 shareholders and the bottom line?

21 A I think "sensitive" in the term you mean it isn't  
22 sensitive in the term -- in the econometrics as far as what  
23 I'm interested in. Econometrically, I am interested in how  
24 sensitive is volume to a change in price and it would seem  
25 to me that a publisher who was so concerned about his

1 subscribers that he wanted to absorb the entire postage cost  
2 himself without passing any of it on to them would likewise  
3 be so concerned about his subscribers that he would not want  
4 to lose any of them and that therefore he would continue to  
5 send out the mail.

6 So in terms of an own price elasticity, which is  
7 what I am getting at, which is the impact that a change in  
8 Postal rates would have on volume, I am not sure that -- I  
9 am not sure that the sensitivity in the way that you are  
10 talking about it translates into that.

11 Q Well, first of all, you would agree that for --  
12 are you familiar with the term requester publications?

13 A Yes.

14 Q There is no subscription rate for those  
15 publications.

16 A Right, yes.

17 Q And if it is a high editorial -- so then the  
18 option is merely to recoup through profits or --

19 A Profits or advertising.

20 Q Or advertising, if advertising is an option.

21 Well, in response to McGraw-Hill interrogatory  
22 number 1, I believe you confirmed that your estimate of own  
23 price elasticity for regular periodicals mail may have been  
24 understated to the extent that, in response to an increase  
25 in Postal rates, periodicals mailers reduce the size or

1 weight of their mailings. Is that a fair statement?

2 A What I said is that econometrically, I use what's  
3 called a fixed weight price index so that the percentage  
4 change in Postal rates when the Postal Service proposes a  
5 change in rates, as I calculate it, does not take into  
6 account any change mailers may make in the size of their  
7 mailing. If a mailer shrinks his mailing thereby paying  
8 less in postage, my price index would not take that into  
9 account.

10 Q I understand that you didn't take it into account  
11 and I also understand that it would have been difficult to  
12 do so short of a mailer survey or something but you do agree  
13 that to the extent that occurs that would reflect an  
14 underestimate in own price elasticity? It would be a volume  
15 response to a change in Postal rates?

16 A It would not be a volume response as your -- your  
17 example, I don't think, is a volume response because what I  
18 am interested in is the piece volume, the number of pieces  
19 of periodical regular mail.

20 Q I understand that's how you --

21 A From my perspective, I don't care how big they  
22 are. If the mailer responds to a change in price by  
23 shrinking his periodicals but still continues to send out  
24 the same number of periodicals, as I measure the term, that  
25 would imply no price elasticity.

1           Q     I understand. But as an economist -- well, as an  
2 economist, if a mailer needs to mail out a one-pound  
3 publication and then the pound rates for that publication  
4 were raised significantly and the mailer shifted to a  
5 one-ounce publication with the result that Postal revenues  
6 dropped accordingly, you would consider that to be, as an  
7 economist, putting aside the formulas that you used for  
8 estimating elasticity, that would be a volume response to a  
9 change in price, would it not?

10          A     It would be a response to a change in price but,  
11 again, it depends on what one's focus is. Volume as I  
12 define it and as I understand the Postal Service to define  
13 it, in your example, would not be affected. Postal revenues  
14 would certainly be affected, postal weight would certainly  
15 be affected and those are, certainly, considerations the  
16 Postal Service ought to take account of. But Postal volume,  
17 strictly speaking, would not be affected.

18          Q     Well, volume could be measured by weight as  
19 opposed to pieces?

20          A     Yeah, if you measure volume by weight, the volume  
21 in terms of weight, sure. You know, if one wanted to  
22 measure a weight elasticity, the own price elasticity of  
23 weight or one can measure an expenditure elasticity, effect  
24 of revenue on change in price, you know, those factors would  
25 be affected, yes.

1           Q     And putting aside definitions and semantics and  
2     typical ways of doing things, you would agree that a  
3     decrease in weight in response to an increase in price could  
4     very well reflect elasticity of demand from an economic  
5     perspective?

6           A     Yes.

7           Q     And the fact that such an effect is difficult to  
8     capture using current methods would <sup>underline</sup> ~~undermine~~ the point that  
9     the estimate of elasticities <sup>is</sup> ~~are~~ inherently uncertain, as  
10    most econometric estimates are?

11          A     I mean, it's a statistical estimate, it has a  
12    standard error and a variance associated with it, so, yeah,  
13    to that extent, it's uncertain to a certain extent --  
14    uncertain to an uncertain extent, actually, I guess.

15          Q     But particularly to the extent you are not able to  
16    include some of the factors that we have been discussing  
17    such as user costs, cost of alternate delivery of  
18    newspapers, potential decreases in weight in response to a  
19    volume change. Then, by the same token, your estimate of  
20    the own price elasticity from regular periodicals mail is,  
21    to that extent, uncertain?

22               MR. KOETTING: I can't hear the question so I  
23    would ask you to repeat it in a louder voice. I don't have  
24    any particular reason to object; I just can't hear it.

25               MR. BERGIN: I'm sorry for that.

1 CHAIRMAN GLEIMAN: So could you repeat the  
2 question?

3 BY MR. BERGIN:

4 Q So is it fair to say that, to the extent you are  
5 unable to consider some of the factors we have been  
6 discussing here, namely the cost of alternate delivery,  
7 potential reduction in the weight of mailings in response to  
8 a price increase in the -- in postage, that to the same  
9 extent your estimate of the own price elasticity would be  
10 uncertain?

11 A As I said before, econometrics provides  
12 statistical estimates which have associated with them  
13 standard errors. To the extent that there are factors which  
14 affect the volume of periodical mail which are either not  
15 observable, for which data is not readily available or  
16 which, for some other reason, are not included in my model,  
17 the own price elasticity may therefore -- is therefore  
18 subject to uncertainty.

19 I would want to emphasize, however, that my  
20 estimate of minus .143 for periodical regular mail is my  
21 best estimate of the own price elasticity of periodical  
22 regular mail and I have no reason to believe that I have  
23 either systematically excluded things which would have --  
24 which would serve to raise the price elasticity or  
25 systematically excluded things which would have served to

1     decrease the price elasticity.

2             My best estimate of periodical regular mail is  
3     minus .143 and, in fact, in response to an NAA  
4     interrogatory, I gave them 90 percent confidence intervals  
5     and the 90 percent confidence interval for periodical  
6     regular mail is a price elasticity somewhere between .06 and  
7     .23. So, yes, there is some uncertainty there but my best  
8     guess is minus .143. For the purposes of making a volume  
9     forecast, you need to plug a number in there and the number,  
10    the best number to plug in there is minus .143.

11         Q     Well, I understand you've certainly not  
12    systematically excluded relevant factors and I understand  
13    that your estimate is your best estimate. But it is true  
14    that as I think you have acknowledged in response to the  
15    interrogatories, that there are a number of factors which,  
16    had you been able to consider them, could well have  
17    significantly impacted the estimate beyond that suggested by  
18    the confidence range. For example, the user costs of  
19    periodicals mail, alternate delivery by electronic means,  
20    alternate delivery of newspapers and other factors that we  
21    have been discussing here.

22             MR. KOETTING: I think that question has been  
23    asked and answered.

24             MR. BERGIN: I don't think --

25             CHAIRMAN GLEIMAN: Well, before the question gets

1 lost and we can move along, let's get it answered again if,  
2 in fact, it's been answered before.

3 THE WITNESS: Well, again, as I said with user  
4 costs, my best -- my estimate of the impact of user costs  
5 was .006 which is certainly well within a confidence  
6 interval --

7 BY MR. BERGIN:

8 Q But that's without really having taken a look at  
9 what the user costs are in relation to the actual discounts  
10 for periodicals mail. That was, without being  
11 disrespectful, kind of a back-of-the-envelope analysis?

12 A It was a back-of-the-envelope analysis, certainly.  
13 But there is -- I mean, user costs can only be so much.  
14 Again, user costs, by definition, will never be more than  
15 the discount or mailers wouldn't undertake those user costs;  
16 they would let the Postal Service do these things.

17 The discounts in periodical regular mail are  
18 relatively small in terms of pennies because periodical  
19 regular rates are relatively small. So I have -- I am quite  
20 confident in my estimate of minus .143. I have very little  
21 doubt that the true own price elasticity would fall outside  
22 of the 90 percent confidence interval that I stated. I am  
23 90 percent confident that it would fall within the 90  
24 percent confidence interval.

25 Q Yes, when you made that determination, there were



1 a number of factors, my point is, that you had not  
2 considered -- when you made the determination that you could  
3 arrive at your estimate with a 90 percent confidence level.

4 A There are factors that affect the volume of  
5 periodical regular mail that were not included in my  
6 regression, yes.

7 Q Your answer to McGraw-Hill Interrogatory Number 6,  
8 briefly, the question asks you to confirm that in estimating  
9 the own price elasticity of demand for periodicals regular  
10 mail you did not take into account the extent to which  
11 increases in periodicals postal rates deter the start-up  
12 and/or mailing of new periodicals, and you responded by  
13 stating that your estimate of the own price elasticity  
14 implicitly accounts for mailers who reduce their volumes or  
15 who cease mailing altogether, is that a fair statement?

16 A Yes.

17 Q But your estimate did not take into account and  
18 presumably could not take into account new periodicals that  
19 never get started, that never get underway as a result of  
20 increased postal rates -- would never enter the mailstream?

21 A I disagree. There are factors other than price  
22 which would drive, which would encourage mailers to start  
23 periodicals -- income, the general level of the economy, the  
24 extent to which there may be other alternatives such as  
25 television, which I include, and those things taken alone

1 econometrically one could estimate, given those things only  
2 what would the volume of periodical regular mail be?

3 Then when you take into account the extent to  
4 which postal rates have gone up, that will, if postal rates  
5 have gone up historically, that will serve to dampen that  
6 volume, so that what we observe is less periodical regular  
7 mail than what we would have observed had postal rates been  
8 lower.

9 Since I am focusing on mail volume, total mail  
10 volume for the country, it is not possible to distinguish  
11 increases in mail volume or decreases in mail volume for an  
12 individual publisher or the existence of new publishers or  
13 the loss of publishers or the lack of existence of new  
14 publishers, so I think that is taken into account.

15 Q Well, as I understand it, you measure the response  
16 of existing mail volumes to a change in price?

17 A No. What we measure is the change in volume that  
18 is attributable to a change in price. If volume changes, it  
19 need not be a change of existing volume. It need not be  
20 changes of existing publishers.

21 It could be the presence of new publishers. It  
22 could be the disappearance of certain publishers going out  
23 of business and equally importantly it could also be no  
24 change in publishers that in the absence of a change in  
25 price would have been a change in publishers.

1           I mean I agree with you there are publishers who  
2   may have existed and decided, nope, I am not going to  
3   because postal rates are just too high. My econometric  
4   analysis would give you an indication of how much volume  
5   would there have been if postal rates were different.

6           Now it is not possible for me to sit here and tell  
7   you and -- I can tell you that volume would have been 2  
8   billion pieces more, but I can't tell you that 500 million  
9   of that would have been from new publishers that would have  
10  started up if you hadn't raised postal rates.

11          I can't tell you exactly how much of that is  
12  because of those people, but I can tell you that those  
13  people are counted there.

14          It's a change in volume. It's not the change in  
15  existing volume. It's just the change in volume.

16          I make no parallel between volume in 1991 with  
17  volume in 1979 in terms of which publishers are sending the  
18  mail.

19          Q     Mr. Thress, in response to McGraw-Hill  
20  Interrogatory Number 10, you confirm that the own price  
21  elasticity of demand estimated for periodicals or Second  
22  Class mail in Docket R90-1 was twice as high as the own  
23  price elasticity estimated by you for regular periodicals in  
24  this proceeding.

25          A     Yes.

1           Q     And you explained that the own price elasticity  
2     for regular periodicals could decline by more than 50  
3     percent from one rate case to another because of the  
4     introduction of television, cable television, usage as an  
5     explanatory variable, is that correct?

6           A     Yes.

7           Q     Can you explain the basis for that statement, why  
8     the introduction of cable television as an explanatory  
9     variable would account for the estimate of the own price  
10    elasticity of regular periodicals mail dropping by more than  
11    50 percent from one case to another?

12          A     Well, going back to my earlier discussion of  
13    omitted variables, in R90 the own price elasticity measured  
14    the change in volume with respect to a change in postal  
15    prices holding constant those other factors that were  
16    included in that equation, which would have been permanent  
17    income, transitory income, the price of paper -- I think  
18    that might be it, but I don't know.

19                In this case, I measured the own price elasticity  
20    as a change in volume with respect to a change in the price  
21    of postage, holding all of those things constant and also  
22    holding constant changes in cable television expenditures.

23                The fact that the price elasticity changed so  
24    dramatically implies that there is a correlation between the  
25    price of postage of periodical regular mail and cable

1 television expenditures, and specifically cable television  
2 expenditures have grown considerably over the sample period  
3 of the -- since 1971, and the price of periodical regular  
4 mail has also grown considerably over that same time period,  
5 so in R90 the volume of Second Class regular mail, the  
6 decline in that was accounted for in large part by increases  
7 as explainable due to increases in the price of periodical  
8 regular mail.

9 Now we have introduced cable television  
10 expenditures and we find that actually it is this growth in  
11 cable TV that is actually causing part of this decline in  
12 periodical regular volume, so that less of the decline is  
13 the result of increasing periodical regular postal prices  
14 which serves to lower the estimate of the own price  
15 elasticity of periodical regular mail.

16 Q Were you involved in the estimates of own price  
17 elasticity of regular periodicals mail in Docket R90?

18 A No, I was not.

19 CHAIRMAN GLEIMAN: Excuse me, Mr. Bergin. Do you  
20 have much longer to go? The reason I am asking is the  
21 witness has been sitting there for almost an hour and a half  
22 now.

23 MR. BERGIN: I would estimate --

24 CHAIRMAN GLEIMAN: You do what you have to do, but  
25 if you are going to go considerably longer, then we will

1 take a break now, otherwise we will continue until you  
2 finish.

3 MR. BERGIN: I would think I could wrap up within  
4 10 minutes, Mr. Chairman.

5 CHAIRMAN GLEIMAN: You doing okay, Mr. Thress?

6 THE WITNESS: It's fine with me.

7 CHAIRMAN GLEIMAN: The Court Reporter? Mr.  
8 Counsel? Okay, let's fire away then.

9 BY MR. BERGIN:

10 Q Did you say you were not involved in the estimates  
11 in Docket R90?

12 A That's correct. I was not involved in R90.

13 Q And how did you arrive then at your explanation  
14 for -- were you involved in R94?

15 A I was involved in R94 and I was involved in the  
16 introduction of the cable television variable into the  
17 periodical regular equation.

18 Q And you would agree that breaking out an  
19 explanatory variable for cable television for purposes of  
20 forecasting volume involves a significant amount of  
21 judgment?

22 A It involves as much judgement as forecasting any  
23 other explanatory variable.

24 Q But you agree that forecasting based upon  
25 explanatory variables, I think as you put it in response to

1 one interrogatory, is an art form, not a science?

2 A Forecasting in general is at least equal parts art  
3 and science, perhaps more art, depending on how one does it.

4 Q Perhaps more art? Well, to the extent that your  
5 data shows that people are watching more cable television  
6 than they used to, and reading fewer periodicals, is that  
7 necessarily uncorrelated to the postal rates for  
8 periodicals?

9 In other words, part of the shift from periodicals  
10 to cable television, if there is such a shift, could be  
11 related to postal rates for periodicals?

12 A What I have found is that the general decline in  
13 periodical regular volume historically is better explained  
14 as due in part to cable television and in part to postal  
15 increases than it is explained solely due to postal rate  
16 increases.

17 Q And the basis for that determination?

18 A The basis for that determination is looking at a  
19 regression with and without cable television and the  
20 inclusion of cable television lowers the sum of squared  
21 residuals. It raises the adjusted R-squared, your  
22 traditional regression diagnostics.

23 Cable television -- the elasticity on cable  
24 television is significant.

25 Q <sup>And</sup> ~~In~~ your cable television explanatory factor is

1 used for forecasting volume before rates, is that correct?

2 A Yes.

3 Q And to arrive at the after rate's effect you apply  
4 simply the elasticity estimate without other net trend  
5 variables?

6 A Essentially yes.

7 Q Referring to your testimony at page 46, lines 19  
8 through 24, you state, "The postal price elasticity of  
9 periodical regular mail could be quite high if the delivery  
10 of periodicals were a highly competitive business. In fact,  
11 the delivery of magazines by sources other than the Postal  
12 Service is quite minimal, in part because postal rates are  
13 quite favorable to periodical mail due to the educational,  
14 cultural, scientific and informational (ECSI)  
15 considerations. These factors combined to account for the  
16 relative price inelasticity of periodical regular mail."

17 Q Would you agree that to the extent postal rates  
18 for periodicals regular mail were increased without  
19 consideration of those ECSI factors that the own price  
20 elasticity of that mail could be quite high?

21 A The point I am making here is that there's  
22 relatively little alternate delivery for periodical regular  
23 mail, or at least it is my understanding that one reason why  
24 there is relatively little of this is because postal rates  
25 are effectively so low as to discourage alternate delivery



1 from competing.

2 If rates were raised considerably, they could be  
3 raised to the point where some alternate deliverers could  
4 begin to deliver that mail less expensively and that would  
5 translate into a greater price sensitivity, yes.

6 Q And you agree that one potential source of  
7 alternate delivery in the future is the delivery of mail by  
8 electronic means rather than the Postal Service?

9 A I am aware that that is an alternate.

10 Q And in fact that has been taken into account in  
11 recent cases in volume forecasts for periodicals regular  
12 mail?

13 A The net trend used to forecast periodical regular  
14 mail is less than one, and one of the reasons cited by Dr.  
15 Tolley for using a net trend less than one I believe is an  
16 increase in electronic alternatives, yes.

17 Q Which of course as a developing factor may be more  
18 significant in the future?

19 A It could be.

20 Q So is it fair to say then that at a certain level  
21 of postal rate increase for periodicals mail that the  
22 elasticity for that mail could be considerably higher than  
23 you estimate in this case?

24 A Well, at the extreme, if there are alternate  
25 delivery people out there that would deliver everything for

1 40 cents apiece and publishers are solely going to send  
2 through whoever offers the cheapest rates, if the Postal  
3 Service raised rates to 41 cents, then in theory periodical  
4 mail could theoretically disappear and go entirely to  
5 alternate delivery at 40 cents apiece. I mean, yes, that's,  
6 you know, that's a general economic expectation.

7 MR. BERGIN: Thank you, Mr. Thress.

8 I have nothing further, Mr. Chairman.

9 CHAIRMAN GLEIMAN: I think we're going to take 10  
10 now. We'll come back at quarter after the hour, and we'll  
11 pick up with the National Newspaper Association  
12 cross-examination at that time.

13 [Recess.]

14 CHAIRMAN GLEIMAN: National Newspaper Association?

15 MS. RUSH: No questions.

16 CHAIRMAN GLEIMAN: That brings us to questions  
17 from the bench.

18 Well, unless I can convince Commissioner LeBlanc  
19 or Commissioner Omas to ask some questions, I guess it's  
20 going to fall on me to ask them.

21 Let me -- Household Diary 1989-90, is this  
22 defective? Is this not a good piece of data?

23 THE WITNESS: As far as I know it's fine.

24 CHAIRMAN GLEIMAN: '92 Household Diary Study?  
25 Okay?

1 THE WITNESS: As far as I know, it's fine.

2 CHAIRMAN GLEIMAN: '93?

3 THE WITNESS: As far as I know, it's fine.

4 CHAIRMAN GLEIMAN: '94?

5 THE WITNESS: As far as I know, it's fine.

6 CHAIRMAN GLEIMAN: '95, which was issued in  
7 November of '96?

8 THE WITNESS: As far as I know, it's fine.

9 CHAIRMAN GLEIMAN: How come you didn't use any of  
10 'em? How come you used the Household Diary Study for 1987,  
11 '88? And I'm looking specifically at pages 24 and 25 of  
12 your testimony.

13 THE WITNESS: As I explained in an -- in response  
14 to an interrogatory from NAA, which asked basically the same  
15 question, NAA-Tf7-5(d), I relied on 1987-88 data for  
16 consistency with Professor Tolley in earlier rate cases for  
17 that particular issue, and also because the specific issue  
18 that I was looking at with that data was the First Class  
19 letters generated in response to standard mail volume.

20 And over time the percentage of initial responses  
21 to advertising made by mail has declined, but the initial  
22 response is not -- in other words, if you're ordering  
23 something out of a catalog in 1987 you would have sent back  
24 an order. Now you're going to call their 800 number and  
25 make the order. But in addition to the order you're also

1 going to receive the package in the mail, you're going to  
2 receive a bill in the mail, you're going to send payment for  
3 that bill in the mail, so you're going to generate many more  
4 than just that initial response, and you're still going to  
5 generate those subsequent responses by the mail.

6 So I wanted to go back to the 1987-88 data because  
7 the way I measured it was focusing on that initial response  
8 and measure what's the impact -- what's the elasticity with  
9 respect to that initial response, so I needed to look at a  
10 period in time where that initial response was more  
11 predominantly made by mail. If I went further into the --  
12 if I went to use the more recent data I would be -- there  
13 are less of those initial responses made by mail, and so  
14 that would greatly lower that elasticity, but that would  
15 misleadingly lower the elasticity in my opinion because  
16 subsequent responses of the bill, the invoice, the bill  
17 payment, would continue to be made by mail.

18 CHAIRMAN GLEIMAN: Well, let's talk about that. I  
19 think you answered one of my questions, which was the 800  
20 number as a factor in cross volumes. And essentially you're  
21 saying, you know, that there are fewer initial responses  
22 from that piece of --

23 THE WITNESS: Right.

24 CHAIRMAN GLEIMAN: Standard A mail because of the  
25 800 number. So we're on the same wavelength on that, but

1 then you, you know, you do conclude that a conservative  
2 estimate is 2-1/2 pieces of mail generated per response.

3 THE WITNESS: Correct.

4 CHAIRMAN GLEIMAN: Okay. You talked about that  
5 800 number and what happens after a phone call is made, and  
6 as it turns out I am pretty familiar with this, first-hand  
7 knowledge-wise, because we do a lot of catalog shopping at  
8 our house, or at least my spouse does.

9 What do you think is generated when my wife calls  
10 the XYZ Catalog and orders something for our house? Then  
11 what happens? We get the product? That doesn't come First  
12 Class, does it?

13 THE WITNESS: It depends on what the product is.  
14 It is possible that it would, if it were a small enough --  
15 for less than 11 ounces it could in theory.

16 I would think in general it won't though.

17 CHAIRMAN GLEIMAN: Okay, so in your two and a half  
18 pieces of mail generated, the article that was ordered is  
19 not a major factor there -- or it is? I don't know? You  
20 tell me.

21 THE WITNESS: The two and a half number piece I  
22 took from Dr. Tolley's testimony in previous rate cases, and  
23 so to be honest with you, I am going to have to plead a  
24 certain amount of ignorance on that number.

25 CHAIRMAN GLEIMAN: I am confused. You used '87

1 data to conform with Dr. Tolley but you use a number in  
2 here -- you know, you draw a conclusion on pages 24 and 25.

3 THE WITNESS: On pages 24 and 25 --

4 CHAIRMAN GLEIMAN: Bottom of 24 and the top of 25  
5 you take "into account the effect of an arbitrary number of  
6 pieces of First Class mail generated by the initial piece of  
7 standard bulk mail" --

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: -- and you continue on to say  
10 that "a conservative estimate of two and a half pieces of  
11 mail generated for response" was used, so that is Dr.  
12 Tolley's two and a half pieces, that is not yours?

13 THE WITNESS: That's Dr. Tolley's two and a half  
14 pieces.

15 CHAIRMAN GLEIMAN: And you don't know whether Dr.  
16 Tolley's two and a half pieces took into account the 800  
17 number factor or not, is that correct?

18 THE WITNESS: Right. I mean I give some examples  
19 at the top of page 25 of where you can get various numbers,  
20 but Dr. Tolley's two and a half piece number --

21 CHAIRMAN GLEIMAN: One piece of mail to place an  
22 order followed by an additional one and one-half pieces of  
23 mail corresponding to either a bill or a bill payment (two  
24 pieces) or a bill, bill payment, and receipt (three pieces),  
25 or even multiple bills and bill payments, e.g., a response

1 to a credit card solicitation, which might generate 24  
2 pieces of mail a year."

3 Let's go back to what is kicking this off.

4 We get a catalog in the mail.

5 THE WITNESS: Right.

6 CHAIRMAN GLEIMAN: My wife calls the 800 number.  
7 She places an order. The order comes to our house. The  
8 invoice is in the box. It doesn't come as a separate piece  
9 of mail. Is that your general understanding of how the  
10 business operates?

11 THE WITNESS: The mail order stuff that my wife  
12 gets generally has an invoice in the box, yes.

13 CHAIRMAN GLEIMAN: When your wife and my wife  
14 place those 800 number calls, do they generally just say  
15 okay, we'll send it out and send you a bill later, or do  
16 they ask for a credit card number?

17 THE WITNESS: Again, the mail order purchases that  
18 I am personally familiar with tend to be made by credit  
19 card.

20 CHAIRMAN GLEIMAN: And do credit card companies  
21 generally bill every month, sometimes regardless of the fact  
22 that you have a zero balance?

23 THE WITNESS: I don't think I personally have any  
24 credit cards that I get a bill if I have a zero balance, but  
25 assuming -- your basic point is well-taken, that if a

1 particular mail order is the seventh thing I have billed  
2 that month, that in and of itself is not generating a credit  
3 card bill, sure.

4 CHAIRMAN GLEIMAN: We can either take a break now  
5 and I will go back to my office and get you a stack of  
6 credit card bills that were mailed to me that show a zero  
7 balance --

8 THE WITNESS: I will take your word that such  
9 things exist.

10 CHAIRMAN GLEIMAN: -- which is rare --  
11 unfortunately those are rare. They more often come with  
12 balances.

13 THE WITNESS: Maybe it is the fact that we so  
14 rarely have zero balance on our credit cards. That could  
15 well be.

16 CHAIRMAN GLEIMAN: Now let me ask you a question.

17 I mentioned earlier on that a year ago I was in a  
18 much less pleasant setting. I was away on a trip to Italy  
19 and one of the things I did before I went to Italy was I  
20 took a little flyer that I found in a restaurant around the  
21 corner for American Express card and I mailed it in and it  
22 went First Class.

23 I got my American Express card and I get a bill  
24 from American Express every month now, which is a piece of  
25 First Class mail. Was it generated by Standard A or



1 generated by First Class mail -- all those bills that I get  
2 every month?

3 THE WITNESS: Those bills that you get every  
4 month?

5 CHAIRMAN GLEIMAN: I get bills from American  
6 Express every month now. They didn't come from Standard A.  
7 They were generated by --

8 THE WITNESS: No, in the sense that our general  
9 conversation is going they would have been generated by  
10 presumably that flyer that you initially sent in.

11 CHAIRMAN GLEIMAN: Every month or just about it  
12 was a piece of First Class mail, the flyer -- just so we are  
13 clear on that.

14 Now in addition to getting a bill every month,  
15 American Express is kind enough to send me at least once a  
16 month something else in the mail. I don't know whether you  
17 have an American Express card or not. If you do, you may  
18 have gotten the 1997 Holiday American Express Catalog.

19 THE WITNESS: I don't have American Express.

20 CHAIRMAN GLEIMAN: Sometimes I get solicitations  
21 from American Express to get Travel & Leisure Magazine.  
22 Some months it is Food & Wine Magazine. Some months it is  
23 something else.

24 Do you know if these pieces are First Class?

25 THE WITNESS: No, I really don't. I would guess

1 that to be a Third Class piece, but --

2 CHAIRMAN GLEIMAN: If it says Bulk Rate postage  
3 paid American Express --

4 THE WITNESS: That is probably Standard Mail then,  
5 I would guess.

6 CHAIRMAN GLEIMAN: So First Class mail generates  
7 Standard Mail, doesn't it?

8 THE WITNESS: There are examples of that, yes.

9 CHAIRMAN GLEIMAN: Now let me ask you something on  
10 a different line.

11 You were talking before with counsel for  
12 McGraw-Hill and as I understood it, you were saying mailer  
13 cost is never larger than the discount because if it was the  
14 mailer wouldn't do the work necessary to get the discount.

15 Is that correct -- ballpark -- my shorthand is not  
16 real good.

17 THE WITNESS: I mean yes, that was with regard to  
18 user costs for presortation and automation. Yes.

19 CHAIRMAN GLEIMAN: Do you know whether as a  
20 condition of mailing certain types of mail one has to do a  
21 certain amount of presort work to qualify?

22 For example, can publications just mail at  
23 publications rate by throwing a whole bunch of magazines  
24 against the wall, or do they have to sort them to the fifth  
25 digit, for example, to qualify?

1           THE WITNESS: There are certain minimum presort  
2 requirements. The context of the conversation I had with  
3 McGraw-Hill, my understanding of the question based on the  
4 initial written interrogatory was he was questioning why we  
5 include user cost in First Class and Standard A and not in  
6 periodical, and in that sense the user cost as I defined it  
7 and use it in that way is the additional cost that mailers  
8 voluntarily bear in exchange for discounts.

9           CHAIRMAN GLEIMAN: In this case though, we are  
10 talking about a precondition of mailing --

11          THE WITNESS: Yes, there are required mailings --

12          CHAIRMAN GLEIMAN: Which means that if the mailer  
13 wants to mail a magazine or some other type of publication  
14 as a publication, then the mailer has to do the work even  
15 though the cost of doing the work, the mailer cost, might  
16 exceed the discount associated with doing the work, is that  
17 not true?

18          THE WITNESS: Anything that is required by the  
19 Postal Service in terms of preparation doesn't have a  
20 discount associated with it.

21                I mean there are fixed mailer costs of preparing  
22 mail above and beyond the postage price, and then in  
23 addition to that if a mailer chooses to do certain voluntary  
24 things for which the Postal Service will give them  
25 discounts, those were the user costs I was specifically

1 referring to. Mailers will do those things if, and only if,  
2 it is cheaper for them to do it than the Postal Service  
3 discount.

4 CHAIRMAN GLEIMAN: Thank you. Anybody else --  
5 follow-up to the questions from the bench? Mr. Feldman.

6 CROSS EXAMINATION

7 BY MR. FELDMAN:

8 Q I'm Steven Feldman, American Business Press.

9 As a follow-up to the Chairman's last line of  
10 questioning, are you certain that the activities that a  
11 periodical publisher takes in order to qualify for a  
12 presortation or work-sharing discount are always discrete  
13 activities separate and apart from his other printing  
14 fulfillment and production costs or are they additions to  
15 pre-existing costs that they, the publisher, must incur in  
16 any event to mail, print and distribute the publication?

17 A As I understand the question, they need not be  
18 discrete costs.

19 It is possible that some mailer may have an  
20 effective user cost, as I define the term, of zero to do  
21 certain things if, for example, in the normal process of  
22 printing out the magazines and preparing them for  
23 publication subject to the basic requirements, for example  
24 of periodical mail, they go ahead and pre-sort that mail,  
25 that could imply an effective user cost of zero in that

1 case.

2 Q And could the user cost be affected not by the  
3 implementation or amendment of a work-sharing discount as  
4 such, that is, an increase in the amount of money passed on  
5 to the mailer, but rather by changes in postal regulations  
6 which require that in order to get a discount for any such  
7 work-sharing activity mail must have a minimum number of  
8 pieces -- for example, with accurate zip plus four codes,  
9 must be made up to certain specified postal facilities and  
10 other regulations related to the work-sharing activity but  
11 not in and of themselves tied to any particular amount of  
12 discount?

13 A Certainly changes in postal regulations will  
14 affect the user cost borne by mailers.

15 Q Would this then have an effect on the elasticity  
16 of the product or subclass that would be the subject of such  
17 a regulatory change?

18 A It's not clear that it would have an effect on the  
19 elasticity. Certainly to the extent that that is a price  
20 paid by mailers, that could have an effect on the volume  
21 that mailers choose to mail.

22 MR. FELDMAN: Thank you. That's all I have.

23 CHAIRMAN GLEIMAN: Mr. Thress, I apologize. I  
24 need to ask you another question.

25 On page 29 of your testimony --

1 THE WITNESS: Yes.

2 CHAIRMAN GLEIMAN: -- where you are talking about  
3 the demand equation for the single piece First Class --

4 THE WITNESS: Yes.

5 CHAIRMAN GLEIMAN: -- at line 12 you talk about  
6 the volumes of standard bulk regular mail lag by a quarter  
7 and then it goes on from there.

8 I was asking you before about this two and a half  
9 pieces that you adopted from Dr. Tolley?

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: This is the assumed generation,  
12 right, of that?

13 THE WITNESS: Yes.

14 CHAIRMAN GLEIMAN: Basically?

15 THE WITNESS: Correct.

16 CHAIRMAN GLEIMAN: And what would happen, could  
17 you speculate for me, what would happen if you did not use  
18 that assumed generation of two and a half pieces? Would it  
19 increase or decrease the own price elasticity of single  
20 piece, first class letters?

21 THE WITNESS: I believe if one assumed that less  
22 mail was generated, that would reduce those elasticities,  
23 and if one assumed more mail were generated, that would  
24 increase those elasticities.

25 MR. KOETTING: Could the witness be clear on which

1 elasticities --

2 THE WITNESS: The .04 and .013.

3 In other words, the .040 assumes two and a half  
4 pieces of mail generated.

5 MR. KOETTING: Okay.

6 ~~THE WITNESS~~  
~~CHAIRMAN GLEIMAN~~: If you assume one, I am not  
7 sure that it would be exactly true, but basically take that  
8 number and divide it by two and a half, and that would be,  
9 ball park, what you would get. <sup>CHAIRMAN GLEIMAN!</sup> So you are saying that -- is  
10 ✓ that because you are assuming less mail -- there is going to  
11 be less First Class mail, period?

12 THE WITNESS: There is going to be less First  
13 Class mail generated by Standard Mail, so First Class mail  
14 is less affected therefore by Standard Mail.

15 CHAIRMAN GLEIMAN: Okay. So therefore its own  
16 price elasticity, "it" being First Class, might be higher?

17 THE WITNESS: That doesn't necessarily follow from  
18 what I just said.

19 CHAIRMAN GLEIMAN: Is it precluded by what you  
20 just said?

21 THE WITNESS: No, it's not precluded.

22 CHAIRMAN GLEIMAN: Thank you. Again, I guess I  
23 have to offer you all an opportunity to follow up, if you  
24 wish to. If not, then that brings us to time for redirect.  
25 Would you like some time?

1 MR. KOETTING: Could we have maybe two minutes?

2 CHAIRMAN GLEIMAN: You got it.

3 [Recess.]

4 CHAIRMAN GLEIMAN: Yes, sir, Mr. Koetting.

5 MR. KOETTING: We have no redirect for this  
6 witness, Mr. Chairman.

7 CHAIRMAN GLEIMAN: That always bothers me when  
8 there's no redirect.

9 If that is in fact the case, Mr. Thress, I want to  
10 thank you. We appreciate your appearance here today, as was  
11 the case with your earlier appearances, and your  
12 contributions to our record in this case. And if there's  
13 nothing further, you are excused.

14 THE WITNESS: Thank you.

15 [Witness excused.]

16 CHAIRMAN GLEIMAN: We're prepared to continue when  
17 you are, Mr. Koetting.

18 MR. KOETTING: The Postal Service calls as its  
19 next witness George Tolley.  
20 Whereupon,

21 GEORGE S. TOLLEY,  
22 a witness, was called for examination by counsel for the  
23 United States Postal Service and, having been first duly  
24 sworn, was examined and testified as follows:

25 DIRECT EXAMINATION

ANN RILEY & ASSOCIATES, LTD.  
Court Reporters  
1250 I Street, N.W., Suite 300  
Washington, D.C. 20005  
(202) 842-0034



1 BY MR. KOETTING:

2 Q Dr. Tolley, could you please state your complete  
3 name for the record.

4 A George Stanford Tolley.

5 Q Dr. Tolley, I've handed you a copy of a document  
6 entitled direct testimony of George S. Tolley on behalf of  
7 United States Postal Service, which has been designated as  
8 USPS-T-6. Are you familiar with this document?

9 A Yes, I am.

10 Q Was it prepared by you or under your supervision?

11 A Yes, it was.

12 Q Are you aware of whether or not the copy that I've  
13 handed you includes the revisions that were filed and served  
14 on the parties on October 9, 1997?

15 A Yes, it includes them.

16 Q With those revisions, if you were to testify  
17 orally today, would this be your testimony?

18 A It would.

19 Q Mr. Chairman, the Postal Service moves that the  
20 direct testimony of George S. Tolley on behalf of the United  
21 States Postal Service, USPS-T-6, be accepted into evidence.

22 CHAIRMAN GLEIMAN: Could I ask counsel a question,  
23 Dr. Tolley?

24 With respect to the materials that were filed on  
25 October 9, there were two attachments, A and B. Have both

1 of those attachments found their way into the testimony?

2 MR. KOETTING: No, Your Honor, only --

3 CHAIRMAN GLEIMAN: Just Attachment A?

4 MR. KOETTING: Just Attachment A.

5 CHAIRMAN GLEIMAN: Okay.

6 MR. KOETTING: We have copies of Attachment B. If  
7 you would like to have those added to the record through  
8 some mechanism we'd certainly be willing to do that now or  
9 at some later day.

10 CHAIRMAN GLEIMAN: Well, there may be a question  
11 about a library reference, so let's hold off on that one for  
12 just a moment.

13 Are there any objections to moving Dr. Tolley's  
14 testimony and exhibits into evidence?

15 If there are none, then the testimony and exhibits  
16 are received into evidence. As is our practice, they'll not  
17 be transcribed into the record.

18 [Direct Testimony and exhibits of  
19 George S. Tolley, Exhibit No.  
20 USPS-T-6 was marked for  
21 identification and received into  
22 evidence.]

23 CHAIRMAN GLEIMAN: Now the corrections identified  
24 in Attachment B to the October 9 revisions are developed in  
25 Library Reference H-295 as I understand it; is that correct?

1 MR. KOETTING: Yes, Mr. Chairman.

2 CHAIRMAN GLEIMAN: And to quote the response that  
3 we received from Dr. Tolley or that we received from the  
4 Postal Service, it says that Library Reference H-295 is or  
5 represents, and I quote, the best forecasting model for the  
6 subclasses forecasted by Dr. Tolley. Is that an accurate  
7 reflection of how you characterize that library reference?

8 MR. KOETTING: That indeed accurately restates  
9 what we said in the notice.

10 CHAIRMAN GLEIMAN: Then the question arises with  
11 respect to the library reference. Are you prepared to move  
12 it into evidence?

13 MR. KOETTING: The Library Reference 295 is  
14 essentially a revised version of the library reference  
15 spreadsheet that was earlier filed I believe as 174, perhaps  
16 173. The --

17 CHAIRMAN GLEIMAN: Are the Attachment B revisions  
18 the only revisions to that earlier filed library reference?

19 MR. KOETTING: They reflect the output of the  
20 revised forecasting spreadsheets which would include the  
21 revisions made and incorporated in Attachment A, as well as  
22 the change described in Attachment B regarding the quarterly  
23 breakouts, which cause very minor, to the 100th of one  
24 percent, changes in each of the subclass volumes, as shown  
25 in Attachment B.

1           CHAIRMAN GLEIMAN: Well, I take it from what you  
2 just said that you're not prepared and do not think it is  
3 necessary to enter Library Reference 295.

4           MR. KOETTING: We're certainly prepared to enter  
5 that into evidence, Mr. Chairman. Again, to the extent that  
6 173 is to the best of my knowledge -- wouldn't have gone  
7 into evidence other than as incorporated in the discussion  
8 in Dr. Tolley's testimony, 295 stands really in the same  
9 footing. We'll certainly -- Dr. Tolley can sponsor that  
10 into evidence; 295 is an electronic spreadsheet.

11           CHAIRMAN GLEIMAN: I understand. And I think in  
12 order to move things along perhaps the appropriate thing to  
13 do at this point is to introduce Attachment B.

14           MR. KOETTING: With your indulgence, Mr. Chairman,  
15 I'll get the copies.

16           CHAIRMAN GLEIMAN: If you do not have sufficient  
17 copies, I have some here.

18           BY MR. KOETTING:

19           Q     Dr. Tolley, I'm handing you a copy of Attachment B  
20 to what was -- to the notice of the United States Postal  
21 Service regarding revisions to the testimony of Dr. George  
22 Tolley which was filed on October 9, 1997. Are you familiar  
23 with that document?

24           A     Yes, I am.

25           Q     Was it prepared by you or under your supervision?

1 A Yes, it was.

2 Q Did the forecasts that are attached to that to the  
3 best of your knowledge accurately reflect the results of the  
4 application of the best available volume forecasting  
5 methodology as reflected in Library Reference H-295?

6 A Yes.

7 Q Are you willing to sponsor these as your  
8 testimony?

9 A Yes, I am.

10 MR. KOETTING: Mr. Chairman, the Postal Service  
11 would move that Attachment B be accepted into evidence.

12 CHAIRMAN GLEIMAN: If you would please provide the  
13 copies to the reporter, I'm assuming that there's no  
14 objection.

15 If there is, I don't hear it, and I'll direct that  
16 Attachment B to the October 9 revisions be incorporated and  
17 received into evidence and not transcribed into the record.

18 [Direct Testimony of George S.  
19 Tolley, Attachment B was marked for  
20 identification and received into  
21 evidence.]

22 CHAIRMAN GLEIMAN: Dr. Tolley, have you had an  
23 opportunity to examine the packet of designated written  
24 cross-examination that was provided earlier today?

25 THE WITNESS: Yes, I have.

1           CHAIRMAN GLEIMAN: If these questions were asked  
2 of you today, would your answers be the same as those you  
3 previously provided in writing?

4           THE WITNESS: They would.

5           CHAIRMAN GLEIMAN: That being the case, are there  
6 any corrections?

7           MR. KOETTING: Yes, Mr. Chairman, I would note  
8 that the OCA designated some responses from Niagara  
9 Telephone Company interrogatories which were actually  
10 directed to the Postal Service but contained the designation  
11 of T-6 within the label. They were responded to by the  
12 Postal Service. They are unrelated to Dr. Tolley's  
13 testimony, and so they have been removed from the packet. I  
14 have informed OCA counsel that they could be entered as  
15 institutional responses.

16           CHAIRMAN GLEIMAN: Do you have the corrected  
17 packets to provide?

18           MR. KOETTING: I do, Mr. Chairman

19           CHAIRMAN GLEIMAN: If you'd please provide them to  
20 the reporter, the designated written cross-examination of  
21 Witness Tolley will be accepted into evidence and  
22 transcribed into the record at this point.

23                               [Designation of Written  
24                               Cross-Examination of George S.  
25                               Tolley was received into evidence

and transcribed into the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

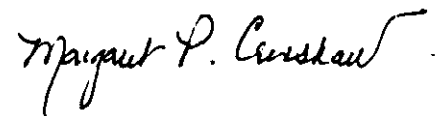
DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS GEORGE S. TOLLEY  
(USPS-T-6)

The parties listed below have designated answers to interrogatories directed to witness Tolley as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
American Business Press	ABP\USPS: Interrogatories T6-1-5.
National Newspaper Association	NNA\USPS: Interrogatories T6-1 and 2.
Newspaper Association of America	NAA\USPS: Interrogatories T6-1-2, 8, and 12-17. OCA\USPS: Interrogatory T6-1. UPS\USPS: Interrogatory T6-3.
Office of the Consumer Advocate	OCA\USPS: Interrogatory T6-1. ABP\USPS: Interrogatories T6-1-5. ANM\USPS: Interrogatories T6-1-3. CRPA\USPS: Interrogatories T6-1-3. NAA\USPS: Interrogatories T6-1-3, 8, and 12-17. NNA\USPS: Interrogatories T6-1-2. NTC\USPS: Interrogatories T6-2-5. UPS\USPS: Interrogatories T6-1-3. VP-CW\USPS: Interrogatories T6-1-4. POIR: POIR No. 1 Questions 10b-c. POIR: POIR No. 3 Question 10b.
United Parcel Service	UPS\USPS: Interrogatories T6-1-3. NAA\USPS: Interrogatory T6-2.
Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc. and Carol Wright Promotions, Inc.	VP\USPS: Interrogatories T6-1-4.



Respectfully submitted,

A handwritten signature in black ink, reading "Margaret P. Crenshaw". The signature is written in a cursive style with a prominent initial "M" and a long, sweeping underline.

Margaret P. Crenshaw  
Secretary

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ABP

ABP/USPS-T-6-1. At page 104, lines 19-20, you testify that a number of publishers use alternate delivery to save on postage costs. What is the source of that information? Please provide any studies or data on which you relied.

RESPONSE:

The references on which I have relied are as follows. Robert Perlstein, president and CEO of Lifestyle Change Communications, Inc., writes: "A number of publishers use alternative delivery services to save on postage costs. Inserts and samples ride along in a polybag targeted to demographics matching certain magazines." [Mill Hollow Corporation, DM News, June 5, 1996] Catalog Age magazine writes that "alternative delivery rose to a modest level of prominence in the late '80s and early '90s as a direct reaction to skyrocketing postal rates in '88 and '92." ["Alternative Delivery Hits a Wall," Cowles Business Media, Inc. Catalog Age, April, 1996]

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ABP

ABP/USPS-T-6-2. With respect to periodicals delivered by alternate means, what percentage of the following types of publications are delivered by such means: daily newspaper, weekly newspaper, weekly magazine, monthly magazine?

RESPONSE:

According to The Household Diary Study, the percentage of households in 1995 that received a daily newspaper by mail and not by mail were 2.4 and 48.0 percent, respectively. The percentage of households in 1995 that received a weekly newspaper by mail and not by mail were 15.4 and 9.2 percent, respectively. [U.S. Postal Service, The Household Diary Study, 1995. Table 5-4.]

According to The Household Diary Study, the percentage of households in 1995 that received a weekly magazine by mail and not by mail were 21.7 and 10.5 percent, respectively. The percentage of households in 1995 that received a monthly magazine by mail and not by mail were 72.4 and 26.9 percent, respectively. [U.S. Postal Service, The Household Diary Study, 1995. Table 5-6.]

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ABP

ABP/USPS-T-6-3. At page 104, lines 19-20, you testify that a number of publishers use alternate delivery to save on postage costs. Is that the only reason? What other reasons are there?

RESPONSE:

While the cost of alternate delivery relative to postal cost is clearly a consideration, there may be other considerations. The only other reason I have seen alluded to is to distribute product samples and inserts. Referring to alternate postal delivery, an article in the Chicago Tribune states: "Alternate Postal ... distributes free product samples -- from toilet paper to potato chip -- and often drops coupons or ads in the magazine bags to help companies reach certain consumers." ["Private Firms Deliver the Goods; Rivals to Postal Service Court Magazine Publishers" Chicago Tribune (Feb. 11, 1996).

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ABP

ABP/USPS-T-6-4. At page 104, lines 19-20, you testify that a number of publishers use alternate delivery to save on postage costs. Do publishers pay more for alternate delivery than they would pay for postage in order to obtain better service?

RESPONSE:

I have not identified any specific evidence of firms who choose to pay more for alternate delivery in order to obtain better service. However, it is possible that some firms are willing to pay more for alternate delivery depending on the extent to which they value particular services. Please see my response to ABP/USPS-T-6-3.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ABP

ABP/USPS-T-6-5. At page 104, lines 19-20, you testify that a number of publishers use alternate delivery to save on postage costs. You cite a couple of press reports for your sources of information.

[a] Are you aware of any recent Postal Service studies of the alternate delivery of periodicals?

[b] Were you provided with copies or summaries of any such studies? If so, please identify.

RESPONSE:

[a] I am not aware of any recent Postal Service studies of the alternate delivery of periodicals.

[b] No.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ANM

ANM/USPS-T6-1. With respect to the before rates Test Year forecast for nonprofit Standard A ECR mail, what price inputs did you use?

RESPONSE:

Please see Table 1 accompanying this response.

**TABLE 1 ACCOMPANYING RESPONSE TO ANM/USPS-T6-1**  
**Before-Rates and After-Rates Price Inputs for Nonprofit Standard A ECR Mail**

6882

	<b>Before-Rates</b>		<b>After-Rates</b>	
	<b>Step 5</b> (Oct. 1, 1997)	<b>Step 6</b> (Oct. 1, 1998)	<b>Step 5</b> (Oct. 1, 1997)	<b>Step 6</b> (Oct. 1, 1998)
<b>Standard A Nonprofit Enhanced Carrier Route</b>				
<b>Automation Basic</b>				
Letter Minimum Rate				
No Destination Entry	\$0.082	\$0.085	\$0.087	\$0.092
BMC Destination Entry	\$0.069	\$0.072	\$0.072	\$0.077
SCF Destination Entry	\$0.064	\$0.067	\$0.069	\$0.074
DDU Destination Entry	\$0.058	\$0.061	\$0.064	\$0.069
<b>Basic</b>				
Pound Rate				
No Destination Entry - Pieces	\$0.013	\$0.013	\$0.024	\$0.024
BMC Destination Entry - Pieces	\$0.013	\$0.013	\$0.024	\$0.024
SCF Destination Entry - Pieces	\$0.013	\$0.013	\$0.024	\$0.024
DDU Destination Entry - Pieces	\$0.013	\$0.013	\$0.024	\$0.024
No Destination Entry - Pounds	\$0.451	\$0.451	\$0.350	\$0.350
BMC Destination Entry - Pounds	\$0.389	\$0.389	\$0.278	\$0.278
SCF Destination Entry - Pounds	\$0.363	\$0.363	\$0.262	\$0.262
DDU Destination Entry - Pounds	\$0.337	\$0.337	\$0.240	\$0.240
Nonletter Minimum Rate				
No Destination Entry	\$0.107	\$0.107	\$0.096	\$0.096
BMC Destination Entry	\$0.094	\$0.094	\$0.081	\$0.081
SCF Destination Entry	\$0.089	\$0.089	\$0.078	\$0.078
DDU Destination Entry	\$0.083	\$0.083	\$0.073	\$0.073
Parcel Surcharge	\$0.000	\$0.000	\$0.100	\$0.100
Letter Minimum Rate				
No Destination Entry	\$0.093	\$0.099	\$0.096	\$0.096
BMC Destination Entry	\$0.080	\$0.086	\$0.081	\$0.081
SCF Destination Entry	\$0.075	\$0.081	\$0.078	\$0.078
DDU Destination Entry	\$0.069	\$0.075	\$0.073	\$0.073
<b>High Density</b>				
Pound Rate				
No Destination Entry - Pieces	\$0.006	\$0.006	\$0.014	\$0.014
BMC Destination Entry - Pieces	\$0.006	\$0.006	\$0.014	\$0.014
SCF Destination Entry - Pieces	\$0.006	\$0.006	\$0.014	\$0.014
DDU Destination Entry - Pieces	\$0.006	\$0.006	\$0.014	\$0.014
No Destination Entry - Pounds	\$0.451	\$0.451	\$0.350	\$0.350
BMC Destination Entry - Pounds	\$0.389	\$0.389	\$0.278	\$0.278
SCF Destination Entry - Pounds	\$0.363	\$0.363	\$0.262	\$0.262
DDU Destination Entry - Pounds	\$0.337	\$0.337	\$0.240	\$0.240
Nonletter Minimum Rate				
No Destination Entry	\$0.100	\$0.100	\$0.086	\$0.086
BMC Destination Entry	\$0.087	\$0.087	\$0.071	\$0.071
SCF Destination Entry	\$0.082	\$0.082	\$0.068	\$0.068
DDU Destination Entry	\$0.076	\$0.076	\$0.063	\$0.063
Parcel Surcharge	\$0.000	\$0.000	\$0.100	\$0.100
Letter Minimum Rate				
No Destination Entry	\$0.087	\$0.093	\$0.073	\$0.078
BMC Destination Entry	\$0.074	\$0.080	\$0.058	\$0.063
SCF Destination Entry	\$0.069	\$0.075	\$0.055	\$0.060
DDU Destination Entry	\$0.063	\$0.069	\$0.050	\$0.055
<b>Saturation</b>				
Pound Rate				
No Destination Entry - Pieces	\$0.000	\$0.000	\$0.008	\$0.008
BMC Destination Entry - Pieces	\$0.000	\$0.000	\$0.008	\$0.008
SCF Destination Entry - Pieces	\$0.000	\$0.000	\$0.008	\$0.008
DDU Destination Entry - Pieces	\$0.000	\$0.000	\$0.008	\$0.008
No Destination Entry - Pounds	\$0.451	\$0.451	\$0.350	\$0.350
BMC Destination Entry - Pounds	\$0.389	\$0.389	\$0.278	\$0.278
SCF Destination Entry - Pounds	\$0.363	\$0.363	\$0.262	\$0.262
DDU Destination Entry - Pounds	\$0.337	\$0.337	\$0.240	\$0.240
Nonletter Minimum Rate				
No Destination Entry	\$0.094	\$0.094	\$0.080	\$0.080
BMC Destination Entry	\$0.081	\$0.081	\$0.065	\$0.065
SCF Destination Entry	\$0.076	\$0.076	\$0.062	\$0.062
DDU Destination Entry	\$0.070	\$0.070	\$0.057	\$0.057
Parcel Surcharge	\$0.000	\$0.000	\$0.100	\$0.100
Letter Minimum Rate				
No Destination Entry	\$0.081	\$0.087	\$0.067	\$0.072
BMC Destination Entry	\$0.068	\$0.074	\$0.052	\$0.057
SCF Destination Entry	\$0.063	\$0.069	\$0.049	\$0.054
DDU Destination Entry	\$0.057	\$0.063	\$0.044	\$0.049



RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ANM

ANM/USPS-T6-2. With respect to the after rates Test Year forecast for nonprofit Standard A ECR mail, what price inputs did you use?

RESPONSE:

Please see Table 1 accompanying my response to ANM/USPS-T6-1.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF ANM

ANM/USPS-T6-3. In view of the fact that all proposed nonprofit Step 6 Standard A ECR rates are less than existing rates, please explain the major reasons why the Test Year After-Rates volume (13,122.251 million) shown in your Table 1 is less than the Before-Rates volume (13,255.224 million). Identify all studies, analyses, compilations and other data on which you rely, and produce any such data that the Postal Service has not yet produced in this case.

RESPONSE:

The Test Year figures to which you refer are for total Standard bulk nonprofit mail, which includes both Standard A Nonprofit as well as Standard A Nonprofit ECR mail. While it is true that Standard A Nonprofit ECR rates decline after-rates under the Postal Service's proposal (by an average of 4.8 percent), Standard A Nonprofit (non-ECR) rates are increased by an average of 15.5 percent under the Postal Service's proposal. Hence, *overall Standard bulk nonprofit rates increase by an average of 7.0 percent, leading to a decline in total Standard bulk nonprofit volume of 132.974 million pieces, or approximately 1.0 percent, as expected given a long-run own-price elasticity of -0.136.*

Standard A Nonprofit ECR volume is expected to decline from 3,131.995 million pieces before-rates in the Test Year to 2,571.283 million pieces after-rates primarily because of one facet of the Postal Service's proposal, which will price Automation 5-digit letters less than ECR basic letters. This will cause a total of 581.544 million letters that would have otherwise been sent as Nonprofit ECR basic letters to instead be sent as Nonprofit Automation 5-digit letters. If these 581.544 million letters were added back into the after-rates volume forecast of Nonprofit ECR of 2,571.283 million pieces, the result would be an after-rates volume forecast of 3,152.827 million pieces, or an increase of 20.831 million pieces (0.67 percent) due to the decline in Standard A Nonprofit ECR rates proposed by the Postal Service consistent with volume rising in response to a rate decline.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA/USPS-T6-1. Please refer to page 88 of your testimony, lines 6ff., and to (the there-referenced) Chart E on page 89. How dependable, for current rate-setting purposes, are the data from the Preferred Rate Study which was conducted more than ten years ago?

RESPONSE:

The Preferred Rate Study gives information on nonprofit mail not available elsewhere. While conditions may have changed since the study was conducted. I don't believe that I have an adequate basis to judge its dependability for rate-making. In any event, it was not used by me in a highly refined way.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA/USPS-T6-2. Has there been any attempt by the Postal Service to obtain more recent data on the distribution and total annual volume of periodical nonprofit mail than the data summarized in Chart E? If so, please describe such attempts.

RESPONSE:

I am not familiar with any attempts by the Postal Service to obtain recent data other than The Household Diary Study. Please refer to my answer to CRPA/USPS-T6-1.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA**

**CRPA/USPS-T6-3.** Please refer to your testimony on pages 92 and 101, each of which attributes mail-volume changes to "other factors." In the case of nonprofit periodical mail, you state that "other factors" - that is, factors which cannot be specifically identified - were responsible for a -10.10 percent impact on volume from 1992 to 1997. But in the case of regular-rate periodical mail, "other factors" had only a -4.27 percent impact on volume. How do you account for the much greater degree of "other factors" impact on nonprofit periodical mail than on regular-rate mail?

**RESPONSE:**

As stated in my testimony at page 103, lines 17ff., Postal Service volume of Periodical regular-rate mail may be positively influenced by growing demand for specialty magazines. Whether growth in specialty magazines would also buttress nonprofit mail volumes depends on the extent to which specialty magazines can be classified as nonprofit publications. A higher negative net trend value for nonprofit mail than regular-rate mail may suggest that the specialty magazine effect is more important for regular-rate than nonprofit mail.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

NAA/USPS-T6-1. Please refer to your direct testimony at page 15 lines 19 to 20. Please identify and provide all of your analyses which "check prediction performance in the recent past."

RESPONSE:

The most comprehensive analysis of the prediction performance of my current forecasting equations in the recent past is the Forecast Error Analysis program, presented in my Technical Appendix at pages A-32 through A-67.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

NAA/USPS-T6-2. Please provide a history of the estimated own-price and cross-price elasticities for each subclass or category of mail presented by you or other employees of RCF for each postal rate or classification proceeding in which you have participated.

RESPONSE:

Please see my direct testimony in Docket Nos. R80-1 (USPS-T-4), R84-1 (USPS-T-6), R87-1 (USPS-T-2), R90-1 (USPS-T-2), R94-1 (USPS-T-2), MC95-1 (USPS-T-16), and MC96-2 (USPS-T-8). In MC97-2, which was subsequently withdrawn, elasticities were cited by Peter Bernstein (USPS-T-2) and Thomas Thress (USPS-T-3). In the present case, elasticities are estimated by my colleague, Mr. Thress in USPS-T-7. The Postal Rate Commission summarizes my price elasticities for third-class bulk regular and nonprofit mail since Docket R84-1 in their Opinion and Recommended Decision in R94-1 at pages II-48 and II-50.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

NAA/USPS-T6-3. Please provide separate versions of Chart B (page 27 of your direct testimony) for First Class single piece letters and First Class workshared letters.

RESPONSE:

The Household Diary Study does not report data as presented in Chart B of my testimony separately for single-piece and workshared First-Class letters.



RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

NAA/USPS-T6-8. Please provide a version of Table 5 (page 71 of your direct testimony) for single-piece and workshared private first-class cards.

RESPONSE:

CONTRIBUTION TO CHANGE IN SINGLE-PIECE FIRST-CLASS CARDS VOLUME FROM 1992 TO 1997			
<u>Variable</u>	<u>Percent Change In Variable</u>	<u>Elasticity</u>	<u>Estimated Effect of Variable on Volume</u>
Own price	-2.2%	-0.944	2.09%
Cross Price First-Class Letters	-0.7%	0.197	-0.15%
Permanent Income	4.8%	0.699	3.31%
Adult Population			5.64%
Other Factors			-8.52%
Total Change in Volume			-1.45%

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

CONTRIBUTION TO CHANGE IN WORKSHARED FIRST-CLASS CARDS VOLUME FROM 1992 TO 1997			
<u>Variable</u>	<u>Percent Change In Variable</u>	<u>Elasticity</u>	<u>Estimated Effect of Variable on Volume</u>
Own price	-3.9%	-0.944	3.85%
Cross Price First-Class Letters	-2.8%	0.197	-0.56%
Permanent Income	4.8%	0.699	3.31%
Adult Population			5.64%
Other Factors			13.70%
Total Change in Volume			24.08%

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

NAA/USPS-T6-12. With regard to the general approach for forecasting mail volumes:

- a. Please confirm that mail volumes are indexed to a base period and are then forecasted based on indexes of explanatory variables and the associated elasticities. If you cannot confirm this statement, please explain your approach to forecasting mail volumes.
- b. Please explain generally why this "indexing" method is used rather than using values fitted to the original estimated equations.
- c. If base period volumes vary from the fitted values due to measurement error or some other non-continuing omitted factor in the econometric analysis, will your methodology inherently perpetuate this variance? Please explain any negative response.
- d. Please provide a comparison table of the base period volumes used for each category of mail and the fitted volumes estimated econometrically for the same period.

RESPONSE:

a. Confirmed

b. Base-volume forecasting has been found to provide more accurate volume forecasts than relying on regression-line forecasts. The tendency of deviations from the regression line due to omitted economic variables to persist for several periods makes the recent past, as incorporated into the base period, a better predictor of the forecast period than the regression line is.

A systematic investigation of this issue found that the R87-1 forecasts were more accurate than regression-line forecasts for 16 of the 23 mail categories forecasted in that case. In addition, the R87-1 forecast of total domestic mail was found to have an error of only 0.66 percent, while the regression-line forecast of total domestic mail had an error of 11.04 percent.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

c. If base period volumes vary from the fitted values from an econometric equation exclusively due to non-continuing factors which will not persist in the forecast period, then a base-volume forecasting approach will tend to incorrectly perpetuate the effect of these factors into the forecast period. In general, however, this has not been the case with respect to Postal Service volumes. Rather, unmodeled influences present in the base year have more often been found to persist over time, so that base volume forecasts provide more accurate forecasts than regression-line forecasts.

d. Please see Table 1 accompanying this response.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

**Table 1 Accompanying Response to NAA/USPS-T6-12  
Comparison of Actual Volumes to Fitted Values from Regressions**

<u>Mail Category</u>	<u>Actual Volumes</u>	<u>Fitted Volumes</u>
First-Class Letters		
Single-Piece	53,043.368	53,061.489
Workshared	39,418.981	39,160.606
Stamped Cards	570.329	476.144
Private First-Class Cards	4,646.935	4,674.955
 Mailgrams	 5.558	 4.388
 Periodical Within County	 910.993	 925.899
Periodical Nonprofit	2,182.805	2,234.750
Periodical Classroom	58.647	61.676
Periodical Regular	7,013.337	7,095.142
 Standard Single-Piece	 158.735	 140.876
Standard Regular	30,924.312	31,086.108
Standard ECR	29,999.206	30,068.670
Standard Bulk Nonprofit	12,718.009	12,620.391
 Parcel Post	 220.034	 220.307
Bound Printed Matter	515.988	483.965
Special Rate	194.157	192.925
Library Rate	28.922	27.162
 Postal Penalty	 347.651	 368.430
Free-for-the-Blind	50.388	51.206
 Registry	 18.149	 18.472
Insurance	30.069	28.857
Certified	283.138	278.460
COD	4.611	4.851
Money Orders	214.709	208.899

Volumes shown are for the last four quarters of the regression period. For First-Class letters this is 1995Q4 through 1996Q3. For all other mail categories, the relevant time period is 1996Q3 through 1997Q2.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

NAA/USPS-T6-13. With regard to the economic data forecasted by DRI/McGraw-Hill (Workpaper 1, page 1-4), please provide a comparison of the economic forecasts from the February 1997 25 year forecast with the most recently available forecasts.

**RESPONSE:**

Table 1 below presents the economic data used in forecasting taken from DRI/McGraw-Hill's February 1997 25-year forecast (called TREND25YR0297). The most recently available data, which come from the September 1997 10-year forecast (called TRENDLONG0997), are presented in Table 2.

**Table 1 Accompanying NAA/USPS-T6-13  
Economic Data from TREND25YR0297**

POSTAL QUARTER	PCE	PC	WPIP	UCAP	YD92	N22_PLUS
1997:3	5,391.3986	1.1219	1.6950	0.8237	5,240.7531	183.8106
1997:4	5,461.9355	1.1285	1.7069	0.8209	5,291.5971	184.2082
1998:1	5,534.1904	1.1355	1.7200	0.8171	5,322.5718	184.5992
1998:2	5,607.2416	1.1430	1.7319	0.8151	5,364.7393	184.9914
1998:3	5,674.1240	1.1505	1.7423	0.8144	5,381.8050	185.3928
1998:4	5,742.8827	1.1582	1.7525	0.8137	5,406.4102	185.8090
1999:1	5,815.7123	1.1660	1.7630	0.8111	5,428.0660	186.2368
1999:2	5,889.0161	1.1742	1.7741	0.8102	5,463.9136	186.6705
1999:3	5,957.4481	1.1827	1.7859	0.8116	5,482.0140	187.1047
1999:4	6,028.5448	1.1911	1.7990	0.8132	5,509.7559	187.5352
2000:1	6,103.6803	1.1996	1.8130	0.8141	5,532.6749	187.9632

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

**Table 2 Accompanying NAA/USPS-T6-13  
Economic Data from TRENDLONG0997**

POSTAL QUARTER	PCE	PC	WPIP	UCAP	YD92	N22_PLUS
1997:3	5,433.1520	1.1250	1.6564	0.8243	5,197.8470	183.8106
1997:4	5,512.9914	1.1296	1.6682	0.8224	5,227.6412	184.2082
1998:1	5,599.4753	1.1354	1.6821	0.8224	5,271.2799	184.5992
1998:2	5,669.0806	1.1408	1.6970	0.8209	5,349.5113	184.9914
1998:3	5,733.0764	1.1469	1.7129	0.8175	5,391.2962	185.3928
1998:4	5,800.2838	1.1534	1.7273	0.8129	5,417.5225	185.8090
1999:1	5,870.1693	1.1601	1.7398	0.8098	5,436.5136	186.2368
1999:2	5,941.4740	1.1668	1.7515	0.8078	5,481.7611	186.6705
1999:3	6,008.8211	1.1739	1.7626	0.8075	5,503.4061	187.1047
1999:4	6,079.3698	1.1811	1.7738	0.8068	5,519.6923	187.5352
2000:1	6,149.3351	1.1886	1.7852	0.8071	5,531.2576	187.9632

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

**NAA/USPS-T6-14.** With regard to your trend forecasting methodology for the price of computer equipment (Workpaper 1, page 1-5):

- a. Please provide all of your reasons for determining that a trend forecast for the price of computer equipment represents a reasonable method for forecasting this parameter.
- b. Please provide the historical data series for this variable (P\_PCE\_COMP), including any observations that are currently available but were not used in the econometric analysis.

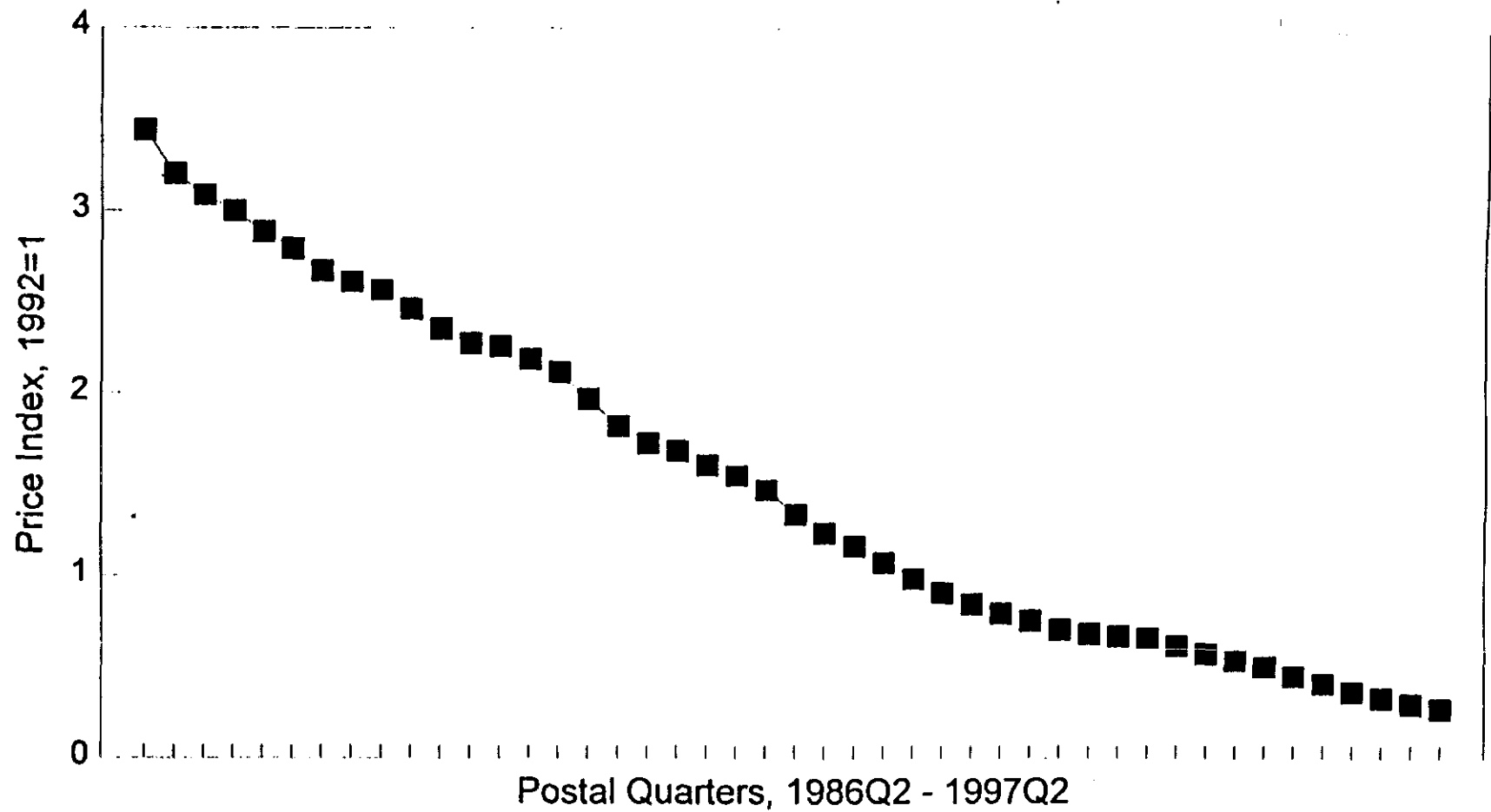
**RESPONSE:**

a. Figure 1 accompanying this response plots the real price of computer equipment from 1986Q2 through 1997Q2. Based on observing the data, it appeared that this time series could best be explained by a simple linear trend.

b. The historical data for the nominal price of computer equipment are presented in Workpaper 1 accompanying the testimony of Thomas Thress (USPS-T-7) at page 36. The real price of computer equipment is obtained by dividing this series by the implicit price deflator of personal consumption expenditures (PC), also found in witness Thress's Workpaper 1 (page 35). This variable is subsequently available for the third Postal quarter of 1997. The nominal value of P\_PCE\_COMP is equal to 0.271765 for this quarter.



**Figure 1 Accompanying NAA/USPS-T6-14**  
**Real Price of Computer Equipment, 1986 - 1997**



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA**

**NAA/USPS-T6-15.** With regard to your forecast for the CPM for newspaper advertising (Workpaper 1, pages 1-5 to 1-8):

- a. Please define the variable LNEWC and indicate its relationship to CPM\_NWS.
- b. Please provide the actual and fitted observations for LNEWC for the regression analysis shown on page 1-7.
- c. Please provide all reasons for your assumption that "[n]ewspaper circulation is assumed to be constant in the forecast period" at page 1-8.
- d. Please provide a table of the historical data series for newspaper circulation used in your analysis.
- e. Please explain the reasons for a positive coefficient on the AR{1} term and a negative coefficient on the AR{2} term in the Box-Jenkins regression results.

**RESPONSE:**

- a. LNEWC is defined as the natural logarithm of the deflated cost of newspaper advertising index. The deflator is the price index for personal consumption. The CPM\_NWS is calculated as the ratio of the deflated cost of newspaper advertising index to the newspaper circulation index.
- b. Actual and fitted values of LNEWC are presented in Table 1 below.
- c. Please see Table 2 accompanying this response. As shown in this table, newspaper circulation has been relatively stable over time, ranging from a low value of 94.0 in 1972 to a high value of 102.3 in 1990, a range of only 8.8 percent over the past 26 years. In fact, newspaper circulation as shown in Table 2 has varied by less than 4 percent over the past fifteen years. Consequently, an assumption of constant circulation was deemed to be appropriate.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NAA

- d. Please see Table 2 accompanying this response.
- e. AR corrections have been made in the interest of eliminating systematic noise in the residuals, consistent with recommended econometric practice. In the case you asked about, the positive coefficient on the  $AR\{1\}$  term and the negative coefficient on the  $AR\{2\}$  term could possibly indicate that variation in the cost of newspaper advertising index not explained by the price of paper and the general economic activity is due to systematic periodic behavior, or it could indicate the presence of omitted variables that display autocorrelation.

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**Table 1 Accompanying Response to NAA/USPS-T-15  
Actual and Fitted Values of LNEWC**

	ACTUAL	FITTED
1971	4.76055	4.75298
1972	4.72605	4.76363
1973	4.72752	4.70465
1974	4.73112	4.72826
1975	4.76536	4.76708
1976	4.81107	4.80717
1977	4.83870	4.83609
1978	4.83643	4.85719
1979	4.84404	4.84416
1980	4.84035	4.86918
1981	4.86944	4.87023
1982	4.90543	4.89326
1983	4.95525	4.94788
1984	5.00416	4.99817
1985	5.03875	5.03745
1986	5.07680	5.05057
1987	5.10158	5.09689
1988	5.12639	5.11509
1989	5.14011	5.13489
1990	5.13292	5.13459
1991	5.10690	5.11063
1992	5.08944	5.09257
1993	5.07806	5.08160
1994	5.08555	5.07919
1995	5.09969	5.09929
1996	5.12145	5.14041

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**Table 2 Accompanying Response to NAA/USPS-T6-15  
Newspaper Circulation Index, 1970 - 1996**

1971	95.00
1972	94.00
1973	95.00
1974	97.00
1975	97.00
1976	97.00
1977	98.00
1978	99.00
1979	99.00
1980	99.00
1981	99.00
1982	100.00
1983	100.00
1984	100.00
1985	101.00
1986	101.00
1987	101.00
1988	101.00
1989	102.00
1990	102.30
1991	101.30
1992	101.40
1993	101.40
1994	100.80
1995	99.60
1996	98.60

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**NAA/USPS-T6-16.** With regard to your forecast of television CPM (Workpaper 1):

- a. Please define the variables LTVCIIRC and LTVC and indicate the source of the data.
- b. Please provide a table showing the historical data series for actual television circulation, fitted circulation, actual cost and fitted cost. Please include any actual observations that were not included in the econometric analysis.
- c. Please provide all reasons why a quadratic time trend method was used to forecast television circulation.

**RESPONSE:**

a. LTVCIIRC is the natural logarithm of the per capita circulation index for television advertising. LTVC is the natural logarithm of the deflated cost of television advertising. I create cost and circulation indexes for television by calculating a weighted average of the spot, network and cable series.

The cost and circulation advertising indexes for the different segments of television media are provided by McCann-Erickson. The cost index is deflated by the implicit price deflator for personal consumption expenditures. Circulation is deflated by adult population (age 22 and over). Both of these series were obtained from DRI/McGraw-Hill.

- b. Please see Table 1 accompanying this response.
- c. As can be observed in table 1, LTVCIIRC decreases from the beginning of the sample to the beginning of the 1990's. At this point, the circulation index inflects and increases. This configuration is not well reproduced by a linear trend and suggests the existence of a quadratic time trend. Confirmation is provided by the t-statistic of 8.59

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on the quadratic term in the regression.

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**Table 1 Accompanying Response to NAA/USPS-T-16**  
**Actual and Fitted Values of LTVCIRC and LTVC**

	LTVCIRC		LTVC	
	ACTUAL	FITTED	ACTUAL	FITTED
1960	-0.4429	NA	4.4025	NA
1961	-0.4601	NA	4.4413	NA
1962	-0.4745	NA	4.4306	NA
1963	-0.4424	NA	4.4896	NA
1964	-0.4183	NA	4.5418	NA
1965	-0.3974	NA	4.5694	NA
1966	-0.3977	NA	4.6086	NA
1967	-0.3759	NA	4.6360	NA
1968	-0.3631	NA	4.6372	NA
1969	-0.3637	NA	4.6672	NA
1970	-0.3699	NA	4.5898	NA
1971	-0.3357	NA	4.5276	NA
1972	-0.3079	-0.3062	4.6677	4.6202
1973	-0.2965	-0.2935	4.6748	4.7418
1974	-0.2842	-0.2931	4.6451	4.6941
1975	-0.2985	-0.2913	4.6304	4.6172
1976	-0.3133	-0.3098	4.7653	4.7117
1977	-0.3240	-0.3279	4.8097	4.8299
1978	-0.3397	-0.3423	4.8510	4.8581
1979	-0.3608	-0.3598	4.8642	4.8841
1980	-0.3806	-0.3810	4.8465	4.8593
1981	-0.3984	-0.4005	4.8641	4.8645
1982	-0.4198	-0.4177	4.9107	4.8464
1983	-0.4382	-0.4371	4.9412	4.9453
1984	-0.4447	-0.4534	5.0138	4.9980
1985	-0.4528	-0.4597	5.0440	5.0223
1986	-0.4630	-0.4666	5.0690	5.0518
1987	-0.4854	-0.4745	5.0682	5.0939
1988	-0.4956	-0.4913	5.0735	5.0956
1989	-0.4874	-0.4979	5.0755	5.0840
1990	-0.5089	-0.4893	5.0672	5.0715
1991	-0.5155	-0.5034	4.9970	5.0536
1992	-0.5076	-0.5050	5.0088	5.0225
1993	-0.4859	-0.4946	5.0374	5.0320
1994	-0.4522	-0.4726	5.1032	5.0658
1995	-0.4377	-0.4406	5.1471	5.1120
1996	-0.4333	-0.4230	5.2249	NA



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NAA/USPS-T6-17. With regard to your forecast of radio CPM (Workpaper 1):

- a. Please define the variables LRADCIRC and LRADC and indicate the source of the data.
- b. Please provide a table showing the historical data series for actual radio circulation, fitted circulation, actual cost and fitted cost. Please include any actual observations that were not included in the econometric analysis.
- c. Please provide all reasons why a quadratic time trend method was used to forecast radio circulation.

RESPONSE:

a. LRADCIRC is the natural logarithm of the per capita circulation index for radio advertising. LRADC is the natural logarithm of the deflated cost of radio advertising. I create cost and circulation indexes for radio by calculating a weighted average of the spot and network series.

The cost and circulation advertising indexes for the two components of radio are provided by McCann-Erickson. The cost index is deflated by the implicit price deflator for personal consumption expenditures. Circulation is deflated by adult population (age 22 and over). Both of these series were obtained from DRI/McGraw-Hill.

- b. Please see Table 1 accompanying this response.
- c. An examination of the radio circulation index for recent years revealed that it has been flattening and suggested the need for a quadratic term. The t-statistic on the quadratic term of 3.94 confirms the desirability of including it.

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**Table 1 Accompanying Response to NAA/USPS-T-17**  
**Actual and Fitted Values of LRADCIRC and LRADC**

	LRADCIRC		LRADC	
	ACTUAL	FITTED	ACTUAL	FITTED
1960	-0.2458	NA	4.9598	NA
1961	-0.2547	NA	4.9487	NA
1962	-0.2642	NA	4.9646	NA
1963	-0.2740	NA	4.9539	NA
1964	-0.2960	NA	4.9676	NA
1965	-0.3305	NA	4.9784	NA
1966	-0.3302	NA	5.0034	NA
1967	-0.3293	NA	5.0250	NA
1968	-0.3173	NA	5.0089	NA
1969	-0.3232	NA	4.9715	NA
1970	-0.3190	NA	4.9715	NA
1971	-0.3353	NA	4.8784	NA
1972	-0.3416	-0.3361	4.8933	NA
1973	-0.3485	-0.3457	4.8854	4.8852
1974	-0.3451	-0.3554	4.8322	4.8322
1975	-0.3639	-0.3611	4.8140	4.8139
1976	-0.3737	-0.3745	4.8373	4.8375
1977	-0.3933	-0.3845	4.8661	4.8661
1978	-0.3934	-0.3978	4.8795	4.8793
1979	-0.3940	-0.4039	4.8697	4.8695
1980	-0.4044	-0.4100	4.8643	4.8642
1981	-0.4230	-0.4194	4.9023	4.9023
1982	-0.4308	-0.4314	4.9151	4.9150
1983	-0.4387	-0.4394	4.9463	4.9461
1984	-0.4446	-0.4473	5.0037	5.0038
1985	-0.4696	-0.4541	5.0225	5.0224
1986	-0.4746	-0.4676	5.0231	5.0229
1987	-0.4689	-0.4738	4.9681	4.9679
1988	-0.4706	-0.4759	4.9664	4.9664
1989	-0.4816	-0.4804	4.9770	4.9769
1990	-0.4823	-0.4880	4.9709	4.9709
1991	-0.4944	-0.4918	4.9031	4.9033
1992	-0.4989	-0.4994	4.8404	4.8404
1993	-0.5113	-0.5040	4.8770	4.8769
1994	-0.5101	-0.5113	4.9223	4.9224
1995	-0.5099	-0.5135	4.9431	4.9431
1996	-0.5150	-0.5158	4.9701	4.9699

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**NNA/USPS-T6-1.** Please refer to your testimony at pages 80-85.

- a. Do you agree that the changes in requirements for within-county mail referenced by you in Public Law 99-0272 would have had an immediate effect upon volumes immediately after its implementation but in succeeding years (e.g., 1987 and on) would have no further significant effect upon depressing year-to-year volumes. If you do not agree, please explain.
- b. Please provide any data upon which you relied indicating the use of within-county mail by the daily newspapers described in your subparagraph B.3.f.ii.a. Please provide any data upon which you relied indicating that in the period from 1970-1986 daily newspapers were significant users of within-county mail.
- c. In considering the decline in within-county volumes, did you examine the record in R94-1 in which the method for tabulating within-county pieces, weights and revenues was at issue? If so, please explain how that information influenced your testimony in this case.

**RESPONSE:**

- a. I basically agree. The law would have an immediate and one-time effect assuming no change in the composition or mix of publishers (i.e., publishers with large circulations versus publishers with small circulations) over time.
- b. I have no additional data on this subject beyond what is referred to in my testimony.
- c. As in Docket No. R94-1, a dummy variable was included in the regression equations for within-county mail beginning 1993 Postal Quarter 2 to capture changes in panelling methods for tabulating pieces. Please refer to page I-94, Table I-7 of my R-94 testimony (USPS-2-I, Technical Appendix I: Econometric Analysis, cf., USPS-T-7, p. 53 in the present case).

- e. No, I did not examine the circulations of newspapers that are less frequent than dailies and more frequent than weekly, as I did not locate data of that type.

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NNA/USPS-T6-2. Please refer to your statement on page 85 in subparagraph (b), in which you state: "another change in the newspaper industry affecting periodical in-county mail is the growth of weekly newspapers relative to daily newspapers."

- a. Did you look at any data concerning the circulations of weekly newspapers versus daily newspapers?
- b. If you did look at those data, please provide the circulation numbers you relied upon and explain how they influenced your testimony.
- c. Please explain in detail what assumptions you made about the mitigating effect of the growth of weekly newspapers upon within-county mail volume growth.
- d. Please confirm that ownership of individual newspaper titles by large chains of newspapers, whether weekly or daily, would not necessarily have an effect upon mail volumes, so long as that ownership did not result in a decline in overall numbers of newspapers and corresponding circulations relative to those of previous years. If you do not confirm, please explain.
- e. Did you examine frequencies of newspapers that may have been less frequent than daily and more frequent than weekly? If so, please explain how their circulations influenced your testimony about within-county mail volumes.

**RESPONSE:**

- a. I looked at data concerning the circulation of daily newspapers only, as I did not locate data on weekly newspaper circulation.
- b. Please see my response to [a].
- c. While I do not have figures on their circulation, the finding that the number of weekly newspapers grew 26 percent from 1980 to 1995 is suggestive that their circulation grew and by inference could have made for growth in within-county mail volume.
- d. I basically agree. However, mail volume could change, either positively or negatively, if large chains use different distribution methods (i.e., Postal mail versus non-Postal alternatives) than previous owners.

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OCA/USPS T5-1 (sic). The Postal Rate Commission's Opinion and Recommended Decision in Docket No. R94-1, pages II-36-45 discusses several areas which the Commission found troubling in your volume forecast testimony in that case. Please indicate whether you have addressed any of those concerns in your work in this case and how you or other witnesses have modified your studies to meet each of the following concerns addressed in that Opinion.

- a. At times replacing the computed "net trends" for volume forecasts normally derived from forecast error analysis with a subjective estimate. (pages II-36-37).
- b. The omission of forecasts of volumes for international mail, stamped envelopes, lock box/caller service, and various types of postal fees which are needed to develop satisfactory forecasts of postal revenues. (pages II-37).
- c. The omission of an adequate quantitative description of the origins of the volume adjustment multipliers necessary to review and correct them if required. (pages II-40-41).
- d. Use of unusual and ad hoc estimation techniques in place of generally accepted econometric methods such as multi-stage techniques to estimate "net trends", permanent income elasticities, several cross-price and cross-volume elasticities based upon prior information as if known with certainty, and "Z variables". (pages II-41-42).
- e. Using seasonal indices derived by seasonally adjusting the residuals from a preliminary fit using the X-11 process that cannot perfectly separate the seasonal effects from the errors. (pages II-42-43).
- f. Use of explanatory variables that cannot be directly measured and do not satisfy well-known standards for independent (explanatory) variables in least-squares estimations and other conventional econometric techniques. (pages II-43).
- g. The use of ad hoc estimates, arbitrary assumptions and personal judgments, in the absence of data for new discount classes, to estimate the slope coefficients for 15 categories of automation discounts in first-class and third-class mail by measuring the response of the various automated mail streams to the changes in the automation rate discounts. (pages II-44-45).

**RESPONSE:**

When the Postal Rate Commission (PRC) handed down its decision in Docket No. R94-1, I carefully considered each of the PRC's comments on my testimony and

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incorporated them into my work when I have felt it to be appropriate. Before addressing your specific questions about the PRC comments, let me state that in general the PRC comments sound more serious than they are, partly because of the aura in which they have been cast without perspective on their importance, and partly because several of the comments are either incorrect or are inappropriate for the task of volume forecasting.

The PRC's criticisms of my work in Docket No. R94-1 imply a divergence in view about the best postal forecasting methodology. In particular, the PRC seems to imply that forecasting can be a matter of fitting a standard econometric equation and inserting future values of independent variables into this equation to arrive at future predicted values. On the other hand, my belief -- shared by the Postal Service -- is that econometric estimation is only one of many sources of evidence throwing light on what the future holds. According to this view, forecasting is a matter of bringing together all available evidence, not simply econometric evidence, and making the best prediction possible based on all of the evidence. This view is more sharply evidenced in this case by the separation of volume forecasting, as attested to in my testimony, from econometric estimation, which is testified to by Thomas Thress in this case in USPS-T-7 but which was included as part of my testimony in previous rate cases. Mr. Thress specifically endorses the distinction between econometric estimation of demand equations and the development of volume forecasts in the following paragraph (USPS-T-7, p. 9, line 21 through p. 10, line 3):

"In some cases, Dr. Tolley introduces additional non-econometric information in making volume forecasts. This is a necessary and prudent thing to do, particularly when this information is not available in the form of a quarterly time series amenable to introducing into an econometric demand equation. The demand equations presented and discussed in my testimony should be viewed therefore as providing a starting point for Dr. Tolley in making volume forecasts.

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but should not be viewed as the end-all and the be-all in understanding mail volume behavior in the future."

This difference in view from that of the PRC about best postal forecasting methodology lies at the heart of much of the PRC's criticisms of my work in Docket No. R94-1. Believing that my view is correct, I have continued to rely on non-econometric information where useful, and I have not limited myself to textbook econometrics, when it is possible to do better as will be pointed out below. Having said this, let me go on to say that in my opinion it is desirable to include as many factors as possible in the econometric equations and to freely estimate as many elasticities as the data will allow. Consequently, I would agree with the PRC that it would be preferable to avoid the use of "net trends" and an undue use of "judgment" (as the term is used by the PRC) *if possible*. I further believe that it is desirable to make as explicit and objective as possible the basis on which non-econometric evidence is introduced. I have made increasing efforts to do so.

Finally, I believe that it is important to remember that econometric investigation itself is nothing more than a series of judgments regarding which explanatory variables to include, which functional form to use, which data to rely upon, and, ultimately, even whether to engage in econometric analysis at all. The apparent distinction between "econometric" information and "subjective" information within the PRC's criticisms is only a semantic one, and one which is ultimately untenable if one is forced to forecast mail volumes in the real world.

a. I discuss my net trends on page 21 of my testimony at lines 5 through 25. For this case, I have made a concerted effort to limit my use of net trends and to rely upon objective calculations to derive net trends in those instances where they are used. Of particular note is the fact that net trends are not used in forecasting either First-Class



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Mail, with the exception of private First-Class cards, or Standard mail, with the exception of parcel post mail. Both of these exceptions are made because the level of detail at which forecasts are made in these cases is finer than the level of detail at which the corresponding demand equations are modeled. Specifically, net trends are used to separate single-piece and workshared First-Class cards in the forecast period to reflect shifts between these two categories. Net trends are also used to separate inter-BMC, intra-BMC, and DBMC parcel post, reflecting differences in the growth patterns of these three categories of parcel post historically. In these and in all other cases where net trends are used by me in making forecasts, the net trends are calculated mechanically as described in my Appendix at page A-34, lines 5 through 12.

b. As in earlier cases, it was the Postal Service's decision in this case that I was not responsible for developing forecasts of international mail, stamped envelopes, lock box/caller service, and various types of postal fees. I understand that an explanation of the Postal Service's forecast for international mail was submitted in response to Presiding Officer's Information Request No. 1, 10(a). The volume of Post Office Boxes and Caller Service was presented in the testimony of witness Paul Lion in this case (USPS-T-24), while the forecasts for stamped envelopes, P.O. Box and caller service revenue, and postal fees were made by witness Susan Needham (USPS-T-39).

c. In response to this criticism, a more detailed description of the volume-adjustment multipliers used in this case has been made than was the case in the past. Volume-adjustment multipliers are made in this case for three reasons. First, volume-adjustment multipliers are applied to single-piece and workshared First-Class letters to reflect shifts in mail resulting from the implementation of classification reform on July 1, 1996. The derivation of these volume-adjustment multipliers are documented in my Technical Appendix, at page A-18, line 17 through A-21, line 26. Second, certified mail

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volume is adjusted to remove merchandise return receipts from the base volume. This was done to conform to the PRC's forecast of certified mail in its MC96-3 decision. Finally, a series of small volume-adjustment multipliers were introduced into the forecast in 1997Q4 to reflect the impact of various proposals adopted by the PRC in their MC96-3 decision. These volume-adjustment multipliers are described in Library Reference LR-H-173, pp. 4-5.

d. This criticism on the part of the PRC appears to reflect the view that forecasting can be a relatively simple econometric exercise using a basic Ordinary Least Squares technique and including in the econometric (and, hence, forecasting) equations only variables which can be directly measured and which are amenable to inclusion in a quarterly time series regression. Even if I agreed with the PRC that volume forecasting ought to be solely an econometric exercise, which I do not, the PRC's criticism here of the so-called "ad hoc estimation techniques" employed to estimate permanent income elasticities, cross-price and cross-volume elasticities, and "Z variables" would be unwarranted.

The overall approach to econometric volume estimation in this rate case is summarized by witness Thress in his testimony at page 8, line 21 through page 9, line 20:

"The primary source of information on mail volumes is the Postal Service's quarterly RPW reports. These data serve as the dependent variable in the demand equations developed and described in my testimony.

In general, variables which are believed to influence the demand for mail volume are introduced into an econometric equation as a quarterly time series in which an elasticity of mail volume with respect to the particular variable is estimated, using a Generalized Least Squares estimation procedure that is described more fully in section III below.

The estimation of elasticities with respect to certain variables may be problematic, however, in an isolated quarterly time series regression. Even if quarterly time series data exists on information, additional data may be brought into the regression process, including the result of independent regression procedures. The Household Diary Study provides an alternate source for

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modeling the relationship of mail volume with other factors. The Household Diary Study data provides cross-sectional, rather than time series, data. For certain mail relationships (e.g., modeling the effect of income on mail volume received by consumers), cross-sectional data lends itself more easily to evaluation and estimation than does time series data. In addition, the Household Diary Study provides a means of dividing mail within a particular subclass or rate category by content, sender, or recipient, in a way that is not possible with RPW data (e.g., distinguishing First-Class advertising mail from First-Class non-advertising mail). In selective instances, information was obtained from the Household Diary Study, and was then introduced in such a way as to continue to gather the maximum possible amount of information from the time series data themselves."

With the exception of net trends, which are discussed in more detail in my response to part a. of this interrogatory, the other so-called "ad hoc estimation techniques" employed in both R94-1 as well as in the current Docket are employed out of necessity due to multicollinearity between the independent variables, particularly between permanent income, other economic variables, and time, as well as between Postal prices across subclasses. The incorporation of outside information in such a case is a generally accepted method of dealing with such problems and is widely employed within the econometrics profession. For example, The Theory and Practice of Econometrics, 2nd edition, by George G. Judge, et al. (1985) makes the following assertion:

"Once detected, the best and obvious solution to [multicollinearity] is to ... incorporate more information. This additional information may be reflected in the form of new data, a priori restrictions based on theoretical relations, prior statistical information in the form of previous statistical estimates of some of the coefficients and/or subjective information." (p. 897)

While the PRC's specific criticisms of my estimation techniques in R94-1 are unwarranted in my opinion, the specific justifications associated with each of the so-called "ad hoc estimation procedures" have been expanded in the present case, in the hopes of more adequately elucidating the importance and reasonableness of these

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procedures.

The theory underlying the use of the permanent income variable is expanded upon significantly from the discussion in Docket No. R94-1. The theoretical underpinnings of the permanent income hypothesis are presented in witness Thress's testimony at page 117, line 3 through page 120, line 7. The calculation of the permanent income variable is described in detail at page 120, line 8 through page 121, line 12 of witness Thress's testimony. Finally, the estimation procedure used to estimate permanent income elasticities within the econometric demand equations is described by witness Thress at page 121, line 13 through page 122, line 16, at page 137, line 1 through page 139, line 19, and in Workpaper 2, "Estimation of Permanent Income Elasticities for Mail Categories from the 1994 Household Diary Study" accompanying Mr. Thress's testimony.

The Slutsky-Schultz symmetry condition used to constrain several cross-price elasticities is derived by Mr. Thress at page 142, line 14 through page 144, line 22 of his testimony. The application of the Slutsky-Schultz symmetry condition to Mr. Thress's econometric results is described at page 145, line 1 through page 146, line 13 of his testimony.

The estimation of the cross-price relationship between First-Class letters and Standard regular mail is presented in detail in Mr. Thress's testimony at page 26, line 3 through page 29, line 4. The estimation of the cross-volume relationship between First-Class letters and Standard bulk mail is described at page 23, line 7 through page 26, line 2 of Mr. Thress's testimony.

Finally, the theory underlying the use of "Z variables," the methodology used to calculate these variables, and the specific reasons for the inclusion of this variable where it was used in this case are found in Mr. Thress's testimony at page 149, line 1

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through page 153, line 4. Z-variables are no longer included in the demand equations associated with First-Class letters, Standard regular, Standard ECR, and Standard bulk nonprofit mail due, in part, to a truncation of the sample periods associated with these equations to exclude the late 1970s and early 1980s. In addition, the price of computer equipment is introduced explicitly into the demand equation for Standard regular mail.

I agree with the PRC that it would be preferable to not have to include z-variables in the econometric equations, and I consider the removal of the z-variables in the forecasting equations for First-Class letters and Standard bulk mail to be an improvement in the current case. It appears to me that the PRC carries this position too far, however. Specifically, it would be incorrect, if, as I interpret the PRC's comments, one were to insist that it would never be appropriate to include a z-variable in an econometric equation if its inclusion appreciably improves the resulting demand equation estimates and if justified on theoretical grounds, such as being suggested by the theory of market penetration.

e. The criticism of my use of the X-11 seasonal adjustment process has been made obsolete by the development and use of a new treatment of seasonality by witness Thress in this case. This seasonal adjustment process, which is described in detail in witness Thress's testimony (USPS-T-7) at page 123, line 7 through page 128, line 16, utilizes seasonal variables which are tied to the Gregorian (i.e., regular, 365-day) calendar rather than the Postal (i.e., 52-week, 364-day) calendar. By modeling seasonality as being driven by factors which are constant within the Gregorian calendar (e.g., Christmas), movements in the observed seasonal patterns of mail volumes are found to be explained predominantly by changes in the Postal calendar relative to the Gregorian calendar due to the difference in the length of these two calendars. Consequently, additional techniques for modeling movements in seasonality over time,

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such as the X-11 procedure, are not needed.

f. This criticism appears to be redundant. The only variables mentioned in the paragraph to which I assume you refer (page II-43, para. 2121) are permanent income and the X-11 seasonal index, both of which are criticized in earlier paragraphs of the PRC's decision. Please see my responses to sub-parts d. and e. of this interrogatory for a discussion of these specific issues.

I am uncertain what is meant by the statement that these variables "do not satisfy well-known standards for independent (explanatory) variables." To the extent that this is meant to suggest that data are only to be used if taken unadjusted from an outside source I would object. It is neither unusual, nor unwise, to attempt to construct data, drawing on all available sources, which may fit a particular purpose. For example, Dr. Lester Taylor, in developing a demand equation for First-Class letters at the request of the PRC included in his equation "a proxy for the number of financial accounts [which was] constructed that is based on the M3 money supply and the amount of consumer installment credit outstanding ... deflated by the implicit deflator for GNP and then divided by the number of households." ("The Demand for First-Class Mail: An Econometric Analysis" by Lester D. Taylor, Review of Industrial Organization, 1993, vol. 8, p. 531). Examples of such constructed variables can be found in many published econometric analyses.

The assertion that the permanent income variable is unusual because it "cannot be known without error," fails to recognize that virtually all data, including widely-used economic statistics reported by the federal government, have some degree of error associated with them, insofar as these data represent statistical samples rather than pure measures. In addition, many of these variables are calculated using what could be called arbitrary assumptions, which may later be brought into question. For

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF OCA

example, there is much current debate over the appropriateness of the Commerce Department's current methodology for calculating the Consumer Price Index (CPI). Does this mean that the current CPI is still not the best available estimate of the price level of consumer goods in the U.S. economy?

g. The methodology used to forecast the use of automation and presortation is quite different in this case than in Docket No. R94-1, making the PRC's general criticisms in that case largely obsolete. The methodology used in this case, which is described in detail in section IV of witness Thress's testimony (pp. 160-230), is the same methodology used by me in Docket No. MC96-2, which was first introduced to the PRC by me in Docket No. MC95-1.

In its Opinion and Recommended Decision in Docket No. MC95-1, the PRC described this methodology as "*sophisticated in its description of the economic behavior of mailers, yet mathematically elegant in its reduction of the behavior to simple formulas,*" (page IV-89, para. 4201) and noted that this "new share model is clearly superior as a theoretical construct to the share equations previously used by Postal Service witnesses." (p. IV-90, para. 4203).

The PRC made two criticisms of the share equation methodology as employed in MC95-1. First, they noted that my definition of opportunity costs as "the benefit that would have been realized by using a *more highly discounted category or categories,*" (USPS-T-16, p. A-151, emphasis added) was "defective." (PRC Op., Appendix E, p. 7). This was corrected in MC96-2 by introducing a "sophisticated 'two-way' street iterative model of opportunity costs, consistent with economic theory." (PRC Opinion and Recommended Decision, MC96-2, page 10).

Second, the PRC noted that I applied "an unusual mixture of econometric method, nonstatistical estimation and direct judgment," so that "[u]ltimately (and

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
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probably inevitably), the parameter estimates are best characterized as the judgments of witness Tolley." (PRC Opinion and Recommended Decision, MC95-1, p. IV-90, para. 4203). The need to introduce nonstatistical estimation and direct judgment arose because of the significant changes being proposed in MC95-1 in worksharing requirements, for which there was no historical precedence. In contrast, classification reform has been in effect now for some time, so that the parameter estimates in the present case are all estimated econometrically.



RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF UPS

UPS/USPS-T6-1. Please refer to your testimony, page 153, lines 25 through 27, where you provide an estimate of the long-run own-price elasticity of Parcel Post.

(a) Did you compute confidence levels or any other statistical measure of the uncertainty associated with this estimate?

(b) If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measure was computed.

(c) If the answer to (a) is no, please provide an estimate of the range within which the estimate of long-run own-price elasticity for Parcel Post, in your opinion, likely falls.

RESPONSE:

Please see witness Thress's response to NAA/USPS-T7-9. Witness Thress calculates a 90 percent confidence interval for the parcel post own-price elasticity between -0.683 and -1.246.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF UPS

UPS/USPS-T6-2. Please refer to your testimony, page 163, lines 12 through 15, where you provide estimates of Parcel Post volumes in the Test Year.

(a) Did you compute confidence levels or any other statistical measure of the uncertainty associated with these estimates?

(b) If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measure was computed.

(c) If the answer to (a) is no, please provide an estimate of the range within which the estimate of Parcel Post volume would, in your opinion, likely fall.

RESPONSE:

(a) No.

(b) and (c)

The use of my volume forecasts by the Postal Service in evaluating the financial position of the Postal Service in 1998 with and without a rate increase requires me to produce forecasts that are point estimates as opposed to ranges. The forecast of parcel post mail volume presented in my testimony is my best estimate of what the Test Year volume of parcel post mail will be. It has not been my mandate to develop a confidence interval for the forecast, nor does it appear feasible to do so.

The methodology with which I forecast parcel post volume does not lend itself to statistical measures of uncertainty. I do not forecast parcel post volume by simply fitting an econometric equation. Rather, I forecast Inter-BMC, Intra-BMC, and DBMC parcel post volumes separately, from separate base volumes, whereas the econometric demand elasticities testified to by witness Thress in this case are calculated for total parcel post mail. In addition, I include non-econometric net trends in forecasting each of these categories. Because these net trends are not estimated statistically, there are no estimated standard errors for them.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF UPS

UPS/USPS-T6-3. In its Opinion and Recommended Decision in Postal Rate and Fee Changes, 1994, Docket No. R94-1, the Commission presented, at page II-39, a table comparing forecasted volume estimates of Postal Service witnesses Tolley and Musgrave with actual volumes. On page II-38, the Commission concluded that:

- The excellent overall volume forecasting performance masked large but offsetting forecast errors among individual mail categories
- Percentage errors for major categories of mail were within a range of plus or minus 3%
- Forecasting errors for smaller categories of mail tended to fall within a larger range
- Forecasting accuracy has improved
- No bias was apparent

(a) Do you agree with the Postal Rate Commission's assessment summarized above? If not, please explain.

(b) With respect to the forecasts provided in the present proceeding, Docket No. R97-1, do you anticipate that the same conclusions might apply? Please explain your answer.

(c) With respect to the forecasts provided in the present proceeding, do you anticipate that the differences between the forecasts and the actual volumes for the larger mail categories will fall within a range of plus or minus 3% and the errors for the smaller categories will fall within a wider range? Please explain your answer.

RESPONSE:

(a) Yes.

(b)-(c) I believe that the present forecasts will prove to be at least as accurate and probably more accurate than the forecasts which I presented in Docket No. R94-1. The econometric demand equations for most of the important categories of mail have been improved in this case (see section II of witness Thress's testimony in this case). I

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF UPS

believe that these improvements should result in improved forecasts for the present case. In addition, the methodology used in this case to forecast mailers' use of presortation and automation is more advanced than was the case in R94-1. Hence, I would hope the error range for the larger mail categories will be less than the 3% identified by the PRC in R94-1. I would expect that forecasting errors for smaller categories of mail will continue to fall within a larger range than the errors associated with the major mail categories.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF VP-CW

VP-CW/USPS-T6-1. Your testimony at p. 135 discusses the volume forecast for Standard A ECR automated mail. Please define the term "automated mail" as you use it here. Specifically, are you referring to (i) ECR mail entered at the automation rate, (ii) ECR letter mail that has a preprinted barcode and is automatable (e.g., letter-shape mail entered at the saturation rate, but which also has a barcode preprinted as a courtesy to the Postal Service), or (iii) something else?

RESPONSE:

Standard A ECR automated mail refers to ECR mail entered at the automation rate.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF VP-CW

VP-CW/USPS-T6-2. Table 1 at p. 5 of your testimony shows Base Year volume for Standard A Enhanced Carrier Route mail as 29,999.206 million pieces. The RPW Report for Government Fiscal Year 1996 (dated November 11, 1996) indicates that the volume of Third-Class Bulk Regular carrier route mail was 29,204.513 million pieces. Please reconcile the difference between the data in your Table 1 and the RPW Report.

RESPONSE:

The data refer to different time periods. As stated in my testimony at page 3, the Base Year used for volume forecasting is postal 1996Q3 through postal 1997Q2, which began in March 2, 1996 and ended on February 28, 1997. It does not correspond to GFY 1996, which began on October 1, 1995 and ended on September 30, 1996.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF VP-CW

VP-CW/USPS-T6-3. Please refer to LR-H-145, FY 1996 Billing Determinants, G-2, p.2. Under Basic Letters, the volume entered at Automation Rate is listed as 336,502,422 thousand pieces. This amount is not included in the total shown for Basic Letters (9,663,821,871). Your testimony at Page A-30, Appendix Table 4, lists the Base Year volume of automated Enhanced Carrier Route Letters as 1,208.395 million.

- a. Please explain and reconcile the difference between the volume of Automation Rate letters in the FY 1996 billing determinants and your Base Year volume for automated ECR letters.
- b. Please explain why the Automation Rate letters shown in the billing determinants are excluded from the total volume of Basic ECR letters, despite being listed as a component thereof.

RESPONSE:

- a. As noted in my response to VP-CW/USPS-T6-2, my Base Year for forecasting is 1996Q3 through 1997Q2, not GFY 1996. The difference in time periods covered is of more than usual importance because the periods contain different numbers of quarters under mail reclassification. Please see my response to VP-CW/USPS-T6-4.
- b. While I had no involvement in the preparation of LR-H-145, I am informed by the Postal Service that, with respect to the figures you cite, the Automation Rate line entry is intended merely to reflect how many of the pieces shown on the previous lines were also Automation Rate mail. The amount was not intended to be added to the total; to do so would have caused double-counting of the same pieces. Any further inquiries on this matter would need to be directed to the Postal Service.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF VP-CW**

VP-CW/USPS-T6-4. Please refer to your Appendix Table 4, p. A-30. The Base Year data for Standard A Enhanced Carrier Route Mail are shown below in column 1, and corresponding billing determinants data from LR-H-145 are shown in column 2.

- a. Please provide the source of your Base Year data for Standard A ECR mail and reconcile all differences between your data and the billing determinants.
- b. Where significant differences exist, which data are more reliable?

	(1)	(2)	(3)
	USPS-T-6 Page A-30 Table 4	LR-H-145 Billing Deter- minants	Col 2 as Percent of Col 1
<b>STANDARD A MAIL</b>			
Enhanced Carrier Route			
Automated	1,208.395	336.502	27.9%
Basic letters	7,464.164	9,663.822	129.5
Basic nonletters	9,367.546	8,462.895	90.3
High-density letters	245.893	92.730	37.7
High-density nonletters	992.760	753.194	75.9
Saturation letters	2,616.827	2,432.699	93.0
Saturation nonletters	8,103.621	7,775.397	95.9
Total (col 2 EXcludes automated letters)	29,999.206	29,180.737	97.3%
Total (col 2 INcludes automated letters)	29,999.206	29,517.239	98.4%

**RESPONSE:**

a. There are two differences between my data and the billing determinants. First, the reporting of Automated letters is different. In column 1 above, the volumes shown for the Automation and Basic letters categories are mutually exclusive, while the Automation volume in column 2 is a subset of Basic letters, as noted in my response to VP-CW/USPS-T6-3.

Second, the time period covered is different. My Base Year data come from RPW



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF VP-CW**

reports for 1996Q3, 1996Q4, 1997Q1 and 1997Q2, while the billing determinant volumes come from GFY 1996 (approximately 1996Q1 through 1996Q4), as noted in my response to VP-CW/USPS-T6-2. The Base Year, being on the order of six months later than GFY 1996, contains more quarters in which mail reclassification was in effect. Reclassification had noticeable effects on the distribution of mail between the categories of ECR mail, contributing to some of the differences between columns 1 and 2.

b. If one were to exclude Automated volumes from the total in column 2, both sets of data should be equally reliable in measuring volume over the different time periods to which they refer.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

10. b. Refer to Exhibit USPS-6A, Tables 1, 2, 3 and 4, and Library Reference H-173, "Before and After-Rates Volume Forecasting Spreadsheets." Please provide the formula used to generate the aggregate GFY 1999 volume forecasts from quarterly figures.

**RESPONSE:**

The formula used in Library Reference H-173 is the following:

$$\text{GFY 1999 Volume} = (51.5/66) \cdot (1999\text{Q1 vol}) + \sum (1999\text{Q2 thru } 1999\text{Q4 vol})$$

This formula is incorrect. The correct formula should be:

$$\text{GFY 1999 Volume} = (51.5/66) \cdot (1999\text{Q1 vol}) + \sum (1999\text{Q2 thru } 1999\text{Q4 vol}) + (15.5/66) \cdot (2000\text{Q1 vol})$$

Appropriate revisions to Exhibit USPS-6A will be filed at a later date.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1**

10. c. In Library Reference H-173, spreadsheets O\_R97BR.WK4 and OF\_R97AR.WK4, witness Tolley presents quarterly FY 1996 volumes for First-Class single piece, presort and automation letters and cards, and Standard (A) bulk rate regular presort and automation categories. These FY 1996 volumes in Library Reference H-173 are different from the corresponding FY 1996 volumes reported as SPly figures in quarters one through three, FY 1997 Revenue, Pieces, and Weight (RPW) reports. Please explain the difference between the FY 1996 quarterly volumes shown in Library Reference H-173 and quarters one through three, FY 1997 RPW reports.

**RESPONSE:**

The differences in 1996 quarterly volumes reported in Library Reference H-173 and those reported in the 1997 RPW reports are due to differences in the conversion of pre-classification reform volumes into post-classification reform mail categories for presentational purposes.

Specifically, the RPW system equates "single-piece" volume with nonpresort volume prior to classification reform, while Library Reference H-173 excludes nonpresort ZIP+4 and prebarcoded letters, flats, and cards from the calculation of single-piece mail. The RPW system also considers mail which received ZIP+4 discounts to be nonautomated, while ZIP+4 mail was combined with prebarcoded mail to produce the automated mail figures presented in Library Reference H-173 in 1996.

**Response of Witness Tolley to Presiding Officer's Information Request No. 3**

10b. Please explain why the total adjusted revenues in cell S75 [sic] of Library Reference H-172, STBBP96A do not reflect the revenue loss from the proposed prebarcode discount of \$3,402,961 listed in cell S72.

**Response:**

The formula shown in cell S74, total adjusted revenues, is incorrect. The formula for cell S74 should read:

**@SUM(S48..S72)\*SD\$3**

which includes the lost revenue from the proposed prebarcode discount. This results in a total adjusted revenue of \$412,042,086.

1 CHAIRMAN GLEIMAN: Does any participant have  
2 additional written cross-examination for Witness Tolley?

3 If not, that moves us to oral cross-examination of  
4 the witness. Two participants, American Business Press and  
5 the National Newspaper Association -- excuse me, two  
6 parties, American Business Press, National Newspaper  
7 Association, and a third party, McGraw-Hill, for purposes of  
8 followup, they have requested oral cross-examination.

9 Does any other party wish to cross-examine?

10 Mr. Feldman, begin when you're --

11 MR. FELDMAN: Mr. Chairman, I think we are going  
12 to forgo cross-examination at this point of this witness.

13 CHAIRMAN GLEIMAN: Ms. Rush?

14 CROSS EXAMINATION

15 BY MS. RUSH:

16 Q Good morning, Dr. Tolley. I'm <sup>Jonda</sup>~~Tondra~~ Rush,  
17 counsel to National Newspaper Association.

18 A Good morning.

19 Q I believe I only have three questions for you, and  
20 they pertain to your testimony at page 85.

21 A Okay, I have that.

22 Q You took into account in your net trend analysis  
23 for the within-county periodicals volume the growth in  
24 weekly newspapers. You cited the Gale's Directory as the  
25 source for your data there; is that correct?

1           A     Yes, I believe so.

2           Q     Did you look in your analysis at the circulation  
3 growth of those titles, or just the number of titles? Your  
4 reference here appears to be to the number of titles.

5           A     Okay.

6           COMMISSIONER LeBLANC: Dr. Tolley, could you --  
7 I'm sorry.

8           THE WITNESS: Yes, this always happens.

9           Let's be specific about what we're asking about.

10          BY MS. RUSH:

11          Q     Yes, I'm asking you, in your testimony you appear  
12 to be referencing the number of titles, the number of  
13 newspapers, the titles of newspapers that have actually  
14 grown as opposed to the circulations of those papers.

15          A     Well, in some parts there's reference to  
16 circulation and in other parts there's reference to titles,  
17 so that's why I'm asking.

18          Q     Okay. My question to you is, did you take into  
19 account the circulation growth of those weekly newspapers in  
20 addition to the number of titles?

21          A     Okay. We're talking about weekly papers.

22          Q     Weekly newspapers; that's right.

23          A     No, I did not find information on circulation of  
24 weekly newspapers.

25          Q     You did not find any circulation --

1 A That's correct.

2 Q -- numbers for those newspapers? Okay.

3 Would you agree that newspapers tend to function  
4 in two markets, or at least two markets, one of the market  
5 of readers and the market of advertisers, if you will?

6 A Well, no, I hadn't thought of that distinction.

7 Q You haven't thought of that distinction? Okay.  
8 Well, let me ask you this.

9 A I thought readers read newspapers and --

10 Q Would you consider, as an economist, would you  
11 consider a weekly newspaper a substitute for a daily  
12 newspaper in a reader's mind?

13 A It's a partial substitute.

14 Q A partial substitute. Have you ever looked at how  
15 close of a substitute it might be?

16 A Well, I don't even know how to define how close a  
17 substitute, but I -- no, I haven't tried to estimate the --

18 Q Okay.

19 A -- degree of substitutability.

20 Q How about for an advertiser? If you were looking  
21 at, say, a local grocery store, would you consider that a  
22 close substitute, the weekly for the daily?

23 A For a small grocery store, probably not, no.

24 Q You would consider the weekly not a substitute for  
25 the small grocery store?

1           A     Well, there's less -- everything is substitutable  
2     to a certain extent, but probably not a substitute --

3           Q     What about for a large grocery store?  Would you  
4     have a different answer?

5           A     Well, I think maybe large grocery stores sometimes  
6     advertise in metropolitan papers, so they could be.  I  
7     suppose they sometimes do advertise in weekly papers.

8           Q     If you had the advertising rates available for  
9     both the weekly newspaper and the daily newspaper, and you  
10    had the circulations for the weekly newspaper and the daily  
11    newspaper, would you be able to calculate the degree of  
12    substitutability for that advertiser?

13          A     One would have a better idea, but I think it would  
14    take more information than that.  You need to know about who  
15    the customers really are.

16          Q     But in any event, for purposes of net trends here,  
17    you haven't done any of that analysis?

18          A     That's correct.

19          Q     Okay.  You also cite in your paragraph 1 here your  
20    understanding that the decline in newspaper circulation per  
21    adult has declined from 1980 to 1995 and that's one element  
22    that you have taken into account in the net trend analysis.

23                 Could you just clarify for us that you're looking  
24    at a decline in daily newspaper circulation in that  
25    reference?



1           A     Well, that's what I'm looking at, yes.

2           Q     That's what you're looking at.  Okay.

3                   MS. RUSH:  No further questions, Mr. Chairman.

4     Thank you.

5                   CHAIRMAN GLEIMAN:  Is there any follow-up?

6     Questions from the bench?

7                   I just have a very few questions, Dr. Tolley.  In  
8     response to items 10A, 11 and 12 of Presiding Officer's  
9     Information Request Number 3, Witness Mayes revised the  
10    revenue adjustment factors for bulk bound printed matter,  
11    intra-BMC, inter-BMC, and DBMC parcel post categories.

12                  Witness Mayes' revisions of revenue adjustment  
13    factors could alter the test year before and after rates  
14    values of the fixed weight indices and the volume forecast  
15    of these particular rate categories.

16                  Your revised volume forecast that we were  
17    discussing a moment ago that you submitted on October 9th  
18    did not, to the best of my understanding, account for  
19    Witness Mayes' revised revenue adjustment factors.  And my  
20    question is, do you plan to revise your volume forecast for  
21    bound printed matter and parcel posts to account for Ms.  
22    Mayes' revised revenue adjustment factors?

23                  THE WITNESS:  I don't believe we have discussed  
24    doing that, no.

25                  CHAIRMAN GLEIMAN:  Counsel, could you let us know

1 whether there is any intention on the part of the Postal  
2 Service to seek a further revision to reflect Witness Mayes'  
3 changes?

4 MR. KOETTING: I'll be happy to do that, Mr.  
5 Chairman.

6 CHAIRMAN GLEIMAN: And then Witness Thress said  
7 that he adopted your two-and-a-half piece response. Is it  
8 possible that, given all that has transpired in the past ten  
9 years in terms of how people order and the increasing  
10 reliance on credit cards, that possibly that two-and-a-half  
11 piece is not nearly so conservative as it is made out to be?

12 THE WITNESS: Well, I was certainly thinking about  
13 that as I listened. I would just like to say that ordering  
14 from catalogues is only a part of this response to ~~standard~~  
15 ~~B-mail~~, standard A mail, so I'm not -- it might have some  
16 effect; I'm really not sure how great the effect would be.

17 CHAIRMAN GLEIMAN: Okay. And I have one other  
18 question and I perhaps should have directed this to Mr.  
19 Thress. Maybe you can help me out with it.

20 I noticed in the elasticity -- own price  
21 elasticities that have been presented in this case, that  
22 there are a number of them that have changed significantly  
23 from the R94 submission. What I was wondering was aside  
24 from the single piece letter and work-shared letter in first  
25 class which is being presented for the first time, whether

1 the changes that we see in own price elasticity represent  
2 changes -- situational changes over time or whether these  
3 are better estimates for some other reason?

4 THE WITNESS: Could I ask what you mean by  
5 situational changes?

6 CHAIRMAN GLEIMAN: The -- just flat out changes  
7 over time where you would have different factors that you  
8 would put in, you know, that you would take into account.

9 THE WITNESS: Well, the estimates will change  
10 because you add more data and, therefore, when you run  
11 through the regressions, you're going to get a different  
12 estimate, and then you may do that even if you maintain  
13 exactly the same regression specification.

14 On the other hand, then you may think of new  
15 variables you want to put in or some you want to take out,  
16 and when you do that, that will change the estimates.

17 These estimates change over time for both reasons.  
18 Again, I would have to systematically -- someone would have  
19 to systematically go through. I think that most of the  
20 changes are not that great. These elasticities have been  
21 fairly stable over time. That's just an impression; I  
22 haven't done that for this case.

23 CHAIRMAN GLEIMAN: One that caught my eye was  
24 enhanced carrier route where we were dealing with a .662 in  
25 '94, and now it's .598, and that's a 10 percent change in

1 own price elasticity, and if I understand, and I think I'm  
2 starting to understand what those numbers mean, that looking  
3 at the '94 figure, a 10 percent increase in the price of  
4 --or the rate of enhanced carrier route mail would have  
5 caused a 6 percent drop in volume, whereas in R97, it's less  
6 sensitive to the point that a 10 percent increase would only  
7 result in a 6 percent drop in volume. A six-tenths of a  
8 percent difference is kind of a significant difference, I  
9 think.

10 THE WITNESS: Right. I would like to point out  
11 it's the same general order of magnitude, but I get your  
12 point -- it's a different estimate and it could have an  
13 effect.

14 In this case, I think we did make substantial  
15 revisions to the standard A equations and the specifications  
16 are different and I believe we have improved estimates now.

17 CHAIRMAN GLEIMAN: I am going to have to think a  
18 little about what constitutes the same order of magnitude  
19 because I'm sure that someone will come back a little later  
20 on and tell us which piece of the sky is going to fall, and  
21 I'll have to figure order of magnitude it's going to fall.

22 We have no further questions.

23 I'm sorry. Excuse me. I have gotten into the  
24 habit of turning to my right and not my left, and I  
25 apologize, Commissioner Haley.

1 COMMISSIONER HALEY: Just one question, Mr.  
2 Chairman.

3 Dr. Tolley, we have been discussing, of course,  
4 some of your forecasting methods and the various steps that  
5 you take. One of them that I have been concerned and others  
6 of us have been is with reference to the potential mailers  
7 and the adult population. That factor -- you talk in terms  
8 of being 22 years and older, and I, quite frankly, have been  
9 wondering how and why you selected 22 years rather than 18  
10 or 21?

11 THE WITNESS: Right. We experimented with this  
12 using different measures, and we found out that if you use  
13 the 22+, it gives you a slightly better fit to the data. So  
14 that's why we used it.

15 COMMISSIONER HALEY: Well, I'm just thinking that  
16 -- well, at 18, you know, a lot of people certainly think  
17 that they are adult at that time. I can very much recall  
18 when I was drafted at 18, I certainly felt that I was grown  
19 enough -- my father told me I was grown enough then. But I  
20 just wondered why you used the 22 years.

21 THE WITNESS: Well, as I say, we tried 18-plus, we  
22 tried the total population --

23 COMMISSIONER HALEY: Okay.

24 THE WITNESS: -- and <sup>22+</sup>~~it~~ gave a slightly better  
25 fit, ~~that's h.~~

1 COMMISSIONER HALEY: You determined that 22 was  
2 better?

3 THE WITNESS: Yes.

4 COMMISSIONER HALEY: Okay. That's all. Thank  
5 you.

6 CHAIRMAN GLEIMAN: I don't know what your father  
7 told you about whether you were an adult, but obviously,  
8 Uncle Sam was telling you you were an adult.

9 COMMISSIONER HALEY: Exactly.

10 THE WITNESS: He told me, too.

11 CHAIRMAN GLEIMAN: If there are no further  
12 questions from the bench, any follow up? No follow up?  
13 Redirect?

14 MR. KOETTING: No redirect, Mr. Chairman.

15 CHAIRMAN GLEIMAN: No redirect?

16 Dr. Tolley, we want to thank you for being here  
17 today and for helping us with our hearings and for your  
18 contributions to our record, and if there's nothing further  
19 that you want to add, you're excused.

20 [Witness excused.]

21 CHAIRMAN GLEIMAN: We'll take a slightly early  
22 lunch today and come back at quarter after one and pick up  
23 with the next witness, Mr. Alexandrovich, who can tell me  
24 how badly I've been mispronouncing his name all morning.

25 Mr. Koetting, one other thing. Earlier this

1 morning, I mentioned a motion to compel. It was Office of  
2 the Consumer Advocate with respect to OCA/USPS-71 through  
3 73, and there's a string of other interrogatories listed in  
4 that motion, also.

5 So thank you.

6 [Whereupon, at 12:02 p.m., the hearing was  
7 recessed, to reconvene at 1:15 p.m., this same day.]

1 AFTERNOON SESSION

2 [1:15 p.m.]

3 CHAIRMAN GLEIMAN: Ms. Duchek, if you're prepared  
4 to identify your next witness.

5 MS. DUCHEK: Yes, I am, Mr. Chairman. The Postal  
6 Service calls Joe Alexandrovich.  
7 Whereupon,

8 ANDREW JOSEPH ALEXANDROVICH,  
9 a witness, was called for examination by counsel for the  
10 United States Postal Service and, having been first duly  
11 sworn, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MS. DUCHEK:

14 Q Would you identify yourself for the record,  
15 please?

16 A Andrew Joseph Alexandrovich.

17 Q Mr. Alexandrovich, I'm handing you two copies of a  
18 document entitled direct testimony of Joe Alexandrovich on  
19 behalf of United States Postal Service designated as  
20 USPS-T-5.

21 Are you familiar with that document?

22 A Yes.

23 Q Was it prepared by you or under your supervision?

24 A Yes, it was.

25 Q Does it incorporate your errata filed August 18,



1 1997?

2 A Yes, it does.

3 Q If you were to testify orally today, would that  
4 still be your testimony?

5 A Yes, it would.

6 MS. DUCHEK: Mr. Chairman, I'm going to give the  
7 reporter two copies of USPS-T-5, direct testimony of Joe  
8 Alexandrovich, on behalf of United States Postal Service,  
9 and I ask that they be entered into evidence.

10 CHAIRMAN GLEIMAN: Are there any objections?

11 Hearing none, Mr. Alexandrovich's testimony and  
12 exhibits are received into evidence, and as is our practice,  
13 they'll not be transcribed.

14 [Direct Testimony and Exhibits of  
15 Joe Alexandrovich, Exhibit No.  
16 USPS-T-5 was marked for  
17 identification and received into  
18 evidence.]

19 CHAIRMAN GLEIMAN: Mr. Alexandrovich, have you had  
20 an opportunity to examine the packet of designated written  
21 cross-examination that was made available earlier today?

22 THE WITNESS: Yes.

23 CHAIRMAN GLEIMAN: If these questions were asked  
24 of you today, would your answers be the same as those you  
25 previously provided in writing?

1 THE WITNESS: Yes, they would.

2 CHAIRMAN GLEIMAN: Are there any corrections to  
3 the package?

4 MS. DUCHEK: Yes, Mr. Chairman, there are.

5 First of all, the list on the front of the package  
6 lists a designation for ~~OCA/T-5-15~~ <sup>OCA/USPS-T5-15</sup> that is not in the  
7 packet, but it is appropriate that it's not in the packet,  
8 because in fact that was redirected to Witness Nelson, and I  
9 believe answered by him.

10 CHAIRMAN GLEIMAN: We call that one a forward  
11 fumble around here.

12 MS. DUCHEK: Also, the listing on the packet  
13 contains a reference to DMA/USPS-T-29-3, 4, and 5 redirected  
14 from Witness Daniel. In fact, those were ABA interrogatory  
15 responses. They are in the packet. Witness Alexandrovich  
16 did answer those. It's just that the designation on the  
17 cover page is wrong.

18 In addition there were several items that were  
19 just pages out of order. I don't think I need to list  
20 those. We put them in the appropriate order.

21 In addition, we inserted two items. The second  
22 page of OCA/USPS-T-5-14 was missing, and we've added that to  
23 the packets. In addition, UPS/USPS-T-5-2 was designated,  
24 and the packet contained the supplemental response. We've  
25 also added the original response. We have the original as

1 well as the supplement because there are really two parts.

2 The first response, the original response said see  
3 the attachment to this response. It included everything  
4 except information for six contracts. The supplemental  
5 response said the attached lists the six contracts. And I  
6 thought the record -- we thought the record would be clearer  
7 if we included both in the packet.

8 CHAIRMAN GLEIMAN: Once again I want to thank  
9 Postal Service counsel for its assistance in sorting through  
10 the reams of paper that we've been dealing with here. If  
11 you would provide two copies of the corrected designated  
12 written cross-examination of the witness to the reporter,  
13 I'll direct that they be accepted into evidence and  
14 transcribed into the record at this point.

15 [Designation of Written  
16 Cross-Examination of Joe  
17 Alexandrovich was received into  
18 evidence and transcribed into the  
19 record.]  
20  
21  
22  
23  
24  
25

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1 .

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS JOE ALEXANDROVICH  
(USPS-T5)

The parties listed below have designated answers to interrogatories directed to witness Alexandrovich as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
American Bankers Association	<p>✓ABA, et al.\USPS: Interrogatories T29-3-4(a) and 5, redirected from witness Daniel.</p> <p>MMA\USPS: Interrogatories T5-8.</p> <p>OCA\USPS: Interrogatories T5-14.</p> <p>OCA\USPS: Interrogatories T12-61, redirected from witness Degen.</p>
American Business Press	<p>✓ABP\USPS: Interrogatories T13-7(a) and 13, redirected from witness Bradley.</p>
Direct Mail Marketing Association	<p>DMA\USPS: Interrogatories T4-27-28, 30(e) and 37, redirected from witness Moden.</p> <p>DMA\USPS: Interrogatories T5-6 and 8.</p> <p>DMA\USPS: Interrogatories T9-12, redirected from witness Tayman.</p> <p>ABA, et al.\USPS Interrogatories T29-3 and 5, redirected from witness Daniel.</p> <p>OCA\USPS: Interrogatories T5, 14 and 25.</p> <p>OCA\USPS: Interrogatories T12-61, redirected from witness Degen.</p>
Florida Gift Fruit Shippers Association	<p>FGFSA\USPS: Interrogatories T5-1 and 2.</p>
Magazine Publishers of America	<p>MPA\USPS: Interrogatories T5-2a. - b., and 3.</p>
Nashua Photo Inc., District Photo Inc. Mystic Color Lab and Seattle Filmwork, Inc.	<p>NDMS\USPS: Interrogatories T33-19, redirected from witness Sharkey.</p>
National Newspaper Association	<p>NNA\USPS: Interrogatory T4-8, redirected to witness Alexandrovich.</p>

## Newspaper Association of America

NNA\USPS: Interrogatory T34-9, redirected to witness Alexandrovich.

ABA, et al.\USPS: Interrogatory T29-5, redirected from witness Daniel.

DMA\USPS: Interrogatories T5-5-9.

DMA\USPS: Interrogatories T9-12, redirected from witness Tayman.

DMA\USPS: Interrogatory T4-29, redirected from witness Moden.

OCA\USPS: Interrogatory T5-14.

## Office of the Consumer Advocate

OCA\USPS: Interrogatories T5-1-2, 7-8, 10-16, 24-25, 33, 36(a-b & e), 37-41, T24-53(c), 56(a-c), 66(a-c & f), 67, 69(b-e), redirected from witness Lion, USPS 13-14 and 42, redirected from the Postal Service, T12-50(a)(ii),(b), 61-62 and 65, redirected from witness Degen, T22-25(b), 26(b), redirected from witness Treworgy.

ABP\USPS: Interrogatories T13-7(a), 13 redirected from witness Bradley.

✓ALA\USPS: Interrogatories USPS-2 and 6, redirected from the Postal Service. ✓

DMA\USPS: ✓Interrogatories T5-1-9, T30-5(e), redirected from witness O'Hara, T9-12, redirected from witness Tayman, T4-27-28(a), 29-30(e), 33, 35 and 37, redirected from witness Moden, T29-3-4(a), 5 redirected from witness Daniel. ABA

DFC\USPS: Interrogatories T5-1-10.

✓FGFSA\USPS: Interrogatories T5-1-2.

✓MPA\USPS: Interrogatories T5-1-3.

✓MMA\USPS: Interrogatory T5-8.

✓NDMS\USPS: Interrogatory T33-19, redirected from witness Sharkey.

✓NNA\USPS: Interrogatories T4-8, redirected from witness Moden, T34-9, redirected from witness Taufique.

UPS\USPS: Interrogatories T5-1-5, 11-14, and 21-26, T15-8(c), redirected from witness Patelunas, T33-38, 68-70, redirected from witness Sharkey.

POIR: POIR No. 1 Question 1.

POIR: POIR No. 3 Question 14.

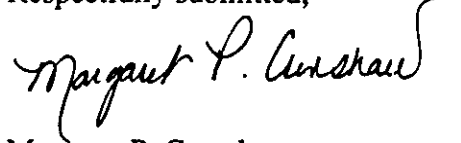
## United Parcel Service

UPS\USPS: Interrogatories T5-3-5 and 11.

MMA\USPS: Interrogatory T5-8.

OCA\USPS: Interrogatory T12-61, redirected from witness Degen.

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw". The signature is written in black ink and is positioned above the printed name.

Margaret P. Crenshaw  
Secretary

Response of United States Postal Service Witness Alexandrovich  
to Interrogatories of American Bankers Association (ABA), Edison Electric  
Institute (EEI), and National Association of Presort Mailers (NAPM)  
(Redirected from Witness Daniel, USPS-T29)

**ABA&EEI&NAPM/USPS-T29-3.**

- a. Explain the purpose(s) of the premium pay factor(s) and identify by class, subclass, and rate category, as appropriate, the factor applied.
- b. Explain the rationale for a subclass-specific premium pay factor.

**Response to ABA&EEI&NAPM/USPS-T29-3**

- a. The purpose of the premium pay factors (or the premium pay adjustment from which the premium pay factors arise) is to reflect the marginal cost difference between pref and nonpref mail as described in the testimonies of Drs. Kleindorfer, Panzar and Wells in Docket Nos. R84-1 and R87-1. The factor for each class, subclass, and rate category is provided in LR-H-77, page 235.
- b. The factors differ by subclass and category due to differences in the relative amount of night and Sunday premium pay hours incurred for both platform and non-platform work. As discussed in my responses to DMA/USPS-T4-27 and OCA/USPS-T12-61, platform night shift and Sunday premium pay is distributed to all classes (excluding special services) based on the relative volume variable direct tally costs for platform work at times of night shift and Sunday premium pay, respectively. These responses also indicate that non-platform night shift and Sunday premium pay is distributed to subclasses and categories in First-Class and Periodicals based on the relative volume variable direct

**Response of United States Postal Service Witness Alexandrovich  
to Interrogatories of American Bankers Association (ABA), Edison Electric  
Institute (EEI), and National Association of Presort Mailers (NAPM)  
(Redirected from Witness Daniel, USPS-T29)**

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tally costs for non-platform work at times of night shift and Sunday  
premium pay, respectively.



**Response of United States Postal Service Witness Alexandrovich  
to Interrogatories of American Bankers Association (ABA), Edison Electric  
Institute (EEI), and National Association of Presort Mailers (NAPM)  
(Redirected from Witness Daniel, USPS-T29)**

**ABA&EEI&NAPM/USPS-T29-4.**

- a. Explain how the pay premium factors for RR (0.9580) and ECR (0.9590) shown on USPS-T29, Appendix I at 42, were developed.
- b. Confirm that use of the pay premium factor serves to reduce the test year volume variable unit mail processing cost estimates you develop for Standard (A) mail. If you do not confirm, please explain.

**Response to ABA&EEI&NAPM/USPS-T29-4**

- a. This explanation is provided in LR-H-77, pages 235-242, and my responses to DMA/USPS-T4-27 and OCA/USPS-T12-61.
- b. Answered by witness Daniel.

**ABA&EEI&NAPM/USPS-T29-5.**

- a. You indicate that Standard (A) mail is deferrable. (USPS-T29 at 6) For the base year and test year, provide the total accrued and attributable costs by cost segment associated with deferring Standard (A) mail. Identify the source(s) for such cost figures.
- b. Explain the circumstances under which and the frequency with which Standard (A) mail is transported by the Postal Service at the same time in the same vehicle, e.g., truck, train, plane, etc.

**Response to ABA&EEI&NAPM/USPS-T29-5**

- a. The base year cost impact of Standard (A) mail deferability, as reflected in the premium pay adjustment, is described in my responses to DMA/USPS-T4-27 and OCA/USPS-T12-61 and in my workpaper A-2, pages 1-4. Since the base year costs include the premium pay adjustment, that adjustment is implicitly rolled forward into the test year. However, no detailed premium pay adjustment is performed beyond the base year.
- b. I do not understand this question, so I'm unable to answer it. However, if you are assuming that a premium pay adjustment is applied to Cost Segment 14, you are wrong.

Interrogatories of ABP  
(Redirected from Witness Bradley, USPS-T13)

**ABP/USPS-T13-7.** Your testimony on p. 9 states that, since docket R87-1, USPS has tried to direct First-Class Mail from air transportation to surface transportation when feasible.

- a. Confirm and explain why, in FY 1995, highway costs for First-Class were about 43% of the cost of domestic air; and in 1996, surface First-Class was 62% of domestic air costs for First-Class Mail.

**Response to ABP/USPS-T13-7**

- a. I confirm your arithmetic and note that you are referring to First-Class Mail excluding Priority Mail and to highway transportation costs only. A better comparison is between BY 1995 from Docket MC97-2 and BY 1996 in this case, since both use the same highway volume variabilities. First-Class highway costs in BY 1995 were 52 percent of air costs. First-Class highway costs were 62 percent of air costs in BY 1996.

The distribution of highway costs increased in BY 1996 relative to BY 1995. In BY 1996, First-Class highway costs were 25.5 percent of total volume variable highway costs. In BY 1995, First-Class highway costs were 23.6 percent of total highway costs.

A second factor is the fact that accrued highway costs grew over 7.6 percent from BY 1995 to BY 1996, while accrued air costs grew 6.6 percent.

Interrogatories of ABP  
(Redirected from Witness Bradley, USPS-T13)

**Response to ABP/USPS-T13-7 (cont.)**

Considerably less air costs were distributed to classes of mail in BY 1996 than in BY 1995. In BY 1996, 85 percent of accrued air costs were distributed; in BY 1995, 96.4 percent were distributed.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of ABP  
(Redirected from Witness Bradley, USPS-T13)**

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**ABP/USPS-T13-13.**

- a. USPS Library Reference H-3 (FY 1996 Final Adjustment Report, FY 1996) at p. 44 shows that total attributable highway costs (seg. 14.1) were \$1,223,869,000, but that there were also \$317,781,000 in non-attributable highway costs (26% of total highway costs). How does dropshipping affect the 26% of total highway costs that do not vary with volume?
- b. What, in your opinion, is the primary reason 26% of total highway costs are non-attributable, whereas air, railroad and water transportation are nearly 100% attributable? Id.

**Response to ABP/USPS-T13-13**

- a. To the extent dropshipping has caused the accrued costs in certain purchased highway transportation accounts to decline, then both the volume variable and non-volume variable costs would decline.
- b. 26 percent is 1 minus the volume variability of highway contracts, as estimated by witness Bradley. This variability differs from the variabilities for other modes because the terms of incurrence in purchased highway transportation result in these costs being less sensitive to volume changes.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of American Library Association  
(Redirected from USPS)

**ALA/USPS-2.** Please explain why the costs attributed by the Postal Service to library rate mail have increased so much in the last few years.

- a. If you contend that the Postal Service's costing systems previously understated the actual attributable costs of library mail, please identify the cause of the under attribution, quantify its significance, and produce all studies, reports, analyses, compilations, and other documents that support your response.
- b. If you contend that the all or part of the reported cost increase is due to changes in the characteristics of library rate mail, please identify the changed characteristics, quantify their cost-causing significance, and produce all studies, reports, analyses, compilations and other documents that support your response.
- c. If you contend that all or part of the reported cost increase is due to any other factor, please identify the factor, quantify its cost-causing significance, and produce all studies, reports, analyses, compilations, and other documents that support your response.

**Response to ALA/USPS-2**

I disagree with the premise that there has been an exceptional increase in the cost of library rate mail over the past few years. Between 1993 (the base year for the R94-1 case) and 1996 (the base year for the current case), total CRA costs for library rate mail have *declined* by 22.4 percent, from \$67.0 million in FY 1993 to \$52.0 million in FY 1996. On a unit basis, FY 1996 costs of \$1.7256 per piece are essentially the same as their FY 1993 level of \$1.7318 per piece. See Attachment 1.

When comparing FY 1993 with BY 1996, the reduction in costs for library rate mail is even more dramatic. Total library rate costs decline by 28.6 percent,

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of American Library Association  
(Redirected from USPS)

**Response to ALA/USPS-2 (cont.)**

from \$67.0 million to \$47.8 million, over this period. Unit costs decline a little over 8 percent, from \$1.7318 per piece in FY 1993 to \$1.5875 in BY 1996.

The slight decrease in library rate unit costs over this period was accompanied by a significant decline in average weight per piece, from 2.74 pounds in FY 1993 to 1.69 pounds in FY 1996, a drop of 38 percent. As a result, the cost per pound increased over 48 percent between FY 1993 and BY 1996. I am unaware of any study on the characteristics of library rate mail that would explain this change in average weight per piece, but my speculation is that it reflects an increasing proportion of audio and video tapes, cd-rom discs, floppy discs, and other relatively lightweight electronic media in the library rate mail mix.

Over 40 percent of library rate costs are incurred in cost segments 3, 6, 7, and 10, which are predominately driven by volume, shape, and automation compatibility. Piece weight is a relatively insignificant cost driver. Hence, the cost per piece has not decreased as the average weight per piece has declined.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of American Library Association  
(Redirected from USPS)

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**ALA/USPS-6.** Please explain why the costs attributed by the Postal Service to library rate mail have grown more rapidly since Docket No. R94-1 than the costs attributed to book rate mail. Identify all studies, analyses, reports, compilations of data, and other documents that support your response, and produce all identified documents that are not publicly available.

**Response to ALA/USPS-6**

I assume that book rate mail refers to special fourth-class rate. If this is the case, then the assertion that library rate costs have grown at a faster rate than special fourth-class rate costs is not entirely correct. Between FY 1993 and BY 1996, total costs for both library rate and special fourth-class rate have declined. Over this period, library rate costs have actually declined more rapidly than have special fourth-class rate costs. See Attachments 1 and 2.

In terms of cost per piece, special fourth-class rate declined by about 27 percent over this period, while library rate fell about 8 percent. The cost per pound for library rate did increase by more than 48 percent for library rate between FY 1993 and BY 1994, compared with a decrease of nearly 20 percent for special fourth-class rate. Although I have no knowledge of any study relating to the costs of library rate mail, my response to ALA/USPS-2 offers a possible explanation for the increase in the per pound cost for library rate mail. As the average weight of library rate pieces has declined, per pound costs have increased because over 40 percent of these costs occur in cost segments 3, 6, 7, and 10, where costs tend to be driven by piece handlings, shape, and



**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of American Library Association  
(Redirected from USPS)**

automation compatibility rather than weight. Decreases in average piece weight have little effect on unit costs and tend to drive up per pound costs.

Library Rate  
FY 1993 - 1996 and BY 1996

Attachment 1 6964  
ALA/USPS-2  
Page 1 of 1

	FY 93	FY 94	FY 95	FY 96	BY 96
Column source ==>	[a]	[a]	[a]	[a]	[b]
Costs (\$000)	66,985	57,853	55,747	51,998	47,835
Volume (000)	38,680	35,776	29,500	30,133	30,133
Weight, lbs (000)	105,892	101,478	71,633	50,971	50,971
Weight per piece (lbs)	2.7376	2.8365	2.4282	1.6915	1.6915
Cost per piece	\$1.7318	\$1.6171	\$1.8897	\$1.7256	\$1.5875
Cost per pound	\$0.6326	\$0.5701	\$0.7782	\$1.0201	\$0.9385
Cost index, total (1993 = 100)	100.00	86.37	83.22	77.63	71.41
Cost index, piece (1993 = 100)	100.00	93.38	109.12	99.64	91.67
Cost index, pound (1993 = 100)	100.00	90.12	123.03	161.27	148.36
Weight index, piece (1993 = 100)	100.00	103.61	88.70	61.79	61.79

i) FY 19xx CRA

j) USPS-T5, Exhibit 5C

Special Fourth-Class Rate  
FY 1993 - 1996 and BY 1996

Attachment 2  
ALA/USPS-6  
Page 1 of 1

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	FY 93	FY 94	FY 95	FY 96	BY 96
Column source ==>	[a]	[a]	[a]	[a]	[b]
Costs (\$000)	269,196	251,819	264,003	248,312	226,526
Volume (000)	164,763	190,867	217,761	189,793	189,793
Weight, lbs (000)	304,288	335,902	346,257	319,402	319,402
Weight per piece (lbs)	1.8468	1.7599	1.5901	1.6829	1.6829
Cost per piece	\$1.6338	\$1.3193	\$1.2124	\$1.3083	\$1.1935
Cost per pound	\$0.8847	\$0.7497	\$0.7624	\$0.7774	\$0.7092
Cost index, total (1993 = 100)	100.00	93.54	98.07	92.24	84.15
Cost index, piece (1993 = 100)	100.00	80.75	74.20	80.08	73.05
Cost index, pound (1993 = 100)	100.00	84.74	86.18	87.88	80.17
Weight index, piece (1993 = 100)	100.00	95.29	86.10	91.12	91.12

[a] FY 19xx CRA

[b] USPS-T5, Exhibit 5C

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-1.** Please refer to the personnel account "Penalty Overtime Pay" (no. 51104) from Table 1 of LR-H-1.

- a. What is meant by the term "penalty" in this account ?
- b. What types of costs are included in this account ?
- c. How do the costs included in this account differ from the costs included in the account "Overtime Pay" (no. 51103)?

**Response to DMA/USPS-T5-1**

- a. The term "penalty" in this account title refers to overtime that is worked and paid at 200 percent of the straight time hourly rate. A description of this account can be found in US Postal Service Handbook F-8, General Classification of Accounts, which is being filed as Library Reference H-237. A brief description of penalty overtime can be found in paragraph III F of the attachment to Appendix 6 of RFDESCR2.DOC found in Chapter I of Library Reference H-12.
- b. This account includes the entire salary cost (straight time and premium) attributed to overtime hours worked and payable at 200 percent of the straight time rate.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**Response to DMA/USPS-T5-1 (cont.)**

- c. Account 51103, Personnel Compensation – Overtime Pay, records the entire salary cost (straight time and premium) attributed to overtime hours worked and paid at 150 percent of the straight time salary rate. Penalty overtime costs are not included in account 51103.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-2.** Please refer to the personnel accounts "FICA Voluntary" (no. 51219), "Thrift Savings - Voluntary" (no. 51227) and "Ret Fund-FERS-Voluntary" (no. 51215) listed in Table A-1 of LR-H-1.

- a. Please describe in what sense these costs are "voluntary".
- b. Do these accounts include voluntary payments made by employees?
- c. If your response to subpart b. is "yes," please confirm that these costs are not included in the account "Full Time Salaries" (no. 51101) or "Part Time & Casual Salaries" (no. 51102).

**Response to DMA/USPS-T5-2**

- a. These accounts include US Postal Service contributions to the Federal Employees' Retirement System (FERS), the Thrift Savings Plan, and FICA for employees who were formerly covered by the Civil Service Retirement System (CSRS) and voluntarily converted to the new FERS during the open season period that ran from July 1, 1987 to December 31, 1987. They are voluntary only in the sense that the employees whose costs are included changed retirement plans of their own volition. The payments are not voluntary on the part of the Postal Service. A complete description of these accounts can be found in US Postal Service Handbook F-8, General Classification of Accounts.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**Response to DMA/USPS-T5-2 (cont.)**

- b. No.
- c. Please see my response to (b) above.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-3.** Please refer to Table A-1, page A-2, of LR-H-1. Please explain the difference in costs included between the personnel accounts "Performance Award - PCES" (no. 51111) and "Merit Bonus Payments - EAS" (no. 51112) listed in that Table.

**Response to DMA/USPS-T5-3**

Account number 51111, Performance Award – PCES, records one-time, lump sum cash performance awards paid to Postal Career Executive Service (PCES) employees. Account number 51112, Merit Bonus Payments – EAS, records one-time, lump sum cash merit bonus payments made to Executive and Administrative Schedule (EAS) employees. A complete description of these accounts can be found in US Postal Service Handbook F-8, General

Classification of Accounts. A description of the PCES and EAS salary schedules can be found in paragraphs II E and F of the attachment to Appendix 6 of RFDESCR2.DOC found in Chapter I of Library Reference H-12.



Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-4.** Please refer to Table A-1, page A-2, of LR-H-1. According to that Table, the Clerks subaccount within Cost Segment 3 receives over \$105 million of the cost of the USPS/DOL rehabilitation program.

- a. Please confirm that these costs represent .77% of the total accrued cost for Clerks.
- b. Please confirm that for practically every other cost segment/component, the rehabilitation program represents less than .45% of total accrued cost. Please confirm also that the USPS/DOL rehabilitation program represents an average of .41% of the accrued costs for all cost segments.
- c. Please describe the forms of rehabilitation and the types of costs included within this account.
- d. Please explain the reasons that the accrued costs for this account for Clerks are significantly higher than for other crafts.

**Response to DMA/USPS-T5-4**

- a. Confirmed.
- b. Confirmed.
- c. Account Number 51108, Postal Service/Department of Labor (DOL) Rehabilitation Program, records the entire salary costs for employees who are rehired under the joint Postal Service/DOL Rehabilitation Program. These employees are unable to perform the duties of their regularly assigned positions due to on-the-job injuries, but are able to perform adequately in specially designed positions tailored for their specific medical limitations.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**Response to DMA/USPS-T5-4 (cont.)**

- d. The costs for this account are proportionally higher for Clerks than for other subaccounts because the Clerk craft covers most of the jobs that can be tailored to meet employees' specific medical limitations.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-5.** Please refer to Table A-1 of LR-H-1 which lists several personnel accounts apparently relating to travel expenses, including "Advance Round Trip" (no. 51214), "Non-Training Travel" (no. 51401), "Non-Training Travel - Det Assign" (51403), "Personnel Travel - Foreign" (no. 51404), "Travel - Inter. Postal Congress" (no. 51405), "Travel - Board of Governors" (no. 56316), "Training Travel - Outside" (no. 51411), and "Training Travel - USPS" (no. 51413). Please describe the various types of costs that are included in these accounts. For example, do these accounts only include actual transportation expenses (e.g., plane tickets, rental car costs) or do they include as well the costs of an employee's time (i.e., wages)?

**Response to DMA/USPS-T5-5**

The travel accounts listed contain allowable travel expenses while employees are away from their permanent duty station, such as airline tickets, car rental, hotel accommodations, taxi fares, and per diem costs. They do not contain expenses for employees' wages or salaries. A complete description of these accounts can be found in US Postal Service Handbook F-8, General Classification of Accounts.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-6.** Please refer to Table A-1 of LR-H-1.

- a. Do part-time and casual employees receive employment benefits in addition to salaries?
- b. If the response to sub-part a. is "yes," please describe the types and costs of the particular employment benefits received by these employees.

**Response to DMA/USPS-T5-6**

- a. The US Postal Service's part time workforce is made up of part time career, transitional, and casual employees. Please see paragraphs III B through D of the attachment to Appendix 6 of RFDESCR2.DOC found in Chapter I of Library Reference H-12 for a complete description of these categories. Benefit packages for the part time career and casual workforce vary by employee category.
- b. The table below identifies types of benefits received by each part time career and casual employee category. Please refer to the attachment to Appendix 6 of RFDESCR2.DOC found in Chapter I of Library Reference H-12 for a complete description of the benefits listed.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**Response to DMA/USPS-T5-6 (cont.)**

Employee Benefit	Part Time-Career	Transitional Employees	Casuals
Leave	Yes	Yes <u>1/</u>	No
Health Benefits	Yes	No	No
Life Insurance	Yes	No	No
Retirement	Yes	No	No
Thrift Savings Plan	Yes	No	No
Social Security	Yes	Yes	Yes
Medicare	Yes	Yes	Yes
Uniform Allowance	Yes	No	No

1/ Reduced level of annual leave only. Sick leave is not provided.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-7.** Please refer to Table A-1 of LR-H-1.

- a. Please identify and produce the manuals or other documents that describe the types of costs included within the personnel accounts listed in Table A-1.
- b. Please list all other personnel accounts not listed in Table A-1 and identify and produce the manuals or other documents that provide a description of the types of costs included within those personnel accounts.
- c. If there are no manuals or other documents that describe the types of costs included within the personnel accounts referred to in subparts a. and b., please provide a description of the costs included within these accounts.

**Response to DMA/USPS-T5-7**

- a. A description of the types of costs included within the personnel accounts listed in Table A-1 can be found in the attachment to Appendix 6 of RFDESCR2.DOC found in Chapter I of Library Reference H-12 and in US Postal Service Handbook F-8, General Classification of Accounts.
- b. All personnel accounts are listed in Table A-1.
- c. Please see my response to a. above.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

**DMA/USPS-T5-8.** Please refer to your response to DMA/USPS-T4-30 in which you confirm that "the deferability of nonpref mail lowers peak load costs." Please describe and provide all data detailing the extent of peak load costs which are reduced due to the deferability of (i) nonpref mail, in general and (ii) Standard A mail, in particular.

**Response to DMA/USPS-T5-8**

The data detailing the extent of peak load costs which are reduced due to the deferability of nonpreferential mail, in general, and Standard A mail, in particular, are provided in my Workpaper A-2, pages 1-4 and in my Workpaper B-3, Worksheet 3.0.13. A description is provided in my responses to DMA/USPS-T4-27, DMA/USPS-T4-37 and OCA/USPS-T12-61.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA

6978

**DMA/USPS-T5-9.** Please refer to your responses to DMA/USPS-T4-28 and DMA/USPS-T4-33. Please confirm that the Postal Service has not conducted any studies since the R87-1 filing analyzing mail processing marginal cost differences between pref and nonpref mail. If not confirmed, please explain fully.

**Response to DMA/USPS-T5-9**

Not confirmed. The Postal Service has done work on the mail processing marginal cost differences between pref and nonpref mail since R87-1 as reflected in the Docket No. R90-1 testimony of witness Smith, USPS-T-8. Work in this area also is detailed in the papers by Postal Service consultants and staff listed in my response to DMA/USPS-T4-28a.



Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA  
(Redirected from Witness O'Hara, USPS-T30)

DMA/USPS-T30-5. Assuming that the information identified in response to DMA interrogatory DMA/USPS-T30-4(d) indicates that at least some Standard (A) Regular and ECR mail is not delivered in accordance with service standards,

- e. Please elaborate upon the Postal Service's "Compliance Statement" (Attachment G to its Request in this case) by providing the specific references to the testimony of the USPS witnesses Alexandrovich, Patelunas, Degen, and Bradley, wherein they address the cost consequences of peaking patterns. See Compliance Statement, Rule 54(h)(4),(12), para. numbered 1.

Response to DMA/USPS-T30-5(e)

In the Base Year, the cost consequences of peaking patterns are addressed through the premium pay calculations found at USPS-T5 Workpaper A-1, pages 123 - 126.1, USPS-T5 Workpaper A-2, pages 1 - 4.1, and USPS-T5 Workpaper B, Cost Segment 3, Worksheet 3.0.13.

Witness Patelunas' testimony reflects the cost consequences of peaking patterns in the interim and test years by using the base year costs as inputs to the roll forward model.

Witnesses Degen and Bradley do not specifically reference peaking patterns in their respective testimonies. However, their work in developing MODS-based volume variable costs affects the magnitude and distribution of costs associated with peak load.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DMA  
(Redirected from Witness Tayman, USPS-T9)

6980

**DMA/USPS-T9-12. Please refer to LR-H-1 and Table 4 to USPS-T-12.**

- (a) Please confirm that 76.3 percent of Supervisors and Technicians mail processing costs (C/S 2.1) and Clerks and Mailhandlers mail processing direct labor costs (C/S 3.1) are volume-variable in BY 1996.
- (b) Please confirm that, in general, Supervisors and Technicians mail processing costs (C/S 2.1) are volume variable to the same extent that Clerks and Mailhandlers mail processing direct labor costs (C/S 3.1) are volume variable.

**Response to DMA/USPS-T9-12**

(a) Confirmed

(b) In BY 1996, it is confirmed that Supervisors and Technicians mail processing costs (C/S 2.1) are volume variable to the same extent that Clerks and Mailhandlers mail processing direct labor costs (C/S 3.1) are volume variable.

DMA/USPS-T4-27. Please describe the peak load cost adjustment in Cost Segment 3 and explain which mail categories and classes are affected by this adjustment. If the affected mail categories include "pref [preferential] mail" and "nonpref [nonpreferential] mail," please describe those terms and which mail classes are included in these categories.

Response:

The peak load cost adjustment or the premium pay adjustment is done for night shift differential and Sunday premium pay for non-BMC mail processing labor costs. As shown in Workpaper A-2 of my testimony, pages 1-4.1, the volume variable night shift differential and Sunday premium pay at non-BMCs are deducted from all classes (excluding special services) and redistributed in the following way. Nonplatform volume variable night shift differential and Sunday premium pay are distributed to "pref mail," or First- Class and Periodicals, in proportion to the non-platform, non-BMC volume variable costs with night shift differential and Sunday premium pay, respectively, for each subclass and category. Platform volume variable night shift differential and Sunday premium pay are distributed to all classes in proportion to platform, non-BMC volume variable costs with night shift differential and Sunday premium pay, respectively, for each subclass and category. See also USPS-T-5 Workpaper A-1, pages 123-126.1, USPS -T-5 Workpaper B-3, Worksheet 3.0.13 and LR-H-146, pages V-13 to V-19. This reduces the night shift differential and Sunday premium pay distributed to "nonpref mail" which is Standard Mail (originally third-class and fourth-class).

DMA/USPS-T4-27, Page 2 of 2

The logic of this adjustment and the general methodology employed is the same as done previously since Docket No. R87-1. As indicated in my response to DMA/USPS-T4-37, the calculations have been modified to be consistent with the testimonies of witnesses Bradley, USPS-T-14, and Degen, USPS-T-12.

DMA/USPS-T4-28. Please identify, describe and produce all studies or reports conducted since 1988 by the USPS concerning:

- a. the general nature and quantification of mail processing peak load and premium pay costs and the attribution of such costs to mail classes, including:
  - i) whether specific amounts of premium pay costs can be causally related to particular classes of mail.
  - ii) whether specific amounts of overtime costs are causally related to particular classes of mail.
  - iii) whether mail processing capacity is less or greater than demand at particular time intervals, both for total demand and pref mail demand.
- b. the flexibility of mail processing labor capacity, including the use and flexibility of both regular and supplemental staff (including Part Time Flexible employees) and limitations on labor flexibility such as advance notice requirements, restrictions on the use of supplemental labor and limits on overtime (whether due to collective bargaining agreements or otherwise).
- c. mail deferral patterns, including the frequency, length and extent of mail deferral by class and the reasons for such deferral.
- d. mail arrival patterns, including fluctuations in arriving mail volumes by sub-class, by hour, Tour, day, week and AP.
- e. the relationship between mail arrival rates, peak processing requirements and staffing patterns (including staff levels and composition).
- f. the relative productivities of manual, mechanized and automated processing and how such productivity varies with fluctuating mail volumes.

Response:

- a. The Postal Service has no reports or studies on these issues. However, work in this area has been reported in the following papers by staff and contractors of the Postal Service:

Crew, Michael A., Paul R. Kleindorfer, and Marc A. Smith. "Peak-Load Pricing in Postal Services." *Economic Journal* (September, 1990): 793-807.

Crew, Michael A., and Paul R. Kleindorfer. *The Economics of Postal Service*. Boston: Kluwer Academic Publishers, 1992, pp. 35-91.

Crew, Michael A., Paul R. Kleindorfer, and Marc A. Smith. "Peak Loads and Postal Services: Some Implications of Multi-Stage Production" In *Managing Change in the Postal and Delivery Industries*. Boston: Kluwer Academic Publishers, 1997, pp. 42-64.

DMA/USPS-T4-29. Please explain whether the Postal Service is satisfied that the current peak load cost adjustment methodology is an accurate measure of the mail processing cost differential between pref and nonpref mail.

Response:

The Postal Service is unaware of any reason why the logic of the premium pay adjustment, which has been applied since Docket No. R84-1, is no longer valid.

Thus, the Postal Service is satisfied that the peak load cost adjustment (or premium pay adjustment) is appropriate.

DMA/USPS-T4-30. Please respond to the following by providing separate answers for (1) nonpref mail in general and (2) Standard (A) in particular:

- a. Please describe the Postal Service's current service standards including when such standards require this mail to be processed.
- b. Please identify, describe, and produce any reports or studies concerning the overall service performance of nonpref mail including the percentage of nonpref mail that meets its service standards and the number of days by which various classes within nonpref mail are delayed beyond their service standards.
- c. Please describe the consequences when nonpref mail does not meet its service standards.
- d. Please confirm that service standards do not require that USPS process nonpref mail during premium pay hours. If not confirmed, please explain fully.
- e. Please confirm that the deferability of nonpref mail lowers peak load costs. If not confirmed, please explain fully.
- f. Please provide a profile of mail processing of nonpref mail by hour, Tour, day, week and AP.
- g. Please explain whether nonpref is routinely deferred to level workloads, including the degree to which it is deferred beyond the peak period in which First Class mail must be processed to meet its service standards.
- h. Please describe, identify, and produce all studies and reports analyzing the extent to which nonpref mail processed during premium pay periods reflects processing voluntarily deferred to those periods.
- i. Please describe, identify, and produce all studies and reports analyzing the extent to which nonpref mail is not responsible for mail processing overtime costs and premium costs related to non-processing functions (such as delivery unit costs).

Response:

a.-d., f.-i. Answered by witness Moden.

e. Confirmed for both nonpref mail in general and Standard A in particular.

DMA/USPS-T4-33. Please describe the marginal cost differential between processing pref mail and nonpref mail. Please explain whether the service standard differences between pref and nonpref mail (including the facts that pref mail must be processed during premium pay periods and that nonpref mail is deferrable) cause marginal costs for pref mail to be higher than for nonpref mail. If you cannot confirm, please explain fully.

Response:

This is discussed in the testimonies of Drs. Kleindorfer, Panzar and Wells in Docket Nos. R84-1 and R87-1.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ALEXANDROVICH  
TO INTERROGATORIES OF DMA  
REDIRECTED FROM WITNESS MODEN

6987

DMA/USPS-T4-35. Please describe, identify and produce any studies or reports conducted by the USPS concerning the causation of premium pay costs outside of mail processing functions (including, but not limited to, delivery units).

Response:

It is my understanding that the Postal Service does not have such studies.

DMA/USPS-T4-37. Please explain any changes in the Postal Service's proposed cost methodology concerning the mail processing peak load adjustment in R97-1 as compared to the Commission's R94-1 methodology. Please confirm that the base year peak load adjustment conforming to the Commission's R94-1 methodology is reflected in Attachment 1 to the Presiding Officer's Ruling No. R97-1/7.

Response:

It is my understanding that the mail processing premium pay adjustment (or peak load adjustment) used in the FY1996 CRA is the same as that used by the Postal Rate Commission and the Postal Service in previous years. Changes were made to the mail processing premium pay adjustment for the base year as compared to the FY 1996 CRA.

There are two changes which have been made in the premium pay adjustment which stem from the work of witnesses Bradley, USPS-T-14 and Degen, USPS-T-12. The first change is in the calculation of the volume variable premium pay. The variabilities of witness Bradley are incorporated in line 6 of W/S 3.0.13 of my workpaper B-3, based on LR-H-146, pages V-14 and V-17. The second change is in the calculation of the distribution keys for distributing the night shift and Sunday premiums. These distribution keys (which are my Workpaper A-1, Manual Input Requirements, components 544, 659, 660, 655) are the sum of variable costs by cost pool associated with night shift and Sunday pay premiums as developed in part V of LR-H-146.

I am not familiar with Attachment 1 to Presiding Officers' Ruling No. R97-1/7.

However, to the extent that the Commission seems to believe that Attachment 1 reflects its peak load adjustment, then I have no reason to disagree.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of Douglas F. Carlson

6990

**DFC/USPS-T5-1.** Please refer to Exhibit USPS-5C at 15. Please explain why the revenue per piece for single-piece cards, 20.5 cents, is higher than the rate, 20 cents.

**Response to DFC/USPS-T5-1**

It is my understanding that overpaid postage is the primary reason that the revenue per piece is higher than the rate for single-piece cards.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of Douglas F. Carlson

6991

**DFC/USPS-T5-2.**

a. Please provide the Base Year 1996 per-piece revenue and per-piece volume-variable costs for stamped cards. Please specify whether these costs include the manufacturing costs of the cards.

b. If the information requested in part (a) is not available for Base Year 1996, please provide the information for the most-recent period for which it is available.

c. If the information requested in part (a) is not available for Base Year 1996, please explain all reasons why the Postal Service stopped collecting data for stamped cards separately from all single-piece cards. In addition, provide all documents that direct or explain this change in reporting. (Please note my definition of "documents," which is provided in my interrogatories to witness Fronk (DFC/USPS-T32-1-7).)

**Response to DFC/USPS-T5-2**

- a. In the Base Year 1996, the costs for stamped cards and private postcards were combined into one category as 'single-piece cards.' Costs were not developed individually for either of these two categories, and therefore cannot be provided for stamped cards only. Base Year revenues were not affected by this change.
- b. The FY 1996 CRA is the most recent period in which stamped cards and private postcards are costed separately. The Postal Service's FY 1996 CRA was filed with the Commission on July 9, 1997 pursuant to the periodic reporting requirements. The relevant page of that report is Attachment I to this response.
- c. The Postal Service combined the collection of cost data for private postcards and stamped cards in the July 1, 1997 release of data

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of Douglas F. Carlson

6992

**Response to DFC/USPS-T5-2 (continued)**

collection guidelines for IOCS, TRACS, and CCS, which has been filed as LR-H-13, *Statistical Programs Guidelines, Special Classification Reform*.

It is my understanding that this change was made primarily for two reasons:

- (1) it was difficult for data collectors to distinguish between the two types of cards, and
- (2) the new treatment is consistent with the treatment of stamped envelopes.

The difficulty in properly distinguishing between the types of cards was the result of two factors. First, in terms of appearance, both types have similar shape and weight, and second, in terms of classification, both types are nonpresorted First Class Mail. The move towards a more consistent treatment with Stamped Envelopes was presented in Docket No. MC96-3.

In addition to LR-H-13, two additional documents directing and explaining this change are included with this response as Attachments 1 and 2.

**COST AND REVENUE ANALYSIS - STATISTICS BY CLASS OF MAIL**  
**FIRST-CLASS MAIL, PRIORITY MAIL, EXPRESS MAIL, AND MAILGRAMS**  
 Fiscal Year 1996

Category	REVENUE AND COST RELATIONSHIP									
	First Class					Total				
	Letters & Sealed Parcels (including flats & IPPs)		Cards		Private	First-Class Mail		Priority Mail		Express Mail Mailgrams
	Single	Presort	Postal	Single		Presort	Mail	Mail	Express	
Per piece (cents):	39.1	27.7	20.1	20.6	16.9	33.7	354.4	1,279.8	38.0	
Revenue.....	26.1	10.6	7.6	16.7	7.4	19.3	175.0	683.1	6.2	
Attributable cost.....	13.0	17.1	12.5	1.9	9.5	14.4	179.4	396.7	31.8	
Revenue less attributable cost.....										
Per pound (cents):	869.5	698.3	3,218.6	3,248.8	2,159.1	823.9	212.5	1,156.2	N/A	
Revenue.....	579.5	266.8	1,217.4	2,950.5	944.8	470.7	105.0	797.9	N/A	
Attributable cost.....	290.0	431.5	2,001.2	298.3	1,214.3	353.2	107.5	358.3	N/A	
Revenue less attributable cost.....										
<b>VOLUME STATISTICS</b>										
Places (thousands).....	64,150,759	38,057,193	454,006	2,598,099	1,956,017	98,216,074	937,273	67,573	4,204	
Weight per piece (ounces).....	0.7	0.6	0.1	0.1	0.1	0.7	26.7	17.7	N/A	
Weight per cubic foot (pounds).....	N/A	N/A	N/A	N/A	N/A	13.9	12.6	7.1	N/A	
Weight in pounds (thousands).....	2,437,451	1,547,383	2,838	16,493	15,353	4,019,518	1,562,801	63,727	N/A	
Cubic feet (thousands).....	N/A	N/A	N/A	N/A	N/A	288,227	123,620	9,001	N/A	



January 18, 1996

DAN FOUCHEAUX AND ASHLEY LYONS

SUBJECT: In-Office Cost System (IOCS) Enhancements

Attached are the In-Office Cost System (IOCS) FY 97 enhancements that my staff has discussed over the past few months with you or members of your staff. The most significant change is combining postal cards with private cards, which means that postal cards will no longer appear as a line item in the CRA.

I am also attaching the changes that we made for PQIII, FY 96, for your information.

Please review and let me know if there are any concerns with the proposed changes.

A handwritten signature in black ink, appearing to read "Frank Heselton", written in a cursive style.

Frank Heselton

cc: John A. Reynolds  
Karen Meehan

Attachments



**FISCAL YEAR 1997 IOCS SYSTEM IMPROVEMENTS**

1/12/96

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**QUICK FIXES THAT COULDN'T BE DONE QUICKLY**

1. Q23C, MARKINGS/ENDORSEMENTS,

ADD NEW ITEMS: BOUND PRINTED MATTER, SPECIAL  
FOURTH-CLASS RATE, BARCODED, ADDRESS CORRECTION REQUESTED,  
FORWARDING AND RETURN POSTAGE GUARANTEED, FORWARDING AND  
ADDRESS CORRECTION REQUESTED, DO NOT FORWARD, DO NOT RETURN,  
LIBRARY RATE.

RATIONALE: THESE ARE ENDORSEMENTS THAT ARE  
CURRENTLY MISSING FROM THE LIST

2. Q23D, SUPPLEMENTAL SERVICES

ADD: MERCHANDISE RETURN

RATIONALE: THIS SERVICE IS CURRENTLY MISSING FROM  
THE LIST.

3. IN Q18A, ADD A MODS LOOK-UP FILE

RATIONALE: CHECKS FOR INCORRECTLY ENTERED MODS CODES

4. IN Q16A, ADD A MODS LOOK-UP FILE

RATIONALE: CHECKS FOR INCORRECTLY ENTERED MODS CODES

5. IF Q15C (1), ADD A MODS LOOK-UP FILE

RATIONALE: CHECKS FOR INCORRECTLY ENTERED MODS CODES

## LONG TERM FIXES

1. Q21,

IF Q21 = C (HANDLING CONTAINER) THEN ADD QUESTION, "WHAT OPERATION IS THE CONTAINER GOING TO?" THE OPTIONS ARE Q19 RESPONSES, MODS CODES, "NOWHERE" OR "OTHER"

RATIONALE: THIS INFORMATION IS NEEDED FOR BETTER COST ALLOCATION.

2. Q22, SHAPE,

- COMBINE POSTAL CARDS (B), PRIVATE MAILING CARDS (C) AND OTHER AGENCY CARDS (E) INTO A SINGLE CATEGORY - CARDS. [IF Q22=B OR C OR E, THEN Q22 = CARD]

- RATIONALE: WE NO LONGER HAVE A NEED TO IDENTIFY POSTAL CARDS SEPARATELY.

3. Q22, SHAPE,

IF SHAPE = USPS FORM (D) THEN DELETE SCREEN WORDING "PENALTY INDICIA" AND ADD A LIST OF FORMS TO CHECK: 3811 UNATTACHED, 3811-A UNATTACHED, 3547, 3579, (SPLIT 3547/3579), 3575, 3804, 3806, 3849, 3849-D & 'OTHER' FORM, THEN SKIP TO Q23D. ADD INSTRUCTION SAYING "ONLY SELECT ONE OF THESE IF THE FORM IS NOT ATTACHED TO THE MAILPIECE."

RATIONALE: THIS SIMPLIFIES AND STREAMLINES BOTH Q22 AND Q23D.

4. Q22 SHAPE,

IF SHAPE = KEYS AND ID ITEMS (L), THEN SKIP TO Q26

RATIONALE: THIS REDUCES THE WORK FOR THE DCT.

5. IN Q23B, CLASS

IF CLASS IS EXPRESS, TAKE OUT POP-UP SCREEN THAT ASKS METHOD OF PAYMENT AND TAKE CARE OF THAT INFORMATION IN Q23C, MARKINGS.

RATIONALE: THIS REDUCES THE NUMBER OF KEYSTROKES AND SCREENS THE DCT HAS TO USE.

6. IN Q23C, MARKINGS,

PUT LITERAL MARKINGS IN QUOTES, FOR CHOICES A,B,C,D,E,F,H,K,L,M,N, O,P,Q, (ALL BUT G,I,J,R,S,T)

RATIONALE: THIS ADDS CLARITY

7. Q23D, SUPPLEMENTAL SERVICES,

DELETE OPTIONS 3811 (A), 3811-A (B), FORM 3547/3579 (C), AND 3575 (G).

**RATIONALE:** THIS MAKES MORE LOGICAL SENSE THAN THE CURRENT CHOICES IN Q23D, GIVEN THE CHANGES TO Q22.

### **TOPICS FOR TRAINING**

1. EXPLAIN INDICIA, KEYS, POSTAL CARDS, THIRD-CLASS OUNCE RATE AND PERMIT IMPRINT.
2. EXPLAIN THAT NONPROFIT AND BULK ARE ASSOCIATED WITH THIRD-CLASS, NOT FIRST-CLASS, AND THAT THESE WORDS MUST APPEAR ON THE PIECE IN ORDER TO BE MARKED.
3. REINFORCE THE FACT THAT Q23 ASKS ONLY FOR WHAT IS MARKED ON THE PIECE, NOT A JUDGMENT OF THE DATA COLLECTOR. (E.G. BULK RATE, NONPROFIT, ZIP+4, ZIP+4 BARCODED)
4. EXPLAIN THE DIFFERENCE BETWEEN Q23C AND Q23D - Q23C ASKS ABOUT THE MARKING ON THE PIECE. Q23D ASKS ABOUT THE SERVICE BEING PROVIDED, REGARDLESS OF THE MARKING ON THE PIECE.
5. EXPLAIN WHAT A DETACHED ADDRESS CARD IS AND HOW IT IS USED.
6. CLARIFY THE FACT THAT A MARKING CAN BE FOUND ANYWHERE ON THE PIECE, INCLUDING IN THE INDICIA (E.G. BULK AND NONPROFIT)
7. EXPLAIN HOW TO IDENTIFY AND CODE A USPS FORM THAT IS ALSO A BUSINESS REPLY PIECE.
8. EXPLAIN WHAT SPECIAL HANDLING AND SPECIAL DELIVERY IS.

### **CHANGES TO HANDBOOK**

1. IF WE CONSOLIDATE THE "CARDS" SHAPE IN QUESTION 22, EXPLAIN THE NEW CATEGORY.
2. ADD ALL THE ENDORSEMENTS AND EXPLAIN THEM.
3. UPDATE THE DEFINITION OF COMPUTERIZED POSTAGE IN Q23A AS WELL AS THE EXAMPLES OF IT IN THE F-46 HANDBOOK.
4. REVISE THE INSTRUCTION ON PAGE 109, K. "MAILGRAM"
5. ON PAGE 115, "INSTRUCTIONS FOR ADDRESS CORRECTION ON PIECE," THE SECOND PARAGRAPH NEED TO BE CHANGED TO READ: ADDRESS

CORRECTION IS PROVIDED WITHOUT CHARGE ONLY TO ON-PIECE  
CORRECTION AND OTHERWISE THERE IS A CHARGE.

6. Q23A, INDICIA, WE NEED TO CHANGE THE WORDING OF CHOICE H  
'POSTAL SERVICE' BECAUSE ITS DEFINITION OVERLAPS WITH CHOICE B,  
OFFICIAL STAMPS. WE ALSO NEED TO ADD A LINE DESCRIBING EXPRESS  
MAIL CORPORATE ACCOUNT.

7. IN Q23B, CLASS, WE NEED TO UPDATE THE F-45 TO SHOW THIRD CLASS  
NONPROFIT, THIRD-CLASS SINGLE PIECE, AND BSPS IS NO LONGER  
AVAILABLE.

**IN-OFFICE COST SYSTEM (IOCS)****I. DATA ENTRY (VERSION 7.0)****A. Screen 22 (SHAPE - SINGLE PIECE)**

1. Former options "B. Postal Card," "C. Private Mailing Card," and "E. Other Agency Card" have been combined into a single option, "B. Card." The remaining options on the screen have been renumbered (see *Classification Reform Guidelines*, p. 80).
2. Former option "D. USPS Form (Penalty Indicia)" is now "C. USPS Form." When it is selected and <Enter> is pressed, a new "USPS FORM" window pops up (see *Classification Reform Guidelines*, p. 83) that requires one of the following options to be selected:
  - a. Form 3811 Unattached
  - b. Form 3811-A Unattached
  - c. Form 3547
  - d. Form 3575
  - e. Form 3804
  - f. Form 3806
  - g. Form 3849
  - h. Form 3849-D
  - i. Other

If "i. Other" is selected, a descriptive remark is required. When any of the above selections is made, the program will skip to the "ADDITIONAL SERVICES" screen, then to the origin/destination section, and then to the "BASIC FUNCTION" screen.

3. If option "J. Keys and Identification Items" is chosen, the program will skip to the "BASIC FUNCTION" screen.
4. The questions "Automation Compatible?", "Is It Barcoded?", "Print Type," and "Bar Code Location" have been replaced with one question designed to determine whether the mailpiece has an automation rate barcode (see *Classification Reform Guidelines*, p. 84). There is no longer any need for a template to determine automation compatibility.
5. The help text that is displayed by pressing <F1> while on Screen 22 has been updated to reflect the screen changes.

**B. Screen 23A (TYPE OF POSTAGE OR INDICIA)**

Option "S" has been changed from "Express Mail Corporate Account" to "Express Mail Corp./Fed./USPS Acct." Select this option for an Express Mail piece that bears an account number of any kind.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of Douglas F. Carlson**

7001

**DFC/USPS-T5-3.** Please refer to your testimony at page 6, lines 18-21, and page 7, lines 1-3.

a. Please explain all reasons why the "distinction between Postal Cards and Private Postcards" was eliminated in the base year. In addition, provide all documents that direct or explain this change. (Please note my definition of "documents," which is provided in my interrogatories to witness Fronk (DFC/USPS-T32-1-7).)

b. Please identify, define, and explain the purpose of all data-collection systems that were "modified to combine these categories into a single line item designated as Single Piece Cards."

c. Please identify, define, and explain the purpose of all data-collection systems that were not "modified to combine these categories into a single line item designated as Single Piece Cards."

d. Please provide all examples in the past five years of a distinction between the costs for two types of mail or services having been eliminated even though the two types of mail or services had significantly different cost characteristics.

**Response to DFC/USPS-T5-3**

- a. See response to 2(c) above.
- b. The three cost systems, IOCS, TRACS, and CCS, were modified to combine stamped and private postcards as single-piece cards. See USPS LR-H-13, Statistical Programs Guidelines, Special Classification Reform, pages 31, 46, 79 and 80. IOCS collects data on in-office costs for clerks, mailhandlers, and supervisors, as well as the in-office costs for city carriers and special delivery messengers. TRACS collects transportation cost data. CCS collects cost data on city and rural carriers.
- c. All cost systems were modified to reflect this change. The Revenue, Pieces and Weight (RPW) data collection system was not changed.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of Douglas F. Carlson**

**Response to DFC/USPS-T5-3 (continued)**

- d. I am unaware of any other changes besides the change to Single-Piece Cards.



Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC

7003

**DFC/USPS-T5-4.** Please confirm that the attributable cost for postal cards in Attachment 1 to Response to DFC/USPS-T5-2(b) includes the manufacturing costs. If you do not confirm, please explain.

**Response to DFC/USPS-T5-4**

Confirmed.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC**

7004

**DFC/USPS-T5-5.**

- a. Please describe the training process (including number of hours of training) for IOCS data collectors.
- b. Please confirm that the Postal Service currently offers for sale seven different designs of 20-cent stamped cards. If you do not confirm, please explain.
- c. Please explain why IOCS data collectors are not or cannot be trained sufficiently well to allow them to recognize a stamped card.
- d. Please provide all documents discussing or otherwise relating to the difficulty that IOCS data collectors have experienced differentiating between stamped cards and private post cards.
- e. Please explain and provide all documents relating to the Postal Service's attempts to improve the ability of IOCS data collectors to differentiate between stamped cards and private post cards.
- f. Please identify all points in the mail-processing system in which IOCS data collectors would have been required, under the old procedures, to differentiate between stamped cards and private post cards.
- g. Please explain why a stamped card, with its colorful postage indicia, would be difficult to differentiate from a private post card for which postage had been paid by meter imprint or permit imprint.
- h. Please provide an example of a 20-cent postage stamp that is as large as the postage indicia on a 20-cent stamped card that is currently offered for sale.

**Response to DFC/USPS-T5-5**

- a. The formal training consists of the Statistical Programs IOCS course. Other training consists of Postal Satellite Television Network (PSTN) sessions, on-the-job (OJT) training sessions, and sessions designed and/or delivered by the statistical programs coordinators. All statistical programs data collectors, including IOCS data collectors, are required to receive one day of training per

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC**

7005

**Response to DFC/USPS-T5-5 continued:**

quarter. At the discretion of local offices, data collectors may receive more than the required minimum.

b. Not confirmed. The Fall 1997 issue of *USA Philatelic: The Official Source for Stamp Enthusiasts* features eight types of postal cards. In addition, collectors can purchase a 20-cent Official Mail card, although their use by the general public is prohibited. See Attachment 1.

c. Prior to the change in data collection procedures implemented on July 1, 1996, IOCS Question 22 required data collectors encountering a postcard to choose among one of three categories: postal card, private mailing card, or other agency card. In contrast, only one selection exists for a letter- or flat-sized mailpiece. Given the obvious similarities among the three types of cards, some coding errors were inevitable. In light of the fact that the Postal Service planned to make the treatment of postal cards consistent with that of stamped envelopes, the distinction between the types of cards became irrelevant.

d. The Postal Service has been unable to locate any such documents. It is my understanding that the possibility of misidentification of stamped cards and private post cards was based more on deductive reasoning, given the multiple choices facing the data collector, than on any studies or analyses.

e. The Postal Service has been unable to locate any such documents.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC**

7006

**Response to DFC/USPS-T5-5 continued:**

- f. IOCS data collectors have the opportunity to sample mail at any point in the mail processing system, as well as in city delivery carrier in-office functions.
- g. See (c) above. Additionally, although stamped card postage indicia may be colorful, the indicia is printed directly on the card. Likewise, postage applied by meter imprint or permit imprint is also printed directly on the card. Examples, such as the one you suggest in which no postage stamp is used on the card, further expose the problem of identifying the distinctions between the former postal cards and private cards.
- h. I am unaware of any 20-cent postage stamp that has dimensions identical to the postage indicia on a 20-cent stamped card.

# DUCK STAMPS

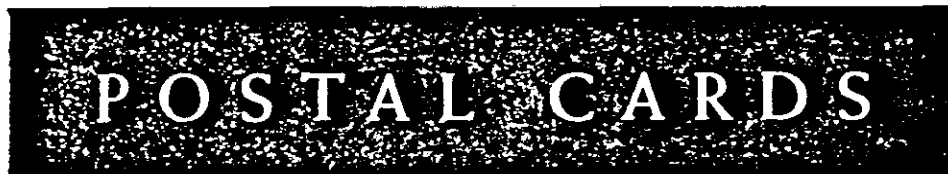


A

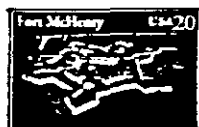
B

C

NOTE: Migratory Bird Hunting and Conservation Stamps (commonly known as Duck Stamps) are issued by the United States Department of the Interior. They are sold as bird hunting permits and are not usable for postage. All Duck Stamps are shown at 65%.



NOTE: All Postal Card designs are shown at 40%.



A



B



C



D



E



F



G



H/J



K



M

## A. NEW ISSUE! Fort McHenry Postal Card 20c

DATE OF ISSUE: 9/7/97 at Baltimore MD 21233

Single Card	\$ .20	228600
Single Card with Cancellation	.30	228661

## B. Golden Gate Bridge Postal Card (Sunset) 50c

DATE OF ISSUE: 6/2/97 at San Francisco CA 94188

Single Card	\$ .50	228800
Single Card with Cancellation	.60	228861

## C. Golden Gate Bridge Postal Card (Daylight) 20c

DATE OF ISSUE: 6/2/97 at San Francisco CA 94188

Single Card	\$ .20	228700
Single Card with Cancellation	.30	228761

## D. City College of NY Postal Card 20c

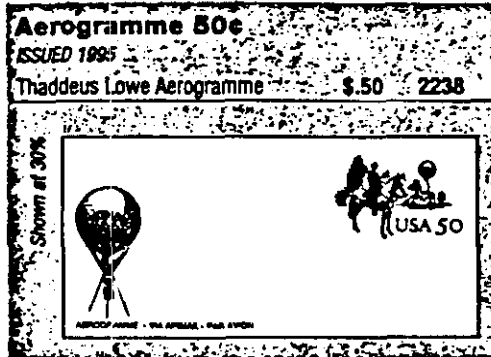
DATE OF ISSUE: 5/7/97 at New York NY

Single Card	\$ .20	228900
Single Card with Cancellation	.30	228961

## E. Princeton University Postal Card 20c

ISSUED 9/20/96 at Princeton NJ

Single Card	\$ .20	2278
Single Card with Cancellation	.30	2278



## F. St. John's College Postal Card 20c

ISSUED 6/1/96 at Annapolis MD

Single Card	\$ .20	2283
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## G. Winter Scene Postal Card 20c

ISSUED 1996

Single Card	\$ .20	2276
-------------	--------	------

## H. Red Barn Postal Card 20c

ISSUED 1995

Single Card	\$ .20	2262
-------------	--------	------

## J. Message Reply Postal Card 40c

ISSUED 1995

Double Card (20c + 20c)	\$ .40	2275
-------------------------	--------	------

## K. American Clipper Ship Postal Card 20c

ISSUED 1995

Single Card	\$ .20	2267
-------------	--------	------

## L. Soaring Eagle Postal Card 50c

ISSUED 1995

Single Card	\$ .50	2266
-------------	--------	------

## M. Yankee Clipper Postal Card 40c

ISSUED 1991

Single Card	\$ .40	2259
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Attachment 1

DFC/USPS-T5-5 (b)  
Page 1 of 2

Attachment 1

DFC/USPS-T5-5(b)

Page 2 of 2

# OFFICIAL MAIL

## LAST CHANCE TO BUY THESE OFFICIAL MAIL ITEMS THROUGH USA PHILATEL

Although these Official Mail stamps are being removed from sale, any new issues or varieties will be offered in future catalogs.

Official Mail USA



1c

Penalty for private use \$300

A

Official Mail USA



04

Penalty for private use \$300

B

Official Mail USA



10

Penalty for private use \$300

C

Official Mail USA



USA 14

Penalty for private use \$300

D

**A. Great Seal 1c (1995)**

REISSUE

Pane of 100	\$1.00	556
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**B. Great Seal 4c (1991)**

Pane of 100	\$4.00	556
-------------	--------	-----

**C. Great Seal 10c (1993)**

Pane of 100	\$10.00	555
-------------	---------	-----

**D. Great Seal 14c (1985)**

Pane of 100	\$14.00	055
-------------	---------	-----

**E. Great Seal 19c (1991)**

Pane of 100	\$19.00	555
-------------	---------	-----

**F. Great Seal 20c (1995)**

Pane of 100	\$20.00	556
-------------	---------	-----

**G. Great Seal 23c (1995)**

REISSUE

Pane of 100	\$23.00	560
-------------	---------	-----

**H. Great Seal \$1 (1993)**

Pane of 100	\$100.00	555
-------------	----------	-----

**J. Great Seal \$5 (1983)**

Lower left plate position

Pane of 100	\$500.00	055
-------------	----------	-----

**K. Great Seal 32c (1995)**

Coll of 100	\$32.00	774
-------------	---------	-----

**L. Great Seal "Q" (1994)**

Coll of 100	\$32.00	775
-------------	---------	-----

**M. Stamped Envelope 32c**

32c #10 Regular Envelope	\$ .38	217
--------------------------	--------	-----

Box of 500	172.00	217
------------	--------	-----

32c #10 Window Envelope	.38	217
-------------------------	-----	-----

Box of 500	173.00	217
------------	--------	-----

**N. Great Seal Postal Card 20c**

Single Card	\$ .20	226
-------------	--------	-----

Official Mail USA



19

Penalty for private use \$300

Official Mail USA



20

Penalty for private use \$300

F

Official Mail USA



23

Penalty for private use \$300

G

Official Mail USA



51

Penalty for private use \$300

H

Official Mail USA



USA 55.00

Penalty for private use \$300

Official Mail USA



32

Penalty for private use \$300

K

Official Mail USA



For U.S. addresses only

Penalty for private use \$300

L

Official Mail



USA 32

SPECIAL BUSINESS  
PENALTY FOR PRIVATE USE \$300

M Shown at 40%

Official Mail



USA 20

NOTE: Official Mail stamps and envelopes (penalty mail) are authorized for use only by official branches of the United States Government. They are offered for sale here for stamp collecting purposes only; unauthorized use on mail is strictly prohibited, is a criminal violation of United States Code, and carries a possible fine of \$300. No plate numbers are available, except as noted.

These items will not be offered through the catalog after November 2, 1997. Quantities may be limited. Available only while supplies last.

All official mail items will be charged the custom order rate.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC**

**DFC/USPS-T5-6.** Please refer to item 2 on page 4 of Attachment I to Response to DFC/USPS-T5-2(c) and your response to DFC/USPS-T5-2(c). In your response, you listed two "primary" reasons why the Postal Service stopped collecting separate cost data for stamped cards and private post cards. However, item 2 of the attachment lists another rationale: "We no longer have a need to identify postal cards separately."

a. Did the Postal Service ever have a need to collect the data separately? Please explain fully and provide all documents relating to this need.

b. Please explain and provide documents relating to the reasons why the Postal Service had ceased by January 12, 1996, to need to collect these data separately.

c. Is this presently nonexistent need to collect the data separately also a "primary" reason for this change in the data-collection procedures?

**Response to DFC/USPS-T5-6**

a. The need to collect separate cost data for stamped cards and private post cards was driven by separate reporting of costs for these two items in the Cost and Revenue Analysis report.

b. The Postal Service's need to separately collect data for stamped cards and private post cards ceased because a decision was reached to combine the reporting of these two items into a single category. To the best of my knowledge, the attachments to my earlier responses contain all documents pertaining to this change.

c. In a manner of speaking, yes, although the question is somewhat tautological. There is no need to collect the data separately since we do not report the data separately. Hence, the data collection procedures were changed to reflect this fact.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC**

7010

**DFC/USPS-T5-7.** Please refer to page 6 of Attachment 1 to Response to DFC/USPS-T5-2(c).

a. Please confirm that item 6 indicates or implies that IOCS data collectors must examine Express Mail items to determine whether an Express Mail corporate account was used to pay the postage. If you do not confirm, please explain.

b. Please explain why the Postal Service can train an IOCS data collector to examine or otherwise review an Express Mail label to determine whether an Express Mail corporate account was used to pay the postage but cannot train an IOCS data collector to distinguish between stamped cards and private post cards. Please provide all available documents.

**Response to DFC/USPS-T5-7**

- a. Not confirmed. The statement merely states the need to describe Express Mail corporate accounts.
- b. The passage in reference discusses changes to IOCS question 23A, in which the data collector is asked to record the type of postage or indicia on the piece. In the latest IOCS software release, a category has been added for Express Mail corporate accounts and the data collector selects this option if the postage for an Express Mail piece was paid via a corporate account. This can be easily ascertained by the data collector if (a) the piece in question bears no postage stamps or meter strip, and (b) the box on the Express Mail label stating "METHOD OF PAYMENT: Express Mail Corporate Acct. No." contains a corporate account ID number. See Attachment 1.



**Response to DFC/USPS-T5-7 continued:**

In contrast, IOCS question 22 asks data collectors to record the shape of the mailpiece. Prior to the July 1, 1996 change in reporting requirements, this entailed selecting one of three choices for a standard sized card. This decision was much less straightforward than simply determining the type of postage or indicia on a mailpiece. To the point, your assertion that the Postal Service "cannot train an IOCS data collector to distinguish between stamped cards and private post cards" is hyperbole. As noted in the response to 5(c) above, given the multiple choices for identification of cards, and the response to 5(g) above, given the problems of postage printed directly on the card, some coding errors were inevitable.

LABEL 11-B-594

For Pickup or Tracking Call 1-800-222-1811

PLEASE PRESS HARD

YOU ARE MAKING 3 COPIES

<b>FROM: (PLEASE PRINT)</b> PHONE _____		<b>TO: (PLEASE PRINT)</b> PHONE _____	
<b>METHOD OF PAYMENT:</b> Express Mail Corporate Acct. No. _____ Federal Agency Acct. No. or Postal Service Acct. No. _____		<input type="checkbox"/> <b>WAIVER OF SIGNATURE (Domestic Only):</b> I wish delivery to be made without obtaining the signature of the addressee or the addressee's agent (if in the judgment of the delivery employee, the addressee can be left in a secure location) and I authorize the delivery employee to sign that the shipment was delivered and understood that the signature of the delivery employee will constitute valid proof of delivery.	
<input type="checkbox"/> <b>WEEKEND</b> <input type="checkbox"/> <b>HOLIDAY</b>		<input type="checkbox"/> <b>NO DELIVERY</b>	
<b>CUSTOMER USE ONLY</b>			
<b>INTERNATIONAL</b> SHIPMENTS ONLY <input type="checkbox"/> <b>Business Papers</b> <input type="checkbox"/> <b>Merchandise</b> Customs forms and commercial invoices may be required. See Pub 275 and International Mail Manual.		<b>DATE IN</b> Mo. Day Yr.	
<b>TIME IN</b> Morning <input type="checkbox"/> 12 Noon <input type="checkbox"/> 3 PM		<b>WEIGHT</b> Lbs. Oz.	
<b>NO DELIVERY</b> Check both: <input type="checkbox"/> <b>Acceptance</b> <input type="checkbox"/> <b>Check both</b>		<b>DATE OF DELIVERY</b> Mo. Day Yr.	
<input type="checkbox"/> <b>Day of Delivery</b> <input type="checkbox"/> <b>Next</b> <input type="checkbox"/> <b>Second</b>		<b>TIME OF DELIVERY</b> Morning <input type="checkbox"/> 12 Noon <input type="checkbox"/> 3 PM	
<input type="checkbox"/> <b>Flat Rate Envelope</b>		<b>RETURN RECEIPT</b> Return Receipt <input type="checkbox"/>	
<b>POSTAGE</b> \$ _____		<b>TOTAL POSTAGE &amp; FEES</b> \$ _____	
<b>DELIVERY ATTEMPT</b> Mo. Day Yr.		<b>DELIVERY ATTEMPT</b> Mo. Day Yr.	
<b>DELIVERY ATTEMPT</b> Time <input type="checkbox"/> AM <input type="checkbox"/> PM		<b>DELIVERY ATTEMPT</b> Time <input type="checkbox"/> AM <input type="checkbox"/> PM	
<b>EMPLOYEE SIGNATURE</b>		<b>EMPLOYEE SIGNATURE</b>	
<b>EMPLOYEE SIGNATURE</b>		<b>EMPLOYEE SIGNATURE</b>	
<b>EMPLOYEE SIGNATURE</b>		<b>EMPLOYEE SIGNATURE</b>	
<b>NAME - PLEASE PRINT</b>		<b>NAME - PLEASE PRINT</b>	
<b>SIGNATURE OF ADDRESSEE OR AGENT</b>		<b>SIGNATURE OF ADDRESSEE OR AGENT</b>	

**POST OFFICE TO ADDRESSEE**  
**EXPRESS MAIL**  
**EMS**

E6622584384US

Attachment 1  
DFC/USPS-T5-7(b)

MAILING COPY



Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC

7013

**DFC/USPS-T5-8.** Please refer to Attachment II to Response to DFC/USPS-T5-2(c).

a. Please refer to item 4 and confirm that IOCS data collectors previously were required to analyze whether a piece of mail was automation compatible, whether a piece of mail was bar-coded, the print type, and the bar-code location.

b. Please explain why the Postal Service could more easily or successfully train an IOCS data collector to conduct the analysis or make the distinctions that would be necessary to collect the data listed in item 4 than to train an IOCS data collector to differentiate between stamped cards and private post cards.

**Response to DFC/USPS-T5-8**

a. Confirmed.

b. The item in reference discusses changes to IOCS questions 22 and 22C, in which the data collector is asked to record information on some of the physical characteristics of the mailpiece. If the data collector indicates that the piece of mail being sampled is either a card or letter, then the piece is tested for automation compatibility using the *Automation Compatibility & Mail Dimensions Standards Template - IOCS/RPW*. Using this template, the data collector checks for the characteristics that determine whether a piece is automation compatible, such as length and width, thickness, the presence of a barcode or barcode clear zone, whether it is machine printed, etc. Question 22C asks if the piece is barcoded, and if so, the data collector records how the barcode was applied (print type) and the location of the barcode. This is a relatively

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC**

7014

**Response to DFC/USPS-T5-8 continued:**

straightforward process, since the standards for determining the responses are the same for all letters and cards. The Postal Service has no data to indicate whether data collectors were more easily or successfully trained to perform these tests than they were to make the distinction between stamped cards and private post cards.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC**

7015

**DFC/USPS-T5-9.** Please refer to your response to DFC/USPS-T5-3(d).

- a. Please explain and provide all documents relating to Postal Service policy or procedures in determining whether to stop collecting data separately for two types of mail or services.
- b. Please explain and provide all documents relating to the role that the significant cost differential between stamped cards and private post cards played in the decision to eliminate the distinction between stamped cards and private post cards.
- c. If your answer to part (b) indicates that the cost differential played a small, insignificant, or nonexistent role, please explain why the masking of this cost differential that the change in data-collection methods will cause is in the public interest.

**Response to DFC/USPS-T5-9**

- a. To my knowledge, no such policies or procedures exist.
- b. I am unaware of any role that the cost differential between stamped cards and private post cards, in and of itself, played in the decision to eliminate the separate reporting of these two categories. The cost differential, to a certain extent, however, may reflect coding errors. The Postal Service has been unable to locate documents responsive to this request.
- c. I am unable to answer this question since I do not know the criteria you would use to define the public interest.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of DFC

7016

**DFC/USPS-T5-10.** Suppose that 1,000 customers who currently receive carrier delivery switch to post-office-box delivery. They notify the senders of their new address, and all their mail thereafter is addressed to their post-office box. If all else is equal, please confirm that the mail-processing cost of delivering this mail to the post-office boxes will be lower than the mail-processing cost that would have been incurred if this mail had been delivered to these customers' street address.

**Response to DFC/USPS-T5-10**

Not confirmed. The Postal Service makes a distinction between mail processing costs and delivery costs. Mail processing functions are those related to the sortation and distribution of mail by clerks and mailhandlers. Delivery functions are those performed by city and rural carriers, both in the office and on the street. The mail you refer to in your example would receive virtually the same mail processing at the processing and distribution center regardless of whether it was destined to a carrier route or a box section. Upon dispatch from the plant, however, box section mail incurs further mail processing costs as clerks are used to distribute the mail to post office boxes. Mail destinating on a carrier route, on the other hand, receives little or no mail processing costs once it leaves the plant. Therefore, the mail processing costs for box section mail tends to be higher than that of mail receiving carrier delivery. Combined mail processing and delivery costs, however, would be lower for box section mail.

See USPS LR-H-274.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of FGFA**

**FGFA/USPS-T5-1.** Does Witness Bradley, in USPS-T-13, present purchased transportation variabilities which show "volume variable costs" as you use that term in your testimony (p. 3, l. 2)?

**Response to FGFA/USPS-T5-1**

Yes.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of FGFSa

**FGFSa/USPS-T5-2.** In your exhibit 5A, explain the development of the costs of Domestic Air (14.1) on page 43, which is allocated to Fourth Class Mail: Parcels Zone Rate of \$89,647.

- a. To what extent does this cost include the Alaska By-Pass mail?
- b. Provide the amount of the Alaska By-Pass adjustment.

**Response to FGFSa/USPS-T5-2**

The development of component grouping 14.1 is included in my Workpaper B, C/S 14.

- a. All of the costs of Alaska Bypass mail are included in component grouping 14.1.
- b. There is no Alaska Bypass adjustment.



**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatory of MPA**

**MPA/USPS-T5-1.** Pages 4-6 of your testimony describe changes in costing methodologies between Fiscal Year and Base Year 1996. According to the Fiscal Year 1996 Cost Segments and Components, attributable costs for Domestic Air were \$1,208,387,000 while, according to the Base Year 1996 Cost Segments and Components (Exhibit USPS-5A), they were \$1,067,818,000.

- a. Please describe how you developed these attributable costs for both the Fiscal Year and the Base Year and provide all calculations.
- b. Which of the studies that you describe in these pages pertains to this change in attributable costs?

**Response to MPA/USPS-T5-1**

- a. Volume variable domestic air costs for Base Year 1996 are developed in USPS-T-5, Workpaper B, Worksheets 14.0.1. For the Fiscal Year they are found in similar workpapers accompanying the FY 1996 CRA. Both the Base Year and Fiscal Year workpapers are on file with the Commission. Electronic versions containing all calculations of both cost developments are in LR-H-87 (Base Year) and LR-H-223 (Fiscal Year), to be filed with this response.
- b. None of them. Three reductions in the volume variability of air transportation costs are implemented in the Base Year. The affected costs are Eagle, Western, and Christmas air network costs.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatory of MPA

7020

Changes to the variability of the Eagle and Western network costs are described in the testimony of William Takis (USPS-T-41), pages 12-13 and 26-27. These changes lower the volume variable costs of Eagle air transportation from \$156,164,000 to \$48,968,000 between the Fiscal Year and the Base Year. Similarly, Western air volume variable costs are reduced from \$21,658,000 in the Fiscal Year to \$7,222,000 in the Base Year. Supporting calculations are provided in Library Reference H-81.

The volume variability of Christmas network costs is described in USPS-T-41, page 27. Changes in the volume variability of Christmas network air costs reduce the volume variable costs from \$102,285,000 in the Fiscal Year to \$38,049,000 in the Base Year. Calculation of the variability is contained in Library Reference H-85.

Offsetting these reductions in volume variable costs are changes made to the volume variability of system air transportation costs. This volume variability was developed by the Commission in its R87-1 Decision (para. 3575-3579), and was based on the air contracting system in place at that time. Under that system, separate per-pound and per-pound-mile rates were paid to each of

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatory of MPA

7021

40 air carriers providing system service. The Postal Service now pays the same per-pound and per-pound-mile rates to all air carriers (outside of Alaska) and uses an equitable tender rule. These conditions are virtually the same as those that were in existence prior to the R87 variability change. Accordingly, the Base Year reverts to the pre-R87 variability for system contracts. This change increases the volume variability of system service from 95.12% in the Fiscal Year to 100% in the Base Year.

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

**MPA/USPS-T5-2.** Please refer to Witness Baron's responses to MPA/USPS-T17-2 and 3, Table 1 of this interrogatory, the FY 1996 Costs Segments and Components report, and the BY 1996 Cost Segments and Components report.

- a. Please confirm that Table 1 accurately reflects the before final adjustments distribution of Rural Carrier costs to mail classes in FY 1996 and BY 1996.
- b. Please confirm that the distribution of attributable costs to classes of mail changed from FY 1996 to BY 1996.
- c. Please explain fully why the distribution of attributable Rural Carrier costs to mail classes changed between FY 1996 and BY 1996.
- d. Was there any change in the distribution key? If so, please describe the change.

**Response to MPA/USPS-T5-2**

- a. Confirmed.
- b. Confirmed, volume variable costs changed from FY 1996 to BY 1996.
- c. Redirected to witness Baron.
- d. Redirected to witness Baron.

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

**MPA/USPS-T5-3.** Please refer to Docket No. R90-1, USPS-T13, Appendix F, Section III. This section describes the FY 1989 Rural Carrier mail shape adjustment. This adjustment reclassified 1 out of every 6.0106 letters as flats so that 2858R survey data had the same percentages of letters and flats as the National Mail Count.

- a. Please confirm that the Postal Service made this mail shape adjustment in the current case before distributing attributable costs to classes and subclasses of mail.
- b. If part a. is confirmed, please identify where this adjustment is documented.
- c. If part a. is confirmed, please provide the proportion of letters in the Base Year 1996 that were reclassified as flats.
- d. If part a. is confirmed, and the reclassified proportion of letters is smaller than in Docket R90-1, please explain fully why the proportion has decreased.
- e. If part a. is not confirmed, please explain fully why the Postal Service did not make the rural carrier mail shape adjustment.
- f. If part a. is not confirmed, please state whether there is still a discrepancy between the 2858R survey and the National Mail Count in terms of percentages of letters and flats.

**Response to MPA/USPS-T5-3**

- a. Confirmed, the mail shape adjustment is made before volume variable costs for rural carriers are distributed.
- b. The adjustment is made in my Workpaper B, worksheet 10.0.3. It has come to my attention that the printed version of this worksheet, submitted in a supplemental filing on August 29, 1997, omitted the calculation of the ratio. A revised worksheet is being filed today.
- c. In BY 1996, 1 out of every 6.81994 letters were reclassified as flats.
- d. Not applicable.
- e. Not applicable.

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

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**Response to MPA/USPS-T5-3 (cont.)**

f. Not applicable.

**MMA/USPS-T5-8.** In your response to DMA/USPS-T4-27 you indicate that the calculations for the peak load adjustments have been modified in this proceeding from those similar calculations in previous dockets since Docket No. R87-1 "to be consistent with the testimonies of witnesses Bradley, USPS-T14 and Degen, USPS-T12."

- a. Please confirm that the calculations have been modified to reflect the proposed Postal Service's position that labor processing costs are not 100% variable. If you cannot confirm, please explain.
- b. Do you agree that the impact of the peak load cost adjustment is smaller because of the position referred to in paragraph (a)? If not, please explain.
- c. Please explain how an intervenor in this proceeding can derive comparable peak load adjustments for First-Class Mail and Standard (A) mail under the assumption that labor processing costs are 100 percent variable?
- d. Please provide the peak load cost adjustments for First-Class and Standard (A) mail under the assumption that labor processing costs are 100% variable. (footnote omitted)

**Response to MMA/USPS-T5-8**

- a. Confirmed.
- b. Yes.
- c. My response to OCA/USPS-T12-61 describing the premium pay adjustment provides the information needed. It is the first step which needs to be modified, to recalculate the amount of the non-BMC volume variable night-shift differential and Sunday premium pay to be redistributed, using 100 percent volume variability. 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. As indicated in my

**Response to MMA/USPS-T5-8 (cont.)**

response, 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. Using 100 percent in this calculation in place of 76.5 percent results in 96.31 percent. Similarly, the Sunday premium pay percentage in line 6 of W/S 3.0.13 can be modified in the same manner. That is, the calculation shown in 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. Instead of multiplying times the average mail processing labor variability for MODS 1 & 2 operations of 76.5 (see witness Degen, USPS-T-12, Table 4), multiply by 100 percent. This results in 92.35 percent. Using these percentages for line 6 will result in larger volume variable non-BMC night shift differential and Sunday premium pay in line 7. This is the amount of premium pay which needs to be redistributed as described in my response.

- d. This calculation can be done as indicated in subpart c.



Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of NDMS  
(Redirected from Witness Sharkey, USPS-T33)

NDMS/USPS-T33-19. How does the Postal Service identify distance-related transportation costs for:

- i. the Eagle Network?
- ii. C-Net?
- iii. Western Air?

Response to NDMS/USPS-T33-19

- i. The costs for the Eagle Network accrue to three accounts; 53541 (linehaul except fuel), 53547 (linehaul/fuel), and 53543 (terminal handling). Only the linehaul charges (53541 and 53547) are considered distance related, since they vary with the distance traveled.

- ii. and iii.

The costs for the C-Net and W-Net each accrue to two accounts; one for linehaul charges (53542 for C-Net, 53545 for W-Net), and one for terminal handling charges (53544 for C-Net, 53646 for W-Net). Again, only the linehaul charges are considered distance related.

Response of United States Postal Service Witness Alexandrovich  
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witnesses. For instance, the Motor Vehicle Service components in Segment 12 and the Carfare and Driveout components in Segment 13 are piggybacked on the City Delivery Carrier costs in Segments 6 and 7. As such, these components in Segments 12 and 13 are affected by the changes made by the other witnesses mentioned earlier.

Furthermore, the components listed in the 1300 and 1400 series are different because they are not used in the FY 1996 CRA "A file" although they are needed in the Base Year 1996 "A file" because they are inputs to the rollforward model.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of NNA  
(Redirected from Witness Moden, USPS-T4)**

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**NNA/USPS-T4-8.** Please refer to Costs Segments and Components and Cost and Revenue Analysis reports for all years from 1986 to 1996, and Attachments 1 & 2.

- a. Please confirm that the entries in Attachments 1 & 2 are correct.
- b. Please confirm that the unit attributable mail processing cost for Periodicals - In County has increased at a rate faster than inflation (as measured by the ECI) and that the unit attributable mail processing cost for First-Class Mail has increased at a rate less than inflation.
- c. Please explain fully why unit attributable mail processing costs for Periodicals - In County have increased faster than inflation.
- d. Please explain why unit attributable mail processing costs have increased faster for Periodicals - In County than for First-Class Mail.
- e. Please explain why unit attributable mail processing costs for First-Class Mail have increased at a rate less than inflation.
- f. Please confirm that the unit attributable City Delivery Carriers - Office cost (C/S 6) for Periodicals - In County has increased at a rate faster than inflation (as measured by the ECI) and that the unit attributable City Delivery Carriers - Office cost for First-Class Mail has increased at a rate less than inflation.
- g. Please explain fully why unit attributable City Delivery Carriers - Office costs for Periodicals - In County have increased faster than inflation.
- h. Please explain why unit attributable City Delivery Carriers - Office costs for First-Class Mail have increased at a rate less than inflation.

**Response to NNA/USPS-T4-8**

- a. Confirmed for First-Class Mail and Periodicals - In County costs. Cannot confirm ECI data.
- b. Confirmed, assuming that the ECI data contained in your attachments are correct.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of NNA  
(Redirected from Witness Moden, USPS-T4)

- c. I do not know what data comprise the ECI, so I have no basis to compare the ECI to the change in Periodicals - In County mail processing costs. However, I would point out that the cumulative difference since 1986 between the two rates is relatively small (48.70 percent for Periodicals - In County and 44.73 percent for the ECI). Furthermore, the FY 1996 mail processing costs for Periodicals - In County are roughly equal to their FY 1989 levels (2.265 cents in FY 1996 versus 2.203 cents in FY 1989). While the ECI has grown by 32.73 percent since 1989, the mail processing costs for Periodicals - In County has increased only 0.13 percent.
- d. First-Class Mail has benefited more than Periodicals - In County mail from automation.
- e. I cannot directly compare the growth rate of mail processing costs for First-Class Mail with the ECI since I don't have any information on the components of ECI. In general, however, the rate of growth in First-Class Mail processing costs has slowed due to automation.
- f. Confirmed, assuming that the ECI data contained in your attachments are correct.
- g. As noted in (c) above, I do not know what factors are reflected in the ECI, so I cannot compare it to city delivery in-office costs for Periodicals - In County mail. I would point out, however, that in FY 1996 city delivery in-

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of NNA  
(Redirected from Witness Moden, USPS-T4)**

office costs for Periodicals - In County mail were lower than they were in FY 1991, while the ECI has grown roughly 22 percent since then.

- h. Again, I cannot compare the growth rate of First-Class Mail city delivery in-office costs with the ECI. In general, however, First-Class Mail has benefited more than Periodicals - In County mail from delivery point sequencing.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of NNA  
(Redirected from Witness Tafique, USPS-T34)

**NNA/USPS-T34-9.** Please provide copies of any studies or data by the Postal Service that addresses the questions of the percentage of within-county mail delivered:

- a. On rural routes?
- b. On routes with fewer than 400 stops?
- c. In box sections?

**Response to NNA/USPS-T34-9**

- a-c. To my knowledge, no such studies or data exist.

Answer of Joe Alexandrovich to the Interrogatories of  
Office of the Consumer Advocate  
to United States Postal Service

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OCA/USPS-T5-1. The following interrogatory refers to Postal Service library reference H-7, data file FY96mods.dat, USPS-T-5 workpapers A and B and USPS library reference H-9. In each of the following instances, the data file appears to disagree with the workpapers and the library reference cited in USPS-T-5 workpaper B. Please indicate which information is correct and provide corrected library references, workpapers, and a data file as appropriate. (Trailing zero's have been omitted from the data.)

- a. The Postal Service's library reference H-7, data file FY96mods.dat, indicates that the segment 3, cost component 228, "Time and Attendance" total "other" is "203,904." Both workpaper A at 20 and workpaper B at W/S 3.04 indicate that cost component 228 is "207,830." Please indicate what the correct amount is.
- b. The Postal Service's library reference H-7, data file FY96mods.dat, indicates that the segment 18, cost component 204, "Worker Comp Cur Liability" total "other" 617,556." Both workpaper A at 82 and Postal Service library reference H-9 at 159 indicate that cost component 204 is "629,166". Please indicate what the correct amount is.
- c. The Postal Service's library reference H-7 data file FY96mods.dat, indicates that the segment 18, cost component 241, "Unemployment Compensation" total "other " is 36,624." Both workpaper A at 84 and Postal Service library reference H-9 at 157 indicate that cost component 241 is "83,333." Please indicate what the correct amount is.
- d. The Postal Service's library reference H-7 data file FY96mods.dat, indicates that the segment 18, cost component 199, "Repriced Annual Leave" total "other" is "46,427." Both workpaper A at 80 and Postal Service library reference H-9 at 159 indicate that cost component 199 is "47,300." Please indicate what the correct amount is.
- e. The Postal Service's library reference H-7 data file Fy96mods.dat, indicates that the segment 18, cost component 200, "Holiday Leave Variance" total "other" is "2,650." Both workpaper A at 80 and Postal Service library reference H-9 at 157 indicate that cost component 200 is "2,700." Please indicate what the correct amount is.
- f. The Postal Service's library reference H-7 data file FY96mods.dat, indicates that the segment 18, cost component 201, "CS Ret Fund Deficit Current "other" is "223,898." Both workpaper A at 80 and Postal Service library reference H-9 at 159 indicate that cost component 201 is "228,108." Please indicate what the correct amount is.
- g. The Postal Service's library reference H-7 data file FY96mods.dat, indicates that the segment 18, cost component 202, "CS Ret Fund Deficit Pri" total "other" is

Answer of Joe Alexandrovich to the Interrogatories of  
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"408,080." Both workpaper A at 80 and Postal Service library reference H-9 at 159 indicate that cost component 202 is "928,521." Please indicate what the correct amount is.

**OCA/USPS-T5-1 a-g. Response:**

It appears that the questions are referring to "total" costs rather than "other" costs for these components. Assuming that this is the correct interpretation, the "total" costs for these components will be discussed.

The components listed in the question are a subset of the following group of components:

Component 0029	E & LR Supervision
Component 0009	Time & Attendance Supervision
Component 0029	Time & Attendance Clerks
Component 0201	CSRS Retirement Current
Component 0202	CSRS Retirement Prior
Component 0064	FERS Retirement Current
Component 0065	FERS Retirement Prior
Component 0204	Workers' Comp Current
Component 0200	Holiday Leave Variance
Component 0199	Repriced Annual Leave
Component 0241	Unemployment Compensation

As described in USPS Library Reference H-4, Base Year / Roll Forward Input Data Files, pages 59-72, file member B, these components have a portion of their "other" costs distributed to classes of mail and the result is seen in the "B" Report, Workpaper WP A-4 associated with my testimony. These calculations are also described in the footnotes provided with Workpaper WP A-4. As a result of these



Answer of Joe Alexandrovich to the Interrogatories of  
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OCA/USPS-T5-1 a-g. Response continued:

calculations, the total amounts for these components are not equal when comparing the "I" Report and the "D" Report. In your questions, you refer to Workpaper A and Library Reference H-9 and both are associated with the "I" and "A" Reports in the base year model. The matrix shown in Library Reference H-7 though, is associated with the "D" Report that includes all of the calculations performed in the base year model.

There is a direct comparison among these reports if the explanation in the LR-H-4 is followed. The comparison between the "I" Report and the "D" Report can be made using the following component numbering:

"I" or "A" Report	"D" Report
0029	0528
0009	0483
0228	0477
0201	0529
0202	0530
0064	0037
0065	0023
0204	0531
0199	0292
0241	0453

Thus, if the total amounts in the "I" or "A" file for the components listed in the left column are compared to the total amounts in the "D" file for the components listed in the right column, it will be shown that they are equal.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

7036

**OCA/USPS-T5-2.** The following interrogatory refers to Workpaper A, Factor Report at 24-24.1. At page 24.1, the source for the variability for equipment related components for component 1364, Powered Transport Equipment, is stated as 76.3 percent. The calculated total volume variability used for component 1364 was 74.5 percent (18,548/24,896). See page 24. Please clarify what the appropriate total volume variability for component 1364 should be and provide corrected workpapers as appropriate.

**Response to OCA/USPS-T5-2**

The appropriate volume variability for component 1364 is 74.5 percent. The footnote at page 24.1 is incorrect and a revised copy of that page is being filed today.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

7037

**OCA/USPS-T5-7.** Workpaper A-3, pages 4 through 14.1 indicates that many of the space and rental distribution key variabilities are either 70 or 80 percent. Please provide the derivation of each of the 70 and 80 variability percentages shown on those pages. Include in each derivation cites to all source documents and the rationale for using each variability.

**Response to OCA/USPS-T5-7**

These variabilities stem from the work of witness Sarikas, USPS-T-9, in Docket No. R76-1. As discussed in USPS LR-G-1 of Docket No. R94-1, pages 15-2 to 15-4, the work of witness Sarikas was adapted for the FY 1992 facility space survey categories. The variability for each new category was the same as the variability for the most similar former category. Prior to R94-1 facility space for parcel sorting and related activities was essentially 70 percent variable and facility space for non-parcel sorting was 80 percent variable (see USPS LR-E-1 of Docket No. R87-1, page 15-3).

Response of United States Postal Service Witness Alexandrovich  
to

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Interrogatories of OCA

**OCA/USPS-T5-8.** Please refer to your workpaper A-3, Base Year 1996 Factor Report. State whether the capital amounts for equipment in column 1 on page 0.3 (used to calculate the capital factors) are the original equipment cost or the cost less depreciation.

**Response to OCA/USPS-T5-8**

The capital factors are based on FY1996 depreciation as shown at USPS LR-H-127, page IV-4.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

**OCA/USPS-T5-10.** For the base year 1996, please provide the P.O. Box attributable costs by CAG for segments: 1, 2, 3, 6, 7, 18, 20. Please cite your sources and provided copies of all source documents not previously submitted.

**Response to OCA/USPS-T5-10**

Volume variable costs for P.O. boxes cannot be provided by CAG. Total P.O. box volume variable costs are developed nationally, not by CAG.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

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**OCA/USPS-T5-11.** For the most recent five fiscal years for each CAG, please provide the year-end number and proportion of postmasters who are EAS-23 and below.

**Response to OCA/USPS-T5-11**

See Attachment 1 for the breakdown of postmasters by CAG for the fiscal years 1992 through 1996. These tables include all postmasters without regard to salary level since USPS personnel databases do not contain cross-reference information on CAG and salary levels. In order to obtain this information, special programs would have to be developed and run at a cost estimated to exceed \$22,000.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

7041

**OCA/USPS-T5-12.** For the most recent five fiscal years for each CAG, please provide the year-end number and proportion of supervisors.

**Response to OCA/USPS-T5-12**

See Attachment 1.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

7042

**OCA/USPS-T5-13.** For the most recent five fiscal years for each CAG, please provide the year-end number and proportion of clerks and mailhandlers, by craft.

**OCA/USPS-T5-13**

See Attachment 1.



	CAG	CLKS	MH	SUPV	PM	TOTAL USPS			CAG	CLKS	MH	SUPV	PM	TOTAL USPS
FY92	A	159,024	46,400	24,250	82	344,714		FY95	A	197,402	61,411	21,653	71	415,143
	B	15,704	567	4,033	140	57,809			B	18,534	875	2,999	172	66,401
	C	32,248	1,361	6,054	841	112,921			C	34,933	1,781	4,983	878	119,782
	D	13,686	267	2,070	544	47,375			D	14,553	267	1,875	567	50,369
	E	15,779	87	2,173	1,314	56,805			E	18,485	105	2,214	1,472	65,855
	F	9,418	2	1,262	1,852	36,032			F	10,795	1	930	1,860	39,730
	G	8,299	-	384	2,612	29,705			G	9,439	1	81	2,986	33,081
	H	6,170	-	10	3,251	21,266			H	6,717	-	3	3,601	23,433
	J	3,949	-	1	4,321	18,335			J	3,673	-	-	4,748	20,018
	K	1,405	-	-	8,676	25,183			K	881	-	-	9,019	26,141
	L	15	-	-	1,755	3,980			L	8	-	-	1,410	3,328
	M	-	-	-	-	2,899			M	-	-	-	-	2,881
	N	-	-	-	-	962			N	-	-	3	-	1,314
	S	-	-	-	-	4,326			S	-	-	-	-	4,301
	U	-	-	-	-	2,229			U	-	-	-	-	1,207
	W	-	-	-	-	3,168			W	-	-	-	-	1,875
	Y	-	-	-	-	53			Y	-	-	-	-	-
	TOTAL	265,897	48,684	40,237	24,988	787,392			TOTAL	315,420	64,441	34,741	28,584	874,959
FY93	A	178,764	56,154	20,611	76	383,033		FY96	A	203,361	60,531	21,878	74	421,882
	B	15,703	570	2,457	153	57,868			B	18,535	843	3,027	175	66,316
	C	33,244	1,481	4,450	703	115,938			C	34,920	1,783	5,082	880	120,033
	D	14,017	241	1,644	585	48,472			D	14,420	300	1,909	566	50,400
	E	16,935	90	1,893	1,451	60,789			E	18,440	107	2,294	1,465	66,653
	F	10,118	4	797	1,842	37,482			F	10,804	5	995	1,845	40,665
	G	8,779	13	83	2,866	31,079			G	9,401	1	94	2,970	33,994
	H	6,589	-	1	3,567	22,774			H	6,699	-	2	3,608	23,996
	J	3,812	-	-	4,519	19,557			J	3,596	-	-	4,727	20,384
	K	1,149	-	-	8,184	25,732			K	797	-	1	9,009	26,267
	L	12	-	-	1,348	3,562			L	6	-	-	1,370	3,212
	M	-	-	-	-	2,932			M	-	-	-	-	2,962
	N	-	-	-	-	1,257			N	-	-	-	-	1,550
	S	-	-	-	-	4,181			S	-	-	-	-	4,437
	U	-	-	-	-	1,341			U	-	-	-	-	1,216
	W	-	-	-	-	1,782			W	-	-	-	-	1,907
	Y	-	-	-	-	-			Y	-	-	-	-	-
	TOTAL	289,102	58,533	31,936	25,304	817,879			TOTAL	320,979	63,570	35,282	28,489	885,874
FY94	A	186,668	59,924	21,088	84	392,006								
	B	18,806	607	2,837	180	60,915								
	C	32,565	1,446	4,819	871	113,625								
	D	13,697	258	1,782	563	47,195								
	E	16,668	78	2,038	1,395	59,375								
	F	10,067	5	878	1,786	37,021								
	G	8,850	4	87	2,824	30,882								
	H	6,356	-	-	3,472	22,127								
	J	3,540	-	-	4,571	18,913								
	K	853	-	-	8,911	25,538								
	L	7	-	-	1,458	3,401								
	M	-	-	-	-	3,007								
	N	-	-	4	-	1,336								
	S	-	-	-	-	4,309								
	U	-	-	-	-	1,213								
	W	-	-	-	-	1,731								
	Y	-	-	-	-	-								
	TOTAL	295,977	62,322	33,533	25,875	822,564								

						TOTAL							
CAG	CLKS	MH	SUPV	PM	USPS	CAG	CLKS	MH	SUPV	PM	USPS		
72	A	46.13%	13.46%	7.03%	0.02%	100.00%	FY95	A	47.55%	14.79%	5.22%	0.02%	100.00%
	B	27.17%	0.98%	6.98%	0.24%	100.00%		B	27.81%	1.32%	4.52%	0.26%	100.00%
	C	28.56%	1.21%	5.36%	0.57%	100.00%		C	29.16%	1.49%	4.16%	0.57%	100.00%
	D	28.89%	0.58%	4.37%	1.15%	100.00%		D	28.89%	0.53%	3.72%	1.13%	100.00%
	E	27.78%	0.15%	3.83%	2.31%	100.00%		E	28.07%	0.16%	3.36%	2.24%	100.00%
	F	26.14%	0.01%	3.50%	4.58%	100.00%		F	27.17%	0.00%	2.34%	4.68%	100.00%
	G	27.94%		1.29%	8.79%	100.00%		G	28.53%	0.00%	0.24%	8.97%	100.00%
	H	29.01%		0.05%	15.29%	100.00%		H	28.66%		0.01%	15.37%	100.00%
	J	21.54%		0.01%	23.57%	100.00%		J	18.35%			23.72%	100.00%
	K	5.58%			34.45%	100.00%		K	3.37%			34.50%	100.00%
	L	0.38%			44.10%	100.00%		L	0.24%			42.37%	100.00%
	M					100.00%		M					100.00%
	N					100.00%		N		0.23%			100.00%
	S					100.00%		S					100.00%
	U					100.00%		U					100.00%
	W					100.00%		W					100.00%
	Y					100.00%		Y					100.00%
	TOTAL	34.62%	6.34%	5.24%	3.26%	100.00%		TOTAL	36.05%	7.37%	3.97%	3.04%	100.00%
FY93	A	46.67%	14.66%	5.38%	0.02%	100.00%	FY96	A	48.20%	14.35%	5.19%	0.02%	100.00%
	B	27.08%	0.98%	4.24%	0.26%	100.00%		B	27.95%	1.27%	4.56%	0.26%	100.00%
	C	28.67%	1.26%	3.84%	0.61%	100.00%		C	29.09%	1.49%	4.23%	0.57%	100.00%
	D	28.92%	0.50%	3.39%	1.21%	100.00%		D	28.61%	0.60%	3.79%	1.12%	100.00%
	E	27.66%	0.15%	3.11%	2.39%	100.00%		E	27.67%	0.16%	3.44%	2.20%	100.00%
	F	26.99%	0.01%	2.13%	4.91%	100.00%		F	26.57%	0.01%	2.45%	4.54%	100.00%
	G	28.25%	0.04%	0.27%	9.22%	100.00%		G	27.65%	0.00%	0.28%	8.74%	100.00%
	H	28.84%		0.00%	15.66%	100.00%		H	27.92%		0.01%	15.04%	100.00%
	J	19.49%			23.11%	100.00%		J	17.64%			23.19%	100.00%
	K	4.47%			31.84%	100.00%		K	3.03%		0.00%	34.30%	100.00%
	L	0.34%			37.84%	100.00%		L	0.19%			42.65%	100.00%
	M					100.00%		M					100.00%
	N					100.00%		N					100.00%
	S					100.00%		S					100.00%
	U					100.00%		U					100.00%
	W					100.00%		W					100.00%
	Y					100.00%		Y					100.00%
	TOTAL	35.35%	7.16%	3.90%	3.06%	100.00%		TOTAL	36.23%	7.18%	3.88%	2.99%	100.00%
74	A	47.62%	15.29%	5.38%	0.02%	100.00%							
	B	27.26%	1.00%	4.66%	0.26%	100.00%							
	C	28.66%	1.27%	4.24%	0.59%	100.00%							
	D	29.02%	0.55%	3.78%	1.19%	100.00%							
	E	28.07%	0.13%	3.43%	2.35%	100.00%							
	F	27.19%	0.01%	2.37%	4.82%	100.00%							
	G	28.66%	0.01%	0.28%	9.14%	100.00%							
	H	28.73%			15.66%	100.00%							
	J	18.72%			24.17%	100.00%							
	K	3.73%			34.89%	100.00%							
	L	0.21%			42.87%	100.00%							
	M					100.00%							
	N			0.30%		100.00%							
	S					100.00%							
	U					100.00%							
	W					100.00%							
	Y					100.00%							
	TOTAL	35.98%	7.58%	4.08%	3.15%	100.00%							

	CAG	CLKS	MH	SUPV	PM	TOTAL USPS			CAG	CLKS	MH	SUPV	PM	TOTAL USPS
72	A	153,675	44,652	24,088	82	334,730		FY95	A	190,251	59,300	21,475	70	402,448
	B	15,322	538	4,004	140	56,588			B	18,166	661	2,866	172	65,051
	C	31,587	1,330	8,021	840	110,806			C	34,282	1,751	4,950	873	117,523
	D	13,395	260	2,062	538	46,451			D	14,221	258	1,888	564	49,267
	E	15,505	84	2,164	1,306	55,685			E	18,142	100	2,201	1,467	64,445
	F	9,269	1	1,258	1,646	35,248			F	10,837	1	828	1,856	38,877
	G	8,188	-	381	2,800	28,989			G	9,317	1	81	2,957	32,231
	H	6,086	-	10	3,236	20,539			H	6,648	-	3	3,593	22,676
	J	3,928	-	1	4,297	17,587			J	3,638	-	-	4,734	19,251
	K	1,395	-	-	8,654	23,826			K	875	-	-	8,995	24,711
	L	15	-	-	1,751	3,048			L	8	-	-	1,405	2,657
	M	-	-	-	-	2,883			M	-	-	-	-	2,885
	N	-	-	-	-	591			N	-	-	3	-	1,309
	S	-	-	-	-	4,298			S	-	-	-	-	4,273
	U	-	-	-	-	2,218			U	-	-	-	-	1,202
	W	-	-	-	-	3,140			W	-	-	-	-	1,853
	Y	-	-	-	-	53			Y	-	-	-	-	-
	TOTAL	258,365	46,885	39,989	24,890	746,880			TOTAL	308,185	62,272	34,475	26,486	850,739
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FY93	A	172,844	54,270	20,480	75	372,189		FY96	A	196,176	58,215	21,723	74	408,749
	B	15,388	554	2,440	153	56,850			B	18,131	824	3,002	175	64,891
	C	32,598	1,425	4,417	702	113,807			C	34,240	1,736	5,040	678	117,643
	D	13,731	236	1,640	585	47,480			D	14,144	298	1,898	562	49,359
	E	16,612	86	1,888	1,447	59,462			E	18,074	101	2,280	1,462	65,201
	F	9,954	4	794	1,837	36,818			F	10,644	5	995	1,837	39,804
	G	8,671	13	83	2,860	30,244			G	9,279	1	94	2,962	33,207
	H	6,507	-	1	3,559	22,018			H	6,638	-	2	3,598	23,305
	J	3,778	-	-	4,511	18,658			J	3,587	-	-	4,709	19,658
	K	1,137	-	-	8,177	24,253			K	791	-	1	8,982	25,017
	L	12	-	-	1,340	2,793			L	6	-	-	1,366	2,568
	M	-	-	-	-	2,923			M	-	-	-	-	2,946
	N	-	-	-	-	1,255			N	-	-	-	-	1,546
	S	-	-	-	-	4,151			S	-	-	-	-	4,413
	U	-	-	-	-	1,334			U	-	-	-	-	1,205
	W	-	-	-	-	1,739			W	-	-	-	-	1,889
	Y	-	-	-	-	-			Y	-	-	-	-	-
	TOTAL	281,232	56,588	31,721	25,246	795,762			TOTAL	311,690	61,180	35,035	26,403	861,401
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4	A	179,941	57,867	20,925	64	380,099								
	B	16,299	586	2,620	180	59,687								
	C	31,947	1,408	4,793	669	111,533								
	D	13,417	254	1,775	561	46,218								
	E	16,381	76	2,028	1,391	58,171								
	F	9,928	5	876	1,785	36,243								
	G	8,720	3	86	2,620	30,155								
	H	6,279	-	-	3,484	21,399								
	J	3,506	-	-	4,559	18,215								
	K	943	-	-	8,887	24,298								
	L	7	-	-	1,457	2,771								
	M	-	-	-	-	2,890								
	N	-	-	4	-	1,336								
	S	-	-	-	-	4,290								
	U	-	-	-	-	1,202								
	W	-	-	-	-	1,724								
	Y	-	-	-	-	-								
	TOTAL	287,386	60,199	33,307	25,817	800,331								

CAG	CLKS	MH	SUPV	PM	TOTAL USPS		CAG	CLKS	MH	SUPV	PM	TOTAL USPS
2 A	45.91%	13.34%	7.20%	0.02%	100.00%		FY95 A	47.27%	14.73%	5.34%	0.02%	100.00%
B	27.08%	0.95%	7.08%	0.25%	100.00%		B	27.93%	1.32%	4.58%	0.28%	100.00%
C	28.51%	1.20%	5.43%	0.58%	100.00%		C	29.17%	1.49%	4.21%	0.57%	100.00%
D	28.84%	0.58%	4.44%	1.18%	100.00%		D	28.87%	0.52%	3.79%	1.14%	100.00%
E	27.84%	0.15%	3.89%	2.35%	100.00%		E	28.15%	0.18%	3.42%	2.28%	100.00%
F	26.30%	0.00%	3.57%	4.67%	100.00%		F	27.38%	0.00%	2.38%	4.77%	100.00%
G	28.28%		1.32%	8.98%	100.00%		G	28.91%	0.00%	0.25%	9.17%	100.00%
H	29.63%		0.05%	15.78%	100.00%		H	29.32%		0.01%	15.84%	100.00%
J	22.33%		0.01%	24.43%	100.00%		J	18.90%			24.59%	100.00%
K	5.85%			36.32%	100.00%		K	3.54%			36.40%	100.00%
L	0.49%			57.45%	100.00%		L	0.30%			52.88%	100.00%
M					100.00%		M					100.00%
N					100.00%		N			0.23%		100.00%
S					100.00%		S					100.00%
U					100.00%		U					100.00%
W					100.00%		W					100.00%
Y					100.00%		Y					100.00%
TOTAL	34.80%	6.28%	5.38%	3.33%	100.00%		TOTAL	35.99%	7.32%	4.05%	3.11%	100.00%
FY93 A	48.44%	14.58%	5.50%	0.02%	100.00%		FY96 A	47.99%	14.24%	5.31%	0.02%	100.00%
B	27.07%	0.97%	4.29%	0.27%	100.00%		B	27.94%	1.27%	4.63%	0.27%	100.00%
C	28.64%	1.25%	3.88%	0.62%	100.00%		C	29.11%	1.48%	4.28%	0.57%	100.00%
D	28.93%	0.50%	3.46%	1.23%	100.00%		D	28.88%	0.60%	3.85%	1.14%	100.00%
E	27.94%	0.14%	3.17%	2.43%	100.00%		E	27.72%	0.15%	3.50%	2.24%	100.00%
F	27.18%	0.01%	2.17%	5.02%	100.00%		F	26.74%	0.01%	2.50%	4.62%	100.00%
G	28.67%	0.04%	0.27%	9.48%	100.00%		G	27.94%	0.00%	0.28%	8.92%	100.00%
H	29.58%		0.00%	16.17%	100.00%		H	28.48%		0.01%	15.44%	100.00%
J	20.25%			24.18%	100.00%		J	18.15%			23.95%	100.00%
K	4.69%			33.72%	100.00%		K	3.18%		0.00%	35.90%	100.00%
L	0.43%			47.98%	100.00%		L	0.23%			53.19%	100.00%
M					100.00%		M					100.00%
N					100.00%		N					100.00%
S					100.00%		S					100.00%
U					100.00%		U					100.00%
W					100.00%		W					100.00%
Y					100.00%		Y					100.00%
TOTAL	35.34%	7.11%	3.99%	3.17%	100.00%		TOTAL	36.18%	7.10%	4.07%	3.07%	100.00%
A	47.34%	15.22%	5.51%	0.02%	100.00%							
B	27.31%	0.98%	4.72%	0.27%	100.00%							
C	28.64%	1.28%	4.30%	0.60%	100.00%							
D	29.03%	0.55%	3.84%	1.21%	100.00%							
E	28.18%	0.13%	3.49%	2.38%	100.00%							
F	27.38%	0.01%	2.42%	4.93%	100.00%							
G	28.92%	0.01%	0.29%	9.35%	100.00%							
H	29.34%			16.19%	100.00%							
J	19.25%			25.03%	100.00%							
K	3.88%			36.58%	100.00%							
L	0.25%			52.58%	100.00%							
M					100.00%							
N			0.30%		100.00%							
S					100.00%							
U					100.00%							
W					100.00%							
Y					100.00%							
TOTAL	35.91%	7.52%	4.16%	3.23%	100.00%							

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OCA/USPS-T5-14. Please confirm that the cost segments and components identified in exhibit USPS-5A represent the same segments and components as identified in the Postal Service's FY 1996 CRA filed with the Commission on June 6, 1997. If you are unable to confirm, identify each segment and component that differs and identify the specific costs that have migrated. Your response should include a cross-walk that clearly identifies the costs appearing in the Postal Service's published FY 1996 CRA, the migration path to the components appearing in your USPS-5A and information similar to that provided in USPS library reference H-1. As an example, do the Postal Service's FY 1996 CRA total costs for segment 3.2 window service (2,013,205 at 2) represent the same type of total costs presented in USPS-5A 3.2 window service (1,906,619 at 20)? See also USPS library reference H-1 at 3-8.

OCA/USPS-T5-14 Response:

In general, the segments and component identified in exhibit USPS-5A represent the same segments and components as identified in the Postal Service's FY 1996 CRA filed with the Commission on June 6, 1997 pursuant to the periodic reporting requirements. The reason I use the qualifier "in general" is because, although the dollar amounts are not the same in the two versions of the segments and components mentioned above, the basic definition of the components and their groupings into segments is the same. For example, the definition of component 35, Mail Processing Direct Labor is the same in both versions.

A request for a cross-walk of the migration path between the two versions might indicate a misunderstanding of the development. This is unlike the situation that existed in Docket No. MC96-3 wherein changes from Fiscal Year 1994 to Fiscal Year 1995 were implemented to more closely align the CRA report and the accounting systems used in Budget. In that situation, a clear cross-walk was possible because the

Response of United States Postal Service Witness Alexandrovich  
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dollar amounts in accounts and components were literally moved from one place to another. See USPS Library Reference SSR-10.

The situation in Docket No. R97-1 is entirely different. Attachment I to this response shows the accrued costs for all the "A Report" components that differ between the FY 1996 CRA and the FY 1996 Base Year presented in this case. These component by component dollar amount differences are not the result of accounting changes or realignment of the component, rather they are the result of new costing methodologies. This means for example, that the cost pool for Segment 3 is the same in both versions, but the calculations that result in how these dollars are spread to the individual components that comprise Segment 3 are different.

As discussed on pages 5 and 6 of my testimony, the following testimonies should be consulted to fully understand the new costing methodologies that give rise to the dollar differences between components in the FY 1996 CRA and the FY 1996 Base Year. In Segment 3, Clerks and Mailhandlers, for window service see Witness Brehm, USPS-T-21, for mail processing volume variabilities see Witness Bradley, USPS-T-14 and for mail processing cost distribution see Witness Degan, USPS-T-12. In Segments 6 and 7, City Delivery Carriers, see Witness Nelson, USPS-T-9 and Witness Baron, USPS-T-17. In Segment 9, Special Delivery Messengers, see Witness Nelson, USPS-T-19.

In addition to the changes discussed by these other witnesses, there are components that piggyback on the components affected by the work of these other

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witnesses. For instance, the Motor Vehicle Service components in Segment 12 and the Carfare and Driveout components in Segment 13 are piggybacked on the City Delivery Carrier costs in Segments 6 and 7. As such, these components in Segments 12 and 13 are affected by the changes made by the other witnesses mentioned earlier.

Furthermore, the components listed in the 1300 and 1400 series are different because they are not used in the FY 1996 CRA "A file" although they are needed in the Base Year 1996 "A file" because they are inputs to the rollforward model.

Attachment I  
OCA/USPS-T5-14

	Fiscal Year 1996 CRA		FY 1996 Base Year		Difference
	Comp Number	Amount (000's)	Comp Number	Amount (000's)	BY - CRA
<b>CS 2 -- Supervisors:</b>					
Office	0013	236376	0013	222225	(14151)
Elemental Load	0014	68989	0014	100329	31340
Other Load	0015	43761	0015	0	(43761)
Access	0016	145183	0016	123074	(22109)
Other	0017	81922	0017	93435	11513
Route	0018	110307	0018	147475	37168
Total	0021	1987493	0021	1302068	(685425)
Office	0025	1593	0025	1507	(86)
Street	0026	7123	0026	7209	86
<b>CS 3 -- Clerks &amp; Mailhandlers:</b>					
MP Fixed	0022	551786	0022	0	(551786)
Mail Proc Direct Labor	0035	9055540	0035	13247412	4191872
Overhead	0036	2848067	0036	0	(2848067)
MP & Window	0039	14468598	0039	15154031	685433
Window Service	0040	2013205	0040	1906619	(106586)
Admin Other	0041	262210	0041	268688	6478
Claims & Inquiry	0066	47370	0066	38328	(8542)
Specific Fixed	0227	82089	0227	10669	(71420)
T & A	0228	286981	0228	207830	(79151)
Total	0253	16456091	0253	16456099	8
Data Collection	0421	99351	0421	80835	(18516)
Gen'l Office & Clerical	0422	1017399	0422	555181	(462218)
QC	0423	43171	0423	29032	(14139)
Tmg Schemes	0467	7339	0467	4190	(3149)
Tmg MP - NonParcels	0468	26157	0468	18858	(7299)
Tmg MP - Parcels	0469	614	0469	407	(207)
Tmg Other	0470	114812	0470	87550	(27262)
Unadj Mail Processing	0546	9055540	0546	13247412	4191872
Premiums Deduc Key	0547	8907483	0547	9986633	1079150
Premiums Deduction	0661	-511836	0661	-424652	87184
Window Service Total	0802	2013205	0802	1906619	(106586)
<b>CS 4 -- CAG K Clerks</b>					
Total	0042	9311	0042	9333	22
	0254	9311	0254	9333	22
<b>CS 6 &amp; 7 -- City Carriers:</b>					
Office-Direct Labor	0043	3124403	0043	3111448	(12955)
Office-Support	0044	575832	0044	598405	22573
Elemental Load	0046	1151721	0046	1674915	523194
Other Load	0047	730559	0047	0	(730559)
Access	0048	2423713	0048	2054620	(369093)
Other Office	0049	461402	0049	539933	78531
Other Elemental Load	0050	159073	0050	266742	107669



Attachment I  
OCA/USPS-T5-14

	<u>Fiscal Year 1996 CRA</u>		<u>FY 1996 Base Year</u>		<u>Difference</u>
	<u>Comp</u>	<u>Amount</u>	<u>Comp</u>	<u>Amount</u>	
	<u>Number</u>	<u>(000's)</u>	<u>Number</u>	<u>(000's)</u>	<u>BY - CRA</u>
Other Other Load	0051	118830	0051	0	(118830)
Other Access	0052	366895	0052	344783	(22112)
Other Route	0053	261427	0053	408370	146943
Route	0054	1841490	0054	2461980	620490
Total CS 6	0256	3946362	0256	3710132	(236230)
Total CS 7	0257	7515110	0257	7751343	236233
Sum Other V V/Overhd	0522	1367627	0522	1559828	192201
Veh Prep, Key Handling	0604	245848	0604	0	(245848)
Total Other Load	0692	730559	0692	0	(730559)
 CS 9 -- Sp Del Messengers					
Office	0058	19308	0058	18265	(1043)
Street	0059	86317	0059	87364	1047
Total Salaries	0061	105625	0061	105629	4
Total	0259	105631	0259	105635	4
 CS 12 -- Motor Vehicle Service					
Personnel					
Office	0082	5895	0082	16527	10632
Elemental Load	0083	2050	0083	7368	5318
Other Load	0084	1163	0084	0	(1163)
Access	0085	100799	0085	75326	(25473)
Route	0086	87236	0086	97922	10686
S & M					
Office	0091	6467	0091	18131	11664
Elemental Load	0092	2249	0092	8083	5834
Other Load	0093	1276	0093	0	(1276)
Access	0094	110579	0094	82635	(27944)
Route	0095	95700	0095	107422	11722
Vehicle Hire					
Office	0100	8188	0100	8178	(10)
Elemental Load	0101	2560	0101	3668	1108
Other Load	0102	1707	0102	0	(1707)
Access	0103	6148	0103	5153	(995)
Route	0104	4818	0104	6422	1604
 CS 13 -- Misc. Expenses					
Carfare					
Office	0127	2338	0127	2308	(30)
Elemental Load	0128	1216	0128	1842	626
Other Load	0129	693	0129	0	(693)
Access	0130	1199	0130	1048	(151)
Route	0131	535	0131	783	248
Driveout					
Office	0136	2055	0136	2031	(24)
Elemental Load	0137	1069	0137	1619	550

	Fiscal Year 1996 CRA		FY 1996 Base Year		Difference
	Comp Number	Amount (000's)	Comp Number	Amount (000's)	BY - CRA
Other Load	0138	610	0138	0	(610)
Access	0139	1054	0139	921	(133)
Route	0140	471	0140	688	217
<b>CS 16 -- Supplies and Service</b>					
Printing & Repro	0179	52120	0179	46350	(5770)
Stamps & Dispensers	0180	194481	0180	191201	(3280)
St Env & St Cards	0248	3158	0248	12208	9050
<b>CS 20 -- Vehicle Depreciation</b>					
Office	0221	4175	0221	11705	7530
Elemental Load	0222	1452	0222	5218	3766
Other Load	0223	824	0223	0	(824)
Access	0224	71392	0224	53350	(18042)
Route	0225	61786	0225	69354	7568
Total CDC	0226	139629	0226	139627	(2)
Adjstd Vehicle Deprc.	0231	172203	0231	172201	(2)
Total Depreciation	0078	1332784	0078	1332782	(2)
<b>Total Accrued Costs</b>	<b>0271</b>	<b>54976562</b>	<b>0271</b>	<b>54976597</b>	<b>35</b>
<b>Distribution Keys:</b>					
DK HL & Adm Clerks	0294	33845007	0294	34938199	1093192
DK QC	0295	12537482	0295	13258081	720599
DK All non Tmg -CS 3	0473	15002789	0473	15582083	579294
DK Gen Supv:Del & Coll	0523	13474398	0523	13367815	(106583)
DK CS 9 Salaries	0524	105625	0524	105629	4
DK E&LR, T & A	0525	38525817	0525	38605005	79188
DK RAL, HOL, CSR, WC	0526	39802936	0526	39802973	37
DK Night Pre nonPlatform	0544	2376865	0544	2089261	(287604)
DK Sp Purpose Rtes	0578	255625	0578	263449	7824
DK Veh Prep, Key Handling	0605	11215345	0605	11461196	245851
DK CDC In-Office	0606	3946083	0606	3709853	(236230)
DK 97 / 98 DPS	0609	0	0609	1000000	1000000
DK Sun Pre Platform	0654	1452	0654	1135	(317)
DK Sun Pre Platform	0655	979	0655	798	(181)
DK Sun Pre nonPlatform	0659	66111	0659	57449	(8662)
DK Night Pre Platform	0660	52865	0660	35800	(17065)
DK Sun Pre nonPlatform	0662	128162	0662	105899	(22263)
DK Night Pre nonPlatform	0663	375189	0663	313076	(62113)
DK Night Pre Platform	0664	7033	0664	4542	(2491)
DK Supv CI/MH	0694	26612904	0694	27154284	541380
DK Space and Rental					
DK OCR	0913	145782	0913	168316	22534
DK Sorting to Letter Cases	0930	1705889	0930	1705809	(80)
DK Platform	0943	726006	0943	10000	(716006)

		<u>Fiscal Year 1996 CRA</u>		<u>FY 1996 Base Year</u>		<u>Difference</u>
		<u>Comp</u>	<u>Amount</u>	<u>Comp</u>	<u>Amount</u>	
		<u>Number</u>	<u>(000's)</u>	<u>Number</u>	<u>(000's)</u>	<u>BY - CRA</u>
DK	MPE Subtotal Key	1258	0	1258	76742875	76742875
DK	Equipment Related					
DK	CFS	1307	0	1307	193630	193630
DK	MP BCS	1314	0	1314	246479	246479
DK	Delivery BCS	1315	0	1315	185573	185573
DK	LSM	1316	0	1316	540955	540955
DK	FSM	1317	0	1317	438220	438220
DK	Parcel Sorting & NMO	1318	0	1318	96069	96069
DK	Facer/Canceler Ltrs	1319	0	1319	85249	85249
DK	Facer/Canceler Flats	1320	0	1320	30298	30298
DK	Culling	1321	0	1321	21948	21948
DK	Sack Sorting Machine	1322	0	1322	23827	23827
DK	SPBS	1323	0	1323	184986	184986
DK	RBCS	1324	0	1324	36072	36072
DK	ACDCS	1326	0	1326	9780	9780
DK	OCR	1363	0	1363	214142	214142
DK	Power Transport Equip	1364	0	1364	24896	24896
DK	Strapping	1365	0	1365	18259	18259
DK	GEn & Log BMC	1366	0	1366	313025	313025
DK	Gen & Log nonBMC	1367	0	1367	7372047	7372047
DK	Car Seq BCS	1371	0	1371	31087	31087
DK	FY97 Final Adj	1398	0	1398	24509	24509
DK	FY98 Final Adj	1399	0	1399	-138628	(138628)
DK	FY97 Volume	1402	0	1402	1.91E+08	190711617
DK	TYBR Volume	1403	0	1403	1.97E+08	196802962
DK	TYAR Volume	1404	0	1404	1.95E+08	195440559
DK	FY96 Revenue	1412	0	1412	57962499	57962499
DK	TYBR Revenue	1413	0	1413	59416627	59416627
DK	TYAR Volume	1414	0	1414	61646889	61646889
DK	Volume Mix Adjustment	1417	0	1417	-77452	(77452)
DK	Parcel Post Key	1418	0	1418	1	1
DK	International Key	1419	0	1419	1	1

Response of United States Postal Service Witness Alexandrovich  
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7054

OCA/USPS-T5-16. Please provide a citation to where the cost component 6.1 attributable costs are developed for the base year.

**Response to OCA/USPS-T5-16**

BY 1996 volume variable costs for component grouping 6.1 are developed in my Workpaper B-6. Citation errors in two worksheets were found upon review of this workpaper, and corrected copies of these worksheets will be submitted with this response. Also, to aid in the review of component grouping 6.1 cost development, I am filing W/S 6.0.2.2, which summarizes selected LIOCATT costs found in Workpapers C-1 and C-2 into a single spreadsheet.

**Response of United States Postal Service Witness Alexandrovich  
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Interrogatories of OCA**

7055

**OCA/USPS-T5-24.** Please confirm that for each of the segment 2 components, there is no change in the determination of accrued costs between the base year and the FY 1996 CRA (library reference H-1) methodologies. If you do not confirm, please provide the difference for each component along with its derivation.

**Response to OCA/USPS-T5-24**

Confirmed.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA**

7056

**OCA/USPS-T5-25.** There appears to be no change between the FY 1996 CRA and the base year accrued cost for supervision of mail processing (cost component 2.1), yet the accrued cost increases significantly for clerk and mailhandler mail processing (cost component 3.1).

- a. Please explain why a change in clerk and mailhandler mail processing accrued cost should not be accompanied by a corresponding change in accrued cost for their supervisors.
- b. Would you normally expect that the accrued cost of supervising an activity would hold constant if the accrued cost of that activity increased or decreased significantly. Please explain.
- c. Do the supervisors now supervise more clerks and mailhandlers under the base year methodology? Please explain your response.

**Response to OCA/USPS-T5-25**

a-b. As explained in the testimony of witness Degen, USPS-T12, the methodology for developing mail processing clerk and mailhandler costs was modified in the base year. The methodology for developing mail processing supervisor costs, on the other hand, was not changed. In the base year, segment 3 mail processing costs were developed using MODS data, while segment 2 mail processing supervisory costs continued to be IOCS-based.

Since the change in segment 3 mail processing costs was not based on any workload difference between the fiscal year and the base year, one would not necessarily expect the supervisor costs for mail processing to change.

**Response of United States Postal Service Witness Alexandrovich  
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**Response to OCA/USPS-T5-25 (cont.)**

- c. No. As explained above, the change in segment 3 mail processing costs was not based on workload differences between the fiscal year and base year.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

**OCA/USPS-T5-33.** Please refer to Attachment 1 to OCA/USPS-T5-11-13. This attachment shows the year end number of clerks, mailhandlers, supervisors, postmasters, and total employee complement by CAG for each of the past five years.

- a. Please provide definitions of CAGs M-Y for FY 1992 and FY 1993.
- b. Please explain why CAGs M and O-Y disappear after FY 1993 and what became of the employees associated with those CAGs after FY 1993.
- c. Please explain why the total complement for the lowest CAG group (N) in FY 1994 drops sharply from the lowest CAG group (M-Y) in FY 1993.
- d. Please explain how the CAG M and CAG O-Y employees in FY 1993 are reflected in the FY 1994-1996 tables of employee complements.
- e. Are all CAG K clerk salaries included in cost segment 4? If not, please explain and provide the proportion of CAG K clerk salaries included in cost segment 4.
- f. Please explain what cost segment includes the CAG L clerk costs.
- g. Please list all crafts or other categories of employees that comprise the FY 1992 and 1993 CAG M-Y "TOTAL USPS" employee counts.
- h. Please list all crafts or other categories of employees that comprise the FY 1994-96 CAG N "TOTAL USPS" employee counts.
- i. Please explain why there are CAG N supervisors only for two years, FY 1994 and FY 1995.

**Response to OCA/USPS-T5-33**

- a. The definitions of all CAG codes can be found in Handbook F-8, *General Classification of Accounts*, filed in this proceeding as LR-H-237. CAGs M through Y are defined as follows:

CAG	Purpose
M	Miscellaneous - Headquarters-Related Field Sites
N	Area
R	Rural
S	Inspection Service - Field
U	Information Service Center
W	Headquarters
Y	Maintenance Technical Support Center



**Response to OCA/USPS-T5-33 (cont.)**

- b-d. The data for CAG groupings M, S, U, and W were inadvertently left out of the original Attachment 1 to OCA/USPS-T5-11-13. Please see the revised Attachment 1 filed today. I have also provided a supplemental Attachment 1 to OCA/USPS-T5-11-13 which shows paid employees rather than employees on roll.
- e. Yes.
- f. It is my understanding that the few clerks listed in CAG L offices most likely represent clerks who are serving as officers-in-charge of CAG L offices. To the extent that my understanding of this issue is correct, these costs should be included in segment 1 costs.
- g. No craft employees are included in the CAG M-Y employee counts for FY 1992 and 1993. The employees in these CAGs are simply categorized as either bargaining or non-bargaining.
- h. No craft employees are included in the CAG N employee counts for FY 1994-1996. The employees in this CAG are categorized as Professional/Admin/Technical, Supervisor/Manager, and bargaining/non-bargaining.
- i. In FY 1994 there are a total of 4 supervisors, and in FY 1995 a total of 3 supervisors, in CAG N offices. I have no explanation for why there are none in FYs 1992, 1993, and 1996.

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7060

**OCA/USPS-T5-36.** Please refer to library reference H-1, pages x-xvii.

- a. Please provide each of these tables for the base year.
- b. Please provide the Table 1 accrued cost by CAG for the base year.
- c. Please provide the Table 3 accrued cost by CAG for the base year.
- d. Please identify any accrued cost changes between FY 1996 and BY 1996 for Table 1. Please explain the reasons for any such changes in accrued cost between the FY 1996 and BY 1996 figures.
- e. Please identify any accrued cost changes between FY 1996 and BY 1996 for Table 3. Please explain the reasons for any such changes in accrued cost between the FY 1996 and BY 1996 figures.

**Response to OCA/USPS-T5-36**

- a. The data to construct these tables is contained in my Exhibit USPS-5A.  
  
The component groupings listed in the left-hand column on pages xii to xvii are the same component groupings that appear in this exhibit.
- b. An objection has been filed to this question.
- c. An objection has been filed to this question.
- d. This information was supplied in response to OCA/USPS-T5-14 and Attachment 1 to that response.
- e. The information contained in the response to OCA/USPS-T5-14 and Attachment 1 to that response, along with the data found in Exhibit USPS-5A can be used to construct a Table 3-type comparison of Base Year and Fiscal Year 1996.

Response of United States Postal Service Witness Alexandrovich  
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Interrogatories of OCA

7061

**OCA/USPS-T5-37.** Please refer to your Workpaper B-1, W/S 1.0.3.

- a. Please confirm that the FY 1996 average salary for postmasters in CAGs A-G is \$55,220. If you do not confirm, please explain and provide the correct figure.
- b. Please confirm that the FY 1996 average salary for postmasters in CAGs H-J is \$44,487. If you do not confirm, please explain and provide the correct figure.
- c. Please confirm that the FY 1996 average salary for postmasters in CAGs K-L is \$39,309. If you do not confirm, please explain and provide the correct figure.
- d. Please confirm that the FY 1996 average salary for "Postmasters, No City Delivery" is \$12,349. If you do not confirm, please explain and provide the correct figure.

**Response to OCA/USPS-T5-37**

- a. Confirmed
- b. Confirmed.
- c. Confirmed.
- d. Almost confirmed. The correct figure is \$12,346.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

7062

**OCA/USPS-T5-38.** Please refer to your WP B W/S 1.0.3, page 4. This sheet summarizes information for postmasters for offices with no city delivery.

- a. Please confirm that these postmasters are for the Fee Group E offices in witness Lion's testimony. If you do not confirm, please explain all differences between your definition of offices with no city delivery and Fee Group E offices.
- b. Please confirm that all Fee Group E offices with postmasters are covered by these postmaster costs. If you do not confirm, please explain where postmaster costs for the other Fee Group E offices would be summarized.
- c. Are there postmaster costs reflected in this sheet that are not associated with offices offering post office boxes? Please explain.

**Response to OCA/USPS-T5-38**

- a. Not confirmed. It is my understanding that Fee Group E in witness Lion's testimony refers to customers, rather than offices, who are ineligible for home delivery. Some of these customers have their boxes in offices which provide carrier delivery, while others maintain boxes in nondelivery offices. See USPS-T24 at 1-2.
- b. Not confirmed. It is my understanding that Fee Group E refers to customers who are ineligible for delivery. Since there are no Fee Group E "offices", there is no Fee Group E category of postmasters.
- c. W/S 1.0.3, page 4 is used in the development of EAS-23 and below postmaster costs. I have no information on the characteristics of the offices which these postmasters serve.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA

**OCA/USPS-T5-39.** Please refer to Attachment 1 to your response to OCA/USPS-T5-11-13. This response shows a total of  $3606+4723 = 8329$  postmasters on the rolls for CAGs H and J at the end of FY 1996. At page 2 of your w/s 1.0.3, the total number of CAGs H and J postmasters is shown to be 8354. Please explain why these two postmaster figures should differ.

**Response to OCA/USPS-T5-39**

I cannot explain with certainty the apparent minor discrepancy between the two figures.

Response of United States Postal Service Witness Alexandrovich  
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Interrogatories of OCA

7064

**OCA/USPS-T5-40.** Please refer to your Workpaper B-1, W/S 1.0.3. Please explain why the FY 1996 salaries for postmasters are broken out separately by CAGs A-G, CAGs H-J, and CAGs K-L. What reasoning underlies the choice of this particular breakdown? Are costs for other crafts broken out by CAG groupings? If so, which crafts?

**Response to OCA/USPS-T5-40**

It is my understanding that postmasters salaries are broken out in this fashion because that is the way they are reported in the National Payroll Hours Summary Report, from which they are derived. The only other craft whose costs are broken out by CAG are clerks, whose costs are reported by CAG A-J and CAG K.

**Response of United States Postal Service Witness Alexandrovich  
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**OCA/USPS-T5-41.** Please refer to your W/P B-3, W/S 3.2.1., page 2, n. b. Please state the location of the cited program. If it is not already on file with the Commission, please file it.

**Response to OCA/USPS-T5-41**

The footnote is wrong. The correct citation for column 2, lines 1-43 is W/S 3.2.1.1, column 9. The correct citation for the activities listed in lines 44-63 is USPS-LR-146, pp. IV-9,10. A revised W/S 3.2.1 is being filed today.

Interrogatories of OCA  
(Redirected from Witness Lion, USPS-T24)

**OCA/USPS-T24-53.** Please refer to your testimony at page 1, lines 17-22.

- c. Please confirm that the costs of highway contract delivery are contained in Cost Segment 10. If you do not confirm, please explain.

**Response to OCA/USPS-T24-53c**

Not confirmed. Highway contract delivery costs are contained in Cost Segment 14, Purchased Transportation.



Response of United States Postal Service Witness Alexandrovich  
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Interrogatories of OCA  
(Redirected from Witness Lion, USPS-T24)

7067

**OCA/USPS-T24-56.** Please refer to your testimony at page 1, lines 17-22, and the table below.

COST SEGMENT	1992	% Chg.	1993	% Chg.	1994	% Chg.	1995	% Chg.	1996
C/S 6&7	\$9,994,791	4.7%	\$10,460,864	5.6%	\$11,043,423	3.8%	\$11,462,483	0.0%	\$11,461,472
C/S 10	\$2,614,273	6.4%	\$2,780,993	9.4%	\$3,042,304	5.7%	\$3,216,823	5.0%	\$3,377,062

Source: CRA, FY 1992-96

- a. Please confirm that the figures for Cost Segment 6&7 and Cost Segment 10 are correct. If you do not confirm, please explain.
- b. Please confirm that rural carrier costs (C/S 10) are growing at a relatively faster rate than city carrier costs (C/S 6&7) during the fiscal years indicated. If you do not confirm, please explain.
- c. What explains the relatively faster growth of rural carrier costs than city carrier costs?

**Response to OCA/USPS-T24-56**

- a. Confirmed.
- b. Confirmed.
- c. It is my understanding that a number of factors account for the relatively higher growth rate in rural carrier costs over this time period. I am informed that these factors include:
  - i. faster growth in possible deliveries for rural routes relative to city routes;
  - ii. a greater proportion of delivery point sequenced mail on city routes, and;

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**Response to OCA/USPS-T24-56 (cont.)**

- iii. a larger rate of increase in the average hourly wage paid to rural carriers.

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to  
Interrogatories of OCA  
(Redirected from Witness Lion, USPS-T24)**

7069

**OAC/USPS-T24-66.** At page 20, line 12 of your testimony you state that labor costs relating to provision of post office box service do not vary with location.

- a. Please confirm that attributable costs of postmasters vary by CAG. If you do not confirm, please explain.
- b. Please confirm that the salaries of postmasters vary by CAG. If you do not confirm, please explain.
- c. Please confirm that attributable costs of clerks and mailhandlers vary by CAG (e.g., some CAGs have no clerks or mailhandlers). If you do not confirm, please explain. In any event, please provide a tabulation of total (i.e., not just post office box) FY 1996 Clerk/Mailhandler costs by CAG by subaccount (e.g., .104, .105, .107). See library reference H-1, Tables A-1, A-2.
- d. Please confirm that if fee group D were redefined as boxes at those CAGs that do not employ clerks and mailhandlers not in fee group E, labor costs would vary across fee groups. If you do not confirm, please explain.
- e. Please confirm that if fee group C were redefined as boxes at CAG A-D facilities not in fee groups A, B, or E and if fee group D were defined as boxes at CAG E-L facilities not in fee group E, then labor costs would vary across fee groups. If you do not confirm, please explain.
- f. Please confirm that costs allocated in proportion to clerk and mailhandler costs (e.g., supervisors) vary by CAG. If you do not confirm, please explain. In any event, please provide a tabulation of total (i.e., not just post office box) FY 1996 All Other costs by CAG by subaccount. See library reference H-1, Tables A-1, A-2.

**Response to OAC/USPS-T24-66**

- a. Not confirmed. Information on volume variable costs by CAG does not exist because volume variable costs are not developed by CAG.
- b. Confirmed. The postmaster salary schedule is based, in part, on the CAG level of the office.
- c. Not confirmed. It cannot be stated that the volume variable costs vary by CAG because volume variable costs are not developed by CAG.  
  
Additionally, because volume variable costs are not developed by CAG,

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to  
Interrogatories of OCA  
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**Response to OAC/USPS-T24-66 (cont.)**

the data to produce the requested tabulation do not exist. Incidentally, the assertion that some CAGs have no clerks or mailhandlers is incorrect. In FY 1996, all CAGs, A through L, include at least some clerks. See Attachment 1 of the response to OCA/USPS-T5-11-13.

d. - e. Answered by witness Lion

f. Not confirmed. Assuming that your question refers to the process by which the distribution of volume variable supervisor costs is piggybacked on the volume variable costs of the underlying clerks and mailhandlers, the process has nothing to do with CAG level. In the "A file" of the CRA/Rollforward model, the distribution of supervisor costs relies on the distribution of the direct labor costs for the particular functions. In this example, the distribution of the supervisor costs for mail processing is piggybacked on the distribution of the clerk and mailhandler costs for mail processing. In any event, because neither the clerk and mailhandler volume variable costs nor the supervisor volume variable costs are developed and built-up from the CAG level, the data required to produce the requested tabulation by CAG does not exist.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA  
(Redirected from Witness Lion, USPS-T24)

7071

**OCA/USPS-T24-67.** Please confirm that some facilities and some CAGs incur no Space Support costs (other than, perhaps, inspection service costs). If you do not confirm, please explain. In any event, please provide a tabulation of total (i.e., not just post office box) FY 1996 Space Support costs by CAG by subaccount (e.g., .121, .125, .171, .172) and account (e.g., 52101, 52102, 54142, 54143, etc.). See library reference H-1, Tables A-1, A-2.

**Response to OCA/USPS-T24-67**

Not confirmed. Volume variable Space Support costs, as defined by witness Lion include: Cleaning and Protection, Plant and Building, Postal Inspection Service, Fuel and Utilities, Custodial and Building and Contract Cleaners. Some or all of these types of costs are incurred at each facility, and certainly all of them are incurred at the CAG level.

Additionally, all of the types of volume variable costs that comprise Space Support are PESSA costs that receive their distribution in the "B file" of the CRA/Rollforward model. The calculation of the volume variable portion of these costs occurs well after any CAG level detail has ceased to exist in the model. As such, the requested tabulation by CAG cannot be produced.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA  
(Redirected from Witness Lion, USPS-T24)**

**OCA/USPS-T24-69.** Please refer to your testimony at page 20, line 7, "All Other" costs.

- a. For Cost Segments 6 & 7, city delivery carriers, please confirm that the figure, \$353,000, post office box attributable costs, is obtained by summing \$259,000 (Component 6.1, In-Office Direct Labor), \$49,000 (Component 6.2, In-Office Support), and \$45,000 (Component 7.5, Street Support). If you do not confirm, please explain and provide the correct figures.
- b. Please describe, for post office boxes, the tasks and activities performed under Components 6.1, 6.2 and 7.5.
- c. Please confirm that highway contract carriers engage in the same tasks and activities described in part b. above. If you do not confirm, please explain.
- d. Please confirm that the cost of highway contract carriers (Cost Segment 14) is not an attributable cost of post office boxes. If you do not confirm, please explain.
- e. Please explain why the tasks or activities giving rise to costs of highway contract carriers that are similar or identical to the costs of city delivery carriers are not included in post office box attributable costs.

**Response to OCA/USPS-T24-69**

- a. Answered by witness Lion.
- b. Costs associated with post office boxes for city carriers are captured in IOCS by activity codes 5020, 6020, and 6030. These codes represent window service and window-related activities associated with post office boxes and caller service. LIOCATT distributes these costs to component grouping 6.1 (In-Office Direct Labor). Component grouping 6.1 is used to distribute volume variable costs for component 6.2 (In-Office Support). See USPS Exhibit-5A, page 26.1. Component grouping 6.1 is also used

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**Response to OCA/USPS-T24-69 (cont.)**

as part of the key to distribute volume variable costs for component grouping 7.5 (Street Support). See USPS Exhibit-5A, page 28.1.

The IOCS tallies for city carriers involved in activity codes 5020, 6020, and 6030 occur only for route type 99 (In-Office - Not Assigned to Route or Assisting Carriers).

- c. Not confirmed. Highway contract routes have no equivalent to city carrier route type 99.
- d. Confirmed.
- e. As explained in part (c) above, the tasks and activities performed by highway contract carriers are not similar or identical to those performed by city carriers.

Interrogatories of OCA  
(Redirected from the United States Postal Service)

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**OCA/USPS-13.** Please confirm that the following figures may be found in the CRA for FY 1996 (filed with the Commission on June 6, 1997; hereinafter "CRA") and the Cost Segments and Components for base year 1996 (filed in the instant proceeding as Exhibit USPS-5A; hereinafter "5A").

- a. total volume variable costs for special fourth-class rate (hereinafter "SFCR") of \$248.3 million (CRA). If you do not confirm, please provide the correct figure.
- b. total volume variable costs for SFCR of \$226.5 million (5A). If you do not confirm, please provide the correct figure.
- c. total volume variable costs for library rate (hereinafter "LR") of \$52 million (CRA). If you do not confirm, please provide the correct figure.
- d. total volume variable costs for LR of \$47.8 million (5A). If you do not confirm, please provide the correct figure.

Also, confirm that the following calculations may be made from figures cited in parts

a. - d. above:

- e. the difference between total volume variable costs for SFCR (CRA) and total volume variable costs for SFCR (5A) is:  
 $248.3 - 226.5 = 21.8$ ; i.e., a decline in the total volume variable costs for SFCR of \$21.8 million from CRA to 5A. If you do not confirm, please provide alternative, correct calculations.
- f. the difference between total volume variable costs for LR (CRA) and total volume variable costs for LR (5A) is:  
 $52 - 47.8 = 4.2$ ; i.e., a decline in the total volume variable costs for LR of \$4.2 million. If you do not confirm, please provide alternative, correct calculations.
- g. the ratio of the decline in SFCR total volume variable costs to the decline in LR total volume variable costs is  $21.8 \div 4.2 = 519\%$ . If you do not confirm, please provide alternative, correct calculations.

**Response to OCA/USPS-13**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.



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to  
Interrogatories of OCA  
(Redirected from the United States Postal Service)**

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**Response to OCA/USPS-13 (cont.)**

- e.** Confirmed.
- f.** Confirmed.
- g.** The arithmetic is confirmed.

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Interrogatories of OCA  
(Redirected from the United States Postal Service)

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**OCA/USPS-14.** Please explain why ratios calculated in similar fashion from the following cost segments and components vary so markedly from the overall 519-percent ratio given in part g. of OCA/USPS-13.

- a. C/S 2.2 (Supervisors and Technicians, Window Service).
- i. SFCR cost difference from CRA to 5A of \$84 million, calculated as follows:  
 $\$382 \text{ million (CRA)} - 298 \text{ (5A)} = 84$ ; this represents a *decline* for SFCR of \$84 million.
  - ii. LR cost difference from CRA to 5A to of \$7 million, calculated as follows:  
 $\$9 \text{ (5A)} - 2 \text{ (CRA)} = 7$ ; this represents an *increase* for LR of \$7 million.
  - iii. ratio of SFCR to LR change:  $84 \div 7 = 1200\%$
  - iv. explain why SFCR enjoys a 12-to-1 benefit over LR for this component (as compared to the 519% overall ratio). If any figures or calculations in a.i.-iv. are found to be incorrect, please provide corrections and discuss.
- b. C/S 3.2 (Clerks and Mailhandlers, CAGs A-J, Window Service).
- i. SFCR cost difference from CRA to 5A of \$1123 million, calculated as follows:  
 $\$4310 \text{ million (CRA)} - 3187 \text{ (5A)} = 1123$ ; this represents a *decline* for SFCR of \$1123 million.
  - ii. LR cost difference from CRA to 5A to of \$74 million, calculated as follows:  
 $\$99 \text{ (5A)} - 25 \text{ (CRA)} = 74$ ; this represents an *increase* for LR of \$74 million.
  - iii. ratio of SFCR to LR change:  $1123 \div 25 = 1518\%$
  - iv. explain why SFCR enjoys a 15-to-1 benefit over LR for this component (as compared to the 519% overall ratio). If any figures or calculations in b.i.-iv. are found to be incorrect, please provide corrections and discuss.

**Response to OCA/USPS-14 a and b**

The costs for these components are in thousands, not millions as presented in your question (e.g., component 2.2 costs for library rate are \$2,000 in fiscal year 1996 and \$9,000 in the base year). Also, in section

**Response to OCA/USPS-14 (cont)**

iii of part b, it is difficult to determine what the correct calculations are intended to be. As stated  $1123/25 = 1518\%$  is not correct. The correct result of  $1123/25$  is  $4492\%$ . If the equation is supposed to parallel the one used in part a, the expression would be  $1123/74 = 1518\%$ . It appears that this version is the one intended, but due to the manner in which the question is constructed, it's not entirely clear.

Nonetheless, changes in the volume variable costs between the fiscal year and base year for component 2.2 are the direct result of changes in component 3.2. As discussed at pages 4-5 of my testimony, and at greater length in the testimony of witnesses Brehm and Degen, the base year introduces changes in the volume variabilities of various window service activities and in the distribution of segment 3 costs. Segment 2 volume variable costs are distributed in proportion to their corresponding segment 3 activities in both the fiscal year and base year cost development.

Response of United States Postal Service Witness Alexandrovich  
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Interrogatories of OCA  
(Redirected from the United States Postal Service)

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**OCA/USPS-42.** Please refer to the description and development of the 519-percent ratio in interrogatory OCA/USPS-13. Explain why a ratio calculated in similar fashion from the following cost component varies so markedly from the overall 519-percent ratio.

C/S 7.1 (City Delivery Carriers, Street Activity, Route).

- a. SFCR cost difference from CRA to 5A of \$3.5 million, calculated as follows:  
 $\$3.5 \text{ million (5A)} - \$0 \text{ (CRA)} = 3.5$ ; this represents an *increase* for SFCR of \$3.5 million.
- b. LR cost difference from CRA to 5A to of \$1 million, calculated as follows:  
 $\$1 \text{ million (5A)} - \$0 \text{ (CRA)} = 1 \text{ million}$ ; this represents an *increase* for LR of \$1 million.
- c. ratio of SFCR to LR change:  $3.5 \div 1 = 350\%$
- d. explain why SFCR's component 7.1 cost increased so modestly compared to LR's increased cost; i.e., why isn't the ratio of increase close to 519% which is the overall cost change ratio? (Another way of putting it is to ask: Why didn't SFCR's component 7.1 costs increase roughly 5 times as much as LR's?)

**Response to OCA/USPS-42**

- a. Confirmed.
- b. Confirmed.
- c. The arithmetic is confirmed.
- d. The derivation and distribution of base year volume variable costs for component 7.1 is presented in the testimony and workpapers of witness Nelson, USPS-T19. See Exhibit 19A, pages 1 and 2.

Interrogatories of OCA  
(Redirected from Witness Degen, USPS-T12)

7079

**OCA/USPS-T12-50.** Please refer to your response (September 2, 1997) to POIR No. 2, question 1.

- a. Attachment 1 presents nominal Standard (B) Library rate (LR) unit costs. Show the derivation of the Segment 14 unit costs for each year, FY 1990 through FY 1996.
  - i. For each figure used in the derivation, provide a citation to source documents used and furnish copies of such documents if they are not already on file with the Commission.
  - ii. State which postal data systems generated the information used to derive the segment 14 unit costs.
- b. Present the same information requested in part a. (including subparts i. and ii.) of this interrogatory for each of the remaining cost segments in Attachment 1 (for LR mail).

**Response to OCA/USPS-T12-50**

- a.
  - i. Answered by witness Degen.
  - ii. The derivation of segment costs is detailed in the *Summary Description of USPS Development of Costs by Segments and Components* for each of the years mentioned. The data systems used to develop these costs are also cited in the *Summary Description*. To develop unit costs for Library Rate, annual volume variable costs for each segment are divided by the CRA volume for that year. The CRA volumes are developed using RPW.
- b. See (a)(i & ii).

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

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**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

Response of United States Postal Service Witness Alexandrovich  
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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.

## Attachment 1

OCA/USPS-T12-61

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
<b>First Class:</b>		
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
	-	
<b>Second Class:</b>		
In-county	(2)	75,056
Outside County:	-	
Regular	16	1,448,904
Nonprofit	3	317,766
Classroom	0	14,874
	-	
<b>Third Class:</b>		
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
	-	
<b>Fourth Class</b>		
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	-	36,295
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
	-	
<b>TOTALS</b>	<b>0</b>	<b>31,342,951</b>

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

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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.

Interrogatories of OCA  
(Redirected from Witness Degen, USPS-T12)

**OCA/USPS-T12-65.** Please refer to interrogatory OCA/USPS-14, redirected from the Postal Service and answered by witness Alexandrovich. In witness Alexandrovich's response, he indicates that your testimony (and witness Brehm's) go into greater detail (than does his testimony) about the underlying volume variability changes and distribution keys for component C/S 2.2 and C/S 3.2 costs that contributed to the 12-to-1 and 15-to-1 ratios calculated in parts a. and b. of interrogatory 14.

- a. Please provide detailed explanations for parts a.i.-iv. of interrogatory 14.
- b. Please provide detailed explanations for parts b.i.-iv. of interrogatory 14 (but make the following correction in subpart iii.: change "1123 + 25" to "1123 + 74" to yield the 1518% ratio).
- c. In providing the explanations sought in parts a. and b. of the instant interrogatory, please address how the volume variability and distribution key changes in the instant case may have affected a subclass as small as Library Rate mail. Include in this discussion your views on how new MODS data specifically impact Library Rate mail. If possible, try to match operations to which Library Rate mail is subject to the new MODS cost pools and distribution keys. Please do the same for Special Fourth Class Rate mail.
- d. If witness Brehm is more knowledgeable about these issues than you are, please redirect these questions (or portions of these questions) to him.

**Response to OCA/USPS-T12-65**

- a-b. Before providing an explanation of the difference in the ratios that are presented in OCA/USPS-13 and OCA/USPS-14, it is necessary to fully explain the method by which they were calculated. First, the ratios presented in OCA/USPS-13 were calculated from the following cost information.

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

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Response to OCA/USPS-T12-65 (cont.)

		5A	
	CRA (Base Year)		Change
SFCR	\$248.3	\$226.5	-\$21.8
LR	\$52.0	\$47.8	-\$4.2

The changes in each subclass from CRA to 5A were then calculated, and a ratio of these changes was created ( $\$21.8 / \$4.2 = 519\%$ ). This ratio, however, when taken out of context, yields a nonsensical point of comparison for the figures that are presented in OCA/USPS-14, parts a.iv and b.iv. This 519% difference in the absolute changes in SFCR and LR is driven entirely by the original difference in the CRA costs between SFCR and LR. That is, SFCR is 4.78 times greater than LR in the CRA (478%). Therefore, after similar relative changes to each subclass, it is reasonable to expect that the SFCR change would be 5.19 times the LR change (519%). A much more meaningful analysis would be to compare the percentage changes in the two subclasses, which are calculated in the following table.

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**Response to OCA/USPS-T12-65 (cont.)**

	5A			
	CRA (Base Year)	Change	Percentage Change	
SFCR	\$248.3	\$226.5	-\$21.8	-8.8%
LR	\$52.0	\$47.8	-\$4.2	-8.1%

This calculation shows that the percentage changes in the two subclasses are very similar from SFCR to LR. With these numbers, the magnitude of the SFCR change can be compared to the LR change ( $-8.8\% / -8.1\% = 1.09 = 109\%$ ).

Similar tables can be constructed for the numbers that are presented in OCA/USPS-14 for C/S 2.2 and C/S 3.2.

C/S 2.2	5A			
	CRA (Base Year)	Change	Percentage Change	
SFCR	\$382.0	\$298.0	-\$84.0	-22.0%
LR	\$2.0	\$9.0	\$7.0	350.0%

C/S 3.2	5A			
	CRA (Base Year)	Change	Percentage Change	
SFCR	\$4,310.0	\$3,187.0	-\$1,123.0	-26.1%
LR	\$25.0	\$99.0	\$74.0	296.0%

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

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**Response to OCA/USPS-T12-65 (cont.)**

The reason that the SFCR change in costs is 12 times the LR change in C/S 2.2 is, in part, because the SFCR base is so much larger than the LR base in this cost segment. (The ratio of SFCR to LR cost in the CRA for C/S 2.2 was 191 [ $\$382.0 / \$2.0 = 191.0$ ].) The 5-to-1 ratio (519%) in the overall cost changes to which the question requests a comparison be drawn was driven entirely by the fact that the total costs for SFCR were 4.78 times (478%) the total costs for LR. Therefore, the large difference in the 12-to-1 "benefit" in C/S 2.2 and the 5-to-1 ratio in overall cost changes is simply caused by the difference in the ratio of the original CRA costs between C/S 2.2 and the overall costs for these two subclasses.

Likewise, the 15-to-1 "benefit" that SFCR enjoys over LR in C/S 3.2 can be compared to the 5-to-1 ratio (519%) in overall cost changes. The 5-to-1 ratio in overall cost changes was driven by the 4.78-to-1 ratio in CRA costs for the two subclasses. The ratio of changes in C/S 3.2 is so much larger than the overall cost changes because the ratio of SFCR to LR CRA costs in C/S 3.2 is so much larger ( $\$4310.0 / \$25.0 = 172.4$ ).

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

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**Response to OCA/USPS-T12-65 (cont.)**

In summary, comparing ratios of the changes in costs across cost segments can not be analyzed with any meaning without first examining the relative magnitude of the original cost pools.

- c. The new window service variability factors do have a small influence on a subclass such as Library Rate mail. For instance, the new variability factors for stamp sales and meter settings lowered the pool of volume variable stamp and meter costs that must be distributed to individual classes of mail. Therefore, all classes of mail, including Library Rate, receive a smaller portion of the costs associated with selling stamps and setting meters. In addition, the newly estimated variability for weighing and rating activities lowers the volume variable costs for direct mail acceptance activities, although Library Rate mail did not have any direct mail acceptance costs in the Base Year.
- d. Not applicable.



**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA  
(Redirected from Witness Treworgy, USPS-T22)**

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**OCA/USPS-T22-25. Please refer to your Worksheet C-2.**

- a. In the column "CS 6 & 7," please confirm that the "Total Costs" figure of \$11,461,475 is the Base Year (herein BY) accrued cost of Cost Segments 6 & 7. If you do not confirm, please explain.
- b. Please confirm that the BY accrued cost of Cost Segments 6 & 7 is \$11,461,471, found in W/S 6.0.4 of USPS-T-5, WP B. If you do not confirm, please explain.
- c. Please identify the source for, and provide citations to, all figures in the column "CS 6 & 7."

**Response to OCA/USPS-T22-25**

- a. Answered by witness Treworgy.
- b. Confirmed.
- c. Answered by witness Treworgy.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA  
(Redirected from Witness Treworgy, USPS-T22)**

7092

**OCA/USPS-T22-26. Please refer to your Worksheet C-2.**

- a. In the column "CS 10," please confirm that the "Total Costs" figure of \$3,377,062 is the BY accrued cost of Cost Segment 10. If you do not confirm, please explain.
- b. In the column "CS 10," please confirm that the "Attributable" figure of \$1,509,985 is the sum of \$1,373,846 (Evaluated Routes) and \$136,139 (Other Routes) from W/S 10.0.1 of USPS-T-5, WP B. If you do not confirm, please explain.
- c. Please identify the source for, and provide citations to, all figures in the column "CS 10."

**Response to OCA/USPS-T22-26**

- a. Answered by witness Treworgy.
- b. Confirmed that the volume variable costs for C/S 10 is \$1,509,985, which represents the sum of \$1,373,846 (Evaluated Routes), and \$136,139 (Other Routes).
- c. Answered by witness Treworgy.

Response of the United States Postal Service Witness Alexandrovich  
to  
Interrogatories of United Parcel Service

UPS/USPS-T5-1. Please refer to Exhibit USPS-5A, page 3, Cost Segment 14 (Purchased Transportation). Describe in detail the treatment of Alaska Air transportation costs reflected in that exhibit.

RESPONSE

The development of Alaska air transportation costs is shown in detail in my Workpaper B, specifically Worksheets 14.0.7. The cost of Alaska air transportation accrues to eight accounts. Four accounts apply to preferential service:

53563 Bush linehaul

53564 Mainline linehaul

53567 Bush terminal handling

53568 Mainline terminal handling

Four accounts apply to non-preferential service:

53581 Bush linehaul

53583 Mainline linehaul

53585 Bush terminal handling

53587 Mainline terminal handling

All of these costs are considered 100 percent variable with volume. Volume variable costs for preferential and nonpreferential Alaska air service are distributed separately to the various classes, subclasses, and major rate

categories based on distribution key data collected in a special study. These data are provided in Docket No. MC97-2, Library Reference PCR-21, Intra-Alaska and Intra-Hawaii Air Transportation Studies, Distribution Key Development Programs and Documentation.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
ALEXANDROVICH TO INTERROGATORY OF UNITED PARCEL SERVICE**

**UPS/USPS-T5-2.** Please refer to workpaper B-14, W/S 14.0.6. Provide copies of all current contracts relating to Alaskan Highway surface transportation, including but not limited to contracts with SEALAND, TOTE, LYNDEN, MONTAGUE and SKYLINE.

**UPS/USPS-T5-2 Response:**

Please see the Attachment to this response.

Supplemental  
9/22/97

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS  
ALEXANDROVICH TO INTERROGATORY OF UNITED PARCEL SERVICE**

**UPS/USPS-T5-2.** Please refer to workpaper B-14, W/S 14.0.6. Provide copies of all current contracts relating to Alaskan Highway surface transportation, including but not limited to contracts with SEALAND, TOTE, LYNDEN, MONTAGUE and SKYLINE.

**UPS/USPS-T5-2 Response:**

Please see the Attachment to this response, which furnishes information for 6 contracts not included with my original response.

Attachment to UPS/USPS-T5.  
(Supplemental 9/22/97)

HCR ID	RENEWAL	ACCOUNT	AREA	FY	ROUTE TYPE	ROUTE PART	ANNUAL MILES	BOX COUNT	ANNUAL COST	FUEL COST	DRIVER WAGES	CPI COST
98101	02/03/96	53183	12	96	1	A	N/A	0	\$3,300,000	\$660,000	0	0
98102	02/03/96	53183	12	96	1	A	N/A	0	\$3,100,000	\$620,000	0	0
98191	07/01/93	53127	12	96	1	A	N/A	0	\$130,000	0	0	0
99737	07/01/96	53121	12	96	6	A	9,880.1	317.0	\$ 38,000	\$ 993	0	0
99742	07/01/96	53121	12	96	4	A	12,607.7	309.0	\$ 30,167	\$ 1,555	0	0
99743	07/01/96	53121	12	96	6	A	9,183.0	199.0	\$ 19,497	\$ 1,109	0	0

TYPE	VEHICLE GROUP	NUMBER OF VEHICLES	VEHICLE CUBIC FEET	TRIP LENGTHS	NUMBER OF TRIPS	TRIP LENGTH
1	12	N/A	0	N/A	N/A	N/A
1	12	N/A	0	N/A	N/A	N/A
1	12	N/A	0	N/A	N/A	N/A
1	1	1	25	32.6	1	32.6
1	1	1	25	41.6	1	41.6
1	1	1	25	30.3	1	30.3



HCM ID	Remarks	Acct	Area	FY	Rte Type	Rte	Per	Annual	Box CL	Annual	Fuel Cost	Driver	CPM Cost	Type	Vol. Cpt	No. of Vehicles	Vehicle	Sum of Trip	Length	Avg. Trip
99502	Y	53124	12	86	A	1		164889		0	\$458,259	\$110,749	\$108,793	\$35,138	1	9	2400	1580	2	790
99511		53124	12	86	A	1		226079		0	\$219,177	\$47,120	\$97,295	\$35,532	2	10	2700	1465	4	366.25
99530	Y	53121	12	86	A	1		128801		0	\$188,690	\$136,297	\$23,784	\$38,609	1	10	2700	853.4	6	158.9
99532	Y	53121	12	86	A	1		78132		0	\$94,123	\$31,821	\$17,698	\$20,141	1	9	2400	515.8	4	128.9
99533	Y	53121	12	86	A	1		150592		0	\$270,513	\$91,321	\$91,201	\$31,324	1	10	2700	309.2	8	316.37
99534	Y	53121	12	86	A	1		181762		0	\$246,409	\$99,354	\$41,113	\$41,113	1	10	2700	1265.2	4	316.37
99535	Y	53121	12	86	A	1		163965		0	\$243,086	\$34,830	\$128,148	\$40,049	1	10	2700	810.4	4	227.6
99536	Y	53121	12	86	A	1		40579		0	\$33,957	\$31,002	\$2,955	\$2,955	1	1	60	222.2	4	55.55
99552	Y	53121	12	86	A	4		12335		108	\$18,938	\$18,388	\$0	\$1,549	1	1	40	40.7	2	20.35
99550	Y	53121	12	86	A	4		42551		159	\$51,605	\$45,440	\$6,165	\$6,165	2	2	180	280.8	4	70.2
99560	Y	53121	12	86	A	4		3800		0	\$35,025	\$15,834	\$485	\$485	1	2	240	50	4	12.5
99562	Y	53121	12	86	A	1		12239		43	\$17,902	\$16,809	\$0	\$1,093	1	1	80	82	2	41
99563	Y	53121	12	86	A	4		30762		332	\$37,654	\$34,014	\$0	\$3,640	1	1	60	203	4	50.75
99571	Y	53124	12	86	A	2		12002		0	\$15,382	\$14,220	\$0	\$1,162	1	1	80	39.6	2	19.8
99574	Y	53121	12	86	A	4		53765		153	\$43,000	\$37,920	\$0	\$5,080	1	1	60	177.4	2	88.7
99578	Y	53121	12	86	A	4		3818		308	\$23,578	\$23,187	\$0	\$382	1	1	40	12.8	2	6.3
99579	Y	53121	12	86	A	4		8153		320	\$25,196	\$22,992	\$0	\$2,204	1	1	60	28.9	2	13.45
99580	Y	53121	12	86	A	4		4576		315	\$26,144	\$25,610	\$0	\$534	1	1	60	15.1	2	7.55
99583		53121	12	86	A	4		7880		404	\$30,776	\$26,751	\$0	\$754	1	1	60	26	2	13
99585		53121	12	86	A	403		10547		403	\$33,795	\$32,300	\$0	\$1,495	1	1	30	34.8	2	17.4
995A	Y	53121	12	86	A	1		27555		0	\$103,882	\$70,894	\$25,197	\$7,780	1	10	2700	118	12	8.76
995BA	Y	53121	12	86	A	2		109773		0	\$336,883	\$38,135	\$243,700	\$23,912	1	8	800	155.8	24	6.22
995CA	Y	53121	12	86	A	1		37309		0	\$105,046	\$76,584	\$12,018	\$12,018	1	10	2700	153.4	14	10.88
995CD	Y	53121	12	86	A	2		15914		0	\$38,196	\$0	\$29,422	\$3,250	1	3	450	47.2	4	11.8
995DA	Y	53121	12	86	A	1		11101		0	\$70,606	\$43,737	\$3,832	\$3,832	1	10	2700	46.8	10	4.78
995EA	Y	53121	12	86	A	1		17369		0	\$69,269	\$26,936	\$5,033	\$5,033	1	10	2700	75.8	10	7.48
995FA	Y	53121	12	86	A	1		15129		0	\$82,819	\$9,436	\$56,576	\$5,687	1	10	2700	65.2	12	5.36
995GA	Y	53121	12	86	A	2		4546		0	\$42,070	\$9,931	\$24,828	\$2,112	1	5	2700	15	6	2.5
995HA	Y	53121	12	86	A	1		21547		0	\$72,773	\$7,674	\$47,205	\$5,335	1	10	2700	83.8	10	8.28
99601	Y	53183	12	86	A	2		2755		0	\$13,475	\$11,973	\$1,502	\$1,502	1	1	40	10.4	2	5.2
99602	Y	53124	12	86	A	2		4634		0	\$15,936	\$13,845	\$2,091	\$2,091	1	1	40	34	2	17
99606	Y	53121	12	86	A	216		15063		216	\$44,742	\$42,310	\$0	\$2,432	1	1	50	48.7	2	24.85
99661	Y	53121	12	86	A	443		22670		443	\$41,836	\$39,514	\$0	\$2,322	1	1	80	74.8	2	37.4
99662	Y	53124	12	86	A	0		11199		0	\$22,137	\$20,555	\$0	\$1,581	2	2	120	72.8	2	36.4
99663		53121	12	86	A	2		17523		0	\$17,443	\$15,782	\$0	\$1,661	1	1	60	119.8	2	58.85
99664	Y	53121	12	86	A	4		36338		73	\$44,125	\$40,456	\$0	\$3,669	1	1	60	119.8	2	58.85
99666	Y	53121	12	86	A	4		25458		314	\$39,527	\$30,870	\$0	\$3,350	1	1	120	84	2	42
99667	Y	53121	12	86	A	2		4849		0	\$14,075	\$13,483	\$0	\$592	2	2	240	16	2	8
99670	Y	53121	12	86	A	4		18124		337	\$30,284	\$28,373	\$0	\$1,911	1	1	60	59.8	2	29.8
99671	Y	53121	12	86	A	4		13517		351	\$35,000	\$33,539	\$0	\$1,461	1	1	40	44.6	2	22.3
99672	Y	53121	12	86	A	4		46855		238	\$55,857	\$5,732	\$39,271	\$3,343	1	1	60	154.6	2	77.3
99673	Y	53121	12	86	A	4		7971		325	\$19,193	\$17,725	\$0	\$873	1	1	30	26.3	2	13.15
99674	Y	53121	12	86	A	2		4364		0	\$8,996	\$8,460	\$0	\$536	2	2	160	28.8	4	7.2
99675		53121	12	86	A	4		15487		248	\$25,824	\$23,390	\$0	\$1,840	1	1	40	51.1	2	25.55
99676	Y	53124	12	86	A	2		16636		0	\$33,186	\$29,832	\$0	\$3,354	1	2	240	60	4	15

ICR ID	Renewal	Acct	Area	RY	Rte Type	Rte Part	Annual Miles	Box Ct	Annual Cost	Fuel Cost	Driver Wages	CPI Cost	Type	Vol. Cap.	Vol. of Vehicles	Cubes	Sum of Trip Lengths	No. of Trip Lengths	Avg. Trip Length
99676	Y	53124	12	96	2	B	16200	0	\$26,273	\$23,017	\$3,256	\$0	1	1	2	1	240	27	13.5
99677	Y	53121	12	96	4	A	9729	183	\$26,635	\$25,660	\$976	\$0	1	1	2	1	120	32.1	16.05
99678	Y	53121	12	96	2	A	2766	0	\$5,858	\$5,653	\$306	\$0	1	1	2	1	100	11	11
99679	Y	53121	12	96	4	A	26670	344	\$29,268	\$26,508	\$1,516	\$0	1	1	1	1	60	84.6	47.3
99680	Y	53121	12	96	4	A	30459	222	\$45,001	\$2,576	\$3,376	\$36,161	1	1	1	1	90	100.5	50.25
99681	Y	53121	12	96	4	A	37459	12	\$35,894	\$19,642	\$7,695	\$17,602	1	1	1	1	60	123.6	61.8
99682	Y	53121	12	96	4	A	24852	315	\$40,466	\$36,669	\$3,517	\$0	1	1	2	1	240	14.6	7.3
99683	Y	53121	12	96	4	A	13396	397	\$39,399	\$37,325	\$2,074	\$0	1	1	1	1	60	44.2	22.1
99684	Y	53121	12	96	4	A	16487	395	\$32,366	\$29,629	\$2,738	\$0	1	1	1	1	240	65.2	16.3
99685	Y	53121	12	96	2	A	9800	0	\$13,395	\$12,180	\$1,215	\$0	1	1	1	1	50	54.4	27.2
99686	Y	53121	12	96	4	A	7600	292	\$21,154	\$20,147	\$1,007	\$0	1	1	1	1	60	26	13
99687	Y	53121	12	96	4	A	5849	352	\$24,418	\$23,326	\$1,092	\$0	1	1	1	1	50	18.3	9.65
99688	Y	53121	12	96	2	A	54152	0	\$89,957	\$78,520	\$11,438	\$0	1	1	1	1	160	138.9	80.45
99689	Y	53121	12	96	4	A	42097	261	\$41,350	\$34,965	\$6,385	\$0	1	1	1	1	1000	16	8
99690	Y	53121	12	96	2	A	10457	0	\$6,895	\$5,111	\$5,43	\$0	1	1	1	1	1000	45.6	5.7
99691	Y	53121	12	96	2	B	10457	0	\$48,922	\$5,309	\$32,795	\$32,795	1	1	1	1	90	27.2	6.8
99692	Y	53121	12	96	2	A	8244	0	\$30,422	\$27,290	\$3,132	\$0	1	1	1	1	200	14	3.5
99693	Y	53121	12	96	2	A	4243	0	\$26,798	\$24,522	\$1,639	\$0	1	1	1	1	600	6	1.5
99694	Y	53121	12	96	2	A	1818	0	\$39,361	\$36,417	\$2,44	\$0	1	1	1	1	600	6	1.5
99695	Y	53121	12	96	2	A	76427	0	\$122,753	\$77,218	\$9,459	\$17,813	1	1	1	1	800	501	501
99696	Y	53121	12	96	2	A	26926	0	\$55,800	\$50,484	\$5,316	\$0	1	1	1	1	1200	44	22
99697	Y	53121	12	96	5	A	66676	0	\$67,136	\$32,192	\$28,947	\$13,370	1	1	1	1	1200	229.8	114.95
99698	Y	53121	12	96	5	A	86536	18	\$112,803	\$52,500	\$28,531	\$21,579	1	1	1	1	800	318.6	159.3
99699	Y	53121	12	96	2	A	7274	0	\$25,943	\$9,189	\$12,369	\$815	1	1	1	1	450	24	12
99700	Y	53121	12	96	4	A	7122	480	\$25,008	\$24,391	\$617	\$0	1	1	1	1	25	23.5	11.75
99701	Y	53121	12	96	4	A	352	352	\$32,284	\$31,039	\$1,245	\$0	1	1	1	1	30	58.5	28.25
99702	Y	53121	12	96	4	A	17124	385	\$24,000	\$22,505	\$1,495	\$0	1	1	1	1	25	42.7	21.35
99703	Y	53121	12	96	4	A	11062	407	\$27,000	\$24,895	\$1,000	\$0	1	1	1	1	100	149.6	37.4
99704	Y	53121	12	96	5	A	22670	440	\$25,455	\$23,455	\$1,777	\$0	1	1	1	1	25	35.3	17.65
99705	Y	53121	12	96	4	A	10698	444	\$30,169	\$28,034	\$1,136	\$0	1	1	1	1	30	123.2	61.6
99706	Y	53121	12	96	4	A	37338	281	\$41,200	\$38,041	\$3,159	\$0	1	1	1	1	30	123.2	61.6
99707	Y	53121	12	96	4	A	10456	344	\$28,334	\$26,745	\$1,589	\$0	1	1	1	1	25	34.5	17.25
99708	Y	53121	12	96	4	A	7365	404	\$20,632	\$19,408	\$692	\$0	1	1	1	1	25	24.3	12.15
99709	Y	53121	12	96	4	A	325,777	443	\$23,734	\$23,403	\$1,176	\$0	1	1	1	1	40	72	36
99710	Y	53121	12	96	4	A	21821	175	\$25,953	\$23,100	\$2,852	\$0	1	1	1	1	40	72	36
99711	Y	53121	12	96	5	A	69161	63	\$66,082	\$57,846	\$8,235	\$0	1	1	1	1	160	189.8	84.9
99712	Y	53121	12	96	4	A	40198	13	\$34,359	\$27,396	\$6,963	\$0	1	1	1	1	25	16.8	8.4
99713	Y	53121	12	96	4	A	5092	446	\$23,032	\$21,449	\$1,583	\$0	1	1	1	1	25	16.8	8.4
99714	Y	53121	12	96	2	A	1620	0	\$5,220	\$779	\$965	\$202	1	1	1	1	120	32	16
99715	Y	53124	12	96	4	A	34580	76	\$37,500	\$35,257	\$2,243	\$0	1	1	1	1	30	114.1	57.05
99716	Y	53121	12	96	4	A	11608	427	\$30,498	\$29,270	\$1,228	\$0	1	1	1	1	25	38.3	19.15
99717	Y	53121	12	96	2	A	54665	0	\$119,095	\$34,883	\$58,456	\$11,846	1	1	1	1	1000	200	7.98
99718	Y	53121	12	96	2	A	13791	8	\$11,970	\$10,772	\$1,198	\$0	1	1	1	1	25	88.1	44.05

MCR ID	Renewal	Acct	Area	FY	Ris Type	Ris Par	Annual Miles	Box Ct	Annual Cost	Fuel Cost	Driver Wages	CPM Cost	Type	Veh. Grp.	No. of Vehicles	Vehicle Cubes	Sum of Trip Lengths	No. of Trip	Avg. Trip Length
99861		53121	12	96	4	A	2758	168	\$28,701	\$27,119	\$0	\$782	1	1	1	60	9.1	2	4.55
99863		53121	12	96	4	A	4698	364	\$45,523	\$43,435	\$0	\$1,288	1	2	1	120	15.5	2	7.75
998AA	Y	53121	12	96	2	A	1940	0	\$11,240	\$10,885	\$0	\$356	1	2	1	300	6.4	4	1.6
998CD	Y	53121	12	96	2	A	6118	0	\$41,620	\$37,844	\$0	\$1,580	1	4	1	600	30	10	3
998ED	Y	53121	12	96	2	A	5677	0	\$76,560	\$35,344	\$22,670	\$1,827	1	6	1	600	19.2	12	1.6
9998D	Y	53121	12	96	2	A	2004	0	\$73,330	\$54,423	\$0	\$772	1	4	1	600	6	10	0.6
9998D	Y	53121	12	96	2	B	5323	0	\$16,844	\$16,148	\$0	\$697	1	3	1	400	19.2	4	4.8
WATER CONTRACTS																			
981AB	Y	53127	12	96	1	A	28642	0	\$56,754	\$1,021	\$43,868	\$6,769	1	12	1	0	20.4	2	10.2

**Answer of United States Postal Service Witness Alexandrovich  
to the Interrogatories of  
United Parcel Service**

**UPS/USPS-T5-3** On pages 15-16 of Workpaper A-1, the Mail Processing (Components 35 & 546) and Window Service (Component 40) cost distributions do not match with the source documents: Worksheets 3.1.1 and 3.2.1 of Workpaper B-3. Please indicate which are the correct cost distributions.

**UPS/USPS-T5-3 Response:**

The cost distributions shown in Workpaper B-3, worksheet W/S 3.1.1 and 3.2.1, are the correct distributions. Note also, that the greatest difference in any class or subclass of mail is three thousand dollars in First Class Mail and that is quite minor.

**Answer of United States Postal Service Witness Alexandrovich  
to the Interrogatories of  
United Parcel Service**

**UPS/USPS-T5-4** On pages 19-20 Workpaper A-1, the Other (Component 41) cost distributions do not match with the source documents: Worksheets 3.0.4 of Workpaper B-3. Please indicate which are the correct cost distributions.

**UPS/USPS-T5-4 Response:**

The cost distribution shown in Workpaper B-3, worksheet W/S 3.3.1, is the correct distribution. Note also, that the greatest difference in any class or subclass of mail is five thousand dollars in First Class Mail and that is quite minor.

Answer of United States Postal Service Witness Alexandrovich  
to the Interrogatories of  
United Parcel Service

**UPS/USPS-T5-5** On page 20 of Workpaper A-1, Training Mail Proc Parcels (Component 469) total cost is listed as 407. However, on Worksheet 3.0.4 of Workpaper B-3 it is listed as 405. Please indicate which is the correct value.

**UPS/USPS-T5-5 Response:**

The total cost amount shown in Workpaper B-3, worksheet W/S 3.0.4, is correct. Note also, that the difference of two thousand dollars is quite minor.

Answer of United States Postal Service Witness Alexandrovich  
to the Interrogatories of  
United Parcel Service

**UPS/USPS-T5-11** In Workpaper B, the hard copy of Worksheet 4.1.1 does not correspond with the electronic version provided in LR-201. In the electronic version column 6 contains all zeros, resulting in a different Total Variable cost by Class and Subclass. Furthermore, the footnotes and some of the column headers are different in the electronic version. Similar discrepancies appear in various other worksheets from Workpaper B. Please explain these discrepancies and provide updated electronic and/or hard copy versions of Workpaper B as appropriate.

**UPS/USPS-T5-11 Response:**

Included with this response are revised Workpaper B-3, worksheet W/S 3.1.1, pages 3 and 4. While correcting the references used in the W/S 4.1.1 worksheet, it was discovered that at line 26, column (1) there was an incorrect title for Third-Class Mail and it now correctly reads "Third-Class Mail." It was also noted that Total Volume Variable, Other and Total Costs on lines 50-52 in columns (9) and (11) were incorrect. The equations for these cells were corrected and the revised workpaper pages reflect the correct amounts. In the revised electronic version that is being filed for USPS LR-H-201, the above changes were made to Workpaper B in files: W/S03.xls (W/S 3.1.1 pages 3 and 4), W/S04.xls (W/S 4.1.1 pages 1 and 2) and WS\_Link.xls (Sheet WS03)

Your question indicates that there are similar discrepancies in other worksheets from Workpaper B, but other than those items listed above, no other discrepancies have been discovered. If there are other apparent discrepancies that you are referring to besides those corrections listed above, please identify specially what they are so that they can be explained or corrected.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-12.** Please refer to your Workpaper B, W/S 7.0.4.2, Lines 53-54.

- a. Please confirm that the elasticities used in columns 6 through 10 do not equal the elasticities presented in Tables 6 and 7 of Postal Service witness Baron's testimony (T-17).
- b. If confirmed, please explain why they do not agree, and explain all adjustments made to Baron's elasticities. Also, please explain why similar adjustments were not made to elasticities related to SDR stops.
- c. Please provide the workpapers supporting all adjustments.

**Response to UPS/USPS-T5-12**

- a. Confirmed.
- b. They do not agree because the base year workpapers used an earlier version of Witness Baron's elasticities. The elasticities that appear in Mr. Baron's testimony were not available at the time the final base year model was run.
- c. Not applicable.



Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-13.** In reference to your Workpaper B, worksheet 14.0.1, please explain the source of the variability factors for Exceptional Service highway transportation, accounts 53122, 53125, 53128, and 53132, and provide any studies to support these variabilities.

**Response to UPS/USPS-T5-13**

These four accounts contain the costs of highway transportation that is incurred on an as-needed basis. These costs are considered 100 percent variable with volume, as they have been since (at least) Docket R80-1. The underlying rationale for the 100 percent variability was developed in the R84-1 testimony of USPS witness Robers and accepted by the Commission in that proceeding. The Postal Service and the Commission have used the same variability in each rate and classification case since then.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-14.** For BY 1996, please provide revenue estimates and volume estimates in terms of pieces, weight, and cubic feet for each category of mail subject to dropship discounts, including all OBMC, DMBC, DSCF, and DDU classifications for each class and subclass of mail.

**Response to UPS/USPS-T5-14**

Revenue, pieces, and weight data for Standard Mail (A) for GFY 1996 are provided in the Billing Determinants (USPS LR-H-145). Cubic feet estimates are not available for this time period, but information regarding density is available in USPS LR-H-108.

For Parcel Post, the FY 1996 distributions of DBMC volume, weight, and cube by zone and weight increment are provided in USPS LR-H-135. The estimated DBMC revenue for FY 1996 is provided at pages 5-6 of workpaper USPS-T-37, WP I.D. The estimated FY 1996 volumes of OBMC and DSCF Parcel Post are developed in workpaper WP I.F. of USPS-T-37. The estimated FY 1996 volume of DDU Parcel Post is provided in the footnote to USPS-T-37, workpaper WP I.A., page 23. Aside from using the estimated distributions of volume to weight increment for DSCF and DDU as provided at workpapers USPS-T-37, WP I.A., pages 21-23, there is no estimate of the weight, revenue, or cubic feet associated with these categories.

For Regular Rate Periodicals, information can be found at USPS-T34, workpaper RR-E, page 1. Information for Within County

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS**

**Response to UPS/USPS-T5-14 (cont.)**

Periodicals can be found at USPS-T-34, workpaper WC-D, page 1. Nonprofit

Periodicals and Classroom mail can be found at USPS-T-35, workpaper E, page

1-2.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-21.** Please provide any changes/modifications to the policy on Bypass Mail as described in the statement of policy dated April 1988.

**Response to UPS/USPS-T5-21**

Attachment 1 is the latest statement of policy on Bypass Mail, dated February 1996. It is my understanding that the only changes or modifications since the April 1988 policy (other than contacts and phone numbers) is a restriction on the mailing of building construction materials. See page 3.

ATTACHMENT 1  
UPS/USPS-T5-21  
Page 1 of 5

## STATEMENT OF POLICY ON BYPASS MAIL

February, 1996

This statement of policy constitutes the controlling document for the acceptance of mail bypassing a postal facility or facilities. The "Bypass Mail Program" was initiated for the mutual benefit of mailers, air carriers, addressees, and the US Postal Service. Bypass Mail is defined as Bulk Parcel Post, which is so prepared as not to require handling in a postal facility. Bypass shipments will be accepted only in Anchorage and Fairbanks. Nothing in this statement of policy should be construed to relieve the mailer of the responsibility of complying with all postal laws and regulations. To participate in the Bypass Program, a mailer should submit a letter and "Bypass Mail Program Application" to the appropriate postal authority listed below.

Manager, Processing & Distribution  
US Postal Service  
4141 Postmark Drive  
Anchorage, AK 99502-9787

ATTN: Manager, Air Mail Facility

or

Postmaster  
US Postal Service  
5400 Mail Trail  
Fairbanks, AK 99709-9998

ATTN: Bypass Mail Coordinator

The program has been developed for mutual benefit of the US Postal Service, mailers, air carriers, and addressees. The day-to-day administration of the program is delegated to either the Anchorage AMF or the Fairbanks Post Office. If discrepancies in preparation, appointments, or packaging occur, the Anchorage AMF or Fairbanks Post Office personnel will advise the shipper. Failure to correct the problem may result in denial of authorization to participate in the program.

Any questions regarding the acceptability of mail may be directed to the Anchorage Manager, Air Mail Facility at (907) 266-3365 or (907) 266-3324. When making Bypass Mail appointments, call (907) 266-3268. Questions regarding the program in Fairbanks should be directed to the Fairbanks Bypass Mail Coordinator (907) 455-5412.

Any questions regarding the Bypass Mail policy or procedures may be directed to the Anchorage Manager, Transportation Networks at (907) 266-3367, or the Air Transportation Specialist at (907) 266-3275.

### PARTICIPATION REQUEST

The general time frame from receipt of applications for participation is approximately two weeks. The following information must be provided in the letter; if provided in the initial request, it can serve to expedite the approval.

**ATTACHMENT 1**  
**UPS/USPS-TS-21**  
**Page 2 of 5**

**Bypass Mail Policy**  
**Page 2**

(1) Local (Anchorage or Fairbanks) agent/representative information (Name, Address, Telephone Number, etc.)

(2) Potential volumes and shipment destinations (for planning purposes only)

(3) Facsimile of the label that will be used for the mail preparation and labeling (see "Attachment A" for a recommended label design)

An application form to request participation in the Bypass Program and to supply necessary mail profile data is attached ("Attachment B").

**PAYMENT OF POSTAGE**

Postage payment at the applicable rates must be affixed to each individual mailing piece. The method for payment is by the use of meter postage. (Other methods of payment will be given careful consideration on request by the mailer). Verification of postage will be performed at the time of acceptance; several pieces or the entire pallet may be reviewed for appropriate payment and accuracy of postage. (See "Attachment C" for present rates.)

In order to participate in the Alaska Bypass Program, all meters must be licensed in Anchorage if mail is being entered at that office, or Fairbanks if mail is entered at the Fairbanks office.

Questions concerning the licensing and refilling of meters in Anchorage may be directed to the Manager, Business Mail Entry at (907) 266-3277; in Fairbanks, you need to contact the Supervisor, Mail Classifications at (907) 455-5451.

This requirement is necessary in order to ensure postal revenue is credited to the entry office.

**PREPARATION**

The Domestic Mail Manual indicates specific requirements for mail preparation and packaging, as well as labeling, addressing, and posting of dates of mailing. If you have any questions regarding the acceptability or packaging of Bypass Mail, please contact the Bypass Mail Coordinator.

**ADDRESSING AND LABELING**

The requirements for addressing and labeling of the Bypass Mail is to be consistent with the requirements of Domestic Mail Manual. In addition, the mail must be endorsed with the following endorsement on each: **"BYPASS MAIL"**. Any label intended for use must be submitted for acceptability prior to acceptance in the program (see "Attachment A" for example). Just the word "BYPASS" is not acceptable.

All Bypass Mail must be addressed to a physical location at the destination. Post Office Box is not acceptable as an address, as this would indicate that mail would go to the Post Office. In instances where there are no physical addresses at the destination, a physical address of a local business or individual must be provided.

ATTACHMENT 1  
 UPS/USPS-T5-21  
 Page 3 of 5

**Bypass Mail Policy**  
**Page 3**

In many cases, the mail will be flown to the Mainline or "Hub" destination on large cargo and jet aircraft. If necessary, it will be transferred to an aircraft substantially smaller; therefore, each piece of mail that is destined for a "Bush" destination must include the specific weight of the piece of mail on each package. This weight indicator will not be necessary for "Hub" points. (Refer to "Attachment D" for listings of Hub and Bush points.) Bypass shipments will be accepted only for destinations indicated on "Attachment D."

**ACCEPTABILITY**

Acceptability of articles of mail will be consistent with the Domestic Mail Manual. In no circumstances may matter intended for mailing exceed 108 inches (length and girth combined), nor weigh more than 70 pounds.

No mailing of an accountable nature (Insured, C.O.D.'s, Certified, etc.) requiring a signature on delivery may be entered as Bypass Mail.

Building construction materials are restricted from acceptance as Bypass Mail. This includes lumber, insulation, brick, concrete, cement, or other materials for construction.

If you are not sure that the items you want to enter into the Bypass Mail system falls into one of the above categories, contact the AMF Manager at (907) 266-3365.

At the present time, freeze and chill items are being accepted into the Bypass Mail Program. These type items are entered into the mailstream with the understanding on the part of the bypass shipper that it is, "at his/her own risk." The Postal Service does not have freezers or coolers to store these items, nor does the Postal Service require air carriers to have freezers or coolers. The air carriers in Anchorage have offered the use of their freezers and coolers for temporary storage until flight time. Some air carriers at hubs have freezers and coolers. Due to the diverse weather conditions in Alaska, there are times that these items may arrive at the final destination in a spoiled or thawed condition.

Items identified as "hazardous material" by USPS and/or FAA or DOT regulations will not be mailed as Bypass Mail. Such articles, as may be mailable, must be entered through normal postal facility channels with proper documentation. It is recommended that the mailer contact the FAA or local air carrier for special information concerning hazardous material. Any hazardous material found in a Bypass Mail shipment will result in the entire order being refused. If a second violation occurs, the shipper may be subject to removal from the Bypass Mail Program.

**PALLETIZING AND PACKAGING**

Mailings not containerized must be palletized and secured to the pallet by shrinkwrap prior to delivery to the carrier. The overall dimensions of the palletized load may not exceed 4 X 4 X 6 (width X length X height) in compliance with postal safety requirements, in no case may the overall height exceed 6 feet.

Each piece of mail on the pallet will require the specific postage, weight (as appropriate), and labeling. If several pieces of mail are banded together, it is required that a label be affixed to each of the banded pieces. In the event a banded piece is separated from the labeled piece, it will not hamper delivery nor present problems in identification. All pieces that are banded together are considered a single piece and must meet

ATTACHMENT 1  
UPS/USPS-T5-21  
Page 4 of 5

**Bypass Mail Policy**  
**Page 4**

Shippers should take necessary steps to have the individual labels turned to the inside of the banded unit so that the single piece address label is visible.

The weight of each pallet load may be as appropriate to accommodate the height restrictions; however, the total weight for the entire shipment must be above the minimum acceptable weight of 1,000 pounds per addressee. If shipments are less than the required weight, it may be considered unacceptable through the Bypass acceptance; entry at the appropriate postal facility will be necessary to effect mailing.

**NOTIFICATION PROCEDURES**

The appropriate General Mail Facility (Anchorage or Fairbanks) must receive the proper notification of the availability of mail and desire to schedule an appointment. Proper notification must be made the day prior to the intended day of delivery. The calls for appointments will be accepted between the hours of 8:00 a.m. and 2:30 p.m., Monday through Friday. The Transportation personnel will advise the mailer regarding which air carrier the mailing should be delivered to and appointed time of delivery. Considerations regarding morning and afternoon "appointments" will be incorporated to the extent possible; however, demand on the preferred carrier may not allow accommodations for all requests.

**NOTE:** Any shipment exceeding 50,000 pounds will require a 7-day advance notice by the shipper prior to the date of appointment.

When making the appointments, please have the following information available to ensure expediting the procedures:

1. Destination (community name; i.e., Bethel, King Salmon, etc.)
2. Estimate of the total weight (and number of pallets, if possible)
3. Addressee (store/business name)
4. Identify contents of mailing; i.e., groceries, dog food, etc.

When providing the estimated weight to Anchorage or Fairbanks, it is necessary that the estimate be within 10% of the actual weight. Accurate estimates are required in order to equitably tender mail to air carriers and avoid impact in mail service.

The appointment time is designed to facilitate the acceptance of the entire mailing. The program does not easily accommodate multiple shipments under one appointment; therefore, it is requested that multiple appointments be made to accommodate large volumes that cannot be easily made available for acceptance at the appointed time. If the shipper cannot make the appointments because unusual circumstances (truck breakdown, severe weather problems, strike, etc.) arise, it is necessary to advise the Anchorage or Fairbanks facility to minimize the impact on postal and air carrier scheduling.



~~ATTACHMENT 1~~  
UPS/USPS-T5-21  
Page 5 of 5

Bypass Mail Policy  
Page 5

### DELIVERY TO ADDRESSEE

It is the responsibility of the air carrier at the shipment's final destination to deliver the shipment to the addressee, thereby bypassing the postal facility. Arrangements must be made by the air carrier or their agent to pick up the bypass shipment at the airport or runway and transport the shipment to the addressee. Addressee cannot be required to pick up their shipment at the runway or postal facility.

The air carriers or their agents are responsible for delivering Bypass Mail shipments to the addressee during their normal business hours (8:00 a.m. to 5:00 p.m.). The air carriers' facilities should not be used to store or warehouse Bypass Mail, unless the mail arrives at times other than what is specified above. If a Bypass order arrives on an evening flight, that mail is to be delivered between 8:00 a.m. and 12:00 noon the next morning.

The addressee will be responsible to assure that Bypass Mail shipments can be delivered to their place of business during the air carriers' normal business hours. Any specific arrangements for delivery should be between the addressee and the airline or agent.

If an air carrier or their agent attempts delivery during their normal business hours and the addressee's place of business is closed, it will be the responsibility of the addressee to pick up his own mail at the air carrier's facility before the end of that business day. The bypass shipment will not be held at the Post Office for pickup.

Failure to adhere to these guidelines may result in the Postal Service's refusal to accept bypass shipments for the addressee.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-22.** With respect to Bypass Mail, please confirm the following:

- a. It is the responsibility of the air carrier at the shipment's final destination to *deliver the shipment to the addressee.*
- b. Addressee cannot be required to pick up its own shipment at the runway or postal facility.
- c. The costs associated with the services described in (a) are captured in terminal handling costs.
- d. The costs associated with the services described in (a) are not air transportation costs, but in fact, surface transportation costs.
- e. The services described in (a) would still be required even assuming in a hypothetical world a surface transportation network replaced the Air transportation network.
- f. The costs of delivering bypass shipments to the addressee in the hypothetical world referred to in (e) would not be significantly different than those actually incurred by the air carrier or its agent.

Please explain any nonconfirmation of the above. In addition, please describe how the air carrier or its agent physically delivers the shipment to the addressee.

**Response to UPS/USPS-T5-22**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Not confirmed. These costs are considered terminal handling costs. A primary rationale of the Bypass Mail program is to avoid the transfer of this mail through small postal facilities in the Alaska bush. In delivering the mail directly to the addressee, the air carrier is performing a service not unlike that performed by air carriers in the rest of the country. The

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

terminal handling costs for all air carriers includes transporting the mail on the ground for tender. However, in the case of Bypass Mail, this tender is made directly to the addressee rather than the Postal Service.

- e. Not confirmed. Bypass mail would not exist if there were a surface transportation network in Alaska. Even today, there is no Bypass mail in those markets in which adequate surface transportation exists. For example, Bypass mail is not available between Anchorage and Fairbanks, and Anchorage and the Kenai peninsula (the towns of Kenai, Homer, Seward, and Soldotna) since the presence of highway transportation makes this service unnecessary. Also, the existence of a good surface water network eliminates the availability of Bypass mail to much of the southeastern peninsula.
- f. Not confirmed. Bypass Mail would not exist if there were an adequate surface transportation network in Alaska, as indicated in (e) above.

In response to how the air carrier or agent physically delivers the shipment to the addressee, it is my understanding that a variety of vehicles are used, including trucks, boats, sleds, trailers, and snow machines.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-23.** With respect to Alaska Air transportation costs, please describe how mail is handled from the Air Mail Facility or Air Mail Center to the processing facility. Please also identify in which accounts those costs are captured.

**Response to UPS/USPS-T5-23**

In Anchorage, mail is tendered by the air carriers to the Air Mail Facility, which is co-located with the processing and distribution center. The air carriers accept the tender of outbound mail at the same location. In Fairbanks, the air carriers tender inbound mail and accept outbound mail at the processing and distribution facility. These costs are treated as terminal handling costs and are accrued in account numbers 53566 and 53568.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-24.** With respect to Alaska Air transportation costs, please describe what services are captured in terminal handling. How are these services different from those defined as terminal handling in the lower 48 states?

**Response to UPS/USPS-T5-24**

It is my understanding that the services included in terminal handling costs for non-Bypass Mail are essentially the same in Alaska as in the lower 48 states.

These services include: accepting the tender of mail from the Postal Service; sorting and containerizing the mail to the appropriate flight; loading the mail onto the airplane at origin; unloading the mail at destination, and; tendering the mail to the Postal Service at the specified destination facility. With respect to Bypass Mail, the only differences are that the air carrier accepts the tender of mail directly from the mailer, and, at destination, tenders the mail directly to the addressee.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-25.** Please refer to Workpaper B-14, WS 14.0.6. Please confirm the following:

- a. The top half of page 1 represents north-bound shipments and the lower half of page 1 represents south-bound shipments.
- b. The relative costs of north-and south-bound shipments approximate the relative volumes of mail moving north-bound and south-bound.

**Response to UPS/USPS-T5-25**

- a. Not confirmed. In southeast Alaska, Lynden operates a barge and ferry service which goes both north and south. Also, the drayage service provided by Montague moves between the Seattle BMC and the port for both inbound and outbound shipments.
- b. Confirmed to the extent that costs in general reflect volumes.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**UPS/USPS-T5-26.** With respect to Alaska non-preferential air transportation costs, assuming a surface transportation network existed sufficient to replace the nonpreferential air movements, please provide the following:

- a. Identify, on average, how many days per week nonpreferential mail volumes would be moved on purchased highway contracts.
- b. Confirmation that purchased highway transportation would be based on round-trip contracts.
- c. The average and maximum number of miles a driver would be allowed to work in a 24-hour period. How would this differ from experience in the lower 48 states?
- d. The average and maximum number of hours a driver would be allowed to work in a 24-hour period. How would that differ from experience in the lower 48 states?
- e. Any guidelines, rules of thumb, or practices in estimating the appropriate amount of capacity necessary to meet the necessary mail volumes for a given route in the lower 48 states (e.g., that capacity should be x% higher than the peak volume on a particular segment).
- f. Confirmation that purchased highway transportation costs in Alaska would be higher than in the lower 48 states on a cost-per-mile basis because of higher prices and living costs in Alaska.
- g. The relationship between the great circle distance and actual surface distance between origin-destination pairs in the lower 48 states.

**Response to UPS/USPS-T5-26**

- a. It is impossible to provide a meaningful answer to this question.

Assuming that a surface transportation network could be built in Alaska, such a development would eliminate the need for the Bypass Mail program. A likely result would be that competing distribution networks would arise, and more cost-effective means of shipping groceries and

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS

**Response to UPS/USPS-T5-26 (cont.)**

other essential items which make up the bulk of Bypass Mail would become available. The uncertainty about the volume of nonpreferential mail that would remain in such a scenario defies any attempt to estimate the frequency of any assumed highway contracts.

- b. Cannot confirm.
- c. I am unable to answer this question without more information. For example, what is the speed limit for trucks on these assumed highways?
- d. I assume that drivers in Alaska would be held to the same DOT regulations that govern the amount of time a driver can work in a 24-hour period in the lower 48 states.
- e. I assume that the methods to estimate capacity needs in Alaska would be similar to those employed in the lower 48 states.
- f. Cannot confirm. It is impossible to estimate the effect that a surface transportation network in Alaska would have on prices and living costs there.
- g. Without considerably more information about this hypothetical highway system, I cannot speculate on the relationship between great circle distance and actual surface distance between origin-destination pairs in Alaska as compared to those in the lower 48 states.



Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS  
(Redirected from Witness Patelunas, USPS-T15)

UPS/USPS-T15-8. Does the Postal Service provide seven day a week delivery in any market? If not, does the Postal Service have plans to provide seven day a week delivery in any market(s)? If the Postal Service is providing seven day a week delivery anywhere,

(c) What are the costs attributable to providing seven day a week delivery?

Response to UPS/USPS-T15-8(c)

The cost data systems used by the Postal Service are not designed to gather delivery information by day of week. However, since seven day a week delivery is provided for Express Mail, the additional costs of this service are reflected in total Express Mail costs.

Response of United States Postal Service Witness Alexandrovich  
to

7124

Interrogatory of UPS  
(Redirected from Witness Sharkey, USPS-T33)

**UPS/USPS-T33-38.** Please refer to your answer to Interrogatory NDMS/USPS-T33-4(a). Putting aside the Priority Mail test year cost data supplied in the exhibits attached to your testimony, are you aware of any data from which one can determine the average unit cost for Priority Mail separately for (i) flat rate pieces, (ii) two pound pieces, and (iii) three pound, four pound, and five pound pieces? If so, please provide the average unit cost for each of those categories and show how each of those average unit cost figures were derived.

**Response to UPS/USPS-T33-38**

The Postal Service does not collect data on costs by weight increment for Priority Mail.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS  
(Redirected from Witness Sharkey, USPS-T33)

7125

**UPS/USPS-T33-68.** Please refer to page 5 of the August 12, 1996, issue of Postal World, attached hereto as Attachment A, which refers to Priority Mail packaging materials provided by the Postal Service to mailers.

- a. In what cost accounts are the costs of developing such customized Priority Mail packaging recorded? Please provide the amount of such costs separately (1) for the base year, and (2) as estimated for the test year.
- b. In what cost accounts are the costs of the packaging material itself recorded? Please provide the amount of such costs separately (1) for the base year, and (2) as estimated for the test year.
- c. Refer to that part of Attachment A which indicates, in a paragraph entitled "Custom Packaging," that certain Priority Mail users can receive custom packaging "gratis" (that is, for free). In what cost accounts are the costs incurred by the Postal Service in connection with this program of providing free custom packaging to Priority Mail customers recorded? Provide, separately for the base year and as estimated for the test year, the amount of all such costs.
- d. Please provide the costs of the "over 1 million co-branded custom boxes . . . in 4 custom sizes . . . , plus standard units" provided by the Postal Service to the Priority Mail user referred to in Attachment A in the paragraph entitled "Custom packaging." Were those costs allocated solely to Priority Mail in the base year?
- e. Provide the criteria used to determine whether a potential mailer qualifies for receiving free customized Priority Mail packaging from the Postal Service.

**Response to UPS/USPS-T33-68**

- a. (1) Assuming that by "developing" you mean the format, layout and printing of the piece, the costs for developing Priority Mail customized packaging accrue to Priority Mail Supplies, account number 52178.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS  
(Redirected from Witness Sharkey, USPS-T33)

**Response to UPS/USPS-T33-68 continued:**

Account number 52178 is one of the accounts that comprise Expedited Mail Supplies, component 187 in the CRA/Rollforward model. It is my understanding that customized packaging was only in its developmental stage in Base Year 1996. Whatever minor costs there were during that period are in account number 52178.

(2) See Witness Tayman's response to OCA/USPS-T9-33, parts d-e.

b. (1) The materials for Priority Mail customized packaging accrue to account number 52178.

(2) See Witness Tayman's response to OCA/USPS-T9-33, parts d-e.

c. These costs also accrue to account 52178.

d. It is my understanding that the costs associated with the "over 1 million custom boxes" did not exist in Base Year 1996 as the program was still only in its developmental stage. Witness Tayman's response to OCA/USPS-T9-33, part e. estimates a \$6 million expense in FY 1997.

**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS  
(Redirected from Witness Sharkey, USPS-T33)**

**Response to UPS/USPS-T33-68 continued:**

- e. The article indicates that a firm must spend at least \$1 million per year on Priority Mail in order to receive custom packaging.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS  
(Redirected from Witness Sharkey, USPS-T33)

**UPS/USPS-T33-69.** Please refer to Attachment B hereto, which is page 3 from the April 22, 1996, issue of Postal World. Please provide the costs of the pallet load of Priority Mail video mailers referred to in Attachment B, and state in what cost account or accounts such costs are recorded and whether those costs are allocated solely to Priority Mail. If not, to what subclasses are those costs allocated?

**Response to UPS/USPS-T33-69**

I am informed that the unit cost for a video box is \$0.217. Assuming that there are 2,200 units on a pallet as stated in the article in your Attachment B, the cost per pallet is \$477.40. Such costs are recorded in account number 52178 and the domestic portion of account number 51278 is solely for Priority Mail.

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of UPS  
(Redirected from Witness Sharkey, USPS-T33)

**UPS/USPS-T33-70.** Please provide, separately for (a) the base year, and (b) as estimated for the test year, all costs of designing and supplying both standard and customized Priority Mail packaging, and state in what cost accounts those costs are recorded and indicate whether those costs are allocated solely to Priority Mail. If not, to what subclasses are those costs allocated?

**Response to UPS/USPS-T33-70**

(a) In the base year, the cost of Priority Mail supplies was \$34,803,000.

These costs are recorded in account number 52178 and the amount in that account for domestic supplies is distributed solely to Priority Mail in component 187 of component grouping 16.3.4.

(b) Witness Patelunas informs me that for the Test Year 1998, the cost of Priority Mail supplies is projected to be approximately \$65 million. The calculation subtracts the \$102 million Priority Mail Redesign costs developed in USPS Library Reference H-12 from the \$167 million for Component 16.3.4 in Table D of Witness Patelunas's workpaper WP-G.

Presiding Officer's Information Request No. 1

POIR No. 1:

1. Purchased Transportation

a. Alaska Nonpriority Air Adjustment

(1) Please provide the FY 1996 data for Alaska air and surface transportation as presented for FY 1995 in response to POIR No. 3, questions 15-16, Docket No. MC96-3 (Tr. 8/3058-60, column 2 of 2).

RESPONSE

See Attachment 1 to this response.



Attachment 1 to Question 1.a.(1)  
 Presiding Officer's  
 Information Request No. 1

Average Cost Per Cubic Foot Mile

1996

53121	\$0.00432293
53124	\$0.00165858
53127	\$0.00050775
53131	\$0.00039584

Average Cost Per Cubic Foot

1996

53121	\$0.0056073
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Intra-Alaska Air Rates

	Mainline			
	Linehaul per ton-mile		Terminal Handling per pound	
	Priority	Nonpriority	Priority	Nonpriority
Sept 95 - Jan 96	\$1.2098	\$0.7324	\$0.2617	\$0.2249
Jan 96 - July 96	\$1.3228	\$0.8008	\$0.2067	\$0.1776
July 96 - Sept 96	\$1.3142	\$0.7956	\$0.1940	\$0.1667

	Bush	
	Linehaul per ton-mile Nonpriority	Terminal Handling per pound Nonpriority
Sept 95 - April 96	\$6.5091	\$0.3260
April 96 - Sept 96	\$7.2406	\$0.3770

Total Accrued Cost by Account (in thousands)

1996	Dollars	Adjustments	Total
53562 Intra-Alaska mainline-nonpriority line	20,586	0	20,586
53566 Intra-Alaska mainline-nonpriority term.	23,738	0	23,738
53561 Intra-Alaska bush-nonpriority line	19,324	0	19,324
53565 Intra-Alaska bush-nonpriority term.	21,289	0	21,289
53563 Intra-Alaska bush-priority line	2,894	0	2,894
53567 Intra-Alaska bush-priority term.	3,009	0	3,009

Presiding Officer's Information Request No. 1

POIR No. 1:

1. b. Variability Factors for Purchased Transportation Cost Accounts

The Base Year 1996 transportation costs and variability factors by account are shown in workpapers to USPS-T-5, Worksheet 14.0.1. The source of the factors is listed as Docket No. R87-1 Appendices to Opinion and Recommended Decision, Appendix J, CS XIV, page 49. The purchased transportation workpapers accompanying the FY 1996 CRA also show the variability factors by account on Worksheet 14.0.1 and reference the same source. Comparing both worksheets entitled "14.0.1" shows that the majority of the factors for the air accounts on page 1 differ between the FY 1996 and BY 1996 data.

Please explain the reasons for the differences and provide any studies to support these differences.

RESPONSE

As explained in response to MPA/USPS-T5-1, there are changes in volume variability factors in the base year. The variability factors for the three network operations (Eagle, Western, and Christmas) are the result of the revised treatment of premium costs. These costs are treated as incremental to Express Mail (in the case of Eagle and Western) and Priority Mail (for the Christmas network). The treatment of system costs is also changed.

**Network Costs Factors:** The non-premium portion of network contract costs are treated as 100 percent volume variable. For ease of running the transportation computer programs, the premium is extracted by means of the factors in Worksheet 14.0.1. For example, the premium cost of the Christmas network (CNET) amounts to 79.74 percent of CNET costs. The nonpremium costs is 20.26 percent ( $= 1 - 79.74\%$ ) of CNET costs. The factor 0.2026 appears

**RESPONSE continued**

in Base Year Worksheet 14.0.1. Since CNET costs accrue only to quarter 2 in the Base Year, this factor is the same for all four quarters. Similarly, quarterly factors reflecting the premium costs of Eagle and Western air appear in the Base Year worksheet. (For example, the Eagle premium is 62.76 percent in quarter one, resulting in a factor of .3724 ( $=1-62.76\%$ ) in the worksheet).

**System Cost Factors:** System air costs are treated as 100 percent volume variable because the terms of incurrence of these costs have changed. In its Decision in Docket No. R87-1, the Commission found that the then new method of contracting of system air transportation resulted in a volume variability of 95.12 percent. Under this contracting method, the Postal Service paid different rates for air transportation with 40 different airlines. This 95.12 percent variability has been used by the Postal Service since that time. Prior to R87, the Postal Service was required to pay all carriers the same rates for the carriage of mail and to follow an equitable tender rule. Since increases in volume resulted in proportionate increases in cost, air costs were regarded as 100 percent volume variable. The current method of air contracting is virtually the same system. All airlines are paid the same rate, and an equitable tender rule exists. The rationale for the 95.12 percent system variability no longer exists and, therefore, is replaced with 100 percent variabilities in the Base Year.

**RESPONSE continued**

**Miscellaneous Accounts:** Prior to BY 1996, the volume variability of three cost accounts (53591, 53595, 53599) had been calculated as a cost-weighted average of the variability of other air accounts. A simplification was made in the Base Year, eliminating this calculation by setting the variability of these accounts to 1.0000. This simplification adds approximately \$400,000 in volume variable costs in the Base Year.

**Response of United States Postal Service Witness Alevandrovich to Presiding  
Officer's Information Request No. 3, Question 14**

14. As explained in response to POIR No. 1, question 1.b., the variability factors for the three air networks (Eagle, Western, and Christmas) as shown in Worksheet 14.0.1 reflect the removal of premium costs. The development of the Christmas network premium costs are shown in Library Reference H-85, Table 7, page 24.

Please provide the cite for the development of the other premiums or provide the costs per pound-mile, costs per pound, pound-miles, pounds, and any other data which are used in these calculations.

Please identify the witness or witnesses who will testify on these variabilities.

**RESPONSE**

The premiums for Eagle and Western Air are developed in Library Reference H-81. Witness Nieto is available to describe the mechanics of the calculation of the premium percentages. Witness Takis' testimony presents the economic rationale for calculating premiums in light of his incremental cost analysis. As indicated in my response to POIR No. 1, question 1.b., I am testifying to the volume variabilities of air transportation in Worksheet 14.0.1.

1 CHAIRMAN GLEIMAN: Does anyone have additional  
2 written cross-examination?

3 MR. FELDMAN: Yes, Mr. Chairman, yesterday  
4 American Business Press received from the Postal Service  
5 responses to ABP/USPS-T-5-1 and T-5-2, and we would request  
6 that we be allowed to enter that into the record, and I do  
7 have two copies of those responses.

8 CHAIRMAN GLEIMAN: If you could please show them  
9 to the witness.

10 Mr. Alexandrovich, would your answers be the same  
11 on those questions if you --

12 THE WITNESS: Yes, they would.

13 CHAIRMAN GLEIMAN: Mr. Feldman, if you'd please  
14 provide the copies to the reporter, I'll direct that they be  
15 accepted into evidence and transcribed into the record at  
16 this point.

17 [Additional Designation of Written  
18 Cross-Examination of Joe  
19 Alexandrovich was received into  
20 evidence and transcribed into the  
21 record.]

22

23

24

25

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of ABP

7137

**ABP/USPS-T5-1.** In your response to ABP/USPS-T13-13(a) (redirected from Witness Bradley) you state that both volume and non-volume variable costs would decline if dropshipping "caused the accrued costs in certain purchased highway transportation accounts to decline."

- a. Which accounts in particular do you have in mind and provide examples where non-volume variable costs have declined because of dropshipping.
- b. If a cost does not vary with volume, or with the transportation of unit of volume, then how and why can a "non-variable" cost decline because of less volume?

**Response to ABP/USPS-T6-1**

- a. I have not studied dropshipping but I am informed that two possible accounts where the effect of dropshipping could be felt are the Inter-BMC and plant load accounts. Because accrued cost in transportation is comprised of both volume variable and non-volume variable cost, a reduction in accrued cost from purchasing less transportation would reduce both types of cost.
- b. In purchased highway transportation, non-volume variable cost arises because of the economies of scale in production (variability is less than one). Volume variable cost is the product of the marginal cost of the last unit times volume (or its proxy). Non-volume variable cost is simply total cost minus volume variable cost. If dropshipping causes a material reduction in cubic foot-miles of purchased highway transportation, the

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of ABP

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**Response to ABP/USPS-T5-1 (cont.)**

marginal cost of the last unit produced will rise. It is in this sense that both volume variable and non-volume variable costs will fall.



**Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of ABP**

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**ABP/USPS-T5-2. ABP/USPS-T13-13, to which you responded, asked what was the "primary reason" that 26% of total highway costs are non-attributable, as compared with higher variability/attribution for other transportation mode accounts. You replied that there are different variabilities for different modes because "terms of incurrence in purchased highway transportation result in these cost being less sensitive to volume changes." Explain in detail what you meant by "terms of incurrence."**

**Response to ABP/USPS-T5-2**

By "terms of incurrence" I meant the rate at which unit costs respond to increases in volume (or its proxy). In certain highway transportation accounts, like inter-SCF and intra-SCF the volume variability is materially less than one. This means that the cost per cubic foot-mile declines as the number of cubic foot-miles purchased rises. Because of this, total costs rise less than proportionately with volume and these costs are less sensitive to volume changes.

1 CHAIRMAN GLEIMAN: Mr. Cregan.

2 MR. CREGAN: Thank you, Mr. Chairman.

3 Mr. Alexandrovich, we received your response to  
4 MPA/USPS-T-5-4 yesterday. I'm going to hand you two copies  
5 of your response. Could you take a minute to look at them?

6 Are you familiar with this response?

7 THE WITNESS: Yes, I am.

8 MR. CREGAN: If you were to answer this question  
9 today, would your answer be the same?

10 THE WITNESS: Yes, it would.

11 MR. CREGAN: Mr. Chairman, I'll hand the reporter  
12 two copies of the response to MPA/USPS-T-5-4 and ask that  
13 the response be admitted into the record.

14 CHAIRMAN GLEIMAN: I'll direct that the response  
15 be admitted into evidence and transcribed into the record at  
16 this point.

17 [Additional Designation of Written  
18 Cross-Examination of Joe  
19 Alexandrovich was received into  
20 evidence and transcribed into the  
21 record.]

22

23

24

25

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

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**MPA/USPS-T5-4.** Please refer to your response to MPA/USPS-T5-3a and b where you confirm that the USPS made a mail shape adjustment before distributing rural carrier volume variable costs, and LR-H-201, W/S 10, Worksheets 10.1.2 and 10.2.2 where you show the distribution keys for evaluated routes and other routes.

- a. Please provide the post-adjustment FY 1996 volumes by route evaluation item and subclass/special service used to derive the distribution key for evaluated routes. Please provide in an electronic spreadsheet file.
- b. Please provide the post-adjustment FY 1996 volumes by route evaluation item and subclass/special service used to derive the distribution key for other routes. Please provide in an electronic spreadsheet file.

**Response to MPA/USPS-T5-4**

- a-b. See Attachment 1. An electronic version of FY 1996 W/S 10 is being filed with this response.

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	DISTRIBUTION KEY					COST DISTRIBUTION					TOTAL	LINE NO
		LETTERS DEL	FLATS DEL	PARCELS DEL	BOND/DAYS DEL	ACCTBL DEL	LETTERS DEL	FLATS DEL	PARCELS DEL	BOND/DAYS DEL	ACCTBL DEL		
		(2)	(3)	(4)	(5)	(6)	(8)	(9)	(10)	(11)	(12)	(14) = (7) + (13)	
	COLUMN SOURCE **	(2)	(3)	(4)	(5)	(6)	(8)	(9)	(10)	(11)	(12)	(14) = (7) + (13)	
1	FIRST-CLASS MAIL	20,308	13,411	13,833	567	0	128,635	75,891	5,053	400	0	209,779	1
2	LETTERS & PARCELS	33,517	12,999	290	361	0	152,308	87,857	112	340	0	230,517	2
3	PRESORT LTR & PCL	229	0	0	0	0	1,041	0	0	0	0	1,041	3
4	POSTAL CARDS	3,117	0	0	219	0	15,073	0	0	140	0	15,213	4
5	PRIVATE POSTCARDS	3,122	0	0	30	0	8,043	0	0	30	0	8,063	5
6	PRESORT PRVT P CS	87,493	25,567	13,373	1,223	0	306,700	143,546	3,164	933	0	450,243	6
7	TOTAL FIRST												
7	PRIORITY MAIL	11	295	15,214	3	0	50	1,488	5,867	2	0	7,437	7
8	EXPRESS MAIL	0	0	0	0	7,385	0	0	0	0	3,953	3,953	8
9	MAIL GRAMS	2	0	0	0	0	0	0	0	0	0	0	9
10	SECOND-CLASS MAIL												
10	WITHIN COUNTY	1,327	10,834	1,000	2,437	0	6,030	106,308	770	1,859	0	114,705	10
11	OUTSIDE COUNTY												11
12	REG RATE PUB												12
13	NONPROFIT PUB												13
14	CLASSROOM PUB												14
15	TOTAL SECOND	1,327	10,834	1,000	2,437	0	6,030	106,308	770	1,859	0	114,705	15
16	THIRD-CLASS MAIL												
16	SINGLE PIECE RATE	14	30	490	0	0	64	213	883	0	0	470	16
17	BULK RATE-REG	8,129	22,721	963	82,992	0	36,895	177,588	210	30,234	0	231,029	17
18	CAR PRESORT	15,895	25,890	33,080	9,223	0	72,230	94,282	12,824	6,280	0	215,622	18
19	OTHER	24,834	48,410	33,040	91,825	0	109,315	271,830	11,042	62,520	0	450,627	19
20	TOTAL REGULAR(R)												
20	BULK RATE-NONPROF	890	1,004	0	2,613	0	4,026	9,142	33	1,779	0	11,000	20
21	CAR PRESORT	8,833	8,061	1,343	1,293	0	26,370	26,415	520	873	0	58,189	21
22	OTHER	0,000	0,195	1,437	3,090	0	30,396	34,537	953	2,854	0	68,400	22
23	TOTAL NONPROFIT(R)	30,737	54,612	35,573	69,723	0	130,875	306,820	13,789	65,174	0	575,217	23
24	FOURTH-CLASS MAIL												
24	PARCELS ZONE RATE	14	62	12,842	7	0	64	400	4,877	5	0	5,908	24
25	BOUND PRINT MATTER	0	208	15,895	7	0	50	1,137	5,076	5	0	6,274	25
26	SPC LTR/PCL RATE	1	61	0	0	0	5	342	2,208	0	0	2,653	26
27	LIBRARY RATE	12	24	800	3	0	55	135	267	2	0	458	27
28	TOTAL FOURTH	27	373	31,534	17	0	100	2,094	12,000	12	0	14,072	28

(\*) - USPS FORM 2838, AMOUNTS ARE PROPORTIONS  
(\*\*) - COLUMN THRU C13.04 FROM THE 1.1 C-0, AND DISTRIBUTED ON C1 THRU C4  
\* - INCLUDED IN C1.0

(\*) - COLUMN 4 EXCLUDES BUNDLED LETTERS AND FLATS  
TOTAL BEFORE EXCLUSION 478  
BUNDLED LETTERS AND FLATS FACTOR 100,000  
0.004780

Page 1 of 4

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	DISTRIBUTION KEY					COST DISTRIBUTION					TOTAL	LINE NO				
		LETTERS DEL	FLATS DEL	PARCELS DEL	BOWLDERS DEL	ACCTBL'S DEL	LETTERS DEL	FLATS DEL	PARCELS DEL	BOWLDERS DEL	ACCTBL'S DEL						
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		(12)	(13)	(14)	(15)
		COLUMN SOURCE **	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		(12)	(13)	(14)	(15)
20	PENALTY-USPS	123	70	40	920	0		804	430	10	250	0		1,470	20		
30	FREE MAIL - BLIND & MDC & SERVICEMEN	77	31	455	0	0		100	200	170	0	0		460	30		
31	INTERNATIONAL MAIL	200	134	300	00	0		1,091	752	154	47	0		2,044	31		
32	TOTAL ALL MAIL	100,000	100,000	90,527 (c)	100,000	7,300		454,410	561,454	30,574	80,000	3,953		1,120,486	32		
33	SPECIAL SERVICES:																
34	REGISTRY	0	0	0	0	3,856						1,961		1,961	33		
35	CERTIFIED	0	0	0	0	84,343						45,340		45,340	34		
36	INSURANCE	0	0	0	0	4,205						2,790		2,790	35		
37	ODD	0	0	0	0	0						0		0	36		
38	SPECIAL DELIVERY	0	0	0	0	347						100		100	37		
39	MONEY ORDERS	0	0	0	0	0						0		0	38		
40	STAMPED ENVELOPES											0		0	39		
41	SPECIAL HANDLING											0		0	40		
42	POST OFFICE BOX											0		0	41		
43	OTHER											0		0	42		
44	TOTAL SPC SVCS	0	0	0	0	92,631		0	0	0	0	49,092		49,092	43		
45	TOTAL ATTRIBUTABLE	100,000	100,000	90,527	100,000	100,000		454,410	561,454	30,574	80,000	53,045		1,170,170	44		
46	OTHER														45		
47	TOTAL COSTS														46		

NOTES: SEE PAGE 1

FISCAL YEAR  
COST REPORT  
WORKSHEET 10.1 - DISTRIBUTION OF EVALUATED ROUTES ATTRIBUTABLE COSTS  
PAGE 3 OF 4

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	DISTRIBUTION KEY				COST DISTRIBUTION					PAGE 1	SUBTOTAL	DIST KEY	COMP 10.1 CNA 009	LINE NO
		POSTAGE DUE	LTNS/FLATS COLLECTED	PARCELS ACCEPTED	ACCEPTED	POSTAGE DUE	LTNS/FLATS COLLECTED	PARCELS ACCEPTED	ACCEPTED	SPECIAL SERVICES					
		(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)+(14)	(25)+(18) (24)	(26)	(27)	
	OPWVS 10.1.2 PG 4														
	FIRST-CLASS MAIL														
1	LETTERS & PARCELS	70,872	95,095	90,199	0	955	34,878	9,832	0	0	208,770	251,130		251,130	1
2	PRESORT LTR & PCL	1,395	0	0	0	14	0	0	0	0	220,535	220,537		220,537	2
3	POSTAL CARDS	174	310	345	0	1	113	33	0	0	1,041	1,180		1,180	3
4	PRIVATE POSTCARDS	947	3,279	1,179	0	0	1,192	170	0	0	15,222	16,542		16,542	4
5	PRESORT PRVT P CS	44	0	0	0	0	0	0	0	0	0,001	0,001		0,001	5
6	TOTAL FIRST	73,062	98,245	90,723	0	570	36,101	8,007	0	0	450,245	490,009		490,009	6
7	PRIORITY MAIL	2,001	200	10,952	0	22	75	1,024	0	0	7,437	8,550		8,550	7
8	EXPRESS MAIL	0	0	0	1,624	0	0	0	0	0	3,953	4,021		4,021	8
9	MAILGRAMS	435	0	0	0	5	0	0	0	0	0	12		12	9
10	SECOND-CLASS MAIL WITHIN COUNTRY	1,406	0	0	0	11	0	0	0	0	114,785	114,778	977,620 <	8,950	10
11	OUTSIDE COUNTRY												8,904,301 <	78,184	11
12	REG RATE PUB												2,205,100 <	24,895	12
13	NONPROFIT PUB												58,885 <	887	13
14	CLASSROOM PUB														14
15	TOTAL SECOND	1,406	0	0	0	11	0	0	0	0	114,785	114,778	10,120,100	114,778	15
16	THIRD-CLASS MAIL SINGLE PIECE RATE	614	202	1,150	0	7	90	320	0	0	470	893		893	16
17	BULK RATE-REG	000	0	0	0	5	0	0	0	0	221,005	221,010		221,010	17
18	CAR PRESORT	4,237	0	0	0	32	0	0	0	0	225,822	225,855		225,855	18
19	OTHER	4,805	0	0	0	30	0	0	0	0	450,627	450,805		450,805	19
20	TOTAL REGULAR(BR)														
20	BULK RATE-NONPROF	174	0	0	0	1	0	0	0	0	11,900	11,901		11,901	20
21	CAR PRESORT	814	0	0	0	7	0	0	0	0	50,180	50,187		50,187	21
22	OTHER	1,080	0	0	0	0	0	0	0	0	60,100	60,100		60,100	22
23	TOTAL NONPROF(BR)	6,907	202	1,150	0	53	90	320	0	0	525,257	525,726		525,726	23
24	TOTAL THIRD														
24	FOURTH-CLASS MAIL	2,363	10	0,536	0	30	7	870	0	0	9,508	9,405		9,405	24
25	PARCELS ZONE RATE	4,429	11	3,874	0	34	4	395	0	0	8,274	8,707		8,707	25
26	BOLD PRINT MATTER	5,573	12	0,337	0	45	5	650	0	0	2,633	3,531		3,531	26
27	SPC 4TH-CL. RATE	625	0	4,989	0	9	3	498	0	0	450	881		881	27
28	LIBRARY RATE	13,816	50	25,616	0	100	19	2,811	0	0	14,872	17,802		17,802	28
29	TOTAL FOURTH														

[M] - USPS FORM 3850, AMOUNTS ARE PROPORTIONS.  
[N] - C10, L10 THRU C10, L10, AND DISTRIBUTED ON C17 THRU C19  
\* - INCLUDED IN L10

[P] - WVS 10.1.1, C10  
[Q] - NPW NATIONAL VOLUMES (PIECES) - See WVS 1.1.1, current Pieces column  
[R] - L10 THRU L15, C27, IS DISTRIBUTED ON L10 THRU L15

[S] - COLUMN 17 EXCLUDES BULKED LETTERS AND FLATS  
TOTAL BEFORE EXCLUSION  
BULKED LETTERS AND FLATS FACTOR

44  
100,000  
0.000440

FISCAL YEAR 1  
COST SEGMENT 10 - RURAL CARRIERS  
WORKSHEET 10.1 - DISTRIBUTION OF EVALUATED ROUTES ATTRIBUTABLE COSTS  
PAGE 4 OF 4

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	DISTRIBUTION KEY				COST DISTRIBUTION				PAGE 2	SUBTOTAL	DIST KEY	COMP 10.1 CARRIER	LINE NO
		POSTAGE DUE	LTR/FLATS COLLECTED	PARCELS ACCEPTED	ACCTBLS ACCEPTED	POSTAGE DUE	LTR/FLATS COLLECTED	PARCELS ACCEPTED	ACCTBLS ACCEPTED					
	(1)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)+(14)	(25)+(19)	(26)	
	CARRIER SOURCE **	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)			(27)	
29	PENALTY/USPS	1,400	30	100	0	11	12	10	0		1,420	1,434	1,434	29
30	FREE MAIL - BLIND & HODC & SERVICE MEN	0	0	0	0	0	0	0	0		0	0	0	30
31	INTERNATIONAL MAIL	261	102	1,370	0	2	70	140	0		2,044	2,250	2,250	31
32	TOTAL ALL MAIL	99,939	99,991	100,000 (4)	1,924	778	30,454	10,192	80	0	1,120,400	1,173,970	1,173,970	32
33	SPECIAL SERVICES													
34	REGISTERED	0	0	0	300				25		1,001	1,000	1,000	33
35	CERTIFIED	0	0	0	11,910				709		45,344	45,055	45,055	34
36	INSURANCE	0	0	0	707				29		2,799	2,578	2,578	35
37	COO	0	0	0	0				0	5,022 L7	0	5,022	5,022	36
38	SPECIAL DELIVERY	0	0	0	0				0		100	100	100	37
39	MONEY ORDERS	0	0	0	0				0	2,953 L14	0	2,953	2,953	38
40	STAMPED ENVELOPES	0	0	0	0				0		0	0	0	39
41	SPECIAL HANDLING	0	0	0	0				0		0	0	0	40
42	POST OFFICE BOX	0	0	0	0				0	10 L10	0	10	10	41
43	OTHER	0	0	0	10,514	0	0	0	703	0,194	49,032	50,049	50,049	42
44	TOTAL SPC SVCS	0	0	0	10,514	0	0	0	703	0,194	49,032	50,049	50,049	43
45	TOTAL ATTRIBUTABLE	99,939	99,991	100,000	10,938	778	30,454	10,192	811	0,194	1,170,170	1,224,019	1,224,019	44
46	OTHER												1,500,797	45
47	TOTAL COSTS												2,801,434	46

NOTES: SEE PAGE 3

# ATTACHMENT 1 MPA/USPS-T5-4 Page 5 of 8

7146

POSTAL YEAR 2014  
COST OF SERVICE  
WORKSHEET W-31 - DISTRIBUTION OF OTHER ROUTES ATTRIBUTABLE COSTS  
PAGE 1 OF 1

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	DISTRIBUTION KEY			COST DISTRIBUTION			L48 NO
		LETTERS DEL	FLATS DEL	PARCELS DEL	LETTERS DEL	FLATS DEL	PARCELS DEL	
		(1)	(2)	(3)	(4)	(5)	(6)	
1	FIRST-CLASS MAIL	26,245	10,013	987	15,338	7,540	537	1
2	LETTERS & PARCELS	21,229	11,000	281	15,781	8,750	23	2
3	PRIORITY MAIL	2,317	0	0	1,962	0	0	3
4	REGISTERED MAIL	2,178	0	210	1,962	0	0	4
5	POSTAL CERTIFICATES	87,893	25,567	34	899	14,296	545	5
6	PRIORITY MAIL PLUS	11	295	3	5	140	825	6
7	PRIORITY MAIL	0	0	0	0	0	0	7
8	EXPRESS MAIL	0	0	0	0	0	0	8
9	MAIL GRANTS	2	0	0	1	0	0	9
10	SECOND-CLASS MAIL	1,377	18,834	2,437	625	10,569	92	10
11	OUTSIDE COUNTRY	0	0	0	0	0	0	11
12	OUTSIDE COUNTRY	0	0	0	0	0	0	12
13	POSTNET PLUS	0	0	0	0	0	0	13
14	CLASSROOM PLUS	0	0	0	0	0	0	14
15	TOTAL, SECOND	1,377	18,834	2,437	625	10,569	92	15
16	THIRD-CLASS MAIL	14	38	0	7	21	20	16
17	MAIL RATE-REG	8,139	22,731	92,983	5,833	13,799	31	17
18	OTHER	15,893	75,096	9,323	7,486	14,371	1,360	18
19	TOTAL, REGULAR MAIL	24,034	48,419	91,025	11,316	27,077	1,383	19
20	BULK RATE-ADDITIONAL	0	0	2,915	417	412	4	20
21	MAIL RATE-ADDITIONAL	5,803	5,081	1,341	2,732	2,830	35	21
22	TOTAL, NONREGULAR MAIL	5,803	5,081	1,341	2,732	2,830	35	22
23	TOTAL, THIRD	28,737	56,812	95,723	14,472	28,546	1,402	23
24	FOURTH-CLASS MAIL	14	81	7	7	46	528	24
25	PARCELS ZONE RATE	0	208	175	4	175	538	25
26	POSTNET MAIL	1	81	6	0	34	242	26
27	MAIL RATE	12	24	13	0	13	28	27
28	TOTAL, FOURTH	25	373	17	17	206	1,339	28
(4) - COLUMN 4 EXCLUDES BLANKED LETTERS AND FLATS TOTAL BEFORE EXCLUSION BLANKED LETTERS AND FLATS FACTOR								29
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(4) - USPS FORM 3800, AMOUNTS ARE PROPORTIONS  
(5) - CUMULATIVE TOTAL FROM LINE 16 TO LINE 28 AND DISTRIBUTED ON C3 THROUGH C5  
\* - INCLUDED IN LINE



FISCAL YE. . . . . RURAL CARRIERS  
COST SEGMENT . . . . .  
WORKSHEET # 5 1 - DISTRIBUTION OF OTHER ROUTES ATTRIBUTABLE COSTS  
PAGE 2 OF 4

LINE NO	CLASS, SUBCLASS OR SPECIAL SERVICE	DISTRIBUTION KEY					COST DISTRIBUTION					TOTAL	C/P# NO
		LETTERS DEL	FLATS DEL	PARCELS DEL	BULKHEADS DEL	ACCTBLS DEL	LETTERS DEL	FLATS DEL	PARCELS DEL	BULKHEADS DEL	ACCTBLS DEL		
	(1)	(2)	(3)	(4)	(5)	(6)	(8)	(9)	(10)	(11)	(12)	(14) (13)	
	COLLAPSE SOURCE >>	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	
29	PENALTY-USPS	123	76	49	978		63	44	2	33	0	142	29
30	FREE MAIL - BLIND & MDC & SERVICEMEN	23	37	493	0		10	21	16	0	0	66	30
31	INTERNATIONAL MAIL	249	134	399	09		113	75	16	4	0	208	31
32	TOTAL ALL MAIL	100,000	100,000	89,322 (4)	100,000	7,369	47,064	55,924	4,091	6,791	446	113,826	32
33	SPECIAL SERVICES												
34	REGISTRY					3,078					221	221	33
35	CERTIFIED					94,343					5,170	5,170	34
36	INSURANCE					4,795					200	200	35
37	COD										0	0	36
38	SPECIAL DELIVERY					347					21	21	37
39	MONEY ORDERS										0	0	38
40	STAMPED ENVELOPES										0	0	39
41	SPECIAL HANDLING										0	0	40
42	POST OFFICE BOX										0	0	41
43	OTHER										0	0	42
44	TOTAL SPC SVCS	0	0	0	0	82,831	0	0	0	0	5,612	5,612	43
45	TOTAL ATTRIBUTABLE	100,000	100,000	89,322	100,000	100,000	47,064	55,924	4,091	6,791	6,058	119,848	44
46	OTHER												45
47	TOTAL COSTS												46

NOTES SEE PAGE 1

FISCAL YEAR  
COST SECTOR  
WORKSHEET 10 2 2 - DISTRIBUTION OF OTHER ROUTES ATTRIBUTABLE COSTS  
PAGE 3 OF 4

LINE NO	CLASS, SUBCLASS OR SPECIAL SERVICE	DISTRIBUTION KEY				COST DISTRIBUTION					PAGE 1	SUBTOTAL	DIST KEY	COMP # 2 CRA 070	LINE NO
		POSTAGE DUE	LETTERS/PLATS COLLECTED	PARCELS ACCEPTED	ACCEPTEDS ACCEPTED	POSTAGE DUE	LETTERS/PLATS COLLECTED	PARCELS ACCEPTED	ACCEPTEDS ACCEPTED	SPECIAL SERVICES					
	(1)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	
		(M)	(M)	(M)	(M)	(M)	(M)	(M)	(M)	(M)		(100) (24)	(M)	(M)	
1	FIRST-CLASS MAIL	70,872	89,003	90,108		59	3,447	615	0		31,443	25,504		25,504	1
2	LETTERS & PARCELS	1,785				2	0	0	0		32,579	22,577		22,577	2
3	PRESORT LTR & PCL	176	110	545		0	11	4	0		100	123		123	3
4	POSTAL CARDS	987	3,770	1,170		1	110	12	0		1,576	1,707		1,707	4
5	PRIVATE POSTCARDS	44				0	0	0	0		1,005	1,005		1,005	5
6	PRESORT PRVT P CS	73,082	88,243	90,723	0	67	3,578	631	0		40,705	50,874		50,874	6
7	TOTAL FIRST														
7	PRIORITY MAIL	2,001	200	10,952		3	7	100	0		778	693		693	7
8	EXPRESS MAIL				1,824	0	0	0	0		840	454		454	8
9	MAILGRAMS	435				0	0	0	0		1	1		1	9
10	SECOND-CLASS MAIL	1,466				1	0	0	0		11,449	11,450	877,820	993	10
11	WITHIN COUNTY														
12	OUTSIDE COUNTY												8,864,301	7,897	11
13	REG RATE PUB												2,705,180	2,483	12
14	NONPROFIT PUB												30,005	67	13
15	CLASSROOM PUB														14
16	TOTAL SECOND	1,466	0	0	0	1	0	0	0		11,449	11,450	10,126,104	11,450	15
17	THIRD-CLASS MAIL														
18	SINGLE PIECE RATE	874	202	3,139		1	8	33	0		40	81		81	16
19	BULK RATE REG														
20	CAR PRESORT	980				1	0	0	0		21,757	21,758		21,758	17
21	OTHER	4,237				4	0	0	0		23,798	23,800		23,800	18
22	TOTAL REGULAR(BR)	4,905	0	0	0	5	0	0	0		45,555	45,558		45,558	19
23	BULK RATE NONPROF														
24	CAR PRESORT	176				0	0	0	0		1,187	1,187		1,187	20
25	OTHER	914				1	0	0	0		5,098	5,099		5,099	21
26	TOTAL NONPROF(BR)	1,090	0	0	0	1	0	0	0		6,095	6,098		6,098	22
27	TOTAL THIRD	8,907	202	3,139	0	7	8	33	0		52,496	52,545		52,545	23
28	FOURTH-CLASS MAIL														
29	PARCELS ZONE RATE	2,903	10	8,538		3	1	80	0		501	676		676	24
30	SOUND PRINT MATTER	4,430	11	3,674		4	0	41	0		657	702		702	25
31	SPC 1st-CL RATE	9,572	13	8,337		5	0	36	0		776	300		300	26
32	LIBRARY RATE	825	0	4,989		8	0	51	0		47	96		96	27
33	TOTAL FOURTH	13,910	34	23,610	0	11	1	270	0		1,561	1,063		1,063	28

(1) - USPS FORM 3838, AMOUNTS ARE PROPORTIONS.  
(2) - CTR 60 THRU C28, 60 FROM YPS 10 1 1 C 10 AND DISTRIBUTED ON C 17 THRU C 20  
\* - INCLUDED IN L 10

(1) - YPS 10 1 1, C 10  
(2) - RPPV NATIONAL VOLUMES (PIECES) See YPS 1 1 2, current volumes  
(3) - L 10 THRU L 12, CTR 15 DISTRIBUTED ON L 10 THRU L 15

1 - COLUMN 17 EXCLUDES BUNDLED LETTERS AND PLATS  
TOTAL BEFORE EXCLUSION  
BUNDLED LETTERS AND PLATS FACTOR

44  
100,000  
0.000400

FISCAL YEAR 19--  
COST SEGMENT 10--RURAL CARRIERS  
WORKSHEET 10 2 2--DISTRIBUTION OF OTHER ROUTES ATTRIBUTABLE COSTS  
PAGE 4 OF 4

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	DISTRIBUTION KEY				COST DISTRIBUTION					PAGE 2	SUBTOTAL	DIST KEY	COMP 10 1 CRA 070	LINE NO
		POSTAGE DUE	LTRSF/PLTS COLLECTED	PARCELS ACCEPTED	ACCTBLS ACCEPTED	POSTAGE DUE	LTRSF/PLTS COLLECTED	PARCELS ACCEPTED	ACCTBLS ACCEPTED	SPECIAL SERVICES					
	(1)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)=(14)	(25)=(15) (24)	(26)	(27)	
	COLUMN SOURCE >>	(4)	(5)	(6)	(9)	(4)	(5)	(6)	(9)	(7)			(8)	(7)	
29	PENALTY-USPS	1,400	30	100		1	1	1	0		142	445		445	29
30	FREE MAIL - BLIND & HNDIC & SERVICEMEN	0				0	0	0	0		00	50		50	30
31	INTERNATIONAL MAIL	201	102	1,370	0	0	7	14	0		208	220		220	31
32	TOTAL ALL MAIL	91,876	90,891	100,000 (1)	1,624	94	3,801	1,055	0	0	113,030	119,504		119,504	32
33	SPECIAL SERVICES														
33	REGISTRY				589				1		221	220		224	33
34	CERTIFIED				12,016				85		5,110	5,105		5,105	34
35	INSURANCE				707				6		200	204		204	35
36	COO				0				0	500 L7	0	000		000	36
37	SPECIAL DELIVERY				0				0		21	21		21	37
38	MONEY ORDERS								0	102 L14	0	102		102	38
39	STAMPED ENVELOPES								0		0	0		0	39
40	SPECIAL HANDLING								0		0	0		0	40
41	POST OFFICE BOX								0		0	0		0	41
42	OTHER								0	3 L10	0	3		3	42
43	TOTAL SPC SVCS	0	0	0	10,314	0	0	0	92	751	5,812	8,455		8,455	43
44	TOTAL ATTRIBUTABLE	91,876	90,891	100,000	10,938	94	3,801	1,055	100	751	119,440	125,039		125,039	44
45	OTHER													147,871	45
46	TOTAL COSTS													272,910	46

NOTES: SEE PAGE 2

1                   CHAIRMAN GLEIMAN: We have several responses to  
2   Presiding Officer Information Request questions that we  
3   would like to have in the record as designated written  
4   cross-examination. They're POIR No. 3, Questions 15 and 17,  
5   and POIR No. 4, Question 8. And I'm going to hand the  
6   reporter copies of those questions and ask that they be  
7   admitted into evidence and transcribed into the record at  
8   this point.

9                                   [Responses of Witness Alexandrovich  
10                                  to Presiding Officer's Information  
11                                  Request No. 3, Questions 15 and 17,  
12                                  and Presiding Officer's Information  
13                                  Request No. 4, Question 8 were  
14                                  received into evidence and  
15                                  transcribed into the record.]

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**Response of United States Postal Service Witness Alexandrovich to Presiding  
Officer's Information Request No. 3, Question 15**

15. According to the response to POIR No. 1, the premium costs for the three network operations are treated as institutional costs. Please provide the rationale and analyses that demonstrate the variability of costs of the three networks.

**RESPONSE**

I did not see in the response to POIR No. 1 where it states that the premium costs for the three networks are treated as an "institutional" cost. Nevertheless, the three networks are designed to operate, as close as practicable, to full capacity. This means that every additional pound of mail placed on a network flight displaces a pound of mail onto a commercial air flight. Since an additional pound of mail on a commercial air flight causes a proportional increase in commercial air costs, every additional pound of mail placed on a network flight has the same effect on accrued cost as an additional pound placed on a commercial flight. These costs are considered the nonpremium costs associated with the networks and are fully volume variable. The remaining, premium costs are treated as incremental costs to the subclasses for which the networks exist as discussed in witness Takis' testimony.

**Response of United States Postal Service Witness Alexandrovich to Presiding Officer's Information Request No. 3, Question 17**

17. In Docket No. R90-1, the Commission recommended a new treatment for Eagle network distribution keys. In Docket No. R94-1, witness Barker stated that the Eagle network keys shown in Worksheet 14.0.7, pages 1-4, reflected the Commission's R90-1 method. The adjustments were documented in Library Reference G-115, the TRACS Eagle Estimation Programs Overview. See Docket No. R94-1, Tr. 26E/14480-82.

In MC97-2, witness Patelunas confirmed that the Service used the Commission's methodology in the development of FY 1995 Eagle Network TRACS distribution keys shown in USPS-T-5, Workpaper B, Worksheet 14.0.3.

Do the Eagle network TRACS distribution keys shown in USPS-T-5, Workpaper 14.03, reflect the Docket No. R94-1 methodology? If yes, what adjustments were made in light of the change from cubic foot-miles to pound-miles as noted by witness Nieto, USPS-T-2, page 6.

**RESPONSE**

The Eagle network TRACS distribution keys shown in Workpaper 14.0.3 are used to distribute only nonpremium costs. The methodology used to distribute these nonpremium costs is consistent with the Commission's R94-1 distribution of nonpremium costs except for the fact that the TRACS network distribution keys in Workpaper 14.0.3 are based on pound-miles while the Commission's R94-1 keys use cubic-foot miles. The keys shown in Workpaper 14.0.3 do not include the Commission's R94-1 reallocation of premium cost to Priority and Express Mail, as premium costs are treated as incremental costs to the subclasses for which the networks exist as discussed in witness Takis' testimony.

Response of United States Postal Service Witness Alexandrovich  
to  
Presiding Officer's Information Request No. 4

7153

POIR No. 4:

8. Alaska Bypass Mail

a. Witness Mayes identifies the 1996 Intra-BMC Alaska Bypass volume (USPS-T-37, Workpaper 1.A, page 1) and revenues (USPS-T-37, Workpaper 1.D, page 7).

(1) Please provide the Bypass transportation costs which are included in the Alaskan nonpriority air costs.

(2) Please identify and provide any clerk and mailhandling costs for processing Bypass mail.

RESPONSE

(1) Total Parcel Post Bypass Transportation costs:

$$58.88\% * 82,495 = 48,573$$

(2) There are no clerk and mailhandling costs for processing Bypass mail.

1 CHAIRMAN GLEIMAN: I should have asked you, Mr.  
2 Alexandrovich, I'm assuming that your answers to those  
3 questions would have been the same, those Presiding Officer  
4 Information Requests.

5 THE WITNESS: Yes, they would.

6 CHAIRMAN GLEIMAN: Four participants requested  
7 oral cross-examination of the witness, the Alliance of  
8 Nonprofit Mailers, the American Business Press, Florida Gift  
9 Fruit Shippers, and the Office of the Consumer Advocate.  
10 Does any other participant have oral cross-examination for  
11 the witness?

12 If no one else has oral cross-examination, Mr.  
13 Thomas, begin.

14 MR. FELDMAN: Mr. Alexandrovich, for the record,  
15 I'm Stephen Feldman, counsel --

16 CHAIRMAN GLEIMAN: Steve -- excuse me, Mr.  
17 Feldman. I think that -- I'm working on getting the  
18 alphabet right. The Alliance of Nonprofit Mailers gets  
19 first crack at the witness, unless there's some previous  
20 agreement.

21 MR. FELDMAN: My apologies.

22 CHAIRMAN GLEIMAN: That's okay. It may have been  
23 that you were using the alphabet that we were using the  
24 other day.

25 MR. THOMAS: Joel Thomas for the Alliance of



1 Nonprofit Mailers.

2 Mr. Chairman, we don't have any questions of the  
3 witness at this point. We may have some on followup,  
4 depending on answers elicited by others.

5 CHAIRMAN GLEIMAN: In that case, Mr. Feldman, you  
6 were right at the outset.

7 MR. FELDMAN: Thank you, Mr. Chairman.

8 CHAIRMAN GLEIMAN: Once again.

9 CROSS EXAMINATION

10 BY MR. FELDMAN:

11 Q Mr. Alexandrovich, if you could turn to your  
12 response to ABP/USPS-T-13-7(a). This was initially directed  
13 to Witness Bradley, and you provided the response.

14 A Okay.

15 Q Yes. That interrogatory asked Witness Bradley to  
16 explain why in FY 1995 highway costs for first class were  
17 about 43 percent of the cost of domestic air, and in 1996,  
18 surface first class was about 62 percent of domestic air  
19 costs for first class mail.

20 Could you explain, first of all, why you stated  
21 that while you confirmed ABP's arithmetic, you stated in  
22 your response, quote, "A better comparison is between BY  
23 1995 from Docket MC97-2 and BY 1996 in this case since both  
24 use the same highway volume variabilities." I'll close the  
25 quote there. Your answer does go on, but just focusing in

1 on that one sentence and the phrase "a better comparison,"  
2 can you explain why it's a better comparison?

3 A Well, as explained later in the sentence, both use  
4 the same highway volume variabilities. Comparing the costs  
5 for FY 1995 and base year '96, part of the change is due to  
6 different variabilities. By comparing base year 1995 and  
7 1996, you can isolate the effects of different volume  
8 variabilities and look at the underlying reasons that the  
9 costs are different, or a higher proportion of costs were  
10 used in domestic air in the base year.

11 Q I'm sorry, could you repeat the last part of your  
12 answer? I think the sound was a little muted. Thank you.

13 Perhaps you could repeat the answer.

14 A Okay.

15 Q I think the sound wasn't quite working.

16 A Okay.

17 Q Thank you.

18 A FY 1995 and base year 1996 use different highway  
19 surface variabilities. In order to look at the -- in order  
20 to isolate the effects of the different surface  
21 transportation costs or the ratio of surface transportation  
22 cost to air costs, it's -- I felt it was better to look at  
23 base year 1995 and base year 1996 because they use the same  
24 variabilities.

25 Q When you use the phrase "base year 1995," you

1 don't mean that 1995 is the base year in this case, do you?

2 A No. MC97-2.

3 Q And what was the subject of -- or is the subject  
4 of Docket MC97-2?

5 A I'm not certain what the subject of that docket  
6 was.

7 Q Yes. Do you know whether or not that docket ever  
8 resulted in a recommended decision and an opinion by the  
9 Commission?

10 A No, I'm not.

11 Q Do you -- have you reviewed any of the  
12 transportation testimony in MC97-2?

13 A Other than the variabilities that were used in the  
14 base year, no.

15 Q Were the variabilities, subject to check, that  
16 were used in MC97-2 for what we'll call base year 1995 as  
17 you use the phrase, were those precise figures ever entered  
18 into the record of this case?

19 A I'm not certain.

20 Q Are they in your testimony?

21 A No.

22 Q Assuming, and I understand that you had a reason  
23 for pointing out a different way to calculate the numbers,  
24 but let's just assume for the moment that in FY 1995, the  
25 highway costs for first class were about 43 percent of

1 domestic air, and in 1996, the same type of first class --  
2 and you point out that that should exclude priority mail  
3 --was 62 percent of domestic air costs for first class mail,  
4 would you have any explanation as to why there would be an  
5 increase in 43 percent to 62 percent, which is almost a 50  
6 percent increase in domestic air cost for first class mail?

7 A Well, the second reason listed there, the fact  
8 that accrued highway costs grew faster than accrued air  
9 costs between '95 and '96, would still account for some of  
10 that.

11 Q Mr. Alexandrovich, I'm going to apologize just for  
12 a second, because I think my previous question wasn't  
13 accurate. The domestic air was not 43 percent of the cost  
14 of domestic air for first class. The question was that the  
15 highway costs for first class were about 43 percent of the  
16 cost of domestic air. So I'm sorry for any confusion that  
17 might have caused.

18 Going on the accurate rendition of the question,  
19 that 43 percent of the costs of domestic -- the highway  
20 costs were 43 percent of the cost of domestic air in '95,  
21 and in '96, that number went to 62 percent, what is -- in  
22 your judgment, as someone who sets forth the year-to-year  
23 costs for all of the cost segments of USPS, in your  
24 judgment, what drove a large increase in the proportion of  
25 highway costs as a percentage of domestic air costs, the

1 relationship between the two? Why did highway, compared to  
2 high, get to be such a high proportion in one year?

3 A Well, again, I can't speak with specificity about  
4 why they increased from -- highway surface costs for first  
5 class increased from 43 percent in 1995 to 62 percent in the  
6 base year.

7 The second factor listed there in the last  
8 paragraph on the first page of the response would still hold  
9 true for the fiscal year. The accrued highway cost grew at  
10 a faster rate than accrued air cost.

11 As far as the distribution of highway cost, I  
12 really don't have the information right now to speak to the  
13 other two reasons, whether the distribution of highway costs  
14 increased at a higher rate in '96 than they did in the  
15 fiscal year, or the third reason, whether fewer air costs  
16 were distributed to classes of mail in the fiscal year '95  
17 than in 1996.

18 Q In the last paragraph of your response to 13-7A  
19 where you state that accrued highway costs grew over 7.6  
20 percent from BY '95 to BY '96, that's using the methodology  
21 you previously referred to where the variabilities developed  
22 by Witness Bradley were a part, correct? That's a number  
23 you're comfortable with, is it --

24 A No.

25 Q -- 7.6 percent?

1           A     These are accrued costs.  These are the costs that  
2     are in the trial balance and they were the same -- those are  
3     costs before the variabilities are applied.

4           Q     I see.  So these -- would total cost be accurate  
5     or a reasonable way to describe them for -- annual total  
6     cost for that particular sub-cost segment?

7           A     Total costs that accrued to those accounts for  
8     surface transportation and air transportation.

9           CHAIRMAN GLEIMAN:  Could you please either pull  
10    the microphone closer or speak up a little bit, or both.

11          BY MR. FELDMAN:

12          Q     Again, not attempting to draw out of you any  
13    transportation expertise that you may not have because tat's  
14    not what you're here, but in terms of the change in costs  
15    and cost segments, individual cost segments year to year,  
16    which you're familiar with, is a 7.6 percent increase in a  
17    subcategory of a cost segment more than average?  Higher  
18    than average?

19          A     I'm not sure I can answer that question.  I  
20    wouldn't know.

21          Q     Let's turn, then, to your response to  
22    ABP/USPS-T-13-13, another question which originally directed  
23    to Witness Bradley and redirected to you.

24                 What is the basis of your response in Question A  
25    that non-volume variable costs would decline to the extent

1     that drop shipping has caused the accrued costs in certain  
2     purchase highway transportation accounts to decline?

3           A     That was answered in ABP-1, which you just  
4     designated. To the extent that accrued costs -- that an  
5     increase in drop shipping causes a decrease in capacity and  
6     a decrease in accrued costs for transportation, then both  
7     volume variable and variable -- volume variable and  
8     non-volume variable costs would decline.

9           Q     So it's your testimony that if volume carried by  
10    purchase transportation goes down, that the costs that would  
11    decrease include costs classified as variable by USPS and  
12    costs classified as non-variable; is tat correct?

13          A     Only to the extent that the change in volume  
14    causes a change in capacity in purchase transportation and a  
15    change in accrued costs.

16          Q     Is the change in -- does the change in capacity  
17    result in the elimination of excess capacity in USPS  
18    transportation?

19          A     Could you repeat the question, please?

20          Q     Yes. When volume goes down in USPS purchase  
21    transportation, and costs, as you've testified, ought to go  
22    down, is the capacity -- does capacity likewise decrease?

23          A     I don't know. I don't know enough about how we  
24    purchase transportation to answer that question.

25          Q     Well then how do you know that non-volume variable

1 costs in transportation would decline if there were drop  
2 shipping?

3 A Well, I said to the extent that an increase or  
4 decrease in drop shipping causes a change in accrued costs  
5 or a change in capacity which in turn causes a change in  
6 accrued costs, then both volume variable and non-volume  
7 variable costs would change.

8 Q Can you explain that answer in light of your  
9 response to ABP/USPS-T-5-1 where you state, quote, "I have  
10 not studied drop shipping," end quote?

11 A Well, the statement that I have not studied drop  
12 shipping refers to the question of which accounts in  
13 particular would be affected by drop shipping.

14 Q Mr. Alexandrovich, that was part of the question,  
15 wasn't it? The first part of that question was, which  
16 accounts in particular do you have in mind that drop  
17 shipping would cause accrued costs to decline; and the  
18 second part of that question was, provide examples where  
19 non-volume variable costs have declined because of drop  
20 shipping. And have you, in your judgment, given any  
21 example, one or more, of where non-volume variable costs  
22 have declined because of drop shipping?

23 A No. What I did provide were two possible accounts  
24 where cost may decline because of drop shipping, an increase  
25 in drop shipping.



1 I don't know if they actually have declined or the  
2 extent of any decline.

3 Q Do you know if the inter-BMC and plant load  
4 accounts are composed solely of non-volume variable costs,  
5 volume variable costs, or a mix of the two?

6 A They are accrued costs. They include what are  
7 both volume variable and non-volume variable costs.

8 Q And it is your testimony based on advice that you  
9 have received that the non-volume variable costs in those  
10 accounts would be reduced as a result of drop shipping?

11 A To the extent that capacity is affected, yes.

12 Q Do you know at what rate capacity is affected,  
13 given for example a 1 percent decrease in volume on a given  
14 inter-BMC route?

15 A No. I believe that would be in Witness Bradley's  
16 testimony.

17 Q Do you know what the percentage variabilities are  
18 or at least approximately what they are for the inter-BMC  
19 and plant load accounts that you used as your examples in  
20 your response to ABP/USPS T5-1?

21 MS. DUCHEK: Mr. Chairman, I am going to interject  
22 here.

23 I am certainly willing to allow Mr. Feldman to  
24 continue and have the witness respond that he knows or he  
25 doesn't know.

1           However, Mr. Feldman was here and had adequate  
2           opportunity to cross examine Witness Bradley, and this is  
3           really going into his area of expertise, Witness Bradley's  
4           that is, and these questions -- in fact, some of them were  
5           asked or something similar was asked of Witness Bradley.

6           MR. FELDMAN: Mr. Chairman --

7           CHAIRMAN GLEIMAN: I didn't hear an objection and  
8           it's within my purview to allow things to go forward or not,  
9           and since I didn't hear an objection, you can just continue.

10          MR. FELDMAN: Thank you.

11          BY MR. FELDMAN:

12          Q     Do you know either the precise percentage or an  
13               approximation of the variable, volume variable cost of the  
14               two accounts that you refer to in your response to  
15               ABP/USPS-T5-1?

16          A     In my workpapers, B workpapers, work sheet 14.0.1,  
17               the factors listed there -- list the volume variabilities of  
18               each account, and for inter-BMC transportation there are  
19               three account numbers in cost category 414.

20          Q     I'm sorry, could you give a page number of that  
21               workpaper?

22          A     Page 2 -- actually it's pages -- it was page 2.  
23               Account numbers 53134 and 53135 are plant load; 53131, 53132  
24               and -33 are inter-BMC accounts.

25          CHAIRMAN GLEIMAN: You keep tailing off, and we

1 are having difficulty hearing you.

2 THE WITNESS: I'm sorry.

3 CHAIRMAN GLEIMAN: I assume the Reporter can hear  
4 you because he hasn't said anything, but some of the rest of  
5 us can't. Appreciate it.

6 BY MR. FELDMAN:

7 Q The inter-BMC regular service account 53131 that  
8 you just referred to is shown to have a factor which I take  
9 to be a volume variability factor, of .9488 for each quarter  
10 in FY '96, is that correct?

11 A That's correct.

12 Q And the plant load account to which you referred,  
13 53134, is shown to have a factor of .9466 in each quarter  
14 for FY 1996, is that correct?

15 A Excuse me. You said plant load?

16 Q Yes -- 53134.

17 A .9466?

18 Q Yes.

19 A Yes.

20 Q And the same factor is given for both plant load  
21 accounts, both the annual rate and the trip rate, is that  
22 not correct?

23 A That's correct.

24 Q Plant load annual rate is categorized as cost  
25 element one whereas plant load trip rate is categorized as

1 cost element two.

2 Can you explain the difference between the two  
3 designations of cost element one and cost element two?

4 A It is a sub-designation of the cost category,  
5 plant load. The plant load cost category is 413 and .1 and  
6 .2 refer to the annual rate and trip rate.

7 Q And the factors that are listed on the far right  
8 of that work sheet, which you and I just discussed, are,  
9 would you agree, volume variability factors?

10 A Yes.

11 Q Thank you. If you would just take a moment then  
12 to look at all of the factors going from the top to the  
13 bottom of page 2 on work sheet 14.0.1, would you agree that  
14 the inter-BMC and plant load accounts that you cited in your  
15 response to ABP-T5-1 are among the highest volume  
16 variability factor accounts shown on that workpaper?

17 A Yes, they are.

18 Q And the inter-SCF regular account, 53124, what is  
19 the volume variability factor for that account?

20 A .8718.

21 Q Thank you. Do you know if those factors are  
22 identical to the factors used by Witness Bradley in his  
23 testimony in this case, in USPS-T-13?

24 A I haven't seen Witness Bradley's testimony. I  
25 don't know.

1 Q Staying on the workpapers, as long as we have them  
2 out, if you would turn to work sheet 14.0.3, page 1, please.

3 A Okay.

4 Q Is that page entitled, "TRACS Distribution Keys --  
5 PQ1, Base Year '96"?

6 A Yes.

7 Q And just to clarify, since we had a discussion  
8 about base years earlier, by "base year '96" you are  
9 referring to base year '96 as the base year in this case,  
10 correct?

11 A That's correct.

12 Q Turning to the left-hand column which lists  
13 various rate categories, under the term "Second Class" there  
14 is a category designated as "Other Regular Rate".

15 What is the number that appears for Other Regular  
16 Rate under the account Highway Inter-SCF?

17 A .22184.

18 Q And what does that number represent?

19 A These are distribution keys where the volume  
20 variable costs are used to distribute cost -- or excuse me,  
21 these distribution keys are used to distribute volume  
22 variable cost to subclass -- classes <sup>and</sup> ~~of~~ subclasses.

23 Q Does that mean that .22184 means that using,  
24 converting it to a proximate percentage that 22.2 percent or  
25 22.184 percent of highway inter-SCF costs in base year '96,

1 quarter one, were allocated to Other Regular Rates Second  
2 Class?

3 A Yes.

4 Q And the same would be true going on the same line  
5 to the far right column entitled, "Passenger Rail" -- does  
6 that mean that the TRACS system allocated 59.175 percent of  
7 passenger rail costs to Other Regular Rate?

8 A Yes.

9 MS. DUCHEK: Could I ask for a clarification from  
10 Mr. Feldman? Did you say "costs" or did you mean to say the  
11 "volume variable costs"?

12 MR. FELDMAN: I think I said "costs."

13 BY MR. FELDMAN:

14 Q Mr. Alexandrovich, to follow up on your counsel's  
15 question, are these proportions that are shown on this page  
16 proportions of accrued costs or volume-variable costs?

17 A Volume-variable costs are applied to these  
18 distribution keys.

19 Q So that of the total amount of purchase  
20 transportation volume-variable costs, Second Class regular  
21 rate would be allocated 22.184 percent of the highway  
22 inter-SCF category?

23 A In quarter 1; yes.

24 Q In quarter 1. And we're using the volume-variable  
25 costs as the amount of costs that we're dividing up; is that

1 correct?

2 A That's correct.

3 Q Thank you.

4 Now if you could turn to the next page on that  
5 worksheet, does this page show information arranged in an  
6 identical format to page 1 except that the data relates to  
7 postal quarter 2?

8 A That's correct.

9 Q Can you explain why the proportion of highway  
10 inter-SCF volume-variable costs allocated to Second Class  
11 regular rate dropped in quarter 2 from 22.184 percent to  
12 9.33 percent of the same subaccount?

13 A The TRACS distribution keys are built on a  
14 sampling system. Evidently in quarter 2 of the base year  
15 there was less Second Class other regular rate as a  
16 proportion of total volume on inter-SCF -- or intra-SCF --  
17 inter-SCF transportation. I'm not sure why that would be,  
18 but --

19 Q That's what --

20 A That's what TRACS came up with; yes.

21 Q Thank you. And using the passenger rail  
22 subaccount in quarter 2, is it not the case that from  
23 quarter 1's 59.175 percent it increased to 66.215 percent?

24 A Yes.

25 Q Do you have any opinion if USPS took magazines off

1 of trucks and put them on Amtrak or any other thoughts on  
2 that?

3 A No.

4 Q Okay.

5 A There is an -- in quarter 2, I mean, there is a  
6 seasonality component. That's Christmas. And we do move  
7 other types of mail, more of other types of mail over  
8 Christmas, and that could account for the decrease, or some  
9 of the decrease in surface -- or in inter-SCF highway.

10 Q But the passenger rail, you don't know whether  
11 Christmas may or may not have an effect on that.

12 A I don't know. No.

13 Q Okay. I'm going to jump over postal quarter 3 if  
14 you'll agree with me after a brief glance at Second Class  
15 other regular rate, highway inter-SCF, that the proportion  
16 of volume-variable costs allocated to Second Class regular  
17 rate returned in quarter 3 to approximately what it was in  
18 quarter 1.

19 A Yes, 21.7 percent.

20 Q Fine. So then we'll move on to quarter 2 --  
21 quarter 4, postal quarter 4, page 4 of your worksheet, base  
22 year 1996.

23 Does the worksheet there indicate the Second Class  
24 regular rate highway inter-SCF took up 11.217 percent of  
25 volume-variable costs allocated to highway inter-SCF?



1           A     Yes.

2           Q     Do you have any opinion as to why there was a drop  
3     in the proportion of highway inter-SCF volume-variable costs  
4     allocated to Second Class other regular rate mail from  
5     quarter 3 to quarter 4?

6           A     No.

7           Q     Turning to ABP/USPS-T-5-1(b), your first sentence  
8     states as follows: "In purchased highway transportation,  
9     non-volume-variable cost arises because of the economies of  
10    scale in production (variability is less than 1)."

11                What do you mean by economies of scale in the  
12    context of purchased transportation?

13           A     That costs don't rise in proportion to increases  
14    in volume. They rise less, proportionately less than volume  
15    increases.

16           Q     Would that work in reverse, in that if volumes  
17    decreased that the decrease in non-volume-variable costs  
18    would be less than the decrease in volume-variable costs?

19           A     Could you repeat the question?

20           Q     Sure. Summarizing your earlier response as I  
21    understood it, that the non-volume-variable costs rose at a  
22    different rate under -- if there were economies of scale,  
23    then the volume-variable costs -- I'm simply asking if the  
24    converse is true, that if volumes go down, the  
25    volume-variable costs go down, do the non-volume-variable

1 costs also go down, but at a slower rate than the  
2 volume-variable costs?

3 A The rate at which they will fall, the rate that  
4 the volume-variable and non-volume-variable costs fall,  
5 would be different, but both volume-variable and  
6 non-volume-variable costs would fall.

7 Q Can you cite any examples in your various exhibits  
8 or in your work papers that would demonstrate that  
9 proposition?

10 A Not right offhand, no.

11 Q What is the basis for your testimony that  
12 economies of scale exist within the USPS purchased highway  
13 transportation system as it currently exists as opposed to  
14 the supposition that economies of scale may exist for the  
15 United States Postal Service as a whole?

16 A I'm not sure I understand the question.

17 Q Sure. I'll try to make it more comprehensible.

18 Why do you think that there are economies of scale  
19 in the USPS purchased highway transportation system as it  
20 exists today in the real world?

21 A That's really beyond the scope of my testimony.  
22 Again, I think that was work that was addressed by Witness  
23 Bradley.

24 Q Well, Witness Alexandrovich, the phrase "economies  
25 of scale" applied to USPS -- ABP/USPS-T-5-1(b) in your

1 response in which you state unequivocally that in purchased  
2 highway transportation non-volume-variable cost arises  
3 because of the economies of scale in production variability  
4 is less than 1.

5 A Right.

6 Q How do you know this to be true?

7 A Well, if variabilities are less than 1, then you  
8 do have economies of scale in production. I take the  
9 variabilities from Witness Bradley as a given, and I'm not  
10 sure -- I don't know the exact reason why volume  
11 variabilities are less than 1 for surface transportation,  
12 but I do know that because they are less than 1, that there  
13 are by definition economies of scale in production.

14 Q On the assumption that Witness Bradley's  
15 variabilities did not accurately describe the relationship  
16 of volume to cost in the purchased highway transportation  
17 network, would your answer be the same, that economies of  
18 scale exist in the USPS purchased highway transportation  
19 network?

20 A Again, if the variabilities were less than 1,,  
21 yes.

22 Q I didn't ask that. I said if -- assuming -- I'm  
23 not asking you to agree -- assuming that Witness Bradley's  
24 variabilities did not accurately show the relationship of  
25 volume in the transportation system to cost in the

1 transportation system, would your assertion that economies  
2 of scale exist in the purchased transportation system --  
3 would your response be the same.

4 MS. DUCHEK: I'm going to interject here, Mr.  
5 Chairman, and object. The witness was responsive. Mr.  
6 Alexandrovich said yes, so long as economies -- or so long  
7 as variabilities were less than 1. You didn't state that  
8 they would be 1 or more than 1, you just said if Witness  
9 Bradley's were assumed to be incorrect. So his answer was  
10 responsive.

11 MR. FELDMAN: I asked him another question, and he  
12 hasn't answered the question.

13 CHAIRMAN GLEIMAN: It's probably been lost on us  
14 at this point. If you asked a different question, perhaps  
15 you ought to ask it over again, and then we'll see if the  
16 objection lies, and also see if the witness can answer it.

17 BY MR. FELDMAN:

18 Q Have you read Witness Bradley's testimony?

19 A No.

20 Q No further questions on that line.

21 Let's go to ABP/USPS-T-5-2. Again, here we used  
22 inter-SCF and intra-SFC examples to show that the volume of  
23 variability is materially less than one. Can I just ask you  
24 to explain what you meant by materially?

25 A It's substantially less than one or materially

1 less than one.

2 Q Well, let's use it -- you and I just took a look  
3 at your workpapers and we looked at the inter-BMC accounts  
4 which were, I think, around 94 percent of the volume  
5 variable costs -- of the cost of the inter-BMC, were shown  
6 to be volume variable, as I recall. Would you consider that  
7 to be materially less than one?

8 A Yes.

9 Q Would something that's 87 percent of total cost  
10 being volume variable, that would be even more materially  
11 less than one, I assume?

12 A Sure.

13 Q All right.

14 MR. FELDMAN: That concludes my cross examination,  
15 Mr. Chairman. I'll reserve follow up. Thank you.

16 CHAIRMAN GLEIMAN: I don't believe there is  
17 anybody here from Florida Gift Fruit Shippers?

18 That brings us to the Office of the Consumer  
19 Advocate. Mr. Richardson?

20 MR. RICHARDSON: Thank you, Mr. Chairman.

21 CROSS EXAMINATION

22 BY MR. RICHARDSON:

23 Q Mr. Alexandrovich, do you have your workpaper A-3  
24 with you, page 20.1?

25 A Yes, I do.

1           Q     I wanted to discuss briefly with you your volume  
2     variability numbers and the source of those.  If you will  
3     refer to --

4           A     Could you repeat the page?

5           Q     Your workpaper A-3, page 20.1.  On that page, you  
6     indicate that certain volume variabilities are calculated  
7     numbers and percentages.  Do you see that?

8           A     Yes.

9           Q     My question is -- relates to the source of those  
10    percentages and those volume variabilities.  Where did you  
11    receive those numbers?

12          A     I would have to investigate that.  I'm drawing a  
13    blank.  I'm not sure where they came from right now.

14          Q     Do you think they might be from Witness Degan?

15          A     I don't believe so, but again, I would have to  
16    check.

17          Q     A further question is, if one of those percentages  
18    were changed -- if, for instance, we wanted to change the 91  
19    percent to 87 percent, for instance, how would that be  
20    effected into your -- through your workpapers and through  
21    your programs?  Would you just change the program that feeds  
22    A-3?

23          A     I believe it would affect the proportion of costs  
24    that are volume variable and other, and I'm not sure exactly  
25    where they would be applied.  Again, I would have to check

1     that. But it would affect the split between volume variable  
2     and other costs.

3           Q     We would like to be able to determine that if one  
4     of those percentages were manually changed, or we wanted to  
5     change that, a percentage, would that change be made at this  
6     point, from this point on in your workpapers, or do you have  
7     to go back to an initial program?

8                     If you could supply that for the record, that  
9     would be satisfactory.

10          A     I can get that information to you. I'm not sure  
11     at this point where that variability is applied in the  
12     program.

13                     CHAIRMAN GLEIMAN: Postal Service counsel  
14     indicates that the information will be provided.

15                     MS. DUCHEK: We can provide that. That's fine.

16                     MR. RICHARDSON: And also the source of the number  
17     also which you said you could provide.

18                     MS. DUCHEK: Yes, I believe we can.

19                     MR. RICHARDSON: Thank you.

20                     BY MR. RICHARDSON:

21          Q     Now, Mr. Alexandrovich, I would like to refer to  
22     your response to interrogatories OCA/USPS-T-5-11-13, and  
23     there is a supplement or attachment filed to that response.

24          A     Okay.

25          Q     If you will refer to -- it's a supplement to

1 T-5-11-13, attachment 1, page 1 of 2. It's entitled Paid  
2 Employees, AP13, Fiscal Year XS. Do you have that --

3 A Yes.

4 Q -- sheet in front of you?

5 Now, with respect to the -- there's a series of  
6 tables there, and I would like to refer to fiscal year '96,  
7 and on that table, it lists the number of paid supervisors  
8 by CAG; is that correct? I believe it's 35,035 on that  
9 table --

10 A Yes.

11 Q -- for Fiscal Year '96.

12 Now, is it your understanding that all the  
13 supervisor salary, benefits and related costs are found in  
14 cost segment 2?

15 A Yes.

16 Q And that same table also has columns for clerks,  
17 mail handlers and postmasters; is that correct?

18 A Yes.

19 Q And at the end of the table, the right side, is a  
20 total USPS column, which represents a summation of, I  
21 understand it, several other crafts; is that correct?

22 A Yes.

23 Q And one of those crafts is postmaster's relief; is  
24 that correct?

25 A Yes.



1           Q     Now, in what cost segment can the salaries,  
2     benefits and related costs of postmaster's relief be found?

3           A     Segment 1.

4           Q     And I would ask the same with respect to another  
5     craft I understand is in that total column, maintenance  
6     service workers. What cost segment can those salaries,  
7     benefits, and related costs be found?

8           MS. DUCHEK: I believe that OCA has filed an  
9     interrogatory -- a written interrogatory covering that very  
10    subject to the -- and directed it to the Postal Service, and  
11    that's currently pending.

12          MR. RICHARDSON: I understand that is correct.

13          CHAIRMAN GLEIMAN: Well, if the witness can give  
14    us the information without too much difficulty, that would  
15    be fine. If not, would OCA be willing to wait for the  
16    interrogatory response which I assume will be forthcoming  
17    and not result in an objection or something like that from  
18    the Postal Service?

19          MS. DUCHEK: That's correct. I don't believe we  
20    are objecting to that particular set.

21          MR. RICHARDSON: That is fine, Mr. Chairman.

22          BY MR. RICHARDSON:

23          Q     I have one other question with respect to that  
24    same column related to vehicle maintenance workers. Can you  
25    tell me what cost segment the salaries, benefits and related

1 costs of those can be found?

2 A Segment 12.

3 Q Twelve?

4 A Twelve. Excuse me. Excuse me. Segment 11.

5 Q Segment 11. Thank you very much.

6 MR. RICHARDSON: I have no further questions, Mr.  
7 Chairman.

8 CHAIRMAN GLEIMAN: Is there any follow up?  
9 Questions from bench?

10 Redirect?

11 MS. DUCHEK: If we could have five minutes?

12 CHAIRMAN GLEIMAN: Certainly.

13 [Off the record.]

14 CHAIRMAN GLEIMAN: Ms. Duchek?

15 MS. DUCHEK: I just have one brief questions, Mr.  
16 Chairman.

17 REDIRECT EXAMINATION

18 BY MS. DUCHEK:

19 Q Mr. Alexandrovich, in response to some questions  
20 from OCA counsel concerning where costs for various  
21 personnel associated with motor vehicle service or  
22 maintenance for vehicle service would be included, I believe  
23 you responded that they would be included in cost segment  
24 11. Do you recall that response?

25 A Yes, I do.

1 Q Was that a correct response?

2 A No, it wasn't. It is 12. I was right the first  
3 time.

4 Q So those costs would be included in cost segment  
5 12?

6 A Yes.

7 MS. DUCHEK: I have no further questions.

8 CHAIRMAN GLEIMAN: If there is no recross, I want  
9 to thank you, Mr. Alexandrovich. We appreciate your  
10 appearance here today and your contributions to our record,  
11 and if there is nothing further, you're excused.

12 [Witness excused.]

13 CHAIRMAN GLEIMAN: Let's call the next witness and  
14 see how far we get, okay?

15 MS. DUCHEK: Okay. Could the witness have a brief  
16 five-minute break before he takes the stand?

17 CHAIRMAN GLEIMAN: Well, if we're going to do  
18 that, let's just do a ten-minute break, and then we'll push  
19 --

20 MS. DUCHEK: That's fine.

21 CHAIRMAN GLEIMAN: -- push right through.

22 MS. DUCHEK: Thank you.

23 [Recess.]

24 CHAIRMAN GLEIMAN: Ms. Duchek, would you like to  
25 call your next witness?

1 MS. DUCHEK: Before I do that, Mr. Chairman, there  
2 is a brief procedural matter. You mentioned this morning a  
3 pending motion to compel filed by the Office of the Consumer  
4 Advocate to a number of interrogatories.

5 That motion is dated October 10th, 1997. We have  
6 checked back at the office and it is not logged into our  
7 system. Either it didn't arrive or it got misplaced in the  
8 flood of paper. That also was the day that Postal Service  
9 Headquarters closed earlier, which might have contributed to  
10 some confusion.

11 The Postal Service would like an opportunity to  
12 respond to this motion to compel. I am assuming since I  
13 wrote the initial objection or objections I will  
14 unfortunately be tasked with doing the response.

15 Could I have until Monday to get that in?

16 CHAIRMAN GLEIMAN: I believe we can give you until  
17 Monday.

18 MS. DUCHEK: Thank you.

19 CHAIRMAN GLEIMAN: There is an easy way out,  
20 however.

21 [Laughter.]

22 CHAIRMAN GLEIMAN: We would not object if you  
23 wanted to avail yourself of that opportunity.

24 MS. DUCHEK: I will take that under advisement.

25 The Postal Service calls Richard Patelunas.

1 CHAIRMAN GLEIMAN: Mr. Patelunas, would you please  
2 stand and raise your right hand.

3 Whereupon,

4 RICHARD PATELUNAS,  
5 a witness, was called for examination by counsel for the  
6 United States Postal Service and, having been first duly  
7 sworn, was examined and testified as follows:

8 CHAIRMAN GLEIMAN: Please be seated.

9 DIRECT EXAMINATION

10 BY MS. DUCHEK:

11 Q Would you state your name for the record, please?

12 A Richard Patelunas.

13 Q Mr. Patelunas, I am handing you two copies of a  
14 document entitled, "Direct Testimony of Richard Patelunas on  
15 behalf of United States Postal Service," which has been  
16 designated as USPS-T-15.

17 Are you familiar with that document?

18 A Yes, I am.

19 Q Was it prepared by you or under your supervision?

20 A Yes.

21 Q Does it contain your errata filed August 18th,  
22 August 22nd and September 2nd, 1997?

23 A Yes, it does.

24 Q Were you to testify orally today, would this still  
25 be your testimony?

1           A       Yes.

2           MS. DUCHEK: Mr. Chairman, I am going to give Mr.  
3 Patelunas's testimony, both copies, to the Reporter and ask  
4 that it be admitted into evidence.

5           CHAIRMAN GLEIMAN: Are there any objections?

6           [No response.]

7           CHAIRMAN GLEIMAN: Hearing none, the testimony and  
8 exhibits of Witness Patelunas are received into evidence.

9           As is our practice, they will not be transcribed  
10 into the record.

11                               [Direct Testimony and Exhibits of  
12 Richard Pantelunas, Exhibit No.  
13 USPS-T-15 was marked for  
14 identification and received into  
15 evidence.]

16           CHAIRMAN GLEIMAN: Mr. Patelunas, have you had an  
17 opportunity to examine the packet of designated written  
18 cross examination that was made available earlier today?

19           THE WITNESS: Yes, I have.

20           CHAIRMAN GLEIMAN: If these questions were asked  
21 of you today, would your answers be the same as those you  
22 previously provided in writing?

23           THE WITNESS: Yes, they would.

24           CHAIRMAN GLEIMAN: I suspect there may have been  
25 some corrections in terms of getting the package in better

1 order, Ms. Duchek. Could you help us out with those?

2 MS. DUCHEK: Yes, I could, Mr. Chairman.

3 There was only one. There was a response by Mr.  
4 Patelunas to Nashua District/Mystic/Seattle T-33-24, which  
5 had been redirected from Witness Sharkey.

6 The initial response was included in the packets.  
7 That response was revised, so we substituted the revised  
8 response in both packets.

9 CHAIRMAN GLEIMAN: If you would provide copies,  
10 the two copies to the Reporter, I will direct that the  
11 designated written cross examination of Witness Patelunas be  
12 accepted into evidence and transcribed into the record at  
13 this point.

14 [Designation of Written  
15 Cross-Examination of Richard  
16 Patelunas was received into  
17 evidence and transcribed into the  
18 record.]

19  
20  
21  
22  
23  
24  
25

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS RICHARD PATELUNAS  
(USPS-T15)

The parties listed below have designated answers to interrogatories directed to witness Patelunas as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
American Business Press	<del>ABP\USPS:</del> Interrogatories T15-1-9. <del>ABP\USPS:</del> Interrogatories T13-2, redirected from witness Bradley. <del>MH\USPS-T2-1-2,</del> redirected from witness Nieto.
Direct Marketing Association	<del>DMA\USPS:</del> Interrogatories T15-1, 3, 5 and 8-9. <del>DMA\USPS:</del> Interrogatories T9-11 and 13-14.
Mail Order of Association of America	PSA\USPS: Interrogatory T15-1.
The McGraw-Hill Companies	MH\USPS- Interrogatories T2-1-2, redirected to witness Patelunas. ABP\USPS: Interrogatories T15-1-9.
Nashua Photo Inc., District Photo Inc. Mystic Color Lab and Seattle Filmworks, Inc.	<del>NDMS\USPS:</del> Interrogatory T33-24, redirected from witness Sharkey. NDMS\USPS: Interrogatory T15-1.
Office of the Consumer Advocate	OCA\USPS: Interrogatories T15-1-18, T24-97(a-b), redirected from witness Lion. ABP\USPS: Interrogatories T15-1-9. <del>DMA\USPS:</del> Interrogatories T15-1-9. <del>DFC\USPS:</del> Interrogatories T15-1-4. NDMS\USPS: Interrogatories T15-1. PSA\USPS: Interrogatory T15-1. UPS\USPS: Interrogatories T15-10-11. POIR: POIR No. 1 Question 10e. POIR: POIR No. 3 Questions 13 and 34-35.
Newspaper Association of America	PSA\USPS: Interrogatories T15-1.



Parcel Shippers Association

United Parcel Service

PSA\USPS: Interrogatories T15-1.

UPS\USPS: Interrogatories T15-10-11.

UPS\USPS: Interrogatories T5-6-10 and 15-16,  
redirected from witness  
Alexandrovich.

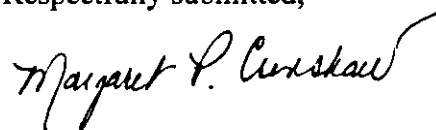
UPS\USPS: Interrogatories T16-36, redirected  
from witness Hatfield

UPS\USPS: Interrogatories T33-35-36, second  
revised response and 58, redirected  
from witness Sharkey.

OCA\USPS: Interrogatories T15-14-16.

OCA\USPS: Interrogatory T5-27, redirected  
from witness Alexandrovich.

Respectfully submitted,

A handwritten signature in black ink, reading "Margaret P. Crenshaw". The signature is written in a cursive style with a large, sweeping initial 'M' and a long, horizontal flourish extending to the right.

Margaret P. Crenshaw  
Secretary

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
American Business Press  
(Redirected from Witness Bradley, USPS-T13)

ABP/USPS-T13-2

Please refer to p. 4 of your testimony where you state that the USPS system of cost accounts for purchased highway transportation segregates accrued costs by type of transportation. For each separate account to which you refer on p. 4 (E.G. inter-BMC), please provide the purchased highway transportation cost for regular-rate periodicals in BY 1996, FY 1997 and 1998 (e.g. as projected by Witness Patelunas, USPS-T-15, Exhibit USPS-15B, Exhibit USPS-15H).

ABP/USPS-T13-2 Response:

In BY 1996, accrued costs by account are grouped by type of transportation into cost pools. Volume variabilities and distribution keys are then applied to these cost pools to calculate costs by class and subclass of mail. These distributed cost pools are the components in the Postal Service's cost model and it is these components that are rolled-forward from the base year to the test year. As such, class and subclass of mail detail is only available once the volume variabilities and distribution keys have been applied to the cost pools; class and subclass of mail detail is not available at the account level.

Response of Richard Patelunas to the Interrogatories  
of McGraw Hill, Inc.  
to United States Postal Service  
(Redirected from Witness Nieto, USPS-T2)

MH-T2-1 Please confirm that the domestic purchased highway transportation costs attributed to Periodicals (second-class) Regular mail increased from approximately \$123.2 million in FY 1995 (CRA) to approximately \$158.8 million in FY 1996 (CRA, T-24), and is projected to increase to approximately \$180 million in TYAR 1998 (T-24), despite much smaller percentage increases in the volume of periodicals (second-class) Regular mail over that period. To the extent you do not confirm, please provide the cost and/or volume figures and sources upon which you rely. In either event, please explain fully the factors causing the increase in domestic purchased highway transportation costs attributed to Periodicals (second-class) mail over this period.

RESPONSE

I cannot confirm, since the FY 1995 costs use the R87-1 volume variabilities for highway transportation which are somewhat lower than those used in the base year in this case. However, a comparison of the Base Year 1995 costs in Docket MC97-2 (see USPS LR-PCR-23), which use the new variabilities, shows highway costs for regular Periodicals of \$137.7 million, an increase of \$21.1 million. Examination of the BY 1995 and BY 1996 costs indicates that a shift has occurred in the use of highway transportation by Periodicals.

Inter-SCF highway costs increased \$14.2 million. Intra-SCF costs increased \$4.7 million, plant load costs increased \$1.9 million, inter-BMC costs increased \$3.5 million. These increases were offset by a \$3.4 million decline in intra-BMC costs.

Response of Richard Patelunas to the Interrogatories  
of McGraw Hill, Inc.  
to United States Postal Service  
(Redirected from Witness Nieto, USPS-T2)

MH-T2-2 Please confirm that the domestic purchased air transportation costs attributed to Periodicals (second-class) Regular mail increased from approximately \$10.7 million in FY 1994 (CRA) to approximately \$16.6 million in FY 1995 (CRA), decreased approximately \$13.5 million in BY 1996 (CRA,T-24), and is projected to increase approximately \$15.7 million in TYAR 1998 (T-24). To the extent you do not confirm, please provide the cost and/or volume figures and sources upon which you rely. In either event, please explain fully the factors causing the fluctuations in domestic purchased air transportation costs attributed to Periodicals (second-class) mail over this period (including the reasons why Periodicals mail is flown at all).

**RESPONSE**

Confirmed. The fluctuation in air costs from 1994 to 1995 to 1996 results from fluctuations in the proportion of pound-miles of passenger air transportation as measured by TRACS. This proportion increased from 1.2 percent in FY 1994 to 2.0 percent in FY 1995 and decreased to 1.6 percent in BY 1996. Also, a small part of the fluctuation is the result of an overall increase in passenger air accrued cost in FY 1995, followed by a decrease in FY 1996. An additional factor entering the arithmetic is the fact that about 5 percent more passenger air transportation costs are considered volume variable in BY 1996 as in FY 1995 due to the change in volume variability of these costs.

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
DMA  
(Redirected from Witness Tayman USPS-T-9)**

**DMA/USPS-T9-11. Please refer to Exhibit USPS-15J.**

- (a) Please confirm that volume variable Clerks and Mailhandlers mail processing direct labor costs (C/S 3. 1) in Test Year 1998 are \$10.98 billion.**
- (b) Please confirm that volume variable Supervisors and Technicians mail processing costs (C/S 2.1) in Test Year 1998 are \$853.7 million.**

**DMA/USPS-T9-11 Response:**

- (a) Part (a) is confirmed.**
- (b) Part (b) is confirmed.**

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
DMA  
(Redirected from Witness Tayman USPS-T-9)**

**DMA/USPS-T9-13.** Please refer to Table 10 of your direct testimony (USPS-T-9) and Exhibit USPS-9B.

- (a) Please confirm that cost reduction programs reduce Clerks and Mailhandlers costs (C/S 3) in FY 1997 by \$450.6 million (2.6 %) and by \$420.8 million (2.3 %) in Test Year 1998.
- (b) Please confirm that cost reduction programs reduce Supervisor and Technician (C/S 2) costs in FY 1997 by \$513,000 (.02 %) and there are no cost reductions from such programs in Test Year 1998.

**DMA/USPS-T9-13 Response:**

- (a) Part (a) is confirmed.
- (b) Part (b) is confirmed.

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
DMA

(Redirected from Witness Tayman USPS-T-9)

**DMA/USPS-T9-14. Please refer to Exhibit USPS-9B.**

- (a) Please confirm that the reduction in Clerks and Mailhandlers costs (C/S 3) due to cost reduction programs in Test Year 1998 is due entirely from a reduction in employee work hours and benefits.
- (b) Please confirm that when Clerks and Mailhandlers mail processing direct labor hours decrease, Supervisors and Technicians processing costs should decrease, because fewer supervisors and technicians are needed to manage the workers.
- (c) Please explain why cost reduction programs do not decrease Supervisors and Technicians mail processing costs (C/S 2.1) by the same percentage that they reduced Clerks and Mailhandlers mail processing direct labor costs (C/S3.1).
- (d) Please confirm that reducing Supervisors and Technicians mail processing costs (C/S 2.1) for Test Year 1998 by the same percentage that cost reduction programs would reduce Clerks and Mailhandlers mail processing direct labor costs (C/S 3.1) for Test Year 1998 would amount to nearly \$70 million in savings.

**DMA/USPS-T9-14 Response:**

- (a) The reduction in Clerks and Mailhandlers costs (C/S 3) due to cost reduction programs in Test Year 1998 is due to a reduction in employee work hours.
- (b) Part (b) is not confirmed due to cost reduction and other programs. In the absence of cost reduction and other

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
DMA  
(Redirected from Witness Tayman USPS-T-9)**

programs, this would be confirmed.

- (c) Cost reduction amounts are developed by program managers as explained in Library Reference H-12 and then applied to the rollforward model. This development is external to the CRA/Rollforward model and as such, the cost reduction amounts do not depend on the methodology employed in the CRA/Rollforward model.
- (d) Part (d) is not confirmed. Although the expertise of the program managers is relied upon to develop the cost reduction amounts rather than some ratio method, if the 2.3% ratio for Clerks and Mailhandlers in part (a) is mechanically applied to the \$3,517,945 for Total Supervisors in Test Year 1998AR, the savings is about \$80 million.



Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
NDMS

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(Redirected from Witness Sharkey USPS-T-33)  
(Revised 10/16/97)

NDMS/USPS-T33-24.

USPS-33Q shows total highway transportation cost for Priority Mail (i) in Base Year of \$139,622 and (ii) in Test Year Before Rates of \$285,404, which represents an increase of 104 percent. Air transportation costs do not show any corresponding decrease. In fact, air transportation costs increase by 13 percent, from \$383,497 to \$433,661. Please explain all reasons for the disproportionate increase in highway transportation costs for Priority Mail.

NDMS/USPS-T22-24 Response:

The reason for the increase in highway transportation costs for Priority Mail is the \$100 million increase in Test Year 1998 Other Programs for Priority Mail Redesign, see USPS Exhibit-15A, Segment 14, component 143. The development of this amount is described in the USPS Library References H-12 on page 100 and H-10 on pages 10-12. It should also be noted that there is a cost reduction of \$82 million in air transportation costs due to Priority Mail Redesign, see USPS Library Reference H-12 on page 114.

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**ABP/USPS-T15-1** Please review the following comparison of domestic periodical regular-rate purchased transportation volume-variable costs derived from your testimony for the test year, from Witness Alexandrovich, USPS-T-5, USPS Exhibit 5A, at 45 (for BY 1996) and from the CRA for 1995 (Cost Segment and Components, FY 1995, p. 45):

1995	1996	1998
		(Test Year After Rates)
\$216,250,000	\$248,294,000	\$276,747,000

(a) Confirm that the purchased transportation costs for regular rate periodicals increased by \$32,044,000, or 14.8% in one year, 1995-1996. If you cannot confirm, provide the correct data.

(b) Confirm that the purchased transportation costs for regular rate periodicals are estimated to increase by \$28,453,000, or 11.45% between 1996 and 1998 (after rates). If you cannot confirm, provide the correct data.

**RESPONSE**

(a) Confirmed, in part. Your arithmetic is correct, but the comparison is an apples-to-oranges comparison. The FY 1995 transportation costs cited do not include, among other things, the effect of witness Bradley's revised variabilities. A better, though still imperfect, comparison would be the Base Year transportation costs filed as USPS Library Reference PCR-23 in Docket No. MC97-3. That version shows regular rate transportation costs to be \$230,011 in BY 1995. The increase in regular rate second-class between base years would be 7.9 percent.

(b) Not confirmed. I calculate a percentage increase of 11.46%.

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**ABP/USPS-T15-2** Please explain why purchased transportation costs for regular rate periodicals increased 14.8% in 1995-1996, especially since the volume (in weight) of regular-rate periodicals according to the CRA Reports for 1995 and 1996, decreased from 3,284,220,000 pounds to 3,250,571,000.

**RESPONSE**

As explained in the response to ABP-T15-1, the 14.8% increase is an improper comparison. A more appropriate comparison is between the base years in Docket No. MC97-2 and this case. The year-to-year increase results from an increase in highway costs attributed to regular rate periodicals since the attributable costs of air, rail, and water declined between the two base years. Although this suggests a modal shift of periodicals from air and rail to highway, it could also be due, in part, to variance in the statistical estimates of the TRACS distribution keys.

The mix of regular rate highway costs changed, increasing most in inter-SCF transportation and actually decreasing in intra-BMC.

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**ABP-T15-3**

a) Please explain in detail why you project that purchased transportation costs for regular-rate periodicals will increase 11.45% between 1996 and 1998, as compared with the 14.8% increase shown for periodical transportation between 1995-1996.

b) How much did private sector, national long-haul freight (provide separate answers for truck and rail) carriers on average increase their over-the-road rates between 1995 and 1996 for non-postal freight customers?

c) Does USPS compare its annual surface (or air) purchased transportation costs with national transportation industry data to evaluate if its costs are comparable to freight costs for other large national shippers? If it does make this comparison, please provide all studies, reports and analyses covering time periods since January 1988, since the current transportation cost allocation method derives from the decision of the Governors in Docket R87-1.

**RESPONSE**

a) The 14.8 percent increase is an overstatement of the cost increase from 1995-1996. Additionally, see my response to ABP-T15-1.

With regard to the increase from base year to test year after rates in this docket, please refer to Attachment I to this response. Lines 1 - 10 in columns (1-5) show the cost changes that appear in the rollforward model from Base Year 1996 through Fiscal Year 1997. Lines 12 - 19 in columns (1-5) show the cost changes that appear in the rollforward model from Fiscal Year 1997 through Test Year 1998 After Rates. Line 11 of columns (1-5) is the total change between Base Year 1996 and Fiscal Year 1997 and line 12 of the same columns is the percent change for that period. Line 21 of columns (1-5) is the total change between Fiscal Year 1997 and Test Year 1998 After Rates and line 22 of the same columns is the percent change for that period. Columns (6-10) show the

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**RESPONSE continued:**

individual impacts in terms of the total change. For example, line 3 of column (6) shows the 3.15% of the total change that was the result of the FY 1996 to FY 1997 cost level effect in the rollforward model.

The development of the factors used in the rollforward model to calculate the amounts referenced in Attachment I can be found in USPS Library Reference H-12.

b) I have not studied this matter.

c) It is my understanding the Postal Service does not make this comparison. Also, the current transportation "cost allocation method" does not derive from the decision of the Governors in Docket R87-1. While it is fair to say that our econometric-based volume variability methodology was adopted at that time, and updated and improved in this case, the distribution methodology for Cost Segment 14 was initiated in Docket No. R90-1 with the development and implementation of TRACS. Passenger rail TRACS data were added in Docket No. R94-1, and new air distribution keys were added in this case. The Postal Service's transportation costing improvements are a matter of record in the rate and classification proceedings over the last decade.

## Periodical Regular Rate

## Percent Change of Total

Column=>	(1)	(2)	(3)	(4)	(5)
Air	13,515	158,791	72,880	3,108	248,294
Highway	896	5,574	867	105	7,442
MV	307	3,497	1,569	68	5,441
NV	0	0	0	0	0
AD	0	0	0	0	0
CR	-676	0	0	0	-676
OP	1,043	7,044	0	0	8,087
97RCR	15,085	174,906	75,316	3,281	268,588
Change	1,570	16,115	2,436	173	20,294
% Change	11.62%	10.15%	3.34%	5.57%	8.17%
CL	-443	2,449	2,154	94	4,254
MV	30	365	160	7	562
NV	0	0	0	0	0
AD	0	0	0	0	0
CR	-31	-2,393	0	0	-2,424
OP	1,096	4,671	0	0	5,767
98RCB	17,307	196,113	80,066	3,555	297,041
Change	2,222	21,207	4,750	274	28,453
% Change	14.73%	12.12%	6.31%	8.35%	10.59%

## Absolute Total Change

Column=>	(1)	(2)	(3)	(4)	(5)
Air	13,515	158,791	72,880	3,108	248,294
Highway	896	5,574	867	105	7,442
MV	307	3,497	1,569	68	5,441
NV	0	0	0	0	0
AD	0	0	0	0	0
CR	-676	0	0	0	-676
OP	1,043	7,044	0	0	8,087
97RCR	15,085	174,906	75,316	3,281	268,588
Change	1,570	16,115	2,436	173	20,294
% Change	11.62%	10.15%	3.34%	5.57%	8.17%
CL	-443	2,449	2,154	94	4,254
MV	30	365	160	7	562
NV	0	0	0	0	0
AD	0	0	0	0	0
CR	-31	-2,393	0	0	-2,424
OP	1,096	4,671	0	0	5,767
98RCB	17,307	196,113	80,066	3,555	297,041
Change	2,222	21,207	4,750	274	28,453
% Change	14.73%	12.12%	6.31%	8.35%	10.59%

Column=&gt;

Line

96MODS

3 CL

4 MV

5 NV

6 AD

7 CR

8 OP

9

10 97RCR

11 Change

12 % Change

11

12 CL

13 MV

14 NV

15 AD

16 CR

17 OP

18

19 98RCB

20

21 Change

22 % Change

Sources:

Cots (1-5) Lines (1-10) USPS-T15 WPA

Cots (1-5) Lines (11-20) USPS-T15 WP-F

Col (5) Lines (1-19) = Sum cots(1-4)

Cots (1-5) Line 11 = Line 10 - Line 1

Cots (1-5) Line 12 = Line 11 / Line 1

Cots (1-5) Line 21 = Line 19 - Line 10

Cots (1-5) Line 22 = Line 21 / Line 10

Cots (6-10) = relevant change portion / total change

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**ABP/USPS-T15-4**

(a) Confirm that if the 1994 CRA shows purchased transportation costs attributed to regular rate periodicals to be 4,199,325,000 that their costs will have increased 38.8% according to the purchased transportation costs for periodical regular rates that you show for 1998 (after rates), of \$276,747,000. (USPS-T-15, Ex. 15-H, p. 43).

(b) What was the volume (in pounds) of regular rate periodicals in FY 1994?

(c) Given your estimate of test year periodical after rates volume of 3,326,560,000 pounds, is the volume change from 1994-1998 the cause of a nearly 39% increase in purchased transportation costs attributed to regular-rate periodicals?

(d) Confirm that the volume (in pounds) of regular rate periodicals increase 1.3% from BY 1996 to your estimate of FY 1998 (after rates) volumes. If you do not confirm, provide your estimate of this change in volume from 1996-1998. Did this 1.3% increase in periodical weight primarily cause purchased transportation costs attributed to periodical to increase an average of nearly 10% per year?

**RESPONSE**

a) I confirm your arithmetic, but, as noted in my response to ABP-T15-1, the comparison is flawed.

b) Page 11 of the FY 1994 CRA on file with the Commission shows 3,124,691 thousand pounds.

c) No, this volume (in pounds) change is not the cause. First, the 3,326,560,000 pounds that you obtained from page 17 of my Exhibit USPS-15J is the result of a rollforward cost model multiplication of the Base Year 1996 average pounds per piece of .4654 by the 7,147,574,000 pieces forecast for Test Year 1998 After Rates. The factors from USPS LR-H-12 and their

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RESPONSE continued:

application in the Postal Service's cost model are developed without regard to this calculated number of pounds.

d) Not confirmed, it increases 2.3 percent. See my response to part c) of this response.



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**ABP/USPS-T15-5** Please examine the chart that follows, entitled Domestic Purchased Transportation Cost 1994-1998. The 1994 and 1995 data are derived from CRA reports; the 1996 data from USPS-T5 (Development of Cost by Segment and Component BY 1996), pp. 43-44; the 1997 and 1998 data are derived from your exhibits (USPS-15-B and USPS-15H).

<b>DOMESTIC PURCHASED TRANSPORTATION COSTS</b>					
<b>1994-1998</b>					
	<b>FY 1994 (THOUSANDS)</b>	<b>FY 1995</b>	<b>1996 (BY)</b>	<b>FY 1997 (PROJ.)</b>	<b>FY 1998 (AR)</b>
<b>DOMAIR</b>	1,089,800	1,120,866	1,053,608	1,221,486	1,208,635
<b>HIGHWAY</b>	935,774	983,881	1,215,158	1,346,277	1,502,854
<b>RAILROAD</b>	242,704	233,075	242,950	257,255	276,554
<b>DOMESTIC WATER</b>	23,000	24,263	23,295	25,351	27,372
<b>SUBTOTAL</b>	2,291,278	2,362,085	2,535,011	2,850,369	3,015,415

(a) Confirm that the subtotal increase for all domestic subclasses in all modes of purchased transportation from 1994-1998 (after rates) is 31.6%. If you do not confirm, by what percentage do you believe purchased transportation costs have increased from 1994-1998 (after rates), and demonstrate how you calculated your data.

(b) Confirm that highway costs for all subclasses as shown in the above chart increased 60.6 percent from 1994-1998 (after rates). If you do not confirm, provide an alternative calculation and demonstrate its derivation.

(c) Confirm that domestic air costs increased 10.9% from FY 1994 to 1998 (after rates).

**RESPONSE**

**a-c)** I confirm your arithmetic, but the comparison is flawed because it mixes costing methodologies as described in my response to ABP-T15-1. I have not recomputed 1994 costs using today's variability factors, but based on my answer to ABP-T15-1, I suspect the increase would be considerably less, particularly in highway transportation. The overall increase would also be less to the extent that highway is reflected in the subtotal.

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ABP/USPS-T15-6

(a) Please state the volume, stated separately, in pounds and in pieces, of all domestic mail in 1994 and the same stated volume that you project in 1998 (after rates).

(b) What is the percentage of overall volume increase, expressed separately by pieces and by pounds, between 1994 and 1998 (after rates).

RESPONSE

a) Page 3 of the FY 1994 CRA on file with the Commission shows total pounds of 20,975.7 million and total pieces of 177,062.2 million. Page 3 of my Exhibit USPS-15J shows TYAR 1998 total pounds of 23,488.7 million and total pieces of 194,387.4 million.

b) The amounts to do the calculations are provided in part a) of this response.

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ABP-T15-7 The following chart shows by mode of transportation, domestic purchased transportation costs for regular-rate periodicals from 1994-1998 (after rates). (Sources of data are identical to chart used in ABP/USPS-T15-5).

PERIODICAL (SECOND-CLASS) REGULAR-RATE DOMESTIC PURCHASED TRANSPORTATION COSTS					
	FY 1994 (THOUSANDS)	FY 1995	1996 (BY)	FY 1997 (PROJ.)	FY 1998 (AFTER RATES)
DOMAIR	10,676	16,553	13,515	15,085	15,737
HIGHWAY	115,998	123,161	158,791	174,906	179,998
RAILROAD	69,941	73,337	72,880	75,316	77,630
DOMESTIC WATER	2,710	3,199	3,108	3,281	3,382
SUBTOTAL	199,325	216,250	248,294	268,588	276,747

(a) Confirm that domestic air costs for periodicals regular-rate mail will be 47.4% higher in 1998 (after rates) than in 1994, compared with a 0.9% increase for all domestic air costs for the same period.

(b) Confirm that 1994 air costs increased by 55% from 1994 to 1995, but decreased 18.35% in BY 1996 from the 1995 costs.

(c) What is the basis for a 4.3% increase in air costs shown for periodicals (regular-rate) from 1997 to 1998, given the previously larger increase (and 1996 decrease) of FY 1994-1996.

(d) Describe how, why and where USPS decides to use domestic air transportation for periodicals.

(e) Provide the volume in pounds for each year, 1994-98 for air-carried periodicals.

(f) Does USPS have any data demonstrating whether periodicals that used domestic air transportation achieve more consistent on-time delivery than periodicals that use only surface transportation? If so, what do they show?

**RESPONSE**

a) I confirm your arithmetic, but the comparison is flawed because it mixes volume-variability methodologies as described in my response to ABP-T15-1.

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**RESPONSE continued:**

b) It is confirmed that air costs increase by 55% from 1994 to 1995. It is not confirmed that air costs decreased 18.35% from 1995 to BY 1996 since the costing methodologies are different. A comparison of fiscal years which use the same variability factors would result in a decrease of 17.6 percent.

c) Please see my response to ABP/USPS-T15-3(a) and Attachment I to that response.

d) It is my understanding that the general policy for the USPS is to use surface routings for all periodicals domestic transportation requirements. There are instances where air routings must be used because surface routings are not available, such as the service required in the state of Alaska. In addition, there may be instances where periodicals have been transported by air despite the general routing policy.

e) It is my understanding that this information is not available.

f) It is my understanding that the Postal Service does not have these data.

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**ABP-T15-8**

- (a) Refer to the chart (ABP/USPS-T15-7) showing periodical transportation costs. Confirm that highway costs are projected to increase 55.2% between 1994 and 1998 (after rates).**
- (b) Confirm that a 36.9% increase for highway costs occurred between 1994-1996.**
- (c) Please explain these increases in purchased highway transportation costs as compared with increases shown for other modes of transportation for the same 1994-1996 period.**

**RESPONSE**

- a) Not confirmed. Your arithmetic is correct, but the magnitude of the increase is partly a matter of mixing apples and oranges. The FY 1994 costs are based on lower volume variability factors than those underlying the TY 1998 costs.**
- b) Not confirmed. Your arithmetic is correct, but the magnitude of the increase is partly a matter of mixing apples and oranges. The FY 1994 costs are based on lower volume variability factors than those underlying the BY 1996 costs.**
- c) Increases in Periodicals highway costs relative to increases in the costs of other modes are not necessarily related. Subclass costs are determined by the combination of volume variability factors and the Periodicals proportion of the relevant cost drivers reflected in TRACS. Costs in highway increase faster than costs in air, rail and water because (1) spending on highway contracts increased faster than spending in air, rail and water, (2) volume variabilities for**

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RESPONSE continued:

highway transportation are approximately 14 percent higher in BY 1996 than they were in prior years, and (3) a higher proportion of cubic feet (in the case of intra-SCF) and cubic foot-miles (in the cases of inter-SCF and inter-BMC) were observed in TRACS highway tests.

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**ABP-T15-9**

**(a)** With reference to the periodical transportation chart in interrogatory T15-7 above, please compare the costs paid by USPS to transport periodicals by rail from 1994 to 1998 (after rates) with highway increase for the same interval. Why would USPS pay 11% more in rail costs in the test year over 1994 rail costs, whereas USPS would pay 55.2% more for highway transportation for the same period?

**(b)** Provide the actual or projected volumes in pounds for each year, 1994-1998 inclusive, for regular-rate periodicals allocated to cost segment 14 rail accounts compared with cost segment 14 highway accounts for the same interval.

**RESPONSE**

**(a)** The comparison in the question overstates the difference in cost increases. There is virtually no change in the volume variability factors in rail and an (approximately) 14 percent increase in highway. The Postal Service spent more money on highway overall, but the mix of highway contract costs incurred for Periodicals changed. In FY 1994, 17.6 percent of Periodicals cost was spent on inter-SCF transportation; in BY 1996 inter-SCF contract costs were 29.0 percent of the Periodicals total, an increase of nearly \$26 million. At the same time, intra-BMC contract costs declined by \$5 million. Inter-BMC costs increased by nearly \$11 million and intra-SCF increased by \$8 million. Also, since inter-SCF contracts tend to be shorter haul, which tend to cost more per cubic foot-mile than longer haul contracts. Inter-SCF contracts include a large number of straight trucks which are more expensive per cubic foot mile than tractor trailers which are used commonly on inter-BMC and intra-BMC contracts.

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**RESPONSE continued:**

**Please note that the figures used in these comparisons are distorted since the variability factors changed in BY 1996.**

**Rail cost increases are the result of any underlying increases in accrued rail costs as well as the fact that the TRACS regular rate distribution factors for all rail subcomponents increased from 1994 to 1996.**

**For cost changes from Base Year 1996 to Test Year 1998 After Rates, see my response to ABP/USPS-T15-3(a) and Attachment I to that response.**

**(b) It is my understanding that these data are not available.**



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DMA/USPS-T15-1. Please refer to pages 93-96 of LR-H-12.

- a. Were the program managers who estimated savings from personnel-related cost reduction programs instructed to determine whether reductions in Clerks and Mailhandlers and City Carriers work hours would reduce the amount of supervisor and technician work hours needed to manage the craft workers when they estimated cost savings?
- b. If your answer to sub-part a. is "no," why not?
- c. If your answer to sub-part a. is "yes," please provide the instructions given to program managers.

DMA/USPS-T15-1 Response:

- a. No.
- b. The program managers who estimated the savings from personnel-related cost reduction programs made their estimates based on their expertise. The program managers have first-hand knowledge of the particular programs and operations; thus, they are the best judges of estimating how the programs will impact operations. The program managers use their own understanding of the relationships between craft employees and supervisors when they determined these cost reduction estimates.
- c. Not Applicable

DMA/USPS-T15-2. Please refer to your response to DMA/USPS-T914(b), LR-H-12 (page 21), LR-H-1, page 2-2, Section 2.1.1 (where it states, "The workhours, and therefore the costs, for firstline supervision [of mail processing] are largely a function of the workhour-related costs of the supervised activities and supervisory span of control (number of employees per supervisor). Mail processing supervisors have a span of control that is essentially constant in a given work organization structure"), and LR-H-1, page 2-5, Section 2.4.1 (where it states, "As in the case of mail processing supervision, these costs (for supervision of delivery and collection) are largely a function of the workhour-related costs of each of the supervised activities...")

- a. Please confirm that, in the absence of cost reduction and other programs, the roll forward model adjusts supervisor and technician work hours to maintain a predetermined ratio of supervisors and technicians to craft workers.
- b. If subpart a. is confirmed, please explain fully the reason for making this adjustment.
- c. If subpart a. is confirmed, please explain fully the rationale for this ratio.
- d. What is the predetermined ratio of Clerk and Mailhandler supervisors and technicians to Clerk and Mailhandler craft workers?
  - (1) When did the Postal Service first decide to project Clerk and Mailhandler supervisor and technician work hours using a predetermined ratio of Clerk and Mailhandler supervisors and technicians to Clerk and Mailhandler craft workers?
  - (2) For how long has the Postal Service used the ratio that it is using in this case to project Clerk and Mailhandler supervisors and technicians work hours?
  - (3) What was the previous ratio, when was it first used, and what was the rationale for changing it to the current ratio?
- e. What is the predetermined ratio of City Carrier supervisors and technicians to City Carrier craft workers?
  - (1) When did the Postal Service first decide to project City Carrier supervisor and technician work hours using a predetermined ratio of City Carrier supervisors and technicians to City Carrier craft workers?

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DMA/USPS-T15-2 continued:

- (2) For how long has the Postal Service used the ratio that it is using in this case to project City Carrier supervisors and technicians work hours?
  - (3) What was the previous ratio, when was it first used, and what was the rationale for changing it to the current ratio?
- f. Do any of the cost reduction or other programs change the mail processing "work organization structure"? If so, please list the programs affecting the mail processing work organization structure and explain fully how the programs affect the mail processing work organization structure.
  - g. If your answer to subpart f. is "yes," do the cost reduction and other programs change the work organization structure in a way that would affect the predetermined ratio of supervisors and technicians to craft workers?
  - h. Assuming everything else being equal, are more supervisors and technicians required per craft worker in a more automated mail processing environment than in a less automated environment? If so, please explain fully.
  - i. Please list all reasons, other than a change in work organization structure, why the optimal ratio of supervisors and technicians to craft workers would change. Please explain each reason fully.
  - j. Please explain whether any cost reduction or other program would change the optimal ratio of supervisors and technicians to Clerks and Mailhandlers due to any of the reasons in your response to subpart i.
  - k. Do any of the cost reduction or other programs change the City Carrier "work organization structure"? If so, please list the programs affecting the work organization structure and explain fully how the programs affect the work organization structure.
  - l. If your answer to subpart k is yes, do the cost reduction and other programs change the work organization structure in a way that would affect the predetermined ratio of supervisors and technicians to craft workers?

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DMA/USPS-T15-2 continued:

- m. Please list all reasons, other than a change in work organization structure, why the optimal ratio of supervisors and technicians to craft workers would change. Please explain each reason fully.
- n. Please explain whether any cost reduction or other program would change the optimal ratio of supervisors and technicians to craft workers due to any of the reasons in your response to subpart m.
- o. Individually for each of the past ten years, what was the actual ratio of supervisors and technicians to craft workers for (1) Clerks and Mailhandlers and (2) City Carriers.
- p. Over the past ten years, have any events changed the work organization structure in a way that has affected the optimal ratio of supervisors and technicians to craft workers? If so, please explain each event fully.
- q. Over the past ten years, have any events changed the optimal ratio of supervisors and technicians to craft workers, but not affected the work organization structure? If so, please explain fully.

DMA/USPS-T15-2 Response:

- a. Not confirmed.
- b. Not Applicable
- c. Not Applicable
- d. (1)-(3) There is no predetermined ratio.
- e. (1)-(3) There is no predetermined ratio.
- f. Over a period of time, the deployment of mechanization and automation, the utilization of employees and the configuration of the work organization structure might change, but to my knowledge this has not been studied.

DMA/USPS-T15-2 Response continued:

g. Even if the response to part f is a qualified yes, there is no predetermined ratio of supervisors and technicians to craft employees.

h. It is not possible to answer such a general question. Is the definition of automated versus less automated environment the entire environment of postal operations or is it some subset of operations within the postal environment that have experienced automation? Furthermore, it appears that the question concerns the supervision of craft employees. If the absolute number of supervisors and technicians is part of the consideration, it should be noted that the technicians in this employee category have little or nothing to do with the supervision of craft workers. The absolute number of technicians may change differently than the change in the absolute number of supervisors. Additionally, in terms of the employee categories of supervisors and technicians, clerks, mailhandlers and city carriers, is it the absolute number of employees in each category, or should some consideration be given to the different types of employees in each category: full-time regular, part-time regular, part-time flexible, casual and transitional employees. In combination with these possible variations, the deployment of resources and the configuration of operations may result in the supervisor and technician to craft worker ratio increasing, decreasing or remaining the same either in the total Postal environment or within individual operations.

DMA/USPS-T15-2 Response continued:

i. As in the case of the predetermined ratio of supervisors and technicians to craft workers, the Postal Service does not plan as if there is some sort of optimal ratio.

Therefore, because I do not know what this optimal ratio is, I cannot discuss how it might change.

j. See my response to subpart i.

k. See my response to subpart f.

l. See my response to subpart g.

m. See my response to subpart i.

n. See my response to subpart i.

o. Using all employees on the rolls, the following chart shows ratio of the total number of Supervisors and Technicians to each of the requested groups for each of the requested years:

<u>Year</u>	<u>Clerks and Mailhandlers</u>	<u>City Carriers</u>
1986	.1358	.2129
1987	.1477	.2282
1988	.1444	.2235
1989	.1498	.2270
1990	.1543	.2209
1991	.1602	.2264
1992	.1571	.2292
1993	.1216	.1764
1994	.1247	.1850
1995	.1204	.1843
1996	.1206	.1883

p. See my response to subpart i.

q. See my response to subpart i.

DMA/USPS-T15-3. Please refer to your response to DMA/USPS-T9-14c and LR-H-12, page 21, and assume: (1) the predetermined ratio of Clerks and Mailhandler craft workers to Clerk and Mailhandler supervisors and technicians is 20:1 and (2) the roll forward model projects a 40,000 work hour decrease (in the absence of cost reduction and other programs) in Clerks and Mailhandlers from FY 1996 to FY 1997.

- a. Please confirm that, to maintain the predetermined ratio of supervisors and technicians to workers, the roll forward from FY 1996 to FY 1997, in the non-volume workload adjustment step, would reduce Clerk and Mailhandler supervisors and technicians work hours by 2,000.
- b. Please confirm that if program managers estimated that cost reduction programs, in aggregate, would reduce FY 1997 Clerks and Mailhandlers work hours by 40,000 and Supervisors and Technicians Clerks and Mailhandlers work hours by 0 hours, the roll forward model would not adjust FY 1997 Clerk and Mailhandler supervisors and technicians work hours to maintain the predetermined ratio of supervisors and technicians to craft workers.
- c. Please confirm that the cost reduction programs described in subpart b would reduce the FY 1997 ratio of Clerks and Mailhandlers to Clerk and Mailhandler supervisors and technicians to below 20:1.

DMA/USPS-T15-3 Response:

- a. Not confirmed. First, the use of a predetermined ratio of Clerks and Mailhandler craft workers to Clerk and Mailhandler supervisors and technicians is only an assumption in this question. Second, the rollforward model projects costs only; it does not project work hour changes, although costs can be converted to workhours by using the sources provided in USPS Library Reference H-12. Third, the change factors for any of the six rollforward effects: cost level, mail volume, nonvolume, additional workday, cost reduction and other programs, are calculated externally to the rollforward model. See my Exhibit USPS-15A (revised). Additionally, each of the above listed effects is executed sequentially in the rollforward model and the nonvolume workload

DMA/USPS-T15-3 Response continued:

adjustment occurs before either the cost reduction or other programs effects. See my testimony at pages 6 - 16. Furthermore, the nonvolume workload adjustment for Supervisors and Technicians is a piggyback on either Time and Attendance Clerks and Mailhandlers or Access and Route Time for City Carrier Street Time. Thus, being piggyback effects, there is no way the nonvolume workload effect is used to maintain any predetermined ratio of Supervisors and Technicians to craft employees.

b. Not confirmed. As stated in part a of this question, the rollforward model does not project work hours.

c. Apart from the fact that the rollforward model only projects costs, it would be an arithmetic truism to state the ratio of crafts workers to supervisors and technicians would be reduced to less than 20:1. This can be seen in the following example:

$$[20 / 1 \quad \text{is greater than} \quad (20 - X) / 1].$$



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DMA/USPS-T15-4. Please refer to your response to DMA/USPS-T9-14c and LR-H-12, page 21, and assume: (1) the predetermined ratio of City Carriers to City Carrier supervisors and technicians is 20:1 and (2) the roll forward model projects a 40,000 work hour decrease (in the absence of cost reduction and other programs) in City Carriers from FY 1996 to FY 1997.

- a. Please confirm that, to maintain the predetermined ratio of supervisors and technicians to workers, the roll forward from FY 1996 to FY 1997, in the non-volume workload adjustment step, would reduce City Carriers supervisors and technicians work hours by 2,000.
- b. Please confirm that if program managers estimated that cost reduction programs, in aggregate, would reduce FY 1997 City Carriers work hours by 40,000 and Supervisors and Technicians City Carriers work hours by 0 hours, the roll forward model would not adjust FY 1997 Supervisors and Technicians City Carriers work hours.
- c. Please confirm that the cost reduction program described in sub-part b. would reduce the FY 1997 ratio of City Carriers to Supervisors and Technicians City Carriers to below 20:1.

DMA/USPS-T15-4 Response:

- a. Not confirmed. See my response to DMA/USPS-T15-3 a.
- b. Not confirmed. See my response to DMA /USPS-T15-3b.
- c. See my response to DMA/USPS-T15-3c.

DMA/USPS-T15-5. Please refer to LR-H-12, pages 93-96.

- a. Please confirm that, in aggregate, Field Personnel Related Cost Reductions and Other Programs change estimated FY 1997 (as compared to FY 1996) work years by craft by the amounts specified below: (1) Clerks CAG A-J - 3,977 workyear decrease, (2) City Carriers 4,190 workyear decrease, (3) mailhandlers - 1,764 workyear decrease, (4) Supervisors - 427 workyear increase, and (5) Maintenance - 542 workyear increase.
- b. Please confirm that, in aggregate, Field Personnel Related Cost Reductions and Other Programs change estimated FY 1998 (as compared to FY 1997) work years by craft by the amounts specified below: (1) Clerks CAG A-J - 168 workyear decrease, (2) City Carriers 6,978 workyear decrease, (3) mailhandlers - 2,104 workyear decrease, (4) Supervisors - 702 workyear increase, and (5) Maintenance - 692 workyear increase.
- c. Please confirm that of the 17 FY 1997 Field Personnel Related Cost Reductions and other Programs with an estimated savings or cost figure for Clerks - CAG A-J, City Carriers, or Mailhandlers (in which 4 are cost increases and 13 are cost savings), 4 have net costs in the Supervisors column (including two that have net savings for the related craft workers) and zero have net savings in the Supervisors column.
- d. Please confirm that of the 48 FY 1998 Field Personnel Related Cost Reductions and Other Programs with an estimated savings or cost figure for Clerks - CAG A-J, City Carriers, or Mailhandlers (in which 20 are net cost increases and 28 are cost savings), 4 have net costs in the Supervisors column (including two that have net savings for the related craft workers) and zero have net savings in the Supervisors column.
- e. Please confirm that 88% of cost reduction programs for FY 1997 and FY 1998, program managers did not adjust Supervisor workyear estimates at all in response to changes in City Carrier and Clerk and Mailhandler workyears.
  - i) If confirmed, please confirm that this indicates that program managers did not analyze the effect on supervisor and technician workyears of cost reduction programs which were focused on City Carrier and Clerk and Mailhandler cost reductions.
  - ii) If not confirmed, please explain fully.

DMA/USPS-T15-5 continued:

- f. Please confirm that, all else being equal, not adjusting supervisor and technician work hours in response to reductions in City Carrier and Clerk and Mailhandler work hours lowers the ratio of supervisors and technicians to craft workers.
- g. If subpart f. is not confirmed, please explain fully why the roll forward model, in the absence of cost reduction and other programs, adjusts supervisor and technician work hours in order to maintain a predetermined ratio of supervisors and technicians to workers.
- h. Please provide the projected Test Year Proposed Rate ratio of workers to supervisors and technicians for (1) City Carriers and (2) Clerks and Mailhandlers.

DMA/USPS-T15-5 Response:

- a. Part a is confirmed for these amounts that appear on page 93-96 of LR-H-12.

These are only a portion of the cost reductions and other programs; total cost reductions and other programs are shown on pages 319-320 of LR-H-12.

- b. Part b is confirmed.
- c. Part c is confirmed.
- d. Part d is not confirmed. Please refer to USPS Library Reference H-12, page 96. There are 51 FY 1998 Field Personnel Related Cost Reductions and Other Programs, of which 25 are net cost increases and 26 are net cost savings. There are also four programs for Supervisors that have net cost increases and zero Supervisors programs that have net cost savings.
- e. Confirmed, although using the amounts in part d, the arithmetic yields an amount of 88.2%.

DMA/USPS-T15-5 Response continued:

i) Not confirmed. The program managers arrived at their estimates using their knowledge and experience in operations. It would not be realistic to conclude

DMA/USPS-T15-5 Response continued:

from your arithmetic that program managers did not analyze the effect on supervisor and technician workyears.

ii) Not applicable.

f. This arithmetic truism is confirmed: not adjusting supervisor and technician work hours in response to reductions in City Carrier and Clerk and Mailhandler work hours lowers the ratio of supervisors and technicians to craft workers. Using the example from earlier in this response, merely replace the value of 20 with any value of Y:

$$[X / 1 \quad \text{is greater than} \quad (X - Y) / 1]$$

g. Not applicable.

h. It appears that the question is asking for a projected number of supervisors and technicians compared with a projected number of (1) City Carriers and (2) Clerks and Mailhandlers. This is not available in the rollforward or in USPS Library Reference H-12. What is available in the rollforward for Test Year 1998 at Proposed Rates is: Supervisor and Technician costs, Clerk and Mailhandler costs and City Carrier costs. See my exhibit USPS-15H, pages 11-22 and 25-18. USPS Library Reference H-12 provides the workyears for Supervisor and Technicians, Clerks and Mailhandlers and City Carriers. See USPS LR-H-12, pages 319 and 320.

DMA/USPS-T15-6. Assume there is only one cost reduction program -- installation of automated mail processing equipment -- in FY 1998 and it results in a net reduction in Clerk and Mailhandler work years of X percent. If program managers estimated that the cost reduction program would have no effect on supervisors and technician work hours:

- a. Would you question this assumption if X were .1 percent?
- b. Would you question this assumption if X were 1 percent
- c. Would you question this assumption if X were 5 percent?
- d. Would you question this assumption if X were 10 percent?
- e. Would you question this assumption if X were 50 percent?
- f. Would you question this assumption if X were 90 percent?
- g. At what percentage reduction in Clerks and Mailhandlers work years would you question the program managers' assumption?

DMA/USPS-T15-6 a-g. Response:

a-g. I cannot answer this question in terms of a quantitative percentage level at which I would question the program managers' estimates. Whether I question the assumption or not depends on the situation, the particular program, the circumstances for which the assumption was made, etc. It is possible that in some situation I might question the program managers' assumption, but to date, I have had no cause to question their estimates.

DMA/USPS-T15-7. Is an increasing ratio of supervisors and technicians to mail processing or delivery and collection employees a possible indication of a decrease in efficiency?

DMA/USPS-T15-7 Response:

The importance of the ratio cannot be determined without a definition of exactly what this ratio is. Without a clear definition of the ratio, it is speculation to draw any conclusions at all. I do not think it is possible to draw any conclusions about whether or not a possibly increasing ratio of supervisors and technicians to mail processing or delivery and collection employees is a possible indication of a decrease in efficiency. It is possible that in certain types of operations additional supervision may result in increased productivity. For example, a change in the operational mix (OCR processing versus manual casing) may require more supervision which accounts for the mix, but the overall efficiency resulting from automation has increased.

There could be a number of problems arising from the use of some ill-defined ratio. First, it may be important to consider that the technicians included in the supervisors and technicians category have little or nothing to do with supervising craft employees. Second, in each of the employee categories that you discuss, supervisors and technicians, clerks and mailhandlers and city carriers, what type of employees should be used in the ratio? For instance, some of the employee types are: full-time regular, part-time regular, part-time flexible, casual and transitional employees. Third, what are the proper units to measure each employee category in the ratio? One could

DMA/USPS-T15-7 Response continued:

use each category by expense dollar, by number of employees, by number of  
workhours or by number of workyears.

DMA/USPS-T5-8. Please refer to your response to DMA/USPS-T914(d) in which you state that reducing Supervisors and Technicians mail processing costs for Test Year 1998 by the same percentage reduction in Clerks and Mailhandlers mail processing direct labor costs for Test Year 1998 would result in a savings of "about \$80 million."

- a. Please provide the precise amount of savings for Supervisors and Technicians mail processing costs in Test Year 1998. Please provide all data and calculations supporting this figure.
- b. Please confirm that a reduction in City Delivery Carriers costs for Test Year 1998 due to cost reduction programs would reduce City Carrier Supervisors and Technicians costs by the same percentage decrease. Please provide the precise amount of savings for City Carrier Supervisors and Technicians costs in Test Year 1998 applying the same percentage decrease as that for the City Carrier costs and provide all data and calculations supporting this figure.

DMA/USPS-T15-8 Response:

- a. There are no savings for Supervisors and Technicians mail processing costs in Test Year 1998. See my workpaper WP-D, Part 1 of 2, Table A, page 1.
- b. As in my response to DMA/USPS-T9-14(d), part (b) is not confirmed. Following my response DMA/USPS-T9-14(d) further, if the 9.5% ratio for City Delivery Carriers is mechanically applied to the \$3,514,726 for Total Supervisors in Test Year 1998, the savings are about \$334 million.



DMA/USPS-T15-9. Please refer to your response to DMA/USPS-T15-3(a) where you state, "the nonvolume workload adjustment for Supervisors and Technicians is a piggyback on either Time and Attendance Clerks and Mailhandlers or Access and Route Time for City Carrier Street Time." Please refer also to LR-H-12, pages 437-441.

a. Please confirm that, after the cost level adjustment of the roll forward shown on pages 437-441 of LR-H-12, (i) the cost (in thousands) for Supervision of Mail Processing and Window Service - Direct Labor and Overhead is \$1,067,397, (ii) the cost (in thousands) for Mail Processing and Window Services - Mail Processing is \$14,053,271, (iii) the cost (in thousands) for Supervision of City Delivery Carriers is \$722,514, and (iv) the cost (in thousands) for City Delivery Carriers is \$12,132,780.

b. Please confirm that, after the cost level adjustment of the roll forward shown on pages 437-441 of LR-H-12, (i) the ratio of mail processing costs to mail processing supervision costs is 13.17 and (ii) the ratio of city delivery carrier costs to city delivery carrier supervision costs 16.79. If not confirmed, please provide the correct figure(s).

c. Please confirm that, after the nonvolume workload effect adjustment of the roll forward shown on pages 437-441 of LR-H-12, (i) the cost (in thousands) for Supervision of Mail Processing and Window Service - Direct Labor and Overhead is \$1,086,934, (ii) the cost (in thousands) for Mail Processing and Window Service - Mail Processing is \$14,310,963, (iii) the cost (in thousands) for Supervision of City Delivery Carriers is \$735,097, and (iv) the cost (in thousands) for City Delivery Carriers is \$12,341,000.

d. Please confirm that, after the nonvolume workload effect adjustment of the roll forward shown on pages 437-441 of LR-H-12, (i) the ratio of mail processing costs to mail processing supervision costs is 13.17 and (ii) the ratio of city delivery carrier costs to city delivery carrier supervision costs is 16.79. If not confirmed, please provide the correct figure(s).

e. Please confirm that, in combination, the mail volume effect and the nonvolume workload effect adjustments for supervisors and technicians maintain a constant ratio (i) of mail processing supervision costs to mail processing costs and (ii) of city delivery carrier costs to city delivery carrier supervision cost. If not confirmed, please explain fully.

f. Please confirm that the mail volume effect and nonvolume workload effect adjustments for supervisors and technicians are piggybacks on the personnel components supervised. If not confirmed, please explain how the Postal Service

DMA/USPS-T15-9 continued:

develops the mail volume effect and nonvolume workload effect adjustments for supervisors and technicians.

g. If subpart f. is confirmed, please confirm that the term "piggyback" as used in subpart f. means that if the mail volume effect and nonvolume workload effect adjustments increase the cost for personnel components supervised by X percent, then the mail volume effect and nonvolume workload effect adjustments for Supervisors and Technicians will increase Supervisor and Technicians costs for that personnel component by X percent. If not confirmed, please explain fully the use of the term "piggyback" in your response to DMA/USPS-T15-3(a).

DMA/USPS-T15-9 Response:

- a. (i) Subpart (i) is confirmed.
- (ii) Subpart (ii) is confirmed.
- (iii) Subpart (iii) is confirmed.
- (iv) Subpart (iv) is confirmed.
- b. (i) Subpart (i) is confirmed.
- (ii) Subpart (ii) is confirmed.
- c. (i) Subpart (i) is confirmed.
- (ii) Subpart (ii) is confirmed.
- (iii) Subpart (iii) is confirmed.
- (iv) Subpart (iv) is confirmed.
- d. (i) Subpart (i) is confirmed.
- (ii) Subpart (ii) is confirmed.
- e. (i) and (ii) For subparts (i) and (ii), it is confirmed that for the combination of the mail volume and nonvolume effects, a constant piggyback ratio (independent

DMA/USPS-T15-9 Response continued:

components to dependent components) is maintained in the model. It is important to note that while this is true for these two effects, the effects for the cost level, cost reduction and other programs effects do not have similar piggybacks; hence, the ratio changes. For example, in Base Year 1996 the Mail Processing and Window Service Clerks and Mailhandler costs to the Mail Processing and Window Service Supervisor costs is 12.66. See USPS Library Reference H-12, pages 375-376.

f. Part f. is confirmed.

g. Part g. is confirmed for the meaning of the term "piggyback": "if the mail volume effect and nonvolume workload effect adjustments increase the cost for personnel components supervised by X percent, then the mail volume effect and nonvolume workload effect adjustments for Supervisors and Technicians will increase Supervisor and Technicians costs for that personnel component by X percent." It is important to note the use of the term "component" in the definition. The rollforward model executes its procedures on a component by component basis and in the case of piggybacks, there are independent components and dependent components. For example, Mail Processing and Window Service clerks and mailhandlers are independent components and Mail Processing and Window Service Supervisors are dependent components. The use of the piggyback function in the mail volume and nonvolume workload effects is important to maintain the relationship between the independent and dependent components not only in terms of the accrued costs, but also in terms of the

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**DMA/USPS-T15-9 Response continued:**

**relationships between the classes, subclasses and special services for those  
components.**

**DFC/USPS-T15-1**

**Please provide the Fiscal Year 1997 per-piece revenue and per-piece volume variable costs for stamped cards. Please specify whether these costs include the manufacturing costs of the cards.**

**DFC/USPS-T15-1 Response:**

**In the rollforward for Fiscal Year 1997, there are only costs for Single Piece Cards; there is no distinction between private post cards and stamped cards. USPS Exhibit-15D, page 15, shows the per-piece revenue and cost for single piece cards for Fiscal Year 1997. The manufacturing costs of stamped cards is included in the unit cost shown in USPS Exhibit-15D. The Test Year 1998 Before Rates costs for Single Piece Cards without manufacturing costs is presented in Appendix D to my testimony.**

**DFC/USPS-T15-2**

Please provide the Test Year 1998 per-piece revenue and per-piece volume variable costs for stamped cards. Please specify whether these costs include the manufacturing costs of the cards.

**DFC/USPS-T15-2 Response:**

In Test Year 1998, there are only costs for Single Piece Cards; there is no distinction between private post cards and stamped cards. USPS Exhibit-15G, page 15, shows the per-piece revenue and cost for single piece cards for Test Year 1998 at current rates. USPS Exhibit-15J, page 15, shows the per-piece revenue and cost for single piece cards for Test Year 1998 at proposed rates. The manufacturing costs of stamped cards is included in the unit costs shown in USPS Exhibits 15G and 15J. The Single Piece Card Test Year 1998 Before Rates costs without the manufacturing costs is presented in Appendix D of my testimony.

DFC/USPS-T15-3

Please provide the Test Year 1998 per-piece revenue and per-piece volume variable costs for return receipt and return receipt for merchandise. Also, please provide a citation to the precise location in your testimony where this information is located.

DFC/USPS-T15-3 Response:

The per-piece revenue for return receipt is included in the revenue of the special service to which the return receipt was attached: certified, registered, insured, or COD. The per-piece revenue for return receipt for merchandise is included in the revenue for certified mail.

It is not possible to isolate the per-piece volume variable costs for return receipt and return receipt for merchandise. See my Docket No. MC96-3 response to Presiding Officer's Information Request No. 4, Question 16 b.

DFC/USPS-T15-4

Please explain, with references to your testimony, all reasons why First-Class Mail single-piece cards have a lower volume-variable cost than First-Class Mail letters. Are there any reasons why, or cost segments in which, First-Class Mail single-piece cards have higher volume-variable costs than First-Class Mail letters? If yes, please explain.

DFC/USPS-T15-4 Response:

I'm not sure what you mean when you say "with references to your testimony" because my testimony does not project the volume variable cost of First Class Mail letters. Rather, the first line of the First Class Mail category is "Letters and Parcels." As such, it is understandable that First Class Mail "Letters and Parcels" are more costly to process and deliver than Single Piece Cards. Please refer to page 15 of my Exhibit USPS-15J, Test Year 1998 costs at proposed rates. Nonpresort Letters and Parcels have a per piece weight of .7 ounces and nonpresort Single Piece Cards have a per piece weight of .1 ounces. With this in mind, the former category is heavier and in all likelihood, more costly to handle. Additionally, even if the first line of the First Class Mail category was for letters only and did not include the more costly parcels, the above discussion would apply because letters by themselves weigh more than cards. I think the above discussion provides the most fundamental reason for this cost relationship and it holds throughout the segments and components.

No, there are no segments in which in which First-Class Mail single-piece cards have higher volume-variable costs than First-Class Mail letters."



Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Nashua Photo, District Photo, Mystic Color Lab and Seattle Filmworks  
(Revised 10/16/97)

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**NDMS/USPS-T15-1**

Please refer to your response NDMS/USPS-T33-24 (redirected to you from witness Sharkey), and to LR-H-12, page 100, referred to in your answer. The column "Incremental FY 98" shows an entry on the ninth row for \$100,000 thousand described as Priority Redesign (98) and charged to Account 53599/Comp 142. In the same column, on the penultimate row before "Subtotal Trans. Programs" is another entry for \$100,000 thousand, also labeled Priority Redesign and charged to Account 53131/Comp 143. The subtotal for transportation programs, \$252,447 thousand, would appear to include a total of \$200,000 thousand in FY 98 for Priority Mail Redesign.

- a. Are the two \$100,00 thousand entries for "Priority Mail Redesign" duplicative?
- b. What do Account 53599/Comp 142 and Account 53131/Comp 143 stand for? Are they for air or surface transportation? If either component is for air transportation, please explain what it represents; e.g., expansion of the Eagle Network, special "charter" flights not part of the Eagle Network to transport Priority Mail, etc.
- c. Please confirm that the subtotal for Transportation Programs in FY 98 includes \$200,000 thousand for Priority Mail Redesign. If you do not confirm, or if the two figures cited above are not additive, please explain.
- d. Your answer notes that LR-H-12 includes "a cost reduction in air transportation costs due to Priority Mail Redesign." That does not explain the \$50,164 thousand increase in Priority Mail air transportation costs between the Base Year and Test Year Before Rates. In fact, when the cost reduction of \$82 million is taken into account, other unexplained factors are causing an increase of \$132,164 thousand in air transportation costs for Priority Mail, which is an astounding increase of 34.5 percent over base year air transportation costs. Please explain what is causing both the ground and air transport costs for Priority Mail to increase so sharply.

**NDMS/USPS-T15-1 Response:**

- a. No, one of the \$100,000 is Highway service costs for component 143 and the other \$100,000 is Domestic Air service costs for component 142.
- b. In the Postal Service's cost model, "Comp 142" stands for component 142, which is Domestic Air transportation and "Comp 143" stands for component 143, which is Highway transportation. Component 142 is air and component 143 is surface. These

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NDMS/USPS-T15-1 Response continued:

costs are further described in USPS Library References H-1 (Section 14.1.1) and H-9 (Pages 123-125).

c. Part c. is confirmed.

d. Please refer to Attachment I to this response. Lines 1 - 19 in columns (2-5) show the cost changes that appear in the rollforward model from Base Year 1996 through Test Year 1998 Before Rates. Column (1) reflects the correction discussed in my second revised response to UPS/USPS-T33-36 redirected from Witness Sharkey. Line 21 of columns (1-5) is the total change between the base year and the test year. Line 22 of columns (1-5) is the percentage change; it is line 21 divided into line 1. Columns (6-10) show the individual impacts in terms of the total change. For example, line 3 of column (6) shows the 9.52% of the total change that was the result of the FY 1996 to FY 1997 cost level effect in the rollforward model.

As can be seen on line 22 of column (1), the total change in Priority Mail Air Transportation costs from the base year to the test year is 31.4%. Most of the increase is the result of the other programs in Test Year 1998, of which, \$100,000 is Priority Mail Redesign. Likewise, most of the 104.4% increase for Priority Mail Highway Transportation costs from the base year to the test year is the result of Priority Mail Redesign.

## Priority Mail Transportation

Line											
	Column=>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Percent Change of Total											
1	96MODS	363,497	139,622	2,806	430	526,355	9.52%	1.84%	0.01%	0.01%	11.38%
2		25,426	4,901	33	14	30,374	19.88%	7.03%	0.14%	0.02%	27.06%
3	CL	53,073	18,757	368	58	72,256	0.00%	0.00%	0.00%	0.00%	0.00%
4	MV	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
5	NV	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
6	AD	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
7	CR	-21,218	0	0	0	-21,218	-7.95%	0.00%	0.00%	0.00%	-7.95%
8	OP	32,748	6,851	0	0	39,599	12.27%	2.57%	0.00%	0.00%	14.83%
9		473,526	170,131	3,207	502	647,366	33.72%	11.43%	0.15%	0.03%	45.32%
10	97RCR	-13,922	2,382	92	14	-11,434	-5.21%	0.89%	0.03%	0.01%	-4.28%
11	CL	28,143	10,563	202	32	38,940	10.54%	3.96%	0.08%	0.01%	14.58%
12	MV	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
13	NV	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
14	AD	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%	0.00%
15	CR	-83,843	-2,463	0	0	-86,306	-31.40%	-0.92%	0.00%	0.00%	-32.32%
16	OP	100,000	104,791	0	0	204,791	37.45%	39.25%	0.00%	0.00%	76.70%
17		503,904	285,404	3,501	548	793,357	78.81%	66.03%	0.41%	0.07%	145.32%
18	98RCB	120,407	145,782	695	118	267,002	31.40%	104.41%	24.77%	27.44%	50.73%
19	Change	120,407	145,782	695	118	267,002	31.40%	104.41%	24.77%	27.44%	50.73%
20	% Change	31.40%	104.41%	24.77%	27.44%	50.73%	31.40%	104.41%	24.77%	27.44%	50.73%
21											
22											

Sources:

Cols (1-4) Lines (1-10) USPS-T15 WP-A

Cols (2-4) Lines (11-20) USPS-T15 WP-F

Col (1) Lines (11-20) reflecting Attachment I, second revised response to UPS/USPS-T33-36 redfr. from Witness Sharkey

Col (5) Lines (1-19) = Sum cols(1-4)

Cols (1-5) Line 21 = Line 19 - Line 1

Cols (1-5) Line 22 = Line 21 / Line 3

Cols (6-10) = relevant change portion / total change

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OCA/USPS-T-15-1. The following table was taken from USPS-15D and USPS-15J. Columns 1, 2, and 4 were taken directly from your exhibits. Column 3 is the sum of columns 1 and 2 and column 5 is the difference between column 3 and column 4. Please explain the differences in column 5. If any of these numbers are incorrect, please indicate which ones and correct them. If any of these comparisons are incorrect, please so indicate and provide the correct comparisons.

**USPS-15D**

CS	1 Volume Variable Total	2 All Other Costs	3 Sum 1 and 2	4 Accrued Costs	5 Difference
1	304,591	1,364,345	1,668,936	1,668,936	0
2	1,597,625	1,479,466	3,077,091	3,355,519	278,428
3	12,102,896	1,626,043	13,728,939	17,062,705	3,333,766
4	4,215	5,508	9,723	9,723	0
6	3,320,557	396,794	3,717,351	3,717,351	0
7	2,302,729	5,751,447	8,054,176	8,098,978	44,802
8	264,334	169,125	433,459	433,459	0
9	57,773	51,918	109,691	109,691	0
10	1,608,020	1,967,815	3,575,835	3,575,835	0
11	1,379,577	809,352	2,188,929	2,188,929	0
12	163,064	456,250	619,314	619,314	0
13	7,405	271,664	279,069	279,069	0
14	3,564,763	547,923	4,112,686	4,112,686	0
15	897,379	514,856	1,412,235	1,412,235	0
16	1,151,297	1,555,786	2,707,083	2,707,083	0
17	-	54,211	54,211	54,211	0
18	1,704,692	2,461,626	4,166,318	4,166,318	0
19	-	36,405	36,405	36,405	0
20	2,068,563	1,578,740	3,647,303	3,647,303	0
Total	32,499,480	21,099,274	53,598,754	57,255,750	3,656,966

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**USPS-15J**

CS	1 Volume Variable Total	2 All Other Costs	3 Sum 1 and 2	4 Accrued Costs	5 Difference
1	318,667	1,393,948	1,712,615	1,712,615	0
2	1,696,664	1,533,270	3,229,934	3,517,945	288,011
3	12,664,607	1,678,820	14,343,427	17,759,605	3,416,178
4	4,422	5,651	10,073	10,073	0
6	3,151,899	407,192	3,559,091	3,559,091	0
7	2,374,474	5,943,399	8,317,873	8,401,441	88,568
8	276,306	172,666	448,972	448,972	0
9	61,039	53,072	114,111	114,111	0
10	1,674,475	2,047,129	3,721,604	3,721,604	0
11	1,480,469	835,248	2,315,717	2,315,717	0
12	171,494	476,500	647,994	647,994	0
13	7,904	283,721	291,625	291,625	0
14	3,760,945	565,577	4,326,522	4,326,522	0
15	950,339	590,346	1,540,685	1,540,685	0
16	1,529,270	2,002,125	3,531,395	3,531,395	0
17	-	57,201	57,201	57,201	0
18	1,834,863	2,760,838	4,595,701	4,595,701	0
19	-	38,973	38,973	38,973	0
20	2,302,512	1,796,339	4,098,851	4,098,851	0
Total	32,260,349	22,642,015	56,902,364	60,690,121	3,787,757

**OCA/USPS-T15-1 Response:**

Please see my revisions to Exhibits USPS-15D and USPS-15J filed on August 18, 1997 and August 22, 1997.

OCA/USPS-T-15-2. Please refer to your response to OCA/USPS-T24-25 (redirected to you), and page 20, line 7 of USPS-T-24.

- a. Please confirm that the difference between the figure of \$104,575,000 for "All Other" costs in column [2] of the table in OCA/USPS-T24-25 and the figure of \$104,580,000 for "All Other" costs in USPS-T-24 is due to rounding. If you do not confirm, please explain.
- b. Please specify which of the two "All Other" cost figures - \$104,575,000 or \$104,580,000 -- is the correct amount.
- c. If, in response to part b. above, you chose the figure, \$104,580,000, please provide the correct figure(s) for each Cost Segment in column [2] of the table in OCA/USPS-T24-25.

OCA/USPS-T-15-2 Response:

- a. I cannot say why USPS-T-24 is different, it may be due to rounding. Whatever the reason, \$5,000 out of more than \$104 million is insignificant.
- b. See my response to OCA/USPS-T24-25 (revised 9/19/97). The correct amount is \$104,579.
- c. See Attachment I to my response to OCA/USPS-T24-25 (revised 9/19/97).

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**OCA/USPS-T-15-3. Please refer to USPS-T-15, WP E, Table D at 8, concerning the TYBR attributable costs of post office boxes.**

- a. Please confirm that the FY98 TYBR attributable cost of post office boxes is \$607,733,000. If you do not confirm, please explain.**
- b. Please confirm that the TYBR attributable cost of caller service is included in the FY98 TYBR attributable cost of post office boxes. If you do not confirm, please explain.**
- c. Please provide the FY98 TYBR attributable cost of caller service. Please show all calculations and provide citations to any figures used.**

**OCA/USPS-T-15-3 Response:**

- a. It is confirmed that the volume variable cost of post office boxes is \$607,733,000.**
- b. It is confirmed that the volume variable cost of caller service is included in the FY98 TYBR volume variable cost of post office boxes.**
- c. The FY98 TYBR volume variable cost for caller service is included in the FY98 TYBR volume variable cost of post office boxes and it cannot be isolated.**

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**OCA/USPS-T-15-4. Please refer to USPS-T-15, WP E, Table D at 8, concerning the TYBR attributable costs of post office boxes.**

- a. Please confirm that TYBR attributable costs for post office boxes consist of three categories of cost: Space Support, Space Provision and All Other. If you do not confirm, please explain.**
- b. Please provide the TYBR Space Support and All Other costs by CAG.**

**OCA/USPS-T-15-4 Response:**

- a. It is confirmed that these are the TYBR volume variable cost categories of post office boxes used by Witness Lion, USPS-T-24.**
- b. This is not available.**



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OCA/USPS-T15-5. Please refer to USPS-T-15, W/P G, Table D, and the table below showing the development of the FY 98 TYAR accrued and attributable Space Support costs for post office boxes.

**FY98 TYAR ACCRUED AND ATTRIBUTABLE SPACE  
SUPPORT COSTS 1/**

<b>COST SEGMENT AND COMPONENT</b>	<b>TOTAL ACCRUED (\$1,000)</b>	<b>ATTRIBUTABLE TO POST OFFICE BOXES (\$1,000) [2]</b>
C/S 1.1.1 Cleaning and Protection	\$802,065	\$70,696
C/S 11.1.2 Contract Cleaners	\$53,401	\$4,707
C/S 11.3 Plant & Building Equipment Maintenance	\$389,346	\$34,318
C/S 15.2 Building Occupancy, Fuel and Utilities	\$428,502	\$37,769
C/S 16.3.1 Custodial & Building	\$1,407,999	\$124,105
C/S 18.1.2 Postal Inspection Service	\$360,277	\$7,226
<b>TOTAL SPACE SUPPORT</b>	<b>\$3,441,590</b>	<b>\$278,821</b>

**Notes and Sources**

1/ USPS-T-15, WP G, Table D, for the cost segments listed.

- a. Please confirm that the figures in column [1] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.
- b. Please confirm that the figures in column [2] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.
- c. Please confirm that the "Notes and Sources" are correct. If you do not confirm, please explain.

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**OCA/USPS-T15-5 Response:**

- a. Part a is confirmed.
- b. Confirmed that column (2) shows volume variable costs for Post Office Boxes.
- c. Part c is confirmed.

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OCA/USPS-T15-6. Please refer to USPS-T-15,W/P G, Table D, and the table below showing the development of the FY 98 TYAR accrued and attributable Space Provision costs for post office boxes.

**FY98 TYAR ACCRUED AND ATTRIBUTABLE SPACE  
PROVISION COSTS 1/**

<b>COST SEGMENT AND COMPONENT</b>	<b>TOTAL ACCRUED (\$1,000)</b>	<b>ATTRIBUTABLE TO POST OFFICE BOXES (\$1,000) [2]</b>
C/S 15.1 Building Occupancy, Rents	\$688,501	\$111,071
C/S 20.3 Bldg & Leasehold Depreciation	\$581,680	\$93,838
C/S 20.5 Interest Expense - Bldg & Leasehold (Component 215)	\$306,214	\$14,930
<b>TOTAL SPACE PROVISION</b>	<b>\$1,576,395</b>	<b>\$219,839</b>

**Notes and Sources**

1/ USPS-T-15, WP G, Table D, for the cost segments listed,  
except C/S 20.5 Interest Expense, see Table C, at 32

- a. Please confirm that the figures in column [1] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.
- b. Please confirm that the figures in column [2] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.
- c. Please confirm that the "Notes and Sources" are correct. If you do not confirm, please explain.

**OCA/USPS-T15-6 Response:**

- a. Part a is confirmed.
- b. Confirmed that column (2) shows volume variable costs for Post Office Boxes.
- c. Part c is confirmed.

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OCA/USPS-T15 5-7. Please refer to USPS-T-1 5, WP G, Tables C and D, and the table below showing the development of the FY 98 TYAR accrued and attributable All Other costs for post office boxes.

DETAIL FOR "ALL OTHER" CATEGORY  
TYAR 98

COST SEGMENT	ACCRUED COSTS (\$1,000)		ATTRIBUTABLE TO PO BOXES (\$1,000)
		[1]	[2]
C/S 1	\$1,712,615	1/	\$2,721 1/
C/S 2	\$3,517,945	1/	\$6,465 1/
C/S 3	\$17,759,605	1/	\$61,217 1/
C/S 4	\$10,073	1/	\$0
C/S 6&7	\$11,960,532	1/	\$302 1/
C/S 8	\$448,972	1/	\$0
C/S 9	\$114,111	2/	\$0
C/S 10	\$3,721,604	2/	\$0
C/S 11	\$1,070,905	3/	\$0
C/S 12	\$647,994	2/	\$0
C/S 13	\$291,625	2/	\$0
C/S 14	\$4,326,522	2/	\$0
C/S 15	\$423,682	4/	\$0
C/S 16	\$2,123,396	5/	\$0
C/S 17	\$57,201	6/	\$0
C/S 18	\$4,235,424	7/	\$13,625 8/
C/S 19	\$38,973	9/	\$0
C/S 20	<u>\$3,210,957</u>	10/	<u>\$6,9591</u> 11/
SUBTOTAL	\$55,672,136		\$91,289
 TOTAL	 ALL C/S	 \$60,690,121 12/	

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OCA/USPS-T15 5-7 continued:

**NOTES AND SOURCES**

- 1/ USPS-T-15, WP G, Table D, at 2.
- 2/ USPS-T-15, WP G, Table D, at 4.
- 3/ USPS-T-15, WP G, Table D, at 36.
- 4/ USPS-T-15, WP G, Table D, at 48.
- 5/  $\$2,123,396 = \$3,531,395 - \$140,799$  USPS-T-15, WP G, Table D, at 52 & 54.
- 6/ USPS-T-15, WP G, Table D, at 6.
- 7/  $\$4,235,424 = \$4,595,701 - \$360,277$  USPS-T-15, WP G, Table D, at 56 & 64.
- 8/  $\$13,625 = \$20,851 - \$7,226$   
USPS-T-15, WP G, Table D, at 56 & 64.
- 9/ USPS-T-15, WP G, Table D, at B.
- 10/  $\$3,210,957 = \$4,098,851 - (\$581,680 + \$360,214)$   
USPS-T-15, WP G, Table C, at 32, and Table D, at 66 & 68.
- 11/ USPS-T-15, WP G Table C, at 32.
- 12/ USPS-T-15, WP G, Table D, at 8.

- a. Please confirm that the figures in column [1] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.
- b. Please confirm that the figures in column [2] are correct. If you do not confirm, please explain and provide the correct figures. Please show all calculations and provide citations to any figures used.
- c. Please refer to the "Notes and Sources." Please confirm that the citations, and calculation of figures based upon those citations, in the "Notes and Sources" accompanying the table above are correct. If you do not confirm, please explain and provide the correct citations and figures. Please show all calculations and provide citations to any figures used.

OCA/USPS-T15-7 Response:

- a. Part a is confirmed.
- b. Part b is not confirmed. See Attachment I that accompanies my response to OCA/USPS-T24-25, redirected from Witness Lion, as revised on 9/19/97.

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OCA/USPS-T15-7 Response continued:

c. Part c is confirmed, although in light of my revised response to OCA/USPS-T24-25, redirected from Witness Lion, I should be clear on what I am confirming. I am confirming that the amounts shown are found on the pages cited and that the calculation of figures based upon those citations, in the "Notes and Sources" section are correct. I am not confirming whether or not these are the correct amounts to use in the calculations; the correct amounts in my judgment are found in Attachment I to my response to OCA/USPS-T24-25, redirected from Witness Lion, as revised on 9/19/97.

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OCA/USPS-TL 5-8. Please refer to USPS-T-1 5, W/P G, Table D.

- a. Please confirm that total TYAR attributable costs for post office boxes are \$589,953,000. If you do not confirm, please explain.
- b. Please confirm that the sum of TYAR attributable Space Support and Space Provision, and the total of All Other costs, is \$589,949,000 (\$278,821,000 + \$219,839,000 + \$91,289,000). If you do not confirm, please explain.
- c. Please show the derivation of, and reconcile any discrepancies between, the TYAR attributable costs for post office boxes of \$589,953,000, referred to in part a. above, and the sum of Space Support, Space Provision and All Other costs referred to in part b. above. Please show all calculations and provide citations to any figures used.

OCA/USPS-T15-8 Response:

- a. It is confirmed that \$589,953,000 is the volume variable costs for Post Office Boxes.
- b. Part b is not confirmed. See Attachment I that accompanies my response to OCA/USPS-T24-25, redirected from Witness Lion, as revised on 9/19/97.
- c. See Attachment I that accompanies my response to OCA/USPS-T24-25, redirected from Witness Lion, as revised on 9/19/97.

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OCA/USPS-T15-9. Please refer to your response to OCA/USPS-T24-60 (redirected to you), and Appendix B of your testimony (USPS-T-5) in Docket No. MC96-3. In Appendix B, lines 10-14, you state

Additionally, it was assumed that there would be no change in the space and rental related costs associated with the decrease in Post Office Boxes in use because these costs would not respond immediately in the test year, but rather, they would respond at some time after the test year.

- a. Please confirm that you made the same assumption in your testimony in Docket No. R97-1, that "there would be no change in the space [i.e., Space Provision] and rental related [i.e., Space Support] costs associated with the decrease in Post Office Boxes in use. . . ." If you do not confirm, please explain.
- b. If the assumption stated in the quote above is no longer applicable to post office boxes in Docket No. R97-1, please explain what has changed in this docket to make the assumption no longer applicable.
- c. Please refer to Docket No. MC96-3, Appendix B, which shows the development of the cost adjustments resulting from proposed changes in fees for post office boxes. Please provide tables, in the same format as Appendix B, showing the development of the cost adjustments resulting from proposed changes in fees for post office boxes in Docket No. R97-1.

OCA/USPS-T15-9 Response:

a and b. The quote from Appendix B of my testimony (USPS-T-5) in Docket No. MC96-3 was intended to point out that I made no explicit PESSA-type adjustment in that Appendix to account for changes in the number of Post Office Boxes in use. In updating that Appendix B methodology for Docket No. R97-1, as requested in part c of this interrogatory, I again make the assumption that there would be no change in the space and rental related costs associated with the decrease in Post Office Boxes in use because these costs would not respond immediately in the test year, but rather, they would respond at some time after the test year.



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OCA/USPS-T15-9 a and b Response continued:

It appears that there is some confusion between my response to OCA/USPS-T24-60 and my Appendix B in Docket No. MC96-3. My response to OCA/USPS-T24-60 was in reference to the treatment of PESSA costs in the rollforward model. As noted in that response, there are two composite distribution keys, 1099 and 1199, that change "slightly" in the model. As with all PESSA costs, these effects are specific to a particular year and they are not rolled-forward. This methodology is meant to reflect the fact that there are some changes in PESSA costs in a particular year, but the full impact is not known until some undefined outyear beyond the test year.

Please note that the referenced statement from Appendix B has to be viewed in light of the purpose of Appendix B. Appendix B was not intended to reflect changes in Post Office Box volume variable costs. Rather, the purpose of Appendix B was to show the effect on the volume variable costs of the classes and subclasses of mail resulting from the diversion of mail from post office box to street delivery.

c. The requested update will be filed in USPS Library Reference H-274, Cost Adjustments for Changes Due to Proposed Rates Impact on Post Office Boxes Provided in Response to OCA/USPS-T15-9(c).

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**OCA/USPS-T15-10.** Please refer to your response to OCA/USPS-T24-60, redirected to you by Witness Lion.

- a.** Please confirm that the total of "All Other" costs will vary with the decrease in the number of post office boxes in the test year. If you do not confirm, please explain.
- b.** Please confirm that the total of "Space Support" costs will vary with the decrease in the number of post office boxes in the test year. If you do not confirm, please explain.
- c.** Please confirm that the total of "Space Provision" costs will vary with the decrease in the number of post office boxes in the test year. If you do not confirm, please explain.

**OCA/USPS-T15-10 Response:**

- a.** Part a is confirmed.
- b.** Part b is confirmed.
- c.** Part c is confirmed.

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate  
(Revised 10/15/97)**

**OCA/USPS-T15-11. Please refer to your response to OCA/USPS-T24-60b, redirected to you by Witness Lion, where it states**

**For instance, the following changes occurred from Base Year 1996 to Test Year After Rates 1998 for components 1099 (Total Key of Space Components) and 1199 (Total Key of Rental Value Components):**

**Please confirm that the changes to the two distribution keys identified in the quote above are the only changes to distribution keys for post office boxes from the BY to the TYAR. If you do not confirm, please explain, provide the percentage change, the name and number of the component(s), and a citation for any components changed.**

**OCA/USPS-T15-11 Response:**

**Please see my response to OCA/USPS-T15-14.**

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
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OCA/USPS-T15 5-12. Please refer to your response to OCA/USPS-T24-60b (redirected to you by witness Lion), and the following table, which shows the development of attributable "Space Support" costs for post office boxes in the TYBR.

**FY98 TYBR ACCRUED AND ATTRIBUTABLE SPACE  
SUPPORT COSTS 1/**

<b>COST SEGMENT AND COMPONENT</b>	<b>TOTAL ACCRUED (\$1,000)</b>	<b>ATTRIBUTABLE TO POST OFFICE BOXES (\$1,000) [2]</b>
C/S 1 1.1.1 Cleaning and Protection	\$802,065	\$70,977
C/S 11.1.2 Contract Cleaners	\$53,401	\$4,726
C/S 1 1.3 Plant & Building Equipment Maintenance	\$389,346	\$34,454
C/S 15.2 Building Occupancy, Fuel and Utilities	\$428,502	\$37,919
C/S 16.3.1 Custodial & Building	\$1,407,999	\$124,598
C/S 18.1.2 Postal Inspection Service	\$360,277	\$7,254
<b>TOTAL SPACE SUPPORT</b>	<b>\$3,441,590</b>	<b>\$279,928</b>

**Notes and Sources**

1/ USPS-T-15, WP E, Table D, for the cost segments listed.

Please show how to derive the Test Year, After Rates (TYAR) Space Support costs for post office boxes using the components 1099 (Total Key of Space Components), 1199 (Total Key of Rental Value Components), and any other components necessary.

**OCA/USPS-T15-12 Response:**

Test Year, After Rates Space Support costs for post office boxes is derived in Attachment I that accompanies my response to OCA/USPS-T24-25, redirected from Witness Lion, revised September 19, 1997. The results shown in that attachment reflect any effects of all components in the rollforward model.

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate

OCA/USPS-T15 5-13. Please refer to your response to OCA/USPS-T24-60b (redirected to you by witness Lion), and the following table, which shows the development of attributable "Space Provision" costs for post office boxes in the TYBR.

**FY98 TYBR ACCRUED AND ATTRIBUTABLE SPACE  
PROVISION COSTS 1/**

<b>COST SEGMENT AND COMPONENT</b>	<b>TOTAL ACCRUED (\$1,000)</b>	<b>ATTRIBUTABLE TO POST OFFICE BOXES (\$1,000) [2]</b>
C/S 15.1 Building Occupancy, Rents	\$688,501	\$111,399
C/S 20.3 Bldg & Leasehold Depreciation	\$581,680	\$94,115
C/S 20.5 Interest Expense - Bldg & Leasehold (Component 215)	\$362,214	\$17,712
<b>TOTAL SPACE PROVISION</b>	<b>\$1,632,395</b>	<b>\$223,226</b>

**Notes and Sources**

1/ USPS-T-1 5, WP E, Table D, for the cost segments listed, except C/S 20.5 Interest Expense, see Table C, at 32.

Please show how to derive the Test Year, After Rates (TYAR) Space Provision costs for post office boxes using the components 1099 (Total Key of Space Components), 1199 (Total Key of Rental Value Components), and any other components necessary.

**OCA/USPS-T15-13 Response:**

Test Year, After Rates Space Provision costs for post office boxes is derived in Attachment I that accompanies my response to OCA/USPS-T24-25, redirected from Witness Lion, revised September 19, 1997. The results shown in that attachment reflect any effects of all components in the rollforward model.

**Response of United States Postal Service Witness Patelunas  
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**OCA/USPS-T15-14.** Please refer to your response to OCA/USPS-T24-60b, redirected to you by Witness Lion. Witness Lion estimates a decrease of 4.99 percent (14,839,920 / 15,620,769 - 1) in the number of post office boxes during the test year.

**a.** Please identify, and provide citations for, all "components that are used to build the distribution keys for the PESSA costs" that are affected by the decrease in the number of post office boxes during the test year.

**b.** Please confirm that, if witness Lion had estimated a 4.99% *increase* in post office boxes during the test year, only the components identified in part a. above would be affected.

**i.** If you do not confirm, please explain, identify the components affected, and show the change in attributable post office box costs in the TYAR. Include citations for all figures used.

**ii.** If you confirm, please explain whether the distribution keys would change.

**c.** Please provide the percentage changes for the components identified in part a. above that occur from

**i.** the Base Year 1996 to Test Year Before Rates 1998, and

**ii.** the Test Year Before Rates 1998 to Test Year After Rates 1998.

**d.** Please show the changes in attributable post office box costs from the TYBR to the TYAR as a result of the 4.99% decrease in the number of post office boxes during the test year. Please show the development of TYAR attributable post office box costs using the components and distribution keys identified in part a. above.

**OCA/USPS-T15-14 Response:**

**a.** Pages 2 and 3 of Attachment I that accompanies this response show the PESSA components affected by the change in the number of post office boxes in the test year. The first column is the component number, the second column is the component title, the third column is the distribution key and the fourth column is the source of the explanation concerning the treatment in the model. The PESSA components are treated the same in both the base year and rollforward portions of the Postal Service's

**Response of United States Postal Service Witness Patelunas  
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**OCA/USPS-T15-14 Response continued:**

cost model. Additionally, for each year in the cost model, the development and use of these components can be found in the following workpapers:

<b>Base Year 1996</b>	<b>WP A-3 and WP A-4</b>
<b>FY 1997 Before Volume and Workyear Mix Adjustments</b>	<b>WP-A, Tables B and C</b>
<b>FY 1997 After Volume Mix and Before Workyear Mix</b>	<b>WP-B, Tables B and C</b>
<b>FY 1997 Volume and Workyear Mix Adjusted</b>	<b>WP-C, Tables B and C</b>
<b>TY 1998BR Before Workyear Mix Adjustment</b>	<b>WP-D, Tables B and C</b>
<b>TY 1998BR After Workyear Mix Adjustment</b>	<b>WP-E, Tables B and C</b>
<b>TY 1998AR Before Workyear Mix Adjustment</b>	<b>WP-F, Tables B and C</b>
<b>TY 1998AR After Workyear Mix Adjustment</b>	<b>WP-G, Tables B and C</b>

**b. Part b is not confirmed.**

i. In addition to the PESSA components cited above, the components listed on page 1 of Attachment I to this response change as a result of the change in the number of post office boxes. Page 1 of Attachment I shows the components that receive a mail volume effect in the rollforward model. Column 1 is the component number, column 2 is the component title, column 3 is the treatment in the file VBL2 in the rollforward and column 4 is the sources in which the VBL2 for each year can be found. Particularly, Section 2 is Fiscal Year 1997, Section 5 is Test Year 1998 Before Rates and Section 7 is Test Year 1998 After Rates. The change in volume variable costs of post office boxes resulting from the mail volume effect can be seen on a component by component basis in the following workpapers:

<b>FY 1997 Before Volume and Workyear Mix Adjustments</b>	<b>WP-A, Table A, Table 3.</b>
<b>TY 1998BR Before Workyear Mix Adjustment</b>	<b>WP-D, Table A, Table 3.</b>
<b>TY 1998AR Before Workyear Mix Adjustment</b>	<b>WP-F, Table A, Table 3.</b>

The change in volume variable costs of post office boxes resulting from the PESSA treatment can be seen on a component by component basis in the workpapers listed in part a. of this response.

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

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**OCA/USPS-T15-14 Response continued:**

- ii. Not applicable.**
- c. i. Any percentage changes for the components identified in part a. that occur from the Base Year 1996 to the Test Year Before Rates 1998 and the Test Year After Rates 1998 can be calculated using the sources provided in my responses to parts a and b and the sources provided to Attachment I to OCA/USPS-T15-14.**
- ii. Part ii. is confusing because there is no change from Test Year 1998 Before Rates to Test Year 1998 After Rates. The changes are from Fiscal Year 1997 to Test Year 1998 Before Rates and from Fiscal Year 1997 to Test Year 1998 After Rates. As stated in my response to part I., any of these calculations can be performed by referring to the sources cited.**
- d. See my response to part c.**



Component	Component Title	Treatment in VBL 2	Sources
1	Postmasters 23 and Below	Direct	USPS-LR-H4 Sections 2, 5 or 7
7	Supv. Window Services	Piggyback on component 40	USPS-LR-H4 Sections 2, 5 or 7
9	Supv. Time & Attendance	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7
13	Supv. City Carrier In-Office	Piggyback on component 43	USPS-LR-H4 Sections 2, 5 or 7
30	Higher Level Supv.	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7
601	Supv. Training Other	Piggyback on component 470	USPS-LR-H4 Sections 2, 5 or 7
678	Joint Supv. Clerks & Carriers	Piggyback on many CS 3, 6 and 7 components	USPS-LR-H4 Sections 2, 5 or 7
40	Window Service	Direct	USPS-LR-H4 Sections 2, 5 or 7
422	General Office and Clerical	Direct	USPS-LR-H4 Sections 2, 5 or 7
470	Training Other	Direct	USPS-LR-H4 Sections 2, 5 or 7
228	Time & Attendance	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7
43	City Carrier In-Office	Direct	USPS-LR-H4 Sections 2, 5 or 7
44	City Carrier In-Office Support	Piggyback on component 43	USPS-LR-H4 Sections 2, 5 or 7
49	City Carrier Street Other Office	Piggyback on component 43	USPS-LR-H4 Sections 2, 5 or 7
199	Repriced Annual Leave	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7
200	CSRS Current	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7
201	CSRS Prior	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7
204	Workers' Comp	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7
803	Post Office Box	Piggyback on many salary components	USPS-LR-H4 Sections 2, 5 or 7

Attachment I  
OCA/USPS-T15-14

ComponentComponent Title

1435	Annuitant COLA/Principal
436	Workers' Comp Current
453	Unemployment Compensation
439	Holiday Leave Variance
440	Replaced Annual Leave
296	Imputed Bldg & Leasehold
420	Adjusted Total Bldg & Leasehold
454	Total Depreciation
587	Interest for Equip, Land/Bldg & Vehicles
1436	Retirement Interest
283	Adjusted Total Interest

Distribution Key

20.1	WP A-4	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19
20.1	WP A-4	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19
22.1	WP A-4	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19
22.1	WP A-4	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19
22.1	WP A-4	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19
22.1	WP A-4	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19
30.1	WP A-4	Distributed on Component 1199
30.1	WP A-4	Includes Component 296
30.1	WP A-4	Includes Component 296
30.1	WP A-4	Includes Component 296
32.1	WP A-4	Distributed on Component 296
32.1	WP A-4	Distributed on Component 433 All Salaries
32.1	WP A-4	Includes Components 587 and 1436

Sources

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

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**OCA/USPS-T15-15. Please refer to your response to OCA/USPS-T24-60b, redirected to you by Witness Lion.**

**a. Please confirm that the "BY96" post office box percentages in components 1099 (Total Key of Space Components) and 1199 (Total Key of Rental Value Components) are computed as follows.**

**i. Component 1099 (Total Key of Space Components):  $8.89\% = 8,886,754 / 100,000,000$**

**ii. Component 1199 (Total Key of Rental Value Components):  $9.67\% = 9,669,160 / 100,000,000$**

**b. Please confirm that the "TYAR" post office box percentages in components 1099 (Total Key of Space Components) and 1199 (Total Key of Rental Value Components) are computed as follows.**

**i. Component 1099 (Total Key of Space Components):  $8.81\% = 8,814,255 / 1,00,000,000$**

**ii. Component 1199 (Total Key of Rental Value Components):  $9.57\% = 9,568,770 / 100,000,000$**

**c. Please provide the "TY98BR" post office box percentages for components 1099 (Total Key of Space Components) and 1199 (Total Key of Rental Value Components).**

**OCA/USPS-T15-15 Response:**

**a. i. Subpart i. is confirmed.**

**ii. Subpart ii. is confirmed.**

**b. i. Subpart i. is confirmed.**

**ii. Subpart ii. is confirmed.**

**c. Using the same calculation method employed in parts a and b, please refer to the amounts shown on pages 46 (Component 1099) and 66 (Component 1199) of my workpaper WP-E, Table B.**

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

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**OCA/USPS-T15-16. Please refer to Appendix B of your testimony (USPS-T-5) in Docket No. MC96-3. In Appendix B, page 1, lines 4-7, you state**

**The presentation is based on the assumption that a percentage decrease in the number of Post Office Boxes in use will be followed by [the] same percentage of mail delivered on the street, either by city delivery carriers or rural carriers.**

**a. Please confirm that you made the same assumption in your testimony in Docket No. R97-1, that "a percentage decrease in the number of Post Office Boxes in use will be followed by [the] same percentage of mail delivered on the street." If you do not confirm, please explain. If you do confirm, please provide a citation to the document that implements the assumption.**

**b. If the assumption stated in the quote above is no longer applicable to post office boxes in Docket No. R97-1, please explain what has changed in this docket to make the assumption no longer applicable.**

**OCA/USPS-T15-16 Response:**

**a and b. Part a. is not confirmed. Nothing has changed in this docket to make the assumption no longer applicable. To see the impact of employing my Docket No.**

**MC96-3 Appendix B methodology, see USPS Library Reference H-274, Cost Adjustments for Changes Due to Proposed Rates Impact on Post Office Boxes**

**Provided in Response to OCA/USPS-T15-9c.**

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

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**OCA/USPS-T15-17. Please refer to your response to OCA/USPS-T24-60b, redirected to you by Witness Lion.**

**a. Confirm that, in the rollforward model, you used growth factors from the Base Year (BY) 1996 to the TY98AR to inflate post office boxes installed and in use. If you do not confirm, please explain. Please show the derivation of the growth factors, and provide citations to any figures used.**

**b. Please list, and provide citations to, all cost components to which the growth factors referred to in part a. above were applied.**

**OCA/USPS-T15-17 Response:**

**a. Part a. is confirmed. The growth factors used in the rollforward model were from an early forecast based on the Docket No. MC96-3 Recommended Decision and preliminary FY 1997 RPW data.**

**b. See Attachment I to my response to OCA/USPS-T15-14.**

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate

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OCA/USPS-T15-18. The following interrogatory relates to systemwide labor costs.

- a. Please provide, and show the derivation of, the total amount of labor costs for the Postal Service in the TYBR. Please provide citations to any figures used.
- b. Please provide, and show the derivation of, the total amount of labor costs for the Postal Service as a percent of total TYBR attributable costs. Please provide citations to any figures used.
- c. Please provide a list of the Cost Segments and Components that are used to develop the total amount of labor costs for the Postal Service in TYBR.

OCA/USPS-T15-18 Response:

- a. In your question, I understand "labor costs for the Postal Service" to be the sum of the salaries paid to Postal employees. The best way to answer this question is to examine the All Salaries Key (Component 526) in the Postal Service's cost model. For TYBR, the total expenses in Component 526 are \$42,564,234. Component 526 is the summation of the 92 different salary components in the cost model and member B of any of the control files in the CRA/Rollforward model shows the control strings that control the components and the summation process. For example, the all salaries calculation for the base year can be seen on pages 59-61 of USPS Library Reference H-4.

The derivation of the 92 individual components that make-up component 526 has to be seen through the development provided in my workpapers WP-A through WP-G. These workpapers are formatted on a component by component basis showing the costs for all the classes, subclasses and special services. Additionally, each of the six steps of the rollforward, the development of the PESSA factors and the distribution of the PESSA costs are shown individually to enable one to follow the derivation step-by-step. I cannot provide a simpler system to show the derivation of the TYBR labor costs than that provided in my workpapers.

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate

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OCA/USPS-T15-18 Response continued:

b. The calculation can be accomplished by dividing the total salaries amount in component 526 into the total volume variable costs in the "D file" of the TYBR rollforward. Thus, divide the Component 526 amount of \$42,564,234 from part a. of this response into the TYBR Volume Variability Total Including Contingency amount of \$34,679,376 from my Exhibit USPS-15F.

c. Please see the 92 components that make up component 526 as was discussed in part a. of this response.



Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of Consumer Advocate  
(Redirected from Witness Lion, USPS-T24)

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OCA/USPS-T24-97. Please refer to your response to OCA/USPS-T24-87f, wherein you state, "The growth factor used in the rollforward model is an earlier estimate."

- a. Please explain what is meant by the phrase "an earlier estimate."
- b. Please provide the growth factor for post office boxes used in the rollforward model.

OCA/USPS-T24-97 Response:

- a. Please see my response to OCA/USPS-T15-17.
- b. Please see my Exhibit USPS-15A, pages 5 and 6 as revised 8/18/97.

**PSA/USPS-T15-1**

Your testimony shows that the attributable costs for First Class Mail have increased from an average of 16.7 cents per piece in the Base Year to 17.096 cents per piece in the Test Year Before Rates; and shows that the attributable costs for Standard (A) Regular have increased from an average of 10.089 cents per piece in the Base Year to 10.662 cents in the Test Year Before Rates. This constitutes a 2.37% increase in attributable costs for First Class Mail versus 5.68% increase in the attributable costs for Standard (A) Regular. Do you have any explanation why the increase in the average attributable costs for Standard (A) Regular are almost two and one-half times the average increase in attributable costs for First Class Mail?

**PSA/USPS-T15-1 Response:**

Each effect in the rollforward: cost level, mail volume, nonvolume, additional workday, cost reductions and other programs, is performed at the CRA line item level of detail. Thus, each of these effects is applied to First Class Mail at the Nonpresort Letters and Parcels, Presort Letters and Parcels, Single Piece Cards and Presort Private Cards level of detail. Each of these effects is also applied to Standard (A) Regular at the Enhanced Carrier Route and Regular Other level of detail. As such, it could be misleading to discuss test year cost changes solely in terms of total First Class and total Standard (A) Regular.

Attachment I to this response provides the detail that underlies the points raised in your question. As the attachment shows, the First Class Nonpresort Letters and Parcels line item dominates the calculations by comprising nearly three-quarters of the total First Class costs and over half of the total First Class volume. In the case of Standard (A), the split between Enhanced Carrier Route and Regular Other is much different. The Regular Other line item comprises over two-thirds of the total Standard (A) cost and slightly over half of the total Standard (A) volume. These are important

**PSA/USPS-T15-1 Response continued:**

considerations because the average unit costs for First Class and Standard (A) will change as the individual line items that comprise these items change in terms of both costs and relative volumes.

For example, the 2.36% change in unit cost for First Class Mail was largely the result of the increase in unit cost of Nonpresort Letters and Parcels, although the volume change for nonpresort Letters and Parcels was less than 1% from the base year to the test year. In the case of Standard (A), the volume of the higher unit cost Regular Other increased 13.5%, while the lower unit cost Enhanced Carrier Route increased only 10.83%. This growth in the relatively more costly Regular Other's share of the total volume of Standard (A) from 50.8 to 51.5% had the effect of increasing the overall average unit cost of Standard (A) in total. Thus, examination of the constituent parts of First Class and Standard (A) provides a better means of understanding how the overall class average has changed.

The primary reason for these changes in unit costs that impacted the average unit cost of First Class and Standard (A) is the cost reduction and other programs in the rollforward model. The most important cost reductions rely on LSM and OCR distribution keys that are predominately First Class Mail distribution keys. Most of the impact by class of mail specific cost reduction distributions occurs in Cost Segment 3 mail processing. In Appendix A to my testimony, I present the details of the rollforward processing steps by which the cost reduction amounts are allocated to the various programs and how these programs are distributed to classes of mail. As can be seen in my Appendix A, First Class Mail constitutes a larger portion of these distribution keys than Standard (A). Other programs also impact First Class and Standard (A) at an individual line item level of detail in a process similar to that used for Cost Reductions.

[illegible]

**Sources:** D Report costs: BY 1996, USPS Exhibit-5B and TYBR 1996 USPS Exhibit-15F  
**Volumes:** USPS Exhibit-15A page 5 of 6

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
United Parcel Service

**UPS/USPS-T15-10**

Please explain what the data in Table C ("B Report") of Patelunas workpapers WP-D-WP-K represent.

**UPS/USPS-T15-10 Response:**

The Table C ("B Report") workpapers show the distributed PESSA costs. These costs are treated as "Other Costs" in the "A Report" and they are distributed to "Volume Variable Costs" in the "B Report." The sum of the "A Report" and the redistributed "B Report" costs produces the "C Report", the Cost Segments and Components report.

UPS/USPS-T15-11. Please provide test year after rates volume estimates in terms of revenue, pieces, and cubic feet for each category of mail subject to dropship discounts, including all OBMC, DBMC, DSCF, and DDU classifications for each class and subclass of mail.

UPS/USPS-T15-11 Response:

Standard Mail (A)

All categories in Standard Mail (A) Regular are "subject to dropship discounts" - specifically, the DBMC and DSCF discounts. One can determine estimates for the test year revenue and pieces from the data provided in USPS-T-36 Workpapers (WP1, pages 20-22). The spreadsheet underlying the workpapers is in USPS LR-H-202. Weight estimates can be calculated by applying appropriate weight per piece figures from the GFY96 billing determinants (USPS LR-H-145). Cubic feet estimates are not available for this time period, but information regarding density is available in USPS LR-H-108.

All categories in Standard Mail (A) ECR are "subject to dropship discounts" - specifically, the DBMC, DSCF, and DDU discounts. One can determine estimates for the test year revenue and pieces from the data provided in USPS-T-36 Workpapers (WP1, pages 20, 23). The spreadsheet underlying the workpapers is in USPS LR-H-202. Weight estimates can be calculated by applying appropriate weight per piece figures from the GFY96 billing determinants (USPS LR-H-145). Cubic feet estimates are not available for this time period, but information regarding density is available in USPS LR-H-108.

UPS/USPS-T15-11 Response continued:

For Standard Mail (A) Nonprofit, the relevant workpapers are WP2, pages 20, 27 and 28. For Standard Mail (A) Nonprofit ECR, the relevant workpapers are WP2, pages 20 and 29

Parcel Post

For Parcel Post, the TYAR DBMC volume distributed to zone and weight increment may be found at workpaper USPS-T-37, WP II.A., pages 6-7. The TYAR DBMC revenue estimate is developed at pages 5-6 of workpaper USPS-T-37, WP II.B. The estimated relationship between cubic feet and weight increment for DBMC is shown at workpaper USPS-T-37, WP I.E., pages 1 and 2.

The Parcel Post TYAR OBMC volume may be derived by reference to line (20) of workpaper USPS-T-37, WP II. C., page 1. Similarly, the TYAR DSCF and DDU volumes may be derived by reference to lines (21) and (22), respectively, of the same workpaper. There is no estimate of the TYAR revenue, weight, or cubic feet for these categories, aside from using the estimated distributions of volume to weight increment for DDU and DSCF as provided at workpapers USPS-T-37, WP I. A., pages 21-23. The revenue loss associated with the provision of the discounts is shown at page 1 of workpaper USPS-T-37, WP II.C.

UPS/USPS-T15-11 Response continued:

Periodicals

Information for Periodicals subject to dropship discounts can be found in the following workpapers. Regular Rate Periodicals can be found in USPS-T-34, Workpaper RR-J, page 1. Within County Periodicals can be found in USPS-T-34, Workpaper WC-J, page 1. Nonprofit Periodicals can be found in USPS-T-35, Workpapers J and K, page 1. Classroom Periodicals can be found in USPS-T-35, Workpaper N, pages 1 and 2.



Presiding Officer's Information Request No. 1

POIR No. 1:

10. e. Witness Patelunas' Exhibit 15A at 5-6 shows the mail volume change factors used in the CRA/Cost roll-forward model and is sourced to the computer file "rat2fact." A comparison of the "rat2fact" file found in USPS Library Reference H-6 at 474 (the electronic data file "rat2fact" is located at \psmand03\fy97rcr\control) shows a significant difference in the volume change factor for First-Class nonpresort postcards. USPS Exhibit 15A reports a -.121894438 change factor, while the "rat2fact" file shows a +.010895759 change factor.

(1) Please explain the discrepancy between the two factors and provide any necessary corrections to USPS Exhibit 15A or the file "rat2fact."

(2) Please reconcile apparent differences in volumes between USPS Exhibit 15A, USPS Exhibit 6A, and USPS-T-5, Workpaper A-1 at 129-30.

RESPONSE

(1) The change factors in the "rat2fact" file are correct. Exhibit USPS-15A has been revised to agree with the "rat2fact" file.

(2) Base Year 1996 for USPS-T-5 and USPS-T-15 use Fiscal Year 1996 Revenue, Pieces and Weight. USPS-T-6 does not use FY 1996 as its "base period," instead it uses the four Postal Quarters commencing with the third quarter of FY 1996 and ending with the second quarter of FY 1997. USPS-T-5 uses Exhibit USPS-6A for Fiscal Year 1997 and Test Year 1998 Before Rates, and USPS-T-6 Table 1, Adjusted After Rates for Test Year 1998 After Rates. USPS-T-15 uses Exhibit USPS-6A to calculate the Mail Volume change factors in Exhibit-15A; the amounts for FY 1997 and TY 1998 Before Rates are rounded Exhibit USPS-6A amounts. USPS-T-15 uses USPS-T-6, Table 1, Adjusted After Rates for the reports shown in Exhibit USPS-15J.

**Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.**

13. The response to POIR No. 1, question 1.a.(2) did not address the adjustment to the level of Alaskan nonpriority air attributable costs made by the Commission in dockets since R90-1. The Commission's adjustment was made so that parcel post rates for all mailers did not have to be raised to recover the high cost of intra-Alaskan air transportation. A portion of the high cost for Alaskan air transportation was deemed to be caused by a requirement of the universal service obligation, and thus an institutional cost to be borne by all mailers.

Please confirm that the level of Alaskan nonpriority air attributable costs has not been adjusted in a manner similar to that made by the Commission.

If you do not confirm, please explain where and how the adjustment is made.

13. Response:

It is confirmed that the level of Alaska nonpriority air volume variable costs have not been adjusted in a manner similar to that made by the Commission.

Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.

34. USPS-T-1 5, Appendix A, describes the Cost Reductions and Other Programs and the distribution of cost savings from each of these programs for FY 1997, the Test Year Before Rates and the Test Year After Rates. The appendix, pages 6, 11, and 16, list the various Cost Reduction programs and Other Programs, and their distribution keys. These tables show three Remote Barcode System (RBCS) programs and their distribution keys. The Other Programs cost changes are distributed on the basis of the equipment distribution key "RBCS," component no. 924. However, the Cost Reductions affects related to these programs are distributed using equipment distribution key "LSM," component no. 916. It should be noted that in Docket No. MC96-3, the FY 1996 Cost Reductions effects for the RBCS programs were distributed using the equipment distribution key 'RBCS,' component no. 924.

Please explain why the equipment distribution key "LSM," component no. 916 was used to distribute the RBCS cost reductions in the roll-forward. If the use of component no. 916 to distribute the RBCS cost reductions programs is an error, please provide the correct distribution key component and the effect on costs for FY 1997, the Test Year Before Rates and the Test Year After Rates.

34. Response:

The equipment distribution key "LSM," component no. 916, is used to distribute the RBCS cost reductions in the roll-forward because the cost savings resulting from the use of the Remote Barcode System (RBCS) are LSM savings. The mail formerly processed on the more costly LSM is now processed on the less costly RBCS; hence, the savings are an LSM distribution key.

The equipment distribution key "RBCS," component no. 924, is used to distribute the RBCS other programs in the roll-forward model because the additional costs associated with the use of the RBCS are the result of processing mail on the RBCS; hence, the RBCS distribution key is the proper key to use.

**Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.**

35. USPS-T-15, page 9, describes the treatment of indirect costs in the cost rollforward process. Witness Patelunas notes that "For each of these indirect costs, the direct cost or factor with which it varies is identified and treated in the same manner as in the Base Year 1996 cost presentation. The cost roll-forward indirect cost distributions are generally described in USPS Library Reference H-4 in member names VBL2 (Mail Volume cost effect), VBL3 (Non-volume Workload Effect), and VBL4 (Additional Workday effect), under control string "21."

There appear to be indirect costs in Cost Segment 12 which do not follow this general description. These are components 545, Personnel-vehicle service drivers, 550, supplies & materials-vehicle service drivers, and 568, vehicle hire, vehicle service drivers, which are identified and treated in the same manner as component 57, Vehicle Service Drivers in the base year. However, these components are not treated the same in the roll-forward process. An examination of member name VBL2 in USPS LR-4, page 534, shows the control string 21 and component 57, vehicle service drivers only affecting the component 675, supervision of vehicle service drivers and not the segment 12 components described above. The same situation applies to the segment 12 components identified as being indirectly variable to segment 10 rural carrier personnel.

Please explain why the indirect components noted above were left out of the rollforward process. If these components were supposed to be included please show the effect on costs for FY 1997, the Test Year Before Rates and the Test Year After Rates.

35. Response:

The indirect components noted in the question: 545, Personnel-vehicle service drivers, 550, Supplies & Materials-vehicle service drivers, and 568, Vehicle Hire-vehicle service drivers, should have been in the rollforward model. While checking on these components and their treatment in VBL's 2, 3 and 4, it was noticed that there are additional omissions. All of the components omitted in in VBL's 2, 3 and 4 and the resulting effects on costs for FY 1997, the Test Year Before Rates and the Test Year After Rates will be filed in USPS Library Reference H-275, Materials Provided in Response to POIR No. 3, Question 35.

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate  
(Redirected from Witness Alexandrovich, USPS-T-5)

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OCA/USPS-T-5-27. Please list all BY 1996 cost segments and components (other than segment 3) for which the level of attribution is determined in whole or in part by the total segment 3 attribution level, or by the attribution level of a segment 3 component. In each case, indicate which component is used or whether the segment 3 total is used.

OCA/USPS-T-5-27 Response:

Attachment I to this response provides all components, other than segment 3, whose level of volume variability or distribution of volume variable costs, is dependent on segment 3 (in whole or in part). Attachment I lists the dependent components in column 1, lists the title of these components in column 2, describes how each of the components in column 1 is affected by a part or the whole of segment 3 in column 3, and shows the workpaper and page source for the listings in columns 1-3. Attachment I covers all of the documentation in workpapers A and B, and this information is already available to any of the parties for their use.

<u>Component</u>	<u>Component Title</u>	<u>Distribution Key</u>	<u>Sources</u>	
42	CAG K Clerks	Subclasses distributed on Component 35	WP B	W/S 4.1.1
4	Supv. Direct Labor and Overhead	Distributed on Component 35	WP A-2	18.1
7	Supv. Window Services	Distributed on Component 35	WP A-2	18.1
9	Supv. Time & Attendance	Distributed on Component 525 All Salaries key (exc. CS2 T&A and E&LR, CS3 T&A)	WP A-2	20.1
29	Employee & Labor Relations	Distributed on Component 525 All Salaries key (exc. CS2 T&A and E&LR, CS3 T&A)	WP A-2	28.1
32	Gen Supv. Collection & Delivery	Distributed on Component 40 and CS 6&7 exc. CAG K	WP A-2	28.1
678	Supv. QC/Rev Protection	Distributed on Component 205 Mail Processing and Specific Fixed Total	WP A-2	30.1
678	Joint Supv. Clerks & Carriers	Distributed on CS 3 excluding T&A and CS 6&7 excluding CAG K	WP A-2	30.1
75	Postal Operating Equipment	Distributed on Component 1259 of which 1258 is part Portion of Component 1258 is Component 35	WP A-2 WP A-3	62.1 82.1
199	Repriced Annual Leave	Distributed on Component 526 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-2	124.1
200	CSRS Current	Distributed on Component 526 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-2	124.1
201	CSRS Prior	Distributed on Component 526 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-2	124.1
204	Workers' Comp	Distributed on Component 526 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-2	126.1
944	Office Factor	Distributed partially on CS 3 Admin, T&A and Other	WP A-3	16.1
947	Employee Facilities Factor	Distributed on All Salaries key, exc. HQ & Region	WP A-3	16.1
1001	Window Service Space	Distributed on Component 40	WP A-3	28.1
1010	Claims & Inquiry Space	Distributed on Component 66	WP A-3	30.1
1044	Office Space	Distributed on Component 944	WP A-3	42.1
1047	Employee Facilities Space	Distributed on Component 947	WP A-3	42.1
1052	Mail Transport Equip Centers	Distributed on Component 35	WP A-3	46.1
1099	Total Space Key	Sum including comps: 1001, 1010, 1044, 1047 and 1052	WP A-3	46.1
1101	Window Service Rental	Distributed on Component 40	WP A-3	48.1

<u>Component</u>	<u>Component Title</u>	<u>Distribution Key</u>	<u>Sources</u>	
1110	Claims & Inquiry Rental	Distributed on Component 66	WP A-3	48.1
1144	Office Space Rental	Distributed on Component 944	WP A-3	62.1
1147	Employee Facilities Rental	Distributed on Component 947	WP A-3	62.1
1152	Mail Transport Equip Centers Rental	Distributed on Component 35	WP A-3	66.1
1199	Total Rental Key	Sum including comps: 1001, 1010, 1044, 1047 and 1052	WP A-3	68.1
1250	Mail Transport Equip Centers	Distributed on Component 35	WP A-3	82.1
1259	Total Key	Includes Component 1250	WP A-3	82.1
1280	Mail Transport Equip Centers	Distributed on Component 35	WP A-3	90.1
1289	Total Key	Includes Component 1280	WP A-3	90.1
428	T & A Supervision	Distributed on Component 527 All Salaries exc. CS 2 T&A and E&LR and CS3 T&A	WP A-4	6.1
427	Employee and Labor Relations	PESSA distributed on Component 527 All Salaries exc. CS 2 T&A and E&LR and CS3 T&A	WP A-4	6.1
429	Employee and Labor Relations	PESSA distributed on Component 527 All Salaries exc. CS 2 T&A and E&LR and CS3 T&A	WP A-4	8.1
74	Cleaning & Protection Personnel	PESSA distributed on Component 1099	WP A-4	10.1
81	Contract Cleaners	PESSA distributed on Component 1099	WP A-4	10.1
79	Plant & Building Equipment	PESSA distributed on Component 1099	WP A-4	10.1
165	Rents	PESSA distributed on Component 1199	WP A-4	12.1
298	Fuel & Utilities	PESSA distributed on Component 1199	WP A-4	12.1
297	Custodial & Building	PESSA distributed on Component 1099	WP A-4	14.1
194	USPS Protection Force	PESSA distributed on Component 1099	WP A-4	18.1
432	CSRS Current	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-4	18.1
434	CSRS Prior	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-4	18.1
435	CSRS Summation	Includes Components 432 and 434	WP A-4	18.1
208	Retiree Health Benefits	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-4	20.1
71	Annuity Life Insurance	PESSA distributed on Component 433 All Salaries Key and Personnel costs from CS 13, 16, 18 and 19	WP A-4	20.1
1435	Annuity COLA/Principal	PESSA distributed on Component 433 All Salaries Key	WP A-4	20.1

<u>Component</u>	<u>Component Title</u>	<u>Distribution Key</u>	<u>Sources</u>	
438	Workers' Comp Current	and Personnel costs from CS 13, 16, 18 and 19 PESSA distributed on Component 433 All Salaries Key	WP A-4	20.1
453	Unemployment Compensation	and Personnel costs from CS 13, 16, 18 and 19 PESSA distributed on Component 433 All Salaries Key	WP A-4	22.1
439	Holiday Leave Variance	and Personnel costs from CS 13, 16, 18 and 19 PESSA distributed on Component 433 All Salaries Key	WP A-4	22.1
440	Repriced Annual Leave	and Personnel costs from CS 13, 16, 18 and 19 PESSA distributed on Component 433 All Salaries Key	WP A-4	22.1
298	Imputed Bldg & Leasehold	and Personnel costs from CS 13, 16, 18 and 19 Distributed on Component 1199	WP A-4	30.1
420	Adjusted Total Bldg & Leasehold	Includes Component 298	WP A-4	30.1
454	Total Depreciation	Includes Component 298	WP A-4	30.1
587	Interest for Equip, Land/Bldg & Vehicles	Distributed on Component 298	WP A-4	32.1
1438	Retirement Interest	Distributed on Component 433 All Salaries	WP A-4	32.1
283	Adjusted Total Interest	Includes Components 587 and 1438	WP A-4	32.1



**Answer of United States Postal Service Witness Patelunas  
to the Interrogatories of  
United Parcel Service  
(Redirected from Witness Alexandrovich, USPS-T5)**

**UPS/USPS-T5-6** On page 38.1 of Workpaper A-2, you indicate that Data Collection (Component 421) variability is calculated to be variable with C/S 3 Mail Processing (Component 35). However, on page 38, Data Collection appears to be 79.18% volume variable, whereas on page 36 Mail Processing is only 76.26% volume variable. Please confirm that Data Collection variability, like that of Quality Control (Component 423), is actually calculated to be variable with the sum of C/S 3 Mail Processing and C/S 6 City Carriers in Office. If not confirmed, please explain why there is a difference in volume variability percentage between Data Collection and Mail Processing.

**UPS/USPS-T5-6 Response:**

Question 6 is confirmed.

**Answer of United States Postal Service Witness Patelunas  
to the Interrogatories of  
United Parcel Service  
(Redirected from Witness Alexandrovich, USPS-T5)**

**UPS/USPS-T5-7** On page 20.1 of Workpaper A-2 you indicate that the distribution key for C/S 2 Time and Attendance Supervision (Component 009) is Component 525. Please provide the breakdown of Component 525 used for the distribution, and indicate by name and number which components comprise Component 525.

**UPS/USPS-T5-7 Response:**

The components (by number) that comprise Component 525 can be found on pages 59-60 of USPS Library Reference H-4. The names associated with each of the components (by number) that comprise Component 525 can be found on pages 221-250 of USPS Library Reference H-4.

**Answer of United States Postal Service Witness Patelunas  
to the Interrogatories of  
United Parcel Service  
(Redirected from Witness Alexandrovich, USPS-T5)**

**UPS/USPS-T5-8** On page 28.1 of Workpaper A-2 you indicate that the distribution key for C/S 2 Higher Level Supervisor (Component 030) is Component 294. Please provide the breakdown of Component 294 used for the distribution, and indicate by name and number which components comprise Component 294.

**UPS/USPS-T5-8 Response:**

The components (by number) that comprise Component 294 can be found on pages 28-29 of USPS Library Reference H-4. The names associated with each of the components (by number) that comprise Component 525 can be found on pages 221-250 of USPS Library Reference H-4.

**Answer of United States Postal Service Witness Patelunas  
to the Interrogatories of  
United Parcel Service  
(Redirected from Witness Alexandrovich, USPS-T5)**

**UPS/USPS-T5-9** On page 38.1 of Workpaper A-2 you indicate that the distribution key for C/S 3 General Office and Clerical (Component 422) is Component 294. Please provide the breakdown of Component 294 used for the distribution, and indicate by name and number which components comprise Component 294.

**UPS/USPS-T5-9 Response:**

The components (by number) that comprise Component 294 can be found on pages 28-29 of USPS Library Reference H-4. The names associated with each of the components (by number) that comprise Component 525 can be found on pages 221-250 of USPS Library Reference H-4.

**Answer of United States Postal Service Witness Patelunas  
to the Interrogatories of  
United Parcel Service  
(Redirected from Witness Alexandrovich, USPS-T5)**

**UPS/USPS-T5-10** On page 40.1 of Workpaper A-2 you indicate that the distribution key for C/S 3 Training Other (Component 470) is Component 473. Please provide the breakdown of Component 473 used for the distribution, and indicate by name and number which components comprise Component 473.

**UPS/USPS-T5-10 Response:**

The components (by number) that comprise Component 473 can be found on pages 26-27 of USPS Library Reference H-4. The names associated with each of the components (by number) that comprise Component 525 can be found on pages 221-250 of USPS Library Reference H-4.

Answer of United States Postal Service Witness Patelunas  
to the Interrogatories of  
United Parcel Service  
(Redirected from Witness Alexandrovich, USPS-T5)

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UPS/USPS-T5-15 On page 124.1 of Workpaper A-2, you indicate that the distribution key for C/S 18 Repriced Annual Leave, Holiday Leave Variance and CS Retirement Fund Deficit Current (Components 199, 200 and 201) is Component 526. Please provide the breakdown of Component 526 used for these distributions and indicate by name which components comprise Component 526.

UPS/USPS-T5-15 Response:

The components (by number) that comprise Component 526 can be found on pages 31 of USPS Library Reference H-4. The names associated with each of the components (by number) that comprise Component 526 can be found on pages 221-250 of USPS Library Reference H-4.

Answer of United States Postal Service Witness Patelunas  
to the Interrogatories of  
United Parcel Service  
(Redirected from Witness Alexandrovich, USPS-T5)

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UPS/USPS-T5-16 On page 6.1 of Workpaper A-4, you indicate that PESSA variable costs for C/S 2 Time & Attendance Supervision are developed by taking the difference between total distributed variable costs and volume variable costs less PESSA costs. You further indicate that total distributed variable costs are developed by distributing a total variable cost based on component 527 (all salaries excluding C/S 2 T&A and E&LR, and C/S 3 T&A).

- (a) Please explain what PESSA costs represent.
- (b) Please explain the difference(s) between Components 525 and 527.
- (c) Please explain how PESSA costs are treated in the Rollforward model.

UPS/USPS-T5-16 Response:

(a) PESSA is an acronym for "Plant, Equipment, Servicewide and Selected Administration Costs." The term "PESSA" is the title that appears in the final section of the Postal Service's Cost Segments and Components reports. See USPS Witness Alexandrovich's Exhibit USPS-5A (Cost Segments and Components, Base Year 1996). See also, Table D ("C" Report (Including PESSA)) of my workpapers WP-A through WP-G. These final sections summarize the cost development that is detailed in the Postal Service's cost model "B Report." See Witness Alexandrovich, USPS-T5, workpaper WP A-4 (Development of Cost By Segment and Component, Base Year 1996, B Report). See also Table C ("B" Report (PESSA Detail)) of my workpapers WP-A through WP-G.

UPS/USPS-T5-16 Response continued:

PESSA costs are volume variable costs that are developed in the "B report" of the Postal Service's cost model. Briefly, PESSA costs are volume variable costs that do not respond immediately to changes in volume, although changes in volume influence the level of PESSA costs. Previously, these costs were known as "longer-run" or "lagged", but that terminology was inappropriate and confusing. For a fuller discussion, please see the Direct Testimony of Witness Barker, USPS-T-4, page 8, Docket No. R94-1.

(b) For the development of component 525, refer to pages 59-60 of USPS Library Reference H-4. For the development of component 527, refer to page 62 of USPS Library Reference H-4. The names associated with any of the components found on these pages can be found on pages 221-250 of USPS Library Reference H-4. Briefly, component 525 is a distribution key comprised of 80 different salary components and component 527 is a distribution key comprised of component 525 and three additional salary components.

(c) PESSA costs are treated the same in the rollforward and the base year portions of the Postal Service's cost model. The B control strings to which I refer in part b. to this response are the same B control strings that are used in both the base year and rollforward.



Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
United Parcel Service  
(Redirected from Witness Hatfield, USPS-T16)

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UPS/USPS-T16-36

Please refer to page 12 of Appendix I of your testimony. In general, provide all reasons why you believe that Highway service costs decrease 3.27% from the Base Year to the Test Year.

UPS/USPS-T16-36 Response:

Assuming that "Highway service costs" refers to Purchased Highway Transportation, component 143 in Cost Segment 14 in the Postal Service's cost model is the component to examine. All of the detail by class and subclass of mail for each of the rollforward effects: cost level, mail volume, nonvolume, additional workday, cost reductions and other programs can be found in the following workpapers that accompany my testimony: USPS-T15 WP-A (Fiscal Year 1997 development), and following through to workpaper WP-D (Test Year 1998 Before Rates development). Each of the listed rollforward effects is a result of the factors found in my Exhibit USPS-15A and the cover page to that exhibit shows the sources for these factors. Thus, the mechanics of why the "highway service costs" change can be seen on a class and subclass of mail level in my workpapers and the reasons why the factors were developed as they were can be found in the sources listed in my Exhibit USPS-15A.

**Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
United Parcel Service  
(Redirected from Witness Sharkey USPS-T-33)**

**UPS/USPS-T33-35**

**Please explain where the cost of the Phase I contract can be found in the development of the Test Year Costs. If it is not included in the Test Year Costs, please provide an explanation.**

**UPS/USPS-T33-35 Response:**

**Please see USPS Library Reference H-12 pages: 98, 100, 122 and 127.**

Response of United States Postal Service Witness Patelunas  
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(Redirected from Witness Sharkey USPS-T-33)

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UPS/USPS-T33-36

Please clarify whether the costs of the Phase I contract are considered to be fully attributable or less than fully attributable, and explain how this decision was made.

UPS/USPS-T33-36 Response:

As shown in my workpaper WP-D, the costs of the Phase I contract are fully volume variable. This contract was in the planning stage during preparation for Docket No. R97-1 and although there are expected to be some Fiscal Year 1997 costs, implementation will not be fully underway until Test Year 1998. In addition to which, this is a completely new program and its degree of volume variability is unknown at this time. Thus, it was decided that it would be proper to treat this contract as fully volume variable in the test year because that is the time period in which the costs will be incurred, the costs should be associated with Priority Mail and there was no need to rollforward beyond the Test Year 1998.

Upon further examination of this question, it became apparent that the distribution of the Test Year Domestic Air costs of \$100,000,000 was not done correctly in my workpapers WP-D and WP-F. The amount in the rollforward as originally filed in this docket, distributed the \$100,000,000 on the whole of the Domestic Air distribution key. The entire \$100,000,000 should have been distributed to Priority Mail only. Attachment I to this response shows the impact of this correction for Before Rates on page 1 and After Rates on page 2. This simple approach is adequate because Cost Segment 14 stands alone; it has no impact on any other cost segment.

This explains the revision to Attachment I, originally filed on September 17, 1997. The revision is a result of two corrections: 1) the Before Rates amount for the

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
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(Redirected from Witness Sharkey USPS-T-33)

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UPS/USPS-T33-36 Response continued:

Stamped Card Adjustment in Column 8 of page 1, and 2) including the contingency in the Before Rates and After Rates Stamped Card Adjustment in Column 8 of pages 1 and 2. The impact of the corrections can be seen on the Single Piece Cards line in Columns 8 - 11.

	(1) Test Year 96 Before Rates Final Adj	(2) Domestic Ad	(3) Priority Div. Key Final Adj	(4) Rush Amount Column: (1) - (2) + (3)	(5) Total Final Adj	(6) Test Year 96 Adjusted Costs Including Final Adj. col(4)+col(5)	(7) Test Year 96 Adjusted Costs w/ Final Adj. & Carriage col(6) * 1.01	(8) USPS & Stamped Card Adj	(9) Test Year 96 Adjusted Costs At Adj. w/ Carriage col(7)+col(8)	(10) Test Year 96 Revenue Before Rates	(11) Percent of Costs col(10)/col(9)
<b>First-Class Mail:</b>											
Letters & Parcels	12,506,181	25,000	0	12,481,181	7,504	12,488,685	12,613,552		12,613,552	21,864,407	170.98%
Presort Ltr & Pst	4,099,545	14,438	0	4,085,106	4,400	4,089,506	4,100,182		4,100,182	11,103,953	270.81%
Single Piece Cards	444,508	453	0	444,055	300	444,355	448,878	-4,007	444,183	848,970	190.10%
Presort First P Co	184,454	87	0	184,357	188	184,523	186,188		186,188	418,873	227.20%
<b>Total First</b>	<b>17,184,688</b>	<b>40,068</b>	<b>0</b>	<b>17,144,599</b>	<b>12,410</b>	<b>17,157,009</b>	<b>17,329,701</b>		<b>17,329,605</b>	<b>33,729,103</b>	<b>194.99%</b>
<b>Priority Mail</b>	<b>2,130,532</b>	<b>20,757</b>	<b>100,000</b>	<b>2,208,775</b>	<b>421</b>	<b>2,201,106</b>	<b>2,223,206</b>		<b>2,223,206</b>	<b>5,970,701</b>	<b>176.98%</b>
<b>Express Mail</b>	<b>410,107</b>	<b>2,001</b>	<b>0</b>	<b>410,106</b>	<b>91</b>	<b>410,027</b>	<b>420,793</b>		<b>420,793</b>	<b>832,005</b>	<b>197.87%</b>
<b>Mailgrams</b>	<b>902</b>	<b>0</b>	<b>0</b>	<b>902</b>	<b>1</b>	<b>903</b>	<b>908</b>		<b>908</b>	<b>4,078</b>	<b>920.42%</b>
<b>Periodicals:</b>											
In County	81,320	0	0	81,320	130	81,450	82,273		82,273	82,506	100.36%
Outside County:											
Reg Rate Pub	1,508,400	1,002	0	1,508,320	1,100	1,508,400	1,505,101		1,505,101	1,832,125	192.98%
Nonprofit Pub	332,242	250	0	331,992	320	332,320	335,843		335,843	334,871	99.77%
Classroom Pub	13,050	0	0	13,051	10	13,061	13,790		13,790	10,577	78.96%
<b>Total Periodicals</b>	<b>1,906,037</b>	<b>1,349</b>	<b>0</b>	<b>1,905,207</b>	<b>1,620</b>	<b>1,906,925</b>	<b>2,018,804</b>		<b>2,018,804</b>	<b>2,000,150</b>	<b>162.15%</b>
<b>Standard Mail A:</b>											
Single Piece Rate	227,055	200	0	227,357	94	227,051	228,020		228,020	187,800	98.90%
Commercial											
Enhanced Car Route	2,140,003	148	0	2,140,715	3,410	2,144,125	2,185,500		2,185,500	4,722,370	219.98%
Regular	4,001,007	1,120	0	4,000,508	3,003	4,004,401	4,053,500		4,053,500	7,162,720	145.70%
<b>Total Commercial</b>	<b>7,042,500</b>	<b>1,277</b>	<b>0</b>	<b>7,041,203</b>	<b>7,303</b>	<b>7,048,500</b>	<b>7,118,072</b>		<b>7,118,072</b>	<b>11,915,005</b>	<b>167.37%</b>
Nonprofit											
Enhanced Car Route	155,000	1	0	155,005	212	155,007	157,050		157,050	201,701	186.05%
Regular	1,077,302	430	0	1,078,062	815	1,077,770	1,088,550		1,088,550	1,105,200	100.95%
<b>Total Nonprofit</b>	<b>1,232,100</b>	<b>440</b>	<b>0</b>	<b>1,232,748</b>	<b>1,127</b>	<b>1,233,075</b>	<b>1,246,214</b>		<b>1,246,214</b>	<b>1,427,051</b>	<b>114.81%</b>
<b>Total Standard Mail A:</b>	<b>8,903,003</b>	<b>2,015</b>	<b>0</b>	<b>8,901,500</b>	<b>8,524</b>	<b>8,910,112</b>	<b>9,365,213</b>		<b>9,365,213</b>	<b>13,408,582</b>	<b>157.08%</b>
<b>Standard Mail B:</b>											
Parcel Post	700,775	7,037	0	778,030	104	778,032	790,812		790,812	737,070	92.79%
Bound Prod Matter	332,571	153	0	332,418	215	332,633	335,950		335,950	403,300	140.83%
Spec Ath Cl Rate	295,253	52	0	295,301	115	295,416	297,070		297,070	353,530	137.70%
Library Rate	51,737	27	0	51,710	20	51,730	51,742		51,742	40,207	83.78%
<b>Total Standard Mail B:</b>	<b>1,425,030</b>	<b>8,169</b>	<b>0</b>	<b>1,417,787</b>	<b>534</b>	<b>1,418,301</b>	<b>1,432,404</b>		<b>1,432,404</b>	<b>1,933,401</b>	<b>114.83%</b>
<b>U S Postal Service</b>	<b>173,532</b>	<b>300</b>	<b>0</b>	<b>173,134</b>	<b>-173,134</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>Free Mail-Bind &amp; Mktg &amp; Servicemen</b>	<b>31,510</b>	<b>22</b>	<b>0</b>	<b>31,488</b>	<b>14</b>	<b>31,502</b>	<b>31,817</b>		<b>31,817</b>	<b>0</b>	<b>0.00%</b>
<b>International Mail</b>	<b>1,218,170</b>	<b>1,070</b>	<b>0</b>	<b>1,218,001</b>	<b>00</b>	<b>1,215,181</b>	<b>1,227,333</b>		<b>1,227,333</b>	<b>1,025,000</b>	<b>132.45%</b>
<b>Volume Variable</b>	<b>33,002,207</b>	<b>95,918</b>	<b>100,000</b>	<b>33,000,777</b>	<b>-140,221</b>	<b>32,847,556</b>	<b>33,277,052</b>		<b>33,277,375</b>	<b>87,903,345</b>	<b>-</b>
<b>Other</b>	<b>20,301,190</b>	<b>14,400</b>	<b>0</b>	<b>20,286,990</b>	<b>173,134</b>	<b>20,420,030</b>	<b>20,704,320</b>	<b>0</b>	<b>20,704,320</b>	<b>0</b>	<b>0</b>
<b>Total Costs</b>	<b>80,383,473</b>	<b>100,000</b>	<b>100,000</b>	<b>80,383,473</b>	<b>23,813</b>	<b>80,387,286</b>	<b>80,941,200</b>		<b>80,970,963</b>	<b>87,303,345</b>	<b>-</b>

1/ USPS-T10 WP-F 3/ Distribute Other Programs to Priority  
2/ USPS-T10, WP-D pp 516-518 4/ USPS-T-15, Appendix C: Manufacturing route to special services

5/ USPS Exhibit-30A (rev. 8/22/97)

	(1) Test Year 98 After Rates Before Final Adj	(2) Domestic Adj	(3) Priority Dist. Roy Final Adj	(4) Receipts Amount Column: (1) - (2) + (3)	(5) Total Final Adj	(6) Test Year 98 Adjusted Costs Including Final Adj col(4)-col(3)	(7) Test Year 98 Adjusted Costs w/ Final Adj & Conting. col(6) * 1.01	(8) USPS & Stamped Card Adj	(9) Test Year 98 Adjusted Costs At Adj. VW Conting. col(7)-col(8)	(10) Test Year 98 Revenue After Rates	(11) Percent of Costs col(10)/col(9)
<b>First-Class Mail</b>											
Letters & Parcels	12,492,490	25,490	0	12,466,999	193,373	12,632,341	12,750,004		12,750,004	22,149,790	173.00%
Presort Lit & Pbl	4,017,041	14,007	0	4,002,834	4,400	4,007,014	4,047,004		4,047,004	11,400,010	283.32%
Single Piece Cards	432,500	449	0	432,141	300	432,521	436,040	-4,000	432,201	901,012	152.92%
Presort First P Co	150,487	95	0	150,372	100	150,530	150,123		150,123	427,007	267.37%
<b>Total First</b>	<b>17,100,504</b>	<b>40,040</b>	<b>0</b>	<b>17,060,419</b>	<b>170,300</b>	<b>17,230,414</b>	<b>17,402,710</b>		<b>17,300,133</b>	<b>34,703,740</b>	<b>190.47%</b>
<b>Priority Mail</b>	<b>2,007,505</b>	<b>20,077</b>	<b>100,000</b>	<b>2,126,510</b>	<b>193,361</b>	<b>2,343,770</b>	<b>2,360,217</b>		<b>2,360,217</b>	<b>4,352,003</b>	<b>182.87%</b>
<b>Express Mail</b>	<b>413,970</b>	<b>2,004</b>	<b>0</b>	<b>416,908</b>	<b>-4,407</b>	<b>408,499</b>	<b>410,504</b>		<b>410,504</b>	<b>941,217</b>	<b>204.00%</b>
<b>Mailgrams</b>	<b>502</b>	<b>0</b>	<b>0</b>	<b>502</b>	<b>1</b>	<b>503</b>	<b>500</b>		<b>500</b>	<b>4,070</b>	<b>920.42%</b>
<b>Periodicals:</b>											
In County	80,434	0	0	80,434	130	80,554	81,300		81,300	93,005	102.63%
Outside County											
Reg Rate Pub	1,502,302	1,000	0	1,501,300	1,100	1,502,300	1,577,000		1,577,000	1,000,045	107.04%
Nonprofit Pub	326,112	251	0	327,061	320	326,100	331,471		331,471	347,031	103.37%
Classroom Pub	12,027	0	0	12,027	10	12,020	12,755		12,755	10,540	82.63%
<b>Total Periodicals</b>	<b>1,903,305</b>	<b>1,251</b>	<b>0</b>	<b>1,899,010</b>	<b>1,620</b>	<b>1,903,030</b>	<b>2,003,474</b>		<b>2,003,474</b>	<b>2,125,701</b>	<b>106.10%</b>
<b>Standard Mail A:</b>											
Single Piece Rate	221,000	205	0	221,001	-221,000	-205	-200		-200	0	0.00%
Commercial											
Enhanced Car Reads	1,004,072	133	0	1,004,030	-20,257	1,000,502	1,005,340		1,005,340	4,204,000	220.30%
Regular	8,301,640	1,250	0	8,300,100	-210,013	8,140,271	8,161,074		8,161,074	8,072,045	96.43%
<b>Total Commercial</b>	<b>7,254,612</b>	<b>1,300</b>	<b>0</b>	<b>7,255,073</b>	<b>-240,170</b>	<b>7,000,053</b>	<b>7,076,022</b>		<b>7,076,022</b>	<b>12,320,040</b>	<b>174.17%</b>
Nonprofit											
Enhanced Car Reads	120,010	1	0	120,014	-4,132	123,002	125,121		125,121	201,400	160.97%
Regular	1,121,232	405	0	1,120,767	-24,023	1,090,144	1,107,105		1,107,105	1,231,433	122.07%
<b>Total Nonprofit</b>	<b>1,240,242</b>	<b>406</b>	<b>0</b>	<b>1,240,701</b>	<b>-20,795</b>	<b>1,210,020</b>	<b>1,233,226</b>		<b>1,233,226</b>	<b>1,953,041</b>	<b>126.02%</b>
<b>Total Standard Mail A:</b>	<b>8,727,045</b>	<b>2,150</b>	<b>0</b>	<b>8,725,405</b>	<b>-460,911</b>	<b>8,220,504</b>	<b>8,300,050</b>		<b>8,300,050</b>	<b>13,070,000</b>	<b>107.04%</b>
<b>Standard Mail B:</b>											
Parcel Post	730,070	7,742	0	731,130	14,732	745,000	753,327		753,327	702,010	101.03%
Bound First Matter	320,003	104	0	320,020	13,030	342,507	340,013		340,013	534,000	101.02%
Spec Alt. Cl. Rate	254,053	53	0	254,000	-903	254,317	250,000		250,000	352,330	137.17%
Library Rate	40,000	20	0	40,000	30	40,000	40,000		40,000	52,427	100.01%
<b>Total Standard Mail B:</b>	<b>1,371,000</b>	<b>7,875</b>	<b>0</b>	<b>1,363,534</b>	<b>27,037</b>	<b>1,391,371</b>	<b>1,405,205</b>		<b>1,405,205</b>	<b>1,712,201</b>	<b>121.05%</b>
<b>U S Postal Service</b>	<b>173,330</b>	<b>404</b>	<b>0</b>	<b>172,920</b>	<b>-172,920</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>Free Mail-Bind &amp; Media &amp; Servicemen</b>	<b>31,451</b>	<b>22</b>	<b>0</b>	<b>31,429</b>	<b>14</b>	<b>31,443</b>	<b>31,757</b>		<b>31,757</b>	<b>0</b>	<b>0.00%</b>
<b>International Mail</b>	<b>1,103,070</b>	<b>1,077</b>	<b>0</b>	<b>1,103,000</b>	<b>00</b>	<b>1,104,000</b>	<b>1,200,030</b>		<b>1,200,030</b>	<b>1,043,044</b>	<b>130.30%</b>
<b>Volume Variable</b>	<b>33,004,007</b>	<b>95,273</b>	<b>100,000</b>	<b>33,079,334</b>	<b>-371,014</b>	<b>32,700,330</b>	<b>33,035,403</b>		<b>33,035,410</b>	<b>30,202,120</b>	<b>-</b>
<b>Other</b>	<b>20,300,000</b>	<b>14,727</b>	<b>0</b>	<b>20,300,101</b>	<b>173,020</b>	<b>20,410,007</b>	<b>20,003,270</b>	<b>0</b>	<b>20,003,270</b>	<b>0</b>	<b>0</b>
<b>Total Costs</b>	<b>90,325,495</b>	<b>100,000</b>	<b>100,000</b>	<b>90,325,495</b>	<b>-100,000</b>	<b>90,137,407</b>	<b>90,710,001</b>		<b>90,714,000</b>	<b>90,203,120</b>	<b>-</b>

W USPS-T15 WP-1 pp1-2  
Z USPS-T15, WP-P ps 515-516  
3 Distribute Other Programs to Priority  
4 USPS-T-15, Appendix D: Manufacturing costs to special services

5 USPS Estab-30A (rev. 9/22/97)

Response of United States Postal Service Witness Patelunas  
to Interrogatories of  
United Parcel Service  
(Redirected from Witness Sharkey USPS-T-33)

7297

UPS/USPS-T33-58

Please provide that portion of the total price to be paid by the postal Service under the PMPC contract that relates to test year (FY 1998) operations for the PMPC network.

UPS/USPS-T33-58 Response:

Please see my response to UPS/USPS-T33-35, redirected from Witness Sharkey.

1           CHAIRMAN GLEIMAN: Mr. Patelunas, you provided an  
2 answer to Presiding Officer's Information Request Number 3,  
3 which was not designated by anyone else.

4           If you were orally asked Question 33 from that  
5 request today, would your answer be the same?

6           THE WITNESS: Yes, it would.

7           CHAIRMAN GLEIMAN: If that is the case then, I am  
8 going to provide two copies to the Reporter and ask that it  
9 be included in the designated written cross examination,  
10 accepted into evidence, and transcribed into the record at  
11 this point.

12                               [Response of Witness Pantelunas to  
13 Presiding Officer's Information  
14 Request Number 3, Question 33 was  
15 received into evidence and  
16 transcribed into the record.]

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Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.

7299

33. The printout of member name VBL2 (the mail volume cost effect) in USPS Library Reference H4 at 531 lists the equipment distribution key OCR, component no. 963, three different times in two component lists under control string "06." Also, the square foot and rental value OCR distribution key, component no. 913, receives no mail volume cost adjustment, unlike the other square foot, rental value, and equipment distribution keys.

Please explain why the component no. 963 is listed as receiving a mail volume cost effect three times in VBL2 and also please explain why the component no. 913 does not receive a mail volume cost adjustment.

33. Response:

Equipment distribution key OCR, component no. 963, should have been listed only once and the square foot and rental value OCR distribution key, component no. 913, should have received a mail volume effect in VBL 2.

1 CHAIRMAN GLEIMAN: Does any participant have  
2 additional written cross examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If there is none, then the  
5 following parties have indicated an interest in cross  
6 examining this witness: The American Business Press; The  
7 Direct Marketing Association; McGraw-Hill & Company for  
8 follow-up purposes; Nashua District et al.; and the Office  
9 of the Consumer Advocate.

10 Does any other party wish to cross examine the  
11 witness?

12 [No response.]

13 CHAIRMAN GLEIMAN: If there is no one else, then  
14 Mr. Feldman --

15 CROSS EXAMINATION

16 BY MR. FELDMAN:

17 Q Thank you, Mr. Chairman.

18 Mr. Patelunas, good afternoon. I am Steven  
19 Feldman, here representing the American Business Press.

20 The first question I am going to ask you is one  
21 which is of the nature of whether there may be a  
22 typographical error in your testimony so that we are clear  
23 on it.

24 If you will kindly turn to ABP/USPS-T-15-1, your  
25 response to Part A, in your initial answer, in your answer

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1 to ABP's question, you refer to Docket Number MC97-3.

2 Should that be MC97-2?

3 A Yes, it should.

4 Q Okay.

5 MR. FELDMAN: Mr. Chairman, this is simply a  
6 matter of I think a typographical error. It is on  
7 ABP/USPS-T-15-1, Part A, the third line up from the last  
8 line of his response states, "MC97-3" -- it should be  
9 "MC97-2".

10 BY MR. FELDMAN:

11 Q Mr. Patelunas, all of your responses to the nine  
12 interrogatories directed to you by ABP noted that the  
13 comparison that ABP made to 1994 or 1995 costs with cost for  
14 transportation of subsequent years were, to use your phrase,  
15 an "apples to oranges comparison".

16 For the record, could you summarize what you  
17 meant, since in various ways you raised a question about our  
18 comparisons in each and every response you made to our  
19 interrogatories.

20 A From base year '96 through test year '98 in this  
21 case the variabilities are different. You are basically  
22 talking about transportation costs.

23 Q Yes.

24 A They are different than what had happened in -- as  
25 it was presented in FY '95 and FY '94 because those two

1 years were taken from the Postal Service's CRA.

2 Q At the time though, the data presented in the CRA  
3 in 1994 and 1995 were in fact the official data presented in  
4 the CRA, were they not?

5 A Yes.

6 Q Your questioning of the 1994 and 1995 purchase  
7 transportation costs for periodicals cited by ABP in our  
8 interrogatories to you then is based upon a change in the  
9 method of calculating volume variable costs for purchase  
10 transportation that occurred subsequent to 1995?

11 A I am making that apples to oranges distinction  
12 that the comparison from base year '96 to any of the  
13 previous time periods, '94 and '95, is -- the differences  
14 are going to be greater because of the change in  
15 methodology.

16 I needed to point out that there was a change in  
17 methodology.

18 Q Understood. The change in methodology, just for  
19 the record, is based on Witness Bradley's formulations in  
20 this case?

21 A At least his, if there's not others. I think  
22 that's all there was in Segment 14.

23 Q And you refer to Docket MC97-2 as another case in  
24 which this change in methodology would justify your belief  
25 that our numbers were somewhat overstated prior to '96,

1 correct?

2 A That is part of it. I really can't remember the  
3 MC97-2. I don't know if all of the changes that were  
4 implemented in this case were implemented in that case, but  
5 that would be closer.

6 Q Were you a witness in MC97-2?

7 A I believe I was.

8 Q Okay. What was that case about -- generally  
9 speaking -- very generally?

10 A I think it went by the informal name, "The Parcels  
11 Case."

12 Q Okay. Is that case still going on?

13 A Not that I know of. I haven't gotten anymore  
14 discovery.

15 [Laughter.]

16 BY MR. FELDMAN:

17 Q Has anyone told you the case is over?

18 A I don't know that it is over or in limbo. I  
19 really don't know where it is.

20 Q Fair enough. You cite as the basis for your,  
21 again for your concerns that maybe the numbers ABP cites are  
22 off a library reference, PCR-23 in Docket Number MC97-2 and  
23 you refer to that in your Part A of ABP/USPS-T-15-1.

24 As a witness in MC97-2, do you know if Library  
25 Reference PCR-23 was ever introduced into evidence in that

1 case?

2 A I don't know.

3 Q Did you yourself ever review that library  
4 reference?

5 A I don't think so.

6 Q Okay. Could you move to ABP/USPS-T-15-3.

7 A Yes.

8 Q Essentially -- in Part A we asked you why you  
9 projected that purchase transportation cost for regular rate  
10 periodicals will increase 11.45 percent between 1996 and  
11 1998, as compared with a 14.8 percent increase shown for  
12 periodical transportation between 1995 and 1996.

13 Focusing on the word "why," was it the intent of  
14 your response that the answer to the question of why these  
15 costs are projected to increase between 11 and 12 percent  
16 are found in Attachment 1 to the response to 15.3?

17 A Yes.

18 Q And can you describe for the record and for the  
19 Commission in general what is this document that you refer  
20 to as Attachment 1? What is it supposed to be?

21 A That Attachment 1 summarizes the cost for  
22 periodical regular rate between base year '96 and test year  
23 '98 before rates.

24 The columns one through four are the different  
25 modes of transportation -- air, highway, rail and water.

1           Each one of the line items that you see is taken  
2     from the roll-forward.

3           CL is Cost Level; MV is Mail Volume; NV ~~in~~ *is*  
4     Non-Volume, et cetera.

5           I thought that if I were to point out in  
6     increments where the changes occurred then that would  
7     explain the "why."

8           Q     Well, we will proceed with your suggestion.

9           In line number 3 of Attachment 1, we have the  
10    letters CL, which you have just explained stand for Cost  
11    Level.

12           Does that mean that, for example, the first column  
13    is air costs. Does that mean that \$896,000 in addition were  
14    spent for periodical regular rate in one year -- in '96 over  
15    the previous year?

16           A     No, no, no. What that means, you start with the  
17    '96 base and multiply that by whatever the change factor is  
18    from Exhibit A, and the result of that is a cost level  
19    amount change of positive \$896,000 going from base year '96  
20    to FY '97.

21           Q     To FY '97 -- and that would be true, just in the  
22    interests of time, as we go across the page of cost levels,  
23    highway, rail, water, et cetera -- all of those using your  
24    appropriate factor would get us into FY '97?

25           A     Right. You go '96 to '97, '97 to '98.

1           Q     You did explain most of the symbols for the  
2 components of your roll-forward model on this attachment. i  
3 think you may have stopped at line 6.

4                     At line 7 there is a CR designation. That stands  
5 for?

6           A     Cost Reduction.

7           Q     And line 8-OP is?

8           A     Other Programs.

9           Q     Other programs total \$8,87,000 on this sheet,  
10 which subject to your confirmation, appears to be the  
11 highest amount of change in terms of dollars that exists for  
12 any of your categories.

13                    If you agree in fact that that is the case, that  
14 the \$8,87,000 are the greatest amount of absolute dollars  
15 shown on this '96 portion of the roll-forward model, can you  
16 explain why it is larger than items like cost reduction,  
17 cost level, mail volume, non-volume, et cetera?

18           A     Okay. First of all, the '96 you described is the  
19 '96 portion. This is really the development of the '97  
20 costs, so this is the '97 portion. Okay?

21           Q     Subject to your clarification, this is '97. Very  
22 good.

23           A     Your \$8 million is the largest category.

24           Q     Yes.

25           A     And all of those -- these are the result of



1 applying all of the factors that are found in my Exhibit A,  
2 which mostly derive from Library Reference H-12 and I apply  
3 those factors to the model.

4 Q Do you happen to recall what the other programs  
5 consist of?

6 A No, I don't. To me they are other programs. I  
7 don't develop them. I don't know exactly what's in them. I  
8 don't even know generally what's in there.

9 Q You don't know generally what's in a category that  
10 added more dollars to the roll-forward model than any other  
11 category?

12 A I don't know.

13 Q Do you have any thoughts on why in the model --  
14 and again correct me if I'm reading it wrong -- going from  
15 '96 to '97, line 3, cost levels, in total were adjusted  
16 upward \$7,442,000, whereas the -- on line 10, the 1997  
17 changes, the cost levels are only \$4,254,000? Do you know  
18 why there would be such a reduction in cost levels?

19 A Well, first, the '97 cost level is on line 3 and  
20 the '98 cost level is on line 12, but the difference between  
21 the two lines, I don't know why they're different.

22 Q So essentially what you're doing in this document  
23 and throughout your exhibits, which go year to year, is you  
24 are receiving data from the various costing systems of the  
25 Postal Service and placing them into the appropriate cost

1 segments, and then using your roll-forward model projecting  
2 those costs forward to the test year.

3 A I don't even put them into the proper cost  
4 segments. They're given to me at a component or a segment  
5 level to be applied in the roll-forward.

6 Q Again, we're on Attachment 1, the highway category  
7 of purchased transportation for periodical regular rate is  
8 in column 7. In line 3 of column 7 the cost level is shown  
9 to have a positive percentage of 19.59 percent. Can you  
10 explain, is that an increase of 19.59 percent over the --  
11 from '96 to '97? Is that what that represents? And if it  
12 doesn't, please feel free to accurately represent what it  
13 stands for.

14 Line 3 cost levels --

15 A Yes, I follow you.

16 Q Yes.

17 A The reason that I need to grimace over that is  
18 that what I was trying to show here is the total change  
19 broken out into its constituent parts, and the -- that  
20 should be 19 percent of the total change in periodical  
21 regular rate was the result of that cell.

22 Q Okay. And then going down to line 10, column 7,  
23 highway, it's shown as -- you have a number 56.64 percent.  
24 That is a sum of all the various roll-forward factors like  
25 cost level, mail volume, non-volume, et cetera? Is that

1     what that stands for?

2           A     Right, going down that column, right.

3           Q     Okay. And, just as you explained what the 19.59  
4     percent was in terms of the total changes going on for  
5     periodical regular rate, would you mind just applying that  
6     to the 56.64 percent? That's 56.64 percent of what?

7           A     I made the comment about grimacing before. See,  
8     the -- I -- drrrr -- I'm not sure that this bottom cell here  
9     is absolutely correct. See, if I was going to break up the  
10    total change into its constituent parts, it shouldn't come  
11    out to 171 percent. That one should come back to 100  
12    percent. There may be a flaw in that attachment.

13          Q     I'm going to ask a two-part question. One is --

14          A     Okay.

15          Q     Would you --

16          A     Would I check that?

17          Q     Would you kindly check it?

18          A     Sure.

19          Q     And we appreciate it.

20          A     Yes.

21          Q     Secondly, subject to check and with whatever  
22    number you are comfortable with after appropriate review,  
23    what does the number in line 10, column 7, highway, stand  
24    for, whatever that number may be?

25          A     Okay. Whatever that number may be should be the

1 total highway dollars change divided by the total change.  
2 It should show the change from '96 to '97 for all of  
3 transportation, the highway portion of that just going from  
4 '96 to '97.

5 Q All right. Thank you, Mr. Patelunas. We'll leave  
6 the chart and look forward to receiving whatever  
7 supplementary information you have on that datum.

8 Mr. Chairman, may I request that counsel and the  
9 Postal Service look into this and supply us with a  
10 correction, if needed?

11 CHAIRMAN GLEIMAN: I think that the indication was  
12 that they would do that.

13 MS. DUCHEK: Yes, we will.

14 MR. FELDMAN: Thank you very much.

15 BY MR. FELDMAN:

16 Q Turning to ABP-T-15-8, part C asks you to explain  
17 increases -- and I'm using the word "increases" only because  
18 there was an initial disagreement about how much the  
19 increases were -- but explain the increases in purchased  
20 highway transportation costs as compared with increases  
21 shown for other modes of transportation for the same  
22 1994-1996 period.

23 Part of your answer was that costs in highway  
24 increased faster than costs in air, rail, and water, one,  
25 because spending on highway contracts increased faster than

1 spending in air, rail and water. And you had a two-part  
2 response. Just on that part, do you know why spending on  
3 highway contracts increased faster than spending in air,  
4 rail, and water?

5 A No, I don't.

6 Q Okay. Going on to part 2, the other explanation  
7 was that volume variabilities for highway transportation are  
8 approximately 14 percent higher in base year 1996 than they  
9 were in prior years. That I take it is due to the same  
10 adjustment that you referred to earlier that was made in  
11 MC-97-2 and that continues to be reflected in the work of  
12 Dr. Bradley, in this case.

13 A The items referred to in the response to T-15-1.

14 Q Okay. Fine. And then there's a third part of  
15 your response where you state that a higher proportion of  
16 cubic feet in the case of intra-SCF and cubic-foot miles in  
17 the cases of inter-SCF and inter-BMC were observed in TRACS  
18 highway tests. When you say a higher proportion of cubic  
19 feet, I assume you're referring to cubic feet of  
20 periodicals.

21 A The interrogatory is on periodicals; yes. It must  
22 be that; yes.

23 Q Okay.

24 A Okay.

25 Q As to part 3, it states that this higher

1 proportion of cubic feet was observed in TRACS highway  
2 tests. Did you get that -- were you able to get that  
3 information by reviewing the TRACS data yourself, or did you  
4 consult with one of the people at USPS who is very familiar  
5 with TRACS?

6 A No, I was told that.

7 Q By someone that is familiar with TRACS?

8 A That's right.

9 MR. FELDMAN: We have no further questions. Thank  
10 you very much.

11 CHAIRMAN GLEIMAN: Direct Marketing?

12 Doesn't appear to be anyone here from Direct  
13 Marketing Association.

14 That brings us to Nashua-District-Seattle et al.

15 MR. OLSON: Thank you, Mr. Chairman.

16 BY MR. OLSON:

17 Q Mr. Patelunas, I'm William Olson representing  
18 *Nashua, District, Mystic, and*  
~~Nashua/District/Mystic in~~ Seattle, and I want to get into  
19 some questions that Mr. Sharkey and Mr. Tayman wanted me to  
20 ask you. I'm sure you're familiar with those, correct?

21 A Yes. I wrote them all down.

22 Q Okay. Let me start with one that isn't a follow  
23 up, just so I don't forget to ask it. In the roll-forward  
24 model to the test year, how are Eagle network costs handled?  
25 Are they handled separately or handled as part of commercial

1 air transportation?

2 A Commercial air transportation, whatever component  
3 they're in.

4 Q Are there separate factors applied to them as the  
5 Eagle network, or is it just simply however all commercial  
6 air is treated?

7 A All commercial air.

8 Q Okay. Let me begin with a question that I think  
9 Mr. Tayman thought you might be able to help me on having to  
10 do with library reference 12. I don't know if you have that  
11 with you. You probably don't.

12 A I have parts of it.

13 Q Okay. Well, it's probably in those parts.

14 A I thought it might be. Okay.

15 Q Page 100?

16 A Sounds vaguely familiar. Yes.

17 Q Okay. You are prepared.

18 At the fourth line from the bottom, do you see the  
19 line that says, terminal handling/priority redesign, and  
20 then \$10 million for Fiscal '97?

21 A Yes, I do.

22 Q Okay. Can you tell me what that is?

23 A I believe, in '97, it is terminal handling.

24 Q Does that -- as I understand it, the priority mail  
25 processing centers began to operate during Fiscal '97 in

1     that Miami, Jacksonville or Orlando and Newark went on line  
2     between August 30th and September 27th, or at least were  
3     scheduled to, of 1997. Would that -- do you think that \$10  
4     million would reflect the cost of those four facilities?

5           A     That I don't know.

6           Q     Okay. Do you know what terminal handling means?  
7     Do you think that's -- in other words, is that only for  
8     PMPCs?

9           A     I don't think it is right there. I think the  
10    reason for the slash -- and yes, you did discuss this with  
11    Mr. Tayman, and he had the same responses that I'm having  
12    right now -- I think terminal handling/priority redesign,  
13    the priority redesign is either -- is -- may be a portion of  
14    that that is not separated out. I'm not sure what it shows  
15    in '97.

16          Q     The other two times that the term priority  
17    redesign is on that same page, he said that that referred to  
18    PMPCs, the third line where it says excise tax '97, priority  
19    mail redesign, '98, that that meant PMPC network, and also  
20    down at the bottom there, where it says priority redesign.  
21    But here, you think it might not be the whole of the \$10  
22    million, might not be the priority mail redesign?

23          A     There was something called priority redesign, and  
24    then there was something called PMPC.

25          Q     Well, here --



1           A     This may very well be the remnant of an old title.  
2     This is a -- I'm really just trying to work back and think  
3     what's in here.

4           Q     Right. But the next line, where 100 million is  
5     added in for 143, component 143, which is highway  
6     transportation, that's the PMPCs, correct?

7           A     That is, yes.

8           Q     Okay. All right. Well, if you don't know, I'm  
9     not going to belabor it, but let me ask you if you know --  
10    do you happen to have page 101 with you, that same library  
11    reference?

12          A     It doesn't look like I have 101 with me.

13          Q     Well, I'll tell you what it says in just one of  
14    the lines. It has component 187 in cost segment 16 which --

15          A     I think I'm going to get page 101.

16          Q     Okay.

17          A     Thank you. Component 187.

18          Q     Uh-huh. And Witness Tayman said that's where the  
19    costs of the Emery contract would be if they're not in 143  
20    and 144. Is that your understanding?

21          A     That's my understanding, yes.

22          Q     Okay. So the 38 million there in Fiscal '97 and  
23    the 4.7 million in Fiscal '98 would reflect the Emery  
24    contract to the best of your knowledge?

25          A     It would be in there. I don't know if that is

1 solely the Emery contract.

2 Q Okay. Let me ask you -- that's all on that.

3 A Okay.

4 Q I don't mean to make you stand there.

5 Do you -- based on your responses to prior cross  
6 examination, I'm not sure that this is again the right  
7 question for you either, but since you talked about other  
8 programs and how that wasn't -- the detail of those was not  
9 your concern, but let me just ask you, do you have an  
10 understanding of the purpose of the priority mail processing  
11 centers and the desire to shift the transportation of  
12 priority mail from more expensive air to less expensive  
13 ground methods? Can you speak to that issue or is that  
14 beyond your expertise?

15 A Not really.

16 Q Okay. The reason that I ask that generally is  
17 that we're -- I'm trying to get at how the costs reflect the  
18 purposes of the plan which the Board of Governors had  
19 articulated and others in terms of reducing expensive air  
20 and using less expensive highway, and how that works out on  
21 the roll forward.

22 Do you have any guidance for me on that general  
23 topic or --

24 A Other than the questions that you've asked, there  
25 -- and I did mention in one of my responses that there is an

1     \$82 million reduction in air costs. It's not just the plus  
2     \$100 million.

3           Q     No, absolutely. And the -- let's just deal with  
4     first the plus \$100 million. That was a number Witness  
5     Tayman said he got from a priority mail program manager, I  
6     think he used the term, and it was an estimate before the  
7     contract was signed with Emery somewhere in the February to  
8     April time frame.

9           Do you know -- again, I hate to ask you -- if you  
10    don't know these, just say no and we'll move on, but do you  
11    know if that is for Emery to have their own dedicated  
12    network of planes or if that's simply also purchased  
13    commercial transportation?

14          A     I don't know.

15          Q     Irrespective of which it were, it would be in the  
16    same cost component, I take it? It would be in 144. I'm  
17    sorry.

18          A     If it was there, it's in 142.

19          Q     142.

20          A     If it's in highway, it's in 143, right.

21          Q     Right, 142. But it would be in the same component  
22    either way, if they bought the planes or if they simply used  
23    -- or leased the planes or if they used commercial air which  
24    -- similar to the way the Postal Service uses commercial air  
25    on a leased basis?

1           A     Presumably, yes.  Whatever the amounts are for  
2     air, our cost reduction or other programs will stay in air  
3     and highway will be in component 141.

4           Q     Okay.  And with the \$82 million offset that you  
5     described which was designed to capture savings from not  
6     using commercial air apart from the contract, but rather  
7     using air under the contract, whether it be commercial air  
8     or leased air, that \$82 million was designed to avoid  
9     over-counting of air costs for priority mail, correct?

10          A     Over-counting?

11          Q     Over-attribution?

12          A     I think the \$82 million was to reflect the  
13     estimate that \$82 million less would be spent on air  
14     transportation.

15          Q     Yes.  That still, though, is a net increase, is it  
16     not?  It's still a net increase of \$18 million?

17          A     Yes, it is.

18          Q     It's just out of one component and into another.  
19     Isn't that the point?

20          A     It didn't change components.  The net is within  
21     the same component.  The 100 minus the 82 to get to the net  
22     of 18 is still within -- all that happened within component  
23     142.  It's still within air.  That part of it that we're  
24     talking about -- remember, the other part, the other 100  
25     million that's in highway, that's a completely different

1 entity.

2 Q I guess I don't understand, then. I guess you  
3 could have reported it as simply a net increase of 18, but  
4 when you break it out and say 100 up and 82 down, it causes  
5 me to ask the following question: Is it not true that the  
6 82 million offset was due to savings due to priority mail  
7 redesign?

8 A Yes.

9 Q And the 100 million was due to the costs of  
10 priority mail redesign?

11 A I don't know if I can really define it like that,  
12 because really, when it's in the model like that, it has to  
13 -- all of the steps are spelled out and I have to report it  
14 as cost reductions. That's in Rule 54. But the cost  
15 reduction is, when you go from '96 to '97, what they're  
16 saying is it will -- I don't know if I want to categorize it  
17 as a -- I don't want to give the idea that there's \$82  
18 million coming out of the system somehow. It's not -- I'm  
19 trying to figure out a better way to explain it and I'm not  
20 doing a very good job of it.

21 Q Well, it's a hard concept. Normally when you  
22 think of a cost reduction, you think of that as being a  
23 reduction. But here --

24 A Yes.

25 Q -- is a cost reduction offset by a greater cost

1     increase.

2           A     That's true, and actually, they are all over the  
3     place. That's why they are defined between cost reduction  
4     and other programs.

5           Q     Okay. Let's go and talk about highway just for a  
6     second. There, there is another \$100 million added due to  
7     priority mail redesign, correct?

8           A     Right.

9           Q     And there is no offset in surface transportation,  
10    correct?

11          A     That's right.

12          Q     Okay. Do you know why that is?

13          A     No, I don't.

14          Q     Witness Tayman said something like, let me see if  
15    I can paraphrase him, that if the mail -- just because the  
16    mail isn't on the truck doesn't mean that the costs aren't  
17    incurred and the truck doesn't go. Do you recall that  
18    response?

19          A     I heard him say that.

20          Q     Does that -- do you want to adopt that answer?

21          A     Yes, I do.

22          Q     Okay. Does -- let me ask you this, though. Does  
23    the roll-forward model or any of your testimony or work  
24    papers in any way adjust for the fact that there is not  
25    going to be Priority Mail on those trucks? In other words,

1 do you redistribute costs to classes and subclasses of mail  
2 reflecting the fact that the Priority Mail is not going to  
3 be on those trucks?

4 A I don't do anything explicitly to segment 14. The  
5 development of the factors that were given to me for segment  
6 14 include the Priority Mail, and as my revised response to  
7 UPS I think it was showed that I didn't distribute those  
8 properly, but all of those PMPC savings or costs went to  
9 Priority Mail.

10 Q Well, that was the \$100 million increase which you  
11 had first allocated across classes of mail and then you said  
12 whoops, I should have given that all to Priority Mail;  
13 correct?

14 A That's right.

15 Q Okay. And you've done that.

16 A Yes.

17 Q But I'm now not looking at the \$100 million up but  
18 I'm looking at the absence of the \$82 million down or some  
19 other number down to parallel surface to air. In other  
20 words, with air you add \$100 million and you take out \$82  
21 million. Correct?

22 A Yes.

23 Q With highway you add \$100 million and take out  
24 nothing.

25 A I don't do anything explicitly for it.

1 Q Right.

2 A I have no reason to think that it's in there or  
3 out of there.

4 Q Right. And the best answer we have is Mr.  
5 Tayman's that the trucks run anyway, and I'm suggesting to  
6 you that if the trucks are running, the trucks aren't going  
7 to have any Priority Mail on it to the extent that those  
8 pieces, or at least it's going to have fewer pieces, and  
9 eventually in a future year the TRACS system or whatever  
10 method is used is going to be -- is going to pick that up  
11 and realize the distribution is all skewed, and unfairly  
12 hits Priority Mail.

13 I'm simply asking you, in the test year, did you  
14 adjust for that? Did you make any changes in distribution  
15 to indicate -- to adjust for the fact that there would be  
16 less Priority Mail on those trucks?

17 A No, I didn't.

18 Q Okay. In segment 16, component 187, there is  
19 somewhere between 100 and 105 million added for the Emery  
20 contract; correct?

21 A If that's what it is. If that's what was on that  
22 page from the library reference, that's --

23 Q Right. At one point it's listed as \$100,008,000,  
24 other programs, cost segment 16.

25 A In -- what's the title for it? I don't mean to be



1 asking you the question, I just want to make sure what I'm  
2 confirming here. If that's the library reference, page --  
3 is that 101? Is that what we're talking about?

4 Q Page 101?

5 A Where did you just pull that number from that you  
6 asked me about?

7 Q From -- well, I think it's a couple of different  
8 places, but I was working from your work papers F, which  
9 have to do with I thought cost segment 187. That was the  
10 source of the other programs increase in cost segment 16.

11 A Are we talking about the attachment that I  
12 provided in one of the responses?

13 Q No, no, no. Your work papers.

14 A Okay. I have F for transportation here. And now  
15 that I have F, what was the question?

16 Q Is there an increase in component 187 for Priority  
17 Mail?

18 A Let me back up. I have segment 14. I don't have  
19 segment 16 up here. I couldn't bring all my work papers.

20 Q Okay. No, I understand.

21 MS. DUCHEK: Mr. Olson, if you have the page  
22 there, you could show it to him. Maybe that would --

23 MR. OLSON: No, I understand. Just one second,  
24 please.

25 CHAIRMAN GLEIMAN: If it would facilitate things,

1 we might be able to come up with a set of your work papers.

2 MR. OLSON: No, actually, I'm getting a bit far  
3 afield from what I had intended to bother Mr. Patelunas with  
4 anyway today, so I may grant a reprieve to the witness and  
5 the Commission.

6 CHAIRMAN GLEIMAN: The Commission appreciates  
7 that. I don't know about the witness.

8 THE WITNESS: Oh, the witness appreciates it.

9 BY MR. OLSON:

10 Q Well, let me just ask you one question about that  
11 chart that you're now referring to, your attachment to --  
12 attachment 1 to NDMS/USPS-T-15-1. Do you have that?

13 A Yes, I do.

14 Q We were guessing with Mr. Tayman about the role  
15 indicators, and I take it from earlier cross today that 16  
16 CR is cost reduction and 17 OP is other programs; correct?

17 A That's right.

18 Q Okay. Just for fun, what are the other -- what  
19 are the other -- what are CLMV, NVAD --

20 A Cost level, mail volume, non-volume, additional  
21 workday --

22 Q AD is additional work-day?

23 A Yes, it is.

24 Q Okay. And is it accurate that in line 21 where a  
25 \$120 million increase in air for Priority Mail

1 transportation is shown that \$100 million of that is the  
2 PMPC effect?

3 A Yes, it is.

4 Q And of the second column, labeled highway, where  
5 there's a \$145 million increase, that \$100 million of that  
6 is the PMPC effect?

7 A Yes, it is.

8 Q Okay.

9 MR. OLSON: That's all I have, Mr. Chairman.

10 CHAIRMAN GLEIMAN: Mr. Richardson.

11 MR. RICHARDSON: Mr. Chairman, I do have several  
12 pages of questions, and it might be advisable to take a  
13 short break.

14 CHAIRMAN GLEIMAN: Thank you. Appreciate that. I  
15 was going to ask you.

16 Let's take 10, and we'll come back at 25 after the  
17 hour.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Mr. Richardson.

20 MR. RICHARDSON: Thank you, Mr. Chairman.

21 CROSS EXAMINATION

22 BY MR. RICHARDSON:

23 Q Mr. Patelunas, I would like to start off just  
24 briefly with your Exhibit 15-A, the roll-forward model  
25 factors. We just have a couple of questions relating to

1 your methodology.

2 We are unable to precisely replicate what we  
3 thought you had done and it's your Fiscal Year 1997  
4 roll-forward model factors.

5 The cost level percentages column as we understand  
6 it is multiplied by a number which you have received from  
7 Mr. Alexandrovich, is that correct for 1996, I believe?

8 A That's right.

9 Q For the most part we have been able to replicate  
10 the numbers that you have used. However, in a couple of  
11 instances it didn't pan out and we were just concerned that  
12 we were not using the correct methodology.

13 For instance, in cost segment 12, component number  
14 99 --

15 A Okay.

16 Q -- while the cost level percentage multiplier is  
17 .0062, we find that it doesn't work, that it works out to be  
18 .0057 on that particular line and we are not trying to  
19 nit-pick on the differential, but the differential seemed to  
20 be a little more than the normal rounding errors, and we  
21 just wanted to check with you to make sure it wasn't a  
22 methodology difference.

23 A It's not a methodology difference as far as I  
24 know, and I can't tell from this sheet what is in the model  
25 but I am pretty confident what is in the model was the

1 .0062.

2 Q And the same problem, although a smaller problem,  
3 mathematically smaller differential, arose with respect to  
4 cost segment two in that same column, the cost level,  
5 component number 252, and it doesn't match what you would  
6 think it should be and the differential is a little more  
7 than the rounding error.

8 They are small numbers but we just wanted to make  
9 sure that it wasn't a methodology question.

10 A It's not a methodology -- okay. It's not a  
11 methodology.

12 Q Could you provide for the record or take a look at  
13 that and check and indicate what happened in those two cases  
14 and any other place in that column where it may not coincide  
15 with the percentages?

16 A What is in the model is in Library Reference  
17 either 4 or 5, the listing of all my control <sup>strings</sup> ~~strengths~~ in  
18 the BEN files -- I think it's 4. I think it is in Library  
19 Reference 4.

20 That's everything that is in the model is in  
21 there, and what I was going to say earlier, the calculation  
22 you are coming up with, if it is dividing two numbers, there  
23 could be rounding going on.

24 THE REPORTER: The BEN files?

25 THE WITNESS: B-E-N 2 FACT, the BEN 2 FACT file,

1 yes.

2 BY MR. RICHARDSON:

3 Q Actually, it does work in component 99. It does  
4 work for several of the factors except for the elemental  
5 load column.

6 MR. RICHARDSON: We will take a look at that, at  
7 your library references but if the Chairman would indulge  
8 us, have an opportunity to ask Postal counsel to provide  
9 some information in the library reference is insufficient.

10 CHAIRMAN GLEIMAN: In the event that the library  
11 references that the witness indicated do not address the  
12 concern that you raised, then I would request that the  
13 Postal Service -- you will have to let us know and we'll  
14 have the Postal Service provide additional information as  
15 may be necessary and appropriate.

16 MR. RICHARDSON: Thank you, Mr. Chairman.

17 MS. DUCHEK: We'll do that. Thank you, Mr.  
18 Chairman.

19 BY MR. RICHARDSON:

20 Q Now Mr. Patelunas, I would like to ask you a  
21 series of questions really concerning post office boxes and  
22 refer you to OCA/USPS-T-24-60, Part B. You might get that  
23 in front of you, and another two responses, OCA T-15-9 and  
24 -10.

25 A Is that the one that was redirected, Mr.

1 Richardson? Were they originally redirected so we can  
2 follow you?

3 Q Yes, that's correct.

4 A From Lion.

5 Q From Lion.

6 A Thank you.

7 Q From Witness Lion.

8 MS. DUCHEK: I'm sorry, counsel, were you  
9 referring to T-24-60(B).

10 MR. RICHARDSON: Part B. B as in boy.

11 MS. DUCHEK: Could I ask a clarification for a  
12 minute. Did you designate that for the record? I don't  
13 believe it was on the list of interrogatory responses that  
14 were designated.

15 MR. RICHARDSON: I don't have the list of  
16 designations in front of me.

17 MS. DUCHEK: I believe the Reporter has it. I  
18 don't necessarily have a problem, Mr. Chairman, with counsel  
19 asking questions but they haven't been designated for the  
20 record. If Witness Patelunas testifies orally it is in the  
21 record.

22 CHAIRMAN GLEIMAN: Give me the number again. It  
23 was --

24 MS. DUCHEK: It was T-24-60(B).

25 CHAIRMAN GLEIMAN: T-24-60 --

1 MS. DUCHEK: B.

2 CHAIRMAN GLEIMAN: A through C and F were  
3 designated by OCA and they were redirected from Witness Lion  
4 according to this.

5 MS. DUCHEK: Okay, that's fine. I didn't recall  
6 that being on the list. Thank you.

7 CHAIRMAN GLEIMAN: I just was trying to catch the  
8 numbers to check it out.

9 BY MR. RICHARDSON:

10 Q Do you have that, Mr. Patelunas?

11 A Yes.

12 Q Now in your response to OCA/USPS-T-24-60, Part B,  
13 you refer to what are called PESSA costs -- PESSA.

14 Would you briefly describe PESSA costs?

15 A Oh, I believe I answered that in another response.

16 I can't find the response where I did describe  
17 that, but briefly the PESSA costs are volume variable costs  
18 that do not respond immediately in the test year. That is  
19 the usual definition of it.

20 Q Now in those interrogatories that I have  
21 mentioned, asked you to look at, you were asked about three  
22 categories of post office box costs -- space provision,  
23 space support and all other.

24 Witness Lion discusses these cost categories.

25 In your first paragraph of your response to



1 OCA/USPS-T-15-9, where you refer to some of your testimony  
2 in a previous docket, Docket Number MC96-3, Appendix B, you  
3 state your assumption about the behavior of certain costs if  
4 the number of post office boxes decreases, and that was that  
5 a decrease in the use of post office boxes would not produce  
6 a change during the test year in the space and rental  
7 related costs of post office boxes, because those costs  
8 would not respond immediately in the test year but some time  
9 after the test year.

10 Is that a fair summary of your assumption?

11 A Yes, it is.

12 Q And when you say space and rental-related costs,  
13 you're referring to space provision and space support  
14 categories of post office box costs; is that correct?

15 A I'm referring to what's in the model as space  
16 cost, generally space cost in segment 15 and supplies and  
17 services. The categories developed by Witness Lion take the  
18 results of the test-year costs and apply them into his  
19 categories.

20 Q And what is your assumption as to how space  
21 provision costs would behave between the base year and the  
22 test year? Which direction would they move?

23 A Well, all of the space provision costs in terms of  
24 the maintenance, the actual space, the rental costs, those  
25 total costs are calculated outside of the model, and in the

1 B report they are -- those PESSA costs are redistributed to  
2 the classes of mail. So there -- it's not as if there were  
3 space costs that were rolled forward as space costs by class  
4 of mail. They're rolled forward each year as other costs.  
5 And a portion of the other costs are redistributed in the B  
6 control strings in the B file.

7 Q And how would the space support costs behave  
8 between the base year and the test year as distinguished  
9 from the space provision costs?

10 A Well, I wanted to go back and make sure that when  
11 we're talking about space support and space provision and  
12 all other that we were talking about the same thing, and  
13 those definitions that you use are Witness Lion's  
14 definitions there, not my definitions.

15 The space support costs are maintenance costs and  
16 cleaning in segment 11, building in segment 15, some  
17 supplies and services in 16, and Postal Inspection Service  
18 in segment 18. Those are all PESSA costs.

19 Postal Inspection Service there's one oddball -- I  
20 believe that's it -- Postal Inspection Service is not a  
21 PESSA cost, because that's a salaries cost. The other ones  
22 you referred to are the rents, interest, and leasehold,  
23 those are space provision costs. Those are PESSA costs  
24 also.

25 Q Now if you'd refer to your response to

1 OCA/USPS-T-15-10, parts (b) and (c). In parts (b) and (c)  
2 you confirmed that the total of space support and space  
3 provision costs would change in the test year. Could you  
4 clarify your response to parts (b) and (c) given your  
5 assumption about space and rental-related costs in your  
6 testimony in the previous docket that I mentioned, MC96-3?

7 A Repeat the question?

8 Q Okay. In our interrogatory, the OCA T-15-10, you  
9 confirm total space support and space provision costs would  
10 change in the test year. Now would you clarify that in  
11 response to your assumptions about space and rental-related  
12 costs in your testimony in the previous docket I mentioned,  
13 MC96-3?

14 Well, I think in that testimony it appeared that  
15 you were suggesting that the space support and space  
16 provision costs would not change in the test year, but they  
17 would take a while for them to occur.

18 A And that is true, and that is true in this case.  
19 In 96-3 --

20 Q That's correct, MC96-3.

21 A What you saw in Appendix B was a change in  
22 delivery modes, mail not delivered to P.O. boxes but  
23 delivered on the street. That was the purpose of Appendix  
24 B. Appendix B did not -- was not intended to augment PESSA  
25 cost distribution. It was just to show the diversion, the

1 different cost of diversion from P.O. box delivery to street  
2 delivery.

3 Q Now I would like to focus on all other category of  
4 post office box costs. Witness Lion in his testimony at  
5 page 19 states that all other costs are primarily labor  
6 costs for window service and related supervisory and  
7 personnel costs.

8 Is it your understanding that there are no space  
9 or rental related costs in the All Other category of post  
10 office box costs?

11 A I can't be sure of Segments 18 and 20. I know  
12 there are PESSA costs in All Other. Whether there is  
13 something in his definition of -- I can't be positive of 18  
14 and 20.

15 I know that there are PESSA costs in there but I  
16 don't know if they are space support or space provision.

17 Q What is your assumption as to how All Other costs  
18 would behave between the base year and the test year?

19 A Keep in mind that I don't treat All Other costs as  
20 something different. I roll forward components and one of  
21 the classes, one of these services of the components is PO  
22 boxes. Witness Lion has taken by PO box total cost and  
23 divided those into space provision, space support, and All  
24 Other, so I just want to make it clear that I am not rolling  
25 forward All Other -- I am not rolling forward space

1 provision as if they were some sort of a grouping.

2 The treatment for all the cost segments, and you  
3 can see it in Attachment 1, my revised response to 24-25  
4 where I went through and detailed all the -- how these were  
5 broken up in the base year and test year before rates and  
6 after rates, and I pointed out where all of these numbers  
7 came from, and the treatment of each one of those can be  
8 found in my workpapers.

9 Q Would it be fair to say that with respect to All  
10 Other costs that you assume that All Other costs will change  
11 with a decrease in the use of post office boxes since these  
12 costs will respond immediately in the test year?

13 A To whatever extent they respond immediately if  
14 they get mail volume effect in the roll-forward.

15 Q Mr. Patelunas, through your counsel we submitted  
16 to you a OCA cross examination exhibit a couple of days ago.

17 Do you have that with you today?

18 A Yes, I do. If you have the clean copy -- because  
19 the one I had I crossed off, you faxed it over, and then  
20 called over and said the 253 was -- other than the fact that  
21 I have one that is written on, I have it.

22 Q I have one here for you.

23 A Okay.

24 MR. RICHARDSON: Mr. Chairman, I have marked for  
25 identification an OCA cross examination exhibit

1 XE-Patelunas-1, and may I distribute that?

2 CHAIRMAN GLEIMAN: Certainly.

3 MS. DUCHEK: Mr. Chairman, while counsel for OCA  
4 is doing that I just wanted to suggest that when we get the  
5 transcript perhaps we should check Mr. Patelunas's  
6 designations -- T-24-25, to which the cross examination  
7 exhibit refers, may have been included on the list of  
8 designations. I am not positive it was in the packet, so I  
9 would suggest that counsel for OCA -- my confusion is the  
10 same as it was for 60(B) -- check the packet. I might have  
11 missed a few things.

12 MR. RICHARDSON: We will check that, Mr. Chairman.

13 CHAIRMAN GLEIMAN: Thank you, Mr. Richardson.

14 MR. RICHARDSON: Mr. Chairman, I did provide two  
15 copies to the Reporter.

16 [Cross-Examination Exhibit No.

17 OCA-XE-Patelunas-1 was marked for  
18 identification.]

19 BY MR. RICHARDSON:

20 Q Mr. Patelunas, now that you have had an  
21 opportunity to review this page, do you agree that the  
22 figures shown for TYBR and TYAR, which are Test Year Before  
23 Rates and Test Year After Rates, costs and volumes are  
24 correct on this exhibit marked for identification?

25 A They are the All Other costs, yes.

1           As a matter of fact, they can be found on my  
2   Attachment 1 to OCA-T-24-25, Revised 9-19-97.

3           Q    And do you agree that the formula portrayed on  
4   this exhibit to compute volume variability for post office  
5   box All Other costs is the correct formula?

6           A    In terms of what it says here or in terms of  
7   general, that volume variability --

8           Q    Does it correctly compute volume variability for  
9   post office box All Other costs?

10          A    No.

11          Q    On this?

12          A    No, it doesn't.

13          Q    Could you please explain what you would view the  
14   correct formula to be?

15          A    I am not an expert on volume variability but if  
16   volume variability is a change in cost resulting from a  
17   change in volume, one can calculate such a result from a  
18   formula.

19          Q    And that is what this purports to do?

20          A    Purports to do, right. For this analysis to be  
21   valid, the first thing you would have to assume is that the  
22   only thing that is changing is mail volume, and going from  
23   before rates to after rates is not just a mail volume  
24   effect.

25                The work year mix adjustment between the before

1 rates and after rates is different.

2           Granted, these are small changes, but what it does  
3 is it changes the PO box costs in Segment 3 for window  
4 service, general office and clerical, training other, other  
5 admin, time and attendance, and it changes cost segment 6  
6 for in-office direct labor, so there are effects here beyond  
7 just the mail volume effect.

8           Also what's included in those numbers that you see  
9 are the PESSA costs, which as I've described, they don't get  
10 a mail volume effect, they get a redistribution after all of  
11 the roll-forward effects have been performed. A better  
12 comparison would be the non-PESSA costs. The non-PESSA  
13 costs can be found at my Work Paper WP-E, page 20, for  
14 before rates, and that's 83236, and at Work Paper WP-G, page  
15 20, for after rates, and that is 71139. Dividing the  
16 difference by the before rates amount yields a cost change  
17 of minus 14.5 percent.

18           And the next category on this page is the mail  
19 volumes that were shown -- that are shown come from Witness  
20 Lion. For this analysis to be proper it would have to use  
21 the volumes that are in the roll-forward because that's what  
22 gave rise to the costs that are shown in the roll-forward.  
23 If you look at my Exhibit 15-A, the before rates volumes are  
24 17,661,290. The after rates volume from the same source is  
25 15,009,805. Again, dividing the difference by the before



1 rates volumes yields a minus 14.5 volume change. At that  
2 point, if you wanted to look at a -- divide volumes by cost  
3 you get 1, which is precisely what the roll-forward does at  
4 the mail volume effect. It assumes a constant marginal  
5 cost, and therefore you get a change of 1.

6 Q With that calculation, then you would have a  
7 volume variability of 1, and that's the elasticity. Is that  
8 correct?

9 A I don't know if it's the elasticity or not.

10 Q By doing those calculations, you've helped me to  
11 avoid several questions, so we'll move right along here.

12 MR. RICHARDSON: Mr. Chairman, I have no further  
13 questions.

14 CHAIRMAN GLEIMAN: That brings us to followup.

15 CROSS EXAMINATION

16 BY MR. McKEEVER:

17 Q Hello, Mr. Patelunas.

18 A Hello, Mr. McKeever.

19 Q Mr. Patelunas, in the new Priority Mail Processing  
20 Center network, Priority Mail will still be transported by  
21 truck; is that right?

22 A I believe so.

23 Q In fact, Mr. Olson stated that one of the purposes  
24 of the network is to try to substitute ground transportation  
25 for air transportation. Is that correct?

1           A     And as I told Mr. Olson, I wasn't sure if that was  
2     what the goal of this was.

3           Q     Okay. Do you know if one of the goals is to  
4     improve Priority Mail service? You don't know.

5           A     Not to my knowledge. I shouldn't say not to my  
6     knowledge. I don't know.

7           Q     Right. Okay. Could you turn to page 98 of  
8     Library Reference 12, please? I think you do have that with  
9     you.

10          A     Yes, someplace here. Yes, I do.

11          Q     Now, if you go, oh, I don't know, maybe three  
12     quarters down the page, you will see an entry for priority  
13     redesign in the left-hand column. Do you see that?

14          A     For segment 16, component 187.

15          Q     Yes. And that shows, for 1998, a \$30 million  
16     reduction; is that correct?

17          A     I think what that's showing you on that library  
18     reference is the incremental. I think what that's doing is  
19     cancelling out the \$30 million from '97 so that it doesn't  
20     go into '98. I think this is showing you incremental. I  
21     don't think it's a decrease; I think it's wiping out the  
22     '97.

23          Q     Well, okay, with respect to comparing '97 and '98,  
24     there is a \$30 million decrease.

25          A     I still don't know if you can say that. I haven't

1 done this library reference, but I know that if it's  
2 incremental for '97 and it goes up \$30 million, you don't  
3 want that to roll forward, if you will.

4 Q Okay. Okay. What is cost segment 187 -- or,  
5 excuse me, I guess it's -- what is it?

6 A Segment 16.

7 Q Component 187 and cost segment 16. Do you know  
8 that offhand?

9 A I believe it's supplies and materials. It's an  
10 amalgam of a lot of things.

11 Q Okay.

12 A Off the top of my head, I can't give you the exact  
13 definition.

14 Q Okay. Now, the total PMPC contract has a total  
15 cost of some \$1.7 billion; is that correct?

16 A I don't know what the total cost is.

17 Q You don't have any idea?

18 A No, I don't.

19 Q Okay. Do you know that it's a little less than  
20 five years in duration?

21 A I don't know that.

22 Q Okay.

23 MR. McKEEVER: That's all I have, Mr. Chairman.

24 CHAIRMAN GLEIMAN: There don't appear to be any  
25 questions from the bench. That brings us to redirect.

1 Would you like some time with your witness?

2 MS. DUCHEK: Just about five minutes.

3 CHAIRMAN GLEIMAN: Certainly.

4 [Recess.]

5 CHAIRMAN GLEIMAN: Ms. Duchek?

6 MS. DUCHEK: We just have two questions, Mr.  
7 Chairman.

8 CHAIRMAN GLEIMAN: Certainly.

9 REDIRECT EXAMINATION

10 BY MS. DUCHEK:

11 Q Mr. Patelunas, in your discussion with Mr. Olson,  
12 at one point, you made a reference to highway costs being in  
13 component 141. Was that correct?

14 A No, it wasn't.

15 Q What is the correct component?

16 A Highway costs are in component 143.

17 Q In your discussion with Mr. McKeever, you talked  
18 about component 187, and you weren't exactly sure what that  
19 was, that is, component 187 and cost segment 16. What is  
20 the title of component 187?

21 A The title of component 187 is expedited supplies.

22 MS. DUCHEK: Thank you. I have no further  
23 questions.

24 CHAIRMAN GLEIMAN: Is there any recross?

25 If there's no recross, then, Mr. Patelunas, I want

1 to thank you for your appearance here today and for your  
2 contributions to our record, and unless you have something  
3 further you would like to offer us, you're excused.

4 THE WITNESS: Thank you.

5 [Witness excused.]

6 CHAIRMAN GLEIMAN: That concludes today's hearing.  
7 Further hearings to receive supplemental direct testimony of  
8 the Postal Service will be scheduled immediately following  
9 the Commission's resolution of pending motions which were  
10 certified by ruling number 49. Response to these motions, I  
11 would like to remind everyone, are due by Friday the 24th,  
12 and I expect the Commission to resolve these matters in  
13 fairly short order, certainly within a week.

14 Thank you all. Have a pleasant evening.

15 [Whereupon, at 4:00 p.m., the hearing was recessed  
16 sine die.]

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