DOCKET SECTION

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DEGEN TO INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION, INC.
(DMA/USPS–T12—13–14)

The United States Postal Service hereby provides responses of witness Degen to the following interrogatories of the Direct Marketing Association, Inc.: DMA/USPS–T12—13–14, filed on November 6, 1997. Each interrogatory is stated verbatim and is followed by the response.

Although the cover sheet accompanying these interrogatories claims that they relate to "supplemental" testimony, that is true in only the most trivial of senses. In fact, these are merely further interrogatories concerning the core subject of witness Degen's testimony (USPS-T-12), and are filed as relating to "supplemental" testimony under the most transparent of pretenses. Under the totality of circumstances involved, and given the content of these questions, it is easier to respond than engage in needless motions practice. However, as stated earlier at hearings (Tr. 12/6087-91), the Postal Service will strongly object to any attempt by parties who, despite having had full opportunity to cross-examine Mr. Degen on the types of matters addressed in these interrogatories, try to take another bite at the apple. DMA, for example, declined to conduct cross-examination on October 23 (Tr.

12/6646), and should not be allowed to conduct any additional cross-examination on these interrogatories or any related matters.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 13, 1997

Response of United States Postal Service Witness Degen
to Interrogatories of the Direct Marketing Association, Inc.

DMA/USPS-T12-13. Please refer to LR-H-146, Table I-1, which shows accrued costs by cost pool.

a. Please confirm that the IOCS tally costs for tallies within a mail processing cost pool are not always equal to the accrued cost for the cost pool.
b. Please provide, in an electronic spreadsheet format, the percentage difference between IOCS tally costs and accrued costs for each mail processing cost pool.
c. Could a cost difference of the magnitude indicated in your response to subpart (b) be due solely to IOCS sampling error? If so, what is the probability that a cost difference of this magnitude is due to IOCS sampling error?
d. Could a cost difference of the magnitude indicated in your response to subpart (b) be due solely to differences in salaries between individual clerks and mailhandlers? If so, please explain fully the likelihood that the cost difference is due solely to this reason.
e. Is there any other possible reason for the difference between IOCS tally costs and accrued costs within a cost pool? If so, please explain fully.
f. Assume: (1) clerks and mailhandlers sometimes work on one operation while clocked into another operation, and (2) IOCS data collectors sometimes record the MODS operation that the employee is performing rather than the MODS operation into which the employee is clocked. Could this situation result in a difference between IOCS tally costs within a cost pool and accrued costs in the same cost pool? If no, please explain.

DMA/USPS-T12-13 Response.

a. Confirmed. Please see Tr. 12/6496-7, Tr. 12/6527-8, and Tr. 12/6557-8 for further discussion.

b. The requested data will be filed as spreadsheet DMA-13b.xls, LR-H-304. For each of the cost pools, the spreadsheet also provides standard errors of the IOCS tally costs, which are employed in my response to part c of this question. Note that the LDC 15 cost pool has been excluded. The

vast majority of LDC 15 costs are booked at Remote Encoding Centers (RECs), but RECs are not sampled in IOCS, so the tally and cost pool costs do not measure the same quantity.

c. It is unlikely that the differences are due solely to sampling error. I would conclude that the difference could be due to sampling error alone if most or all of the cost pool costs were to fall within a reasonably-defined confidence interval around the corresponding IOCS tally costs. In spreadsheet DMA-13b, I have provided coefficients of variation with which this comparison can be made. The cost pool costs fall within the 95% confidence interval for the IOCS tally costs if the percentage difference (column 3) is less than the "1.96*CV" value (column 6) in absolute value. The cost pool costs fall within the 99% confidence interval for the IOCS tally costs if the percentage difference (column 3) is less than the "2.57*CV" value (column 7) in absolute value. The column 6 and/or 7 entries have been shaded for cost pools where the cost pool costs fall within the IOCS cost confidence interval.

Although several MODS cost pools fall within the confidence intervals, the majority of the MODS cost pool costs fall outside the 99% confidence intervals. The conclusion is that the differences between the cost pool costs and the corresponding IOCS tally costs are greater than can be attributed to IOCS sampling error. Note, however, that the total

MODS cost pool costs fall within the 95% confidence interval for the corresponding IOCS costs.

The BMC and Non-MODS cost pool costs are simply reweighted IOCS tally costs. The discrepancy between the BMC cost pool and tally costs is discussed at Tr. 12/6557-8. The difference between the BMC tally and cost pool costs is not statistically significant—the coefficients of variation are more than 10 times larger than the discrepancy. A difference between the BMC and Non-MODS costs is that the BMCs constitute a separate CAG for the purpose of the IOCS tally cost weighting process. Thus, total BMC clerk and mailhandler tally costs should sum to the total amount in the Trial Balance clerk and mailhandler compensation accounts for the BMC finance numbers. In the case of the Non-MODS office group, no such relationship holds, because a portion of CAG A-E costs are in Non-MODS offices and the remainder are in MODS offices. Thus, the total IOCS clerk and mailhandler tally costs for the Non-MODS office constitute an estimate of the corresponding Trial Balance costs. However, the Non-MODS cost pool cost falls outside the 99% confidence interval for the IOCS costs, so it is improbable that this difference is due solely to sampling error.

d. I do not believe that the differences between tally costs and cost pool costs are due solely to differences in salaries between individual clerks

and mailhandlers. My answer to part c of this question indicates that there are certain cost pools for which the difference could simply be the result of sampling error. However, I believe that differences in the implicit wage rates employed by the IOCS tally cost allocation system and the MODS-based cost pool formation system can explain much of the remaining differences.

Both the IOCS cost allocation system and the MODS-based cost pool system can accommodate variations in wage rates within mail processing to some extent. IOCS does this primarily by allocating costs to tallies separately for each craft (and CAG). In the case of mail processing, the craft categories are full-time clerks, part-time clerks, and mailhandlers. This approach recognizes that the average clerk wage is different from the average mailhandler wage. However, the IOCS cost weighting system does not account for variations in wage rates within crafts: an assumption built into the IOCS tally dollar weights is that all units of time for a given craft/CAG combination have the same cost. This is a limitation of the IOCS cost weighting mechanism since there are, indeed, within-craft variations in wage rates. The cost associated with a unit time for a full-time clerk at a CAG A office keying at an LSM or FSM (LDC 12) is higher than the cost associated with a full-time clerk at a CAG A office operating an OCR or BCS (LDC 11). (Clerks working

LDC 11 operations (BCS and OCR) are predominantly Level 4, while clerks working LDC 12 operations (LSM and FSM) are paid at the higher Level 6 rate.) In effect, the tally dollar values are too low for the LDC 12 tallies and too high for the LDC 11 tallies. The IOCS tally costs would therefore tend to underestimate costs for LDCs where craft wages are higher than average (e.g., LDC 12) and overestimate costs for LDCs where craft wages are lower than average (e.g., LDC 11). Note that the proportions of time within the operations are correctly measured, so that it is appropriate to use the IOCS tally costs to form cost pool-specific distribution keys, as in the new cost distribution methodology.

In contrast, the MODS-based cost pool system accounts for wage variations by LDC by design. This is because the MODS cost pool amounts are based on Pay Data System compensation totals by LDC. Since the craft mix of employees varies by LDC, the MODS-based system can accurately reflect differences in wage rates by craft. It also accounts for wage variations within craft, since such variations generally occur across LDCs.

e. Yes. If the MODS operation number recorded on the tally is associated with a different cost pool than the MODS operation number that the employee was actually working, a difference between the IOCS costs and accrued costs for the cost pools would result (other things equal). A

related issue is that a small fraction of the MODS tallies lack a valid MODS operation number. The "remap" section of program MOD1POOL attempts to predict the clocked-in MODS cost pool for such tallies based on the employee's recorded activity; there is the possibility of prediction error, but the small number of affected tallies indicates that this can only result in small differences (see Tr. 12/6272-4; 6391). Different computer programs are used in the BY 1996 cost pool formation and IOCS tally cost weighting processes; small numerical differences between these programs can result in differences between cost pool amounts and corresponding IOCS costs for the BMC and Non-MODS office groups (see the response to part c, above, and Tr. 12/6557-8).

f. Yes. See the response to part e, above.

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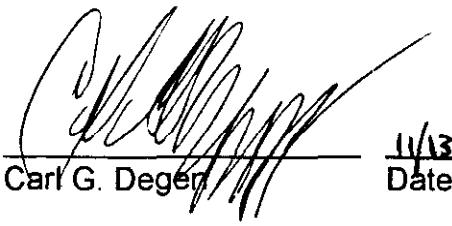
DMA/USPS-T12-14. Please refer to LR-H-146, page II-3, step 2, where you discuss the distribution of uncounted/empty single items. Please disaggregate uncounted/empty item unweighted tally counts, IOCS tally costs, and volume-variable costs by (1) item type, (2) cost pool, (3) whether the item is uncounted or empty. Please provide this information in an electronic spreadsheet format.

DMA/USPS-T12-14 Response.

The requested data will be filed as spreadsheet DMA-14.xls, LR-H-304.

I, Carl G. Degen, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

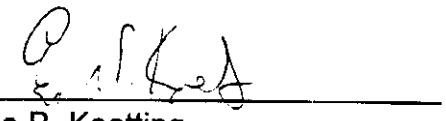


Carl G. Degen

11/13/97
Date

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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