

DOCKET SECTION



November 12, 1997

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POSTAL RATE COMMISSION
OFFICE OF THE CLERK

Hon. Edward J. Gleiman, Chairman
Postal Rate Commission
1333 H Street, NW
Washington, D.C. 20268-0001

Dear Chairman Gleiman:

This responds to your letter to me dated October 15, 1997, in which you requested the Postal Service to provide an additional witness in pending Docket No. R97-1. Referring to two Postal Inspection Service audit reports, you requested that the author of the reports or some other individual competent to answer questions about the audits be made available to testify. The audit reports themselves have been lodged with the Commission in Docket No. R97-1 as Library References H-220 (Mail Volume Measurement and Reporting Systems, December, 1996) and H-236 (Allied Work Hours, December, 1996).

The Postal Service believes that it would not be appropriate to require Postal Inspection Service personnel to appear as witnesses concerning internal audit reports in rate and classification proceedings before the Commission. The Postal Service is concerned that converting Inspection Service audit reports, in effect, into testimony in Commission proceedings could limit effectiveness of such reports as management tools.

We are nevertheless sensitive to the concerns that you expressed in your letter regarding comments in the two audit reports pertaining to data from the Management Operating Data System (MODS). Findings in the audit reports have raised questions about the reliability of MODS data, which are utilized in Postal Service costing testimony. In this regard, the reports have already been explored to some extent in discovery responses by Postal Service witnesses. You have determined, however, that the record would benefit "if the parties and the Commission could learn more about the quality of the MODS data and especially about the importance of the issues raised in these Inspection Service audit reports."

We believe that the purpose you suggest in requesting additional testimony can be met by providing a witness who can answer questions about the audits and who is also qualified to testify on the use of MODS data in the Postal Service's costing testimony. We are also prepared to provide a witness from postal operations who has responsibility for MODS and who could provide more information about that data system. Normally we might anticipate the need to provide additional testimony on MODS at the rebuttal stage, but we could provide the operations witness earlier, if you believe it advisable.

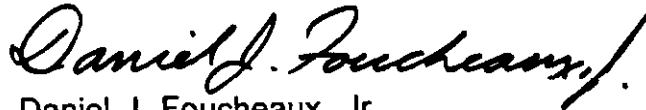
Regarding the testimony on the reports, you are undoubtedly aware from the record that the Postal Service's mail processing cost study is the result of work undertaken by a team of postal staff and consultants during a period spanning several years, both before and after the time when the audits were conducted. In fact, members of the study team became aware of the audit reports during their investigations. Before Docket No. R97-1 was filed, study team members initiated an inquiry into the audits to assess their significance for the mail processing cost study. This inquiry has continued up to the present. For example, with respect to the audit report on opening units (LR-H-236), they have had access to and reviewed the data that the audit considered, and the documentation describing the design and conduct of the audit. They have made an on-site visit to review the original workpapers and notes compiled by the Inspection Service, and have had detailed discussions with the Inspectors conducting the audits concerning their study plans and procedures.

In light of the specific focus on the audits by the mail processing cost study effort, we believe that a witness who can testify regarding those investigations would be qualified both to answer questions about the audits and to address the issues they raise in the context of consideration of MODS and the mail processing cost study. Since Christensen Associates conducted the inquiry into the audits and are also consultants involved in the cost study, we have determined that witness Degen would be best prepared to provide this testimony. In this regard, we emphasize that Mr. Degen is uniquely qualified to explain the relationship between the types of potential deficiencies noted in the audits, and the reliability of the data at the level of aggregation used in the rate case methodologies.

At this point, there appears to be a significant possibility that witness Degen might be called to reappear to testify regarding those portions of Library Reference LR-H-146 upon which witness Hatfield relies. He could also be prepared to explore the topics mentioned in your letter at that time. Alternatively, he could be scheduled to appear at another time. If you are inclined also to receive testimony on MODS from an operations witness before the rebuttal stage, we could schedule the appearance at an appropriate time. At present, we are considering the manager at Postal Service headquarters who has direct responsibility over MODS, and who also has considerable field experience with the system. Unlike Mr. Degen, however, this

witness would not be offered specifically to address either the audit reports or the mail processing cost study. Please advise us when we might address these scheduling questions.

Sincerely,

A handwritten signature in black ink that reads "Daniel J. Foucheaux, Jr." in a cursive script.

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

cc: Docket No. R97-1 Service List