

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-71 AND 74-78)

The United States Postal Service hereby provides responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-71 and 74-78, filed on September 16, 1997. These responses are provided pursuant to Presiding Officer's Ruling No. R97-1/61, issued November 13, 1997. Responses are not provided to OCA/USPS-72 and 73 as these interrogatories are the subject of the pending Motion of United States Postal Service for Partial Reconsideration of Presiding Officer's Ruling No. R97-1/61, filed on November 21, 1997.

In providing these responses, the Postal Service made a good faith effort to comply with Ruling No. R97-1/61, but recognizes that the OCA may have further questions arising from some of the responses. For example, the Postal Service had indicated in its motion for reconsideration that it would provide some hypothetical calculations illustrating the procedures needed to restore the 100 percent mail processing labor cost variability assumption. At least in some instances, this would seem to provide information that would be redundant. For example, part of the response to number 71 references where to plug certain numbers into witness Crum's Exhibit H. Showing a hypothetical calculation doing this seemed to be repeating the obvious. In the event the OCA has further questions or issues that remain unresolved, the Postal Service again offers to assist by means of an informal

technical conference, where it can walk through various calculations or explain portions of workpapers or exhibits that might clarify matters for the OCA.

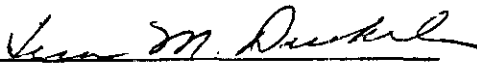
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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OCA/USPS-71. Please refer to MMA/USPS-T32-37b. This response lists the step necessary to compute the test year mail processing unit costs for bulk metered First-Class single-piece letters when mail processing costs are assumed to be 100 percent variable. Please provide an analogous list of necessary steps for each rate element for each of the rate design witnesses in this docket.

RESPONSE:

In the case of presorted First-Class Mail letters, witness Hatfield (USPS-T-25) has already provided a version of his results reflecting an assumption of 100 percent volume variable mail processing costs. This analysis can be found in Library Reference USPS LR-H-301. However, there is a methodological difference between the analysis presented in LR-H-301 and the one describe in response to MMA/USPS-T32-27b. The difference in methodology lies in the manner in which unit costs by shape (benchmark costs) are calculated. In the response to MMA/USPS-T32-27b, the methodology described assumes that the mail processing costs used to develop unit costs by shape are based on witness Degen's testimony. The costs presented in USPS LR-H-301 are based on a calculation of unit costs by shape using the Docket No. MC95-1 method (see USPS LR-MCR-10).

The steps necessary to reproduce witness Hatfield's cost estimates using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Incorporation of the new unit costs by shape into witness Hatfield's testimony,
- Replacing all volume variable productivity estimates used in witness Hatfield's testimony with average productivity estimates (productivity estimates assuming 100 percent volume variability), and

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- Replace all piggyback factors currently used in witness Hatfield's testimony with those reflecting 100 percent variability assumption.

The steps necessary to reproduce witness Miller's Prepaid Reply Mail (PRM) and Qualified Business Reply Mail (QBRM) cost study using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Revise the inputs to the models included in USPS-T-23, including the piggyback factors as described in step 4. The noncarrier route presort CRA adjustment factor created by witness Hatfield (USPS-T-25) would also have to be updated after the steps required to revise the First-Class presort letter models were completed.

The steps necessary to reproduce witness Daniel's Standard (A) letter cost estimates using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Incorporation of the new unit costs by shape for both Regular and Nonprofit into witness Daniel's testimony on page 2 of Exhibits USPS-29A and B, and
- Replacing all volume variable productivity estimates used in witness Daniel's testimony (page 43 of Appendices I and III and page 1 of Appendices II and IV) with average productivity estimates (productivity estimates assuming 100 percent volume variability).

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- Replacing all piggyback factors used in witness Daniel's testimony (page 42 of Appendices I and III) using the ones calculated in step 3 of MMA/USPS-T32-27b.

The steps necessary to reproduce witness Daniel's Standard (A) cost estimates for ECR letters and nonletters in Exhibit USPS-29D would include the following steps:

- Updating USPS LR-H-109 (now USPS-ST-44) according to the four steps listed in the response to MMA/USPS-T32-27b and replacing the figures at the bottom of pages 1-2 of Exhibit USPS-29D.
- Next, the average TY CRA Unit Cost for ECR and nonprofit ECR pieces computed in USPS LR-H-106 (now USPS-ST-45) would need to be recalculated using 100% volume variability assumptions and the figures in the middle of pages 1-2 of Exhibit USPS-29D would need to be replaced.
- Finally, the nontransportation unit cost avoidance per pound by entry point from USPS LR-H-111 (now USPS-ST-46) would need to be recalculated using 100% volume variability assumptions and the figures at the top of pages 3-4 of Exhibit USPS-29D would need to be replaced.

The steps necessary to reproduce witness Daniel's Standard (B) cost estimates for Parcel Post and Special Standard would include the four steps listed in that response in addition to the following:

- Incorporation of the new unit costs by shape for both Parcel Post and Special Standard into witness Daniel's testimony on page 2 of Exhibits USPS-29E and F.

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- Replacing all volume variable productivity estimates used in witness Daniel's testimony (page 15 of Appendix V and page 11 of Appendix VI) with average productivity estimates (productivity estimates assuming 100 percent volume variability).
- Replacing all piggyback factors used in witness Daniel's testimony (page 16 of Appendix V and page 12 of Appendix VI) using the ones calculated in step 3 of MMA/USPS-T32-27b.

The steps necessary to reproduce witness Crum's Destination BMC Mail Processing Cost Savings using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Entering the new results from LR-H-106 into Tables 1 and 2 of LR-H-144 and breaking those numbers down by the same proportions currently there.

The steps necessary to reproduce witness Crum's Bound Printed Matter Carrier Route Presort Cost Savings using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Changing 82 percent to 100 percent in line 4 of Exhibit H of USPS-T-28 and continuing the simple calculations through to the new results.

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The steps necessary to reproduce witness Crum's Standard Mail (A) Nonletter Cost Differences using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Adjusting the new results from LR-H-106 as described in the response to NDMS/USPS-T28-11.
- Entering these results on the line "3.1a Mail Processing Variable w/Pigbk" of Table 3 of Exhibit K of USPS-T-28 and continuing the simple calculations through to the new results.

The steps necessary to reproduce witness Crum's Standard Mail (B) Origin BMC, Destination SCF, Destination DDU, and BMC Presort Cost Savings using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Entering the updated numbers from USPS-T29, Appendix V (those updates are described in witness Daniel's section) into Exhibits D, F, G, and J of USPS-T-28 and following the calculations through.

The steps necessary to produce witness Seckar's cost estimates of flats mail processing costs using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

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- Replace all volume variable productivity estimates used in witness Seckar's testimony with average productivity estimates that reflect the assumed 100 percent variability,
- Replace all piggyback factors currently used in witness Seckar's testimony with those reflecting 100 percent variability (these result from item 3 in MMA/USPS-T-32-27(b) response), and
- Replace all unit costs by shape that are currently used in witness Seckar's testimony with those that reflect 100 percent variability (these result from item 4 in MMA/USPS-T-32-27(b) response).

The steps necessary to produce USPS Library Reference H-111, "Dropship Savings in Periodicals and Standard Mail (A)", using the methodology described in the response to MMA/USPS-T32-27b would include the four steps listed in that response in addition to the following:

- Replace all volume variable productivity estimates used in LR-H-111 with average productivity estimates that reflect the assumed 100 percent variability. The productivity estimates for Standard Mail (A) that reflect the assumed 100 percent variability are in the first column of Appendix E, Tables 5-7 and the productivity estimates for Periodicals mail that reflect the assumed 100 percent variability are in the first column of Appendix F, 1.0 and Appendix G, 1.0.
- Replace all piggyback factors currently used in LR-H-111 with those reflecting 100 percent variability.

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- Replace the Base Year Volume Variable Costs used in LR-H-111 with the Base Year Volume Variable Costs that reflect 100% volume variability for mail processing labor costs.
- Replace the Test Year Volume Variable Costs used in LR-H-111 with the Test Year Volume Variable Costs that reflect 100% volume variability.

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OCA/USPS-74. Please refer to the response to MMA/USPS-T32-37b. The third step to develop the requested unit cost is to "calculate piggyback factors as done in LR-H-77, using the Test Year from step 2."

- a. Please identify all modifications to LR-H-77 required to produce the piggyback factors.
- b. Please describe all changes needed to the LR-H-146 PIGGYF96 program to produce the piggyback factors needed under a 100 percent variability assumption.
- c. Please describe the relationship between the LR-H-146 PIGGYF96 program and LR-H-77 for the computation of piggyback factors. For example, are outputs from the PIGGYF96 program used in H-77?

Response:

- a. The results of step b, providing modified LR-H-146 data should be input as shown at LR-H-77, 216 to 219, which is sheet 2 of the spreadsheet COSTPLER.XLS. This will lead to a recalculation of pages 222 to 224, which is sheet 3 of COSTPLER.XLS. Totals by column are used as an input in calculating column 1 of page 194. Do this by copying the column results of sheet3 of COSTPLER.XLS to sheet 3, cell F113 using the Special Paste, Values, Transpose command. This links to the MPPGFY98.XLS spreadsheet on sheet E. Revise pages 197 and 198, which is MPPGFY98.XLS, sheet C for new base year and test year inputs. Rerun the piggyback factor program for test year mail processing piggyback factors shown at pages 41-61, and input the results at page 213, which is sheet M of MPPGFY98.XLS. Set the variabilities to 100 and input new test year costs from the revised rollforward on pages 208, 209 and 211, which is sheets I, J, and K of MPPGFY98.XLS. Input new test year costs from the revised rollforward on page 206, which is sheets G of MPPGFY98.XLS. This should provide revised piggyback factors corresponding to pages 192 and 193,

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which is on sheet A of MPPGFY98.XLS. Copy the piggyback factors from there back to COSTPLER.XLS, sheet4, D108 using the Special Paste, Values, Transpose command (this is on pages 227 to 229). Do this in portions, paying attention to differences in order of the source rows, and as compared to the columns in COSTPLER.XLS, sheet4. Also make sure cells AN13 to AN18 update in COSTPLER.XLS, sheet4. The final piggyback factors by cost pool are in COSTPLER.XLS, sheet4 columns AK, and AO, which is pages 231 to 233.

b. To produce the output of the LR-H-146 PIGGYF96 program under a 100 percent variability assumption, modify the statement towards the end of the program at line 05440040 from 'VCOSTS' to 'DOLLAR', i.e.

TABLES COSTPOOL*SPACECAT / NOPERCENT NOROW NOCOL MISSING;
WEIGHT VCONSTS;

should be changed to:

TABLES COSTPOOL*SPACECAT / NOPERCENT NOROW NOCOL MISSING;
WEIGHT DOLLAR;

c. Yes. See the answer to part a and also LR-H-77 at pages 191 and 215.

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OCA/USPS-75. Please refer to the response to MMA/USPS-T32-37b. The fourth step to develop the requested unit cost is to "Calculate the costs by shape (or benchmark costs) as requested by modifying LR-H-106 and LR-H-146, using inputs from all previous steps."

- a. Please identify the LR-H-146 SAS programs and specific lines of code that must be modified.
- b. Please identify by page number and line number all needed changes to LR-H-106.
- c. Please differentiate between the terms "costs by shape" and "benchmark costs" as used in the fourth step.

Response:

- a. To produce the output of the LR-H-146 MODSHAPE program under a 100 percent variability assumption, modify the statements of the program at line 01830000 and 0189000 from 'VCOSTS' to 'COSTS', i.e.

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TABLES COSTPOOL*MAILCLAS / NOPERCENT NOROW NOCOL MISSING;  
WEIGHT VCONSTS;
```

should be changed to:

```
TABLES COSTPOOL*MAILCLAS / NOPERCENT NOROW NOCOL MISSING;  
WEIGHT COSTS;
```

and

```
TABLES ACTV1*COSTPOOL/ NOPERCENT NOROW NOCOL MISSING;  
WEIGHT VCONSTS;
```

should be changed to:

```
TABLES ACTV1*COSTPOOL/ NOPERCENT NOROW NOCOL MISSING;  
WEIGHT COSTS;
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- b. Start by inputting the revised results from part a (LR-H-146) into pages II-1, II-7, III-1 and IV-1. The spreadsheet references are to CSTSHAPE.XLS pages "Letter," "FCM Cards," "FLATCST," and "PCLCST." Input new base year and test year inputs on pages II-7, II-9, VI-1, V1-2, VI-8 and VII-1. These are found at spreadsheet pages "FCM Cards," "Worksheet Adjustments," "Pigbkfctrs," and "PremPay." On "FCM Cards," the cells to modify are C68, C72, W27, and W28. On "PremPay" the rows to modify are 21 and 22. The reconciliation with test year costs is done as follows first for pages II-5, III-5 and IV-5 and second for page IV-7. First, go to the spreadsheet page "PremPay" and set each of the cells C25 to O25 to 1. Given that, copy row C19 to O19 using the Special Paste, Values command to row C25 to O25. Second, for page II-7, go to the spreadsheet page "FCM Cards," enter "1" in cell C74. Then copy I62 to L75 using the Special Paste, Values command. Then enter "=D74" in cell C74.
- c. They are synonymous.

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OCA/USPS-76. Please refer to the response to MMA/USPS-T32-37b. This response lists the "primary steps" necessary to compute the test year mail processing unit cost for bulk metered First-Class single-piece letters when mail processing costs are assumed to be 100% variable. Please list all other steps in addition to the "primary steps."

Response:

Please see the responses to OCA/USPS-71, 74 and 75.

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OCA/USPS-77. Please refer to USPS library reference H-196.

- a. When USPS library reference H-196 was prepared, did the Postal Service use the Commission's cost programs from MC96-3? If so, please explain what programs were used. If not, please explain the origin and name of the programs used by the Postal Service.
- b. Did the Postal Service prepare any documentation on how to run the Commission's cost model program? If not, please explain why not. If so, please provide a copy of all documentation prepared.
- c. Did the Postal Service conduct any programming analyses of the Commission's cost model programs? If so, please provide the results of all analyses conducted.
- d. Did the Postal Service encounter any logic errors in the Commission's cost model programs? If so, please explain what errors were encountered and how the Postal Service dealt with those errors.
- e. Please identify all problems encountered in replicating the Commission's costing methodology and explain how each problem was resolved.
- f. Did the Postal Service encounter any program results or output that were not internally consistent (for example) row and column totals not accurate? If so, please explain. If not, please indicate whether the Postal Service checked for consistency in program output.

OCA/USPS-77 Response:

- a. Yes, the programs from MC96-3 were used. The programs contained in the Commission's library references PRC-LR-4 and PRC-LR-5 were used.
- b. No, the Postal Service did not prepare any documentation on how to run the Commission's cost model programs because the documentation contained in the Commission's library references PRC-LR-4 and PRC-LR-5 from Docket No. MC96-3 was deemed adequate.
- c. Assuming that the term "programming analysis" means testing to determine if the programs execute properly, the response is yes to the extent that iterations were performed until the FY 1995 results from MC96-3 were replicated. Due to the press

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OCA/USPS-77 Response continued:

of the filing schedule, the Postal Service did not keep detailed notes on its replication of the Commission's model.

- d. Assuming that the term "logic errors" means that at the end of the program execution, either the statement "error" or "abend" occurred, no the Postal Service did not encounter any logic errors in the Commission's cost model programs.
- e. Due to the press of the filing schedule, the Postal Service did not keep detailed notes on its replication of the Commission's model. The process of replicating the Commission's model in terms of the Docket No. MC96-3 results was fairly straightforward because the inputs, programs and results were known from Commission library references PRC-LR-4 and PRC-LR-5.
- f. As stated in part e of this response, the Postal Service's intention was to replicate the Commission's cost model provided in PRC-LR-4 and PRC-LR-5 in Docket No. MC96-3. If, by using the Commission's inputs and programs, the Postal Service replicated the Commission's results, there was no need to check for consistency or accuracy. Anything other than that would not have been the Commission's costing model.

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OCA/USPS-78. The Notice of United States Postal Service Concerning Provision of Information Pursuant to Rule 54(a)(1), July 10, 1997 at 3, states:

In order to provide the cost model in PC SAS and C language, the Postal Service obtained PC SAS software, C language software, and a C language compiler. The Postal Service then performed several iterations, replicating the Commission's FY 1995 results from Docket No. MC96-3. These steps were required before the Postal Service could begin to develop the Commission's model to incorporate FY 1996 data. At present, the Postal Service is continuing to work on the interim and test year cost presentations which require that the model be modified to incorporate future developments not anticipated in the Commission's Docket No. MC96-3 model.

- a. Have copies of the Postal Service's PC SAS and C programs referenced above been provided by the Postal Service? If so, please identify the applicable library references. If not, please provide copies of all programs written as well as any supporting documentation.
- b. Please specifically identify each modification made to the Commission's model in order to incorporate the "future developments not anticipated in the Commission's Docket No. MC96-3 model."
- c. Please identify all problems encountered in preparing the interim and test year cost presentations and explain how the Postal Service dealt with each.

OCA/USPS-78 Response:

- a. Copies of all the programs used to produce the Commission version were provided in library references USPS-LR-H-196 and USPS-LR-H-215, either as originally filed or in the revisions.
- b. The "future developments not anticipated in the Commission's Docket No. MC96-3 model" are the differences arising from the changes in cost reduction programs, the changes in other programs and the incorporation of the volume mix adjustment in Fiscal Year 1997. In Section 1 of each of the Parts I, II and III of the Postal Service's Library Reference H-215 (original), the control strings are listed in the

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OCA/USPS-78 Response continued:

same format as presented by the Commission in its Docket No. MC96-3 PRC-LR-5. The modifications made to the Commission's model in order to incorporate the "future developments not anticipated in the Commission's Docket No. MC96-3 model" are as follows.

In the Commission's Docket No. MC96-3 model, the control strings shown on page 3 of PRC-LR-5, under the heading "***cost reductions***", at lines 14-41, are the programming instructions to properly include the Test Year 1996 cost reductions in the model. Cost reductions are generally specific to a year, for instance, many of the control strings listed in the Docket No. MC96-3 model are for the diversion of mail from Post Office Box delivery to street delivery. As such, each cost reduction program for FY 1997 in Docket No. R97-1 had to be individually included in the Commission's cost model. As such, those control strings at lines 14-41 of page 3 of PRC-LR-5 are entirely replaced by the control strings shown on the third page of Part I of USPS-LR-H-215 (original) under the heading "***cost reductions***". Likewise in Parts II and III of USPS-LR-H-215 (original), the control strings on the third page under the heading "***cost reductions***" are the replacement control strings for Test Year 1998 Before Rates (Part II) and Test Year 1998 After Rates (Part III).

Similarly, other programs are also developed individually for each year and thus, the control strings from the Docket No. MC96-3 model had to be modified. In the Docket No. MC96-3 model, PRC-LR-5 lists the other programs control strings under the "***other programs***" heading at: lines 43-54 on page 3, lines 1-54 on page 4 and lines 1-21 on page 5. As shown on the third page of Part I of USPS-LR-H-215 (original), the first 24 lines under the heading "***other programs***" replace the PRC-LR-5 lines listed

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OCA/USPS-78 Response continued:

above. Also, the last line in the same "***other programs**" section of USPS-LR-H-215 (original), has been added to the Commission's PRC-LR-5 cost model.

Library Reference USPS-LR-H-215 (original) also lists the other programs control string changes for Test Year 1998 Before Rates (Part II) and Test Year 1998 After Rates (Part III). The same lines of PRC-LR-5 that were replaced for FY 1997 are replaced by the first 33 lines on the third page of Section 1 under the heading "***other programs**". For the test year program, in addition to including the new last line, the following new lines are added: lines 46, 47, 62, 69 and 70.

Also, Section 10 of Part I of USPS-LR-H-215 (original) is completely new to incorporate the volume mix adjustment for FY 1997. This adjustment did not exist at the time of Docket No. MC96-1. The control strings for this are shown on the sixth page of Section 1 of Part I of USPS-LR-H-215 (original).

c. In addition to the modifications discussed in part b. of this response, the other problems encountered in preparing the interim and test year cost presentations were errors or omissions pointed out in Presiding Officer's Rulings No. R97-1/2 and R97-1/7. The Postal Service dealt with these problems by filing the first and second revisions to Library Reference USPS-LR-H-196 and the first revision to Library Reference USPS-LR-H-215. See the Presiding Officer's Rulings listed above and the cover sheet that accompanies each version of the library references for a description of the changes incorporated into the revisions. The inclusion of the base year changes in this discussion is because some of the base year changes needed to be rolled-forward to the interim and test years. For instance, the factor

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OCA/USPS-78 Response continued:

for powered transport equipment referred to in part (3) of both Presiding Officer's
Rulings must be incorporated into the ripple effect in both the interim and test years.

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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November 28, 1997