

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

ANSWERS OF UNITED PARCEL SERVICE WITNESS
STEPHEN E. SELICK TO INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION, INC.
(DMA/UPS-T2-1 through 5)

(January 30, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness Stephen E. Selick to interrogatories DMA/UPS-T2-1 through 5 of The Direct Marketing Association, Inc.

Respectfully submitted,



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THE DIRECT MARKETING ASSOCIATION, INC.**

DMA/UPS-T2-1. Please refer to your direct testimony (UPS-T-2) at pages 4 through 10, where you state that Postal Service witness Degen's approach to distributing mail processing costs to classes and subclasses is "an improvement over past practice" because "it links the distribution of mixed mail and 'overhead' (not handling mail) costs with the operational characteristics of mail processing." Please refer also to Tr. 12/6218, where witness Degen states that he is unaware of any studies that test the validity of three assumptions underlying his testimony. Please refer as well to Tr. 12/6658, line 22, through Tr. 12/6666, line 19, where witness Degen confirms several assumptions that underlie his distribution method for mail processing costs and admits that he did not test any of these assumptions: "If I knew a way to do it, I would [have] proposed it by now."

a. Please confirm that the assumptions which underlie an analysis are important. If not confirmed, please explain fully.

b. Please confirm that you have performed no statistical analysis to test the validity of any of the assumptions underlying witness Degen's cost distribution methodology. If not confirmed, please explain fully:

- i. which assumptions you tests;
- ii. your methodology for testing each assumption; and
- iii. the results of your analysis.

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Response to DMA/UPS-T2-1.

a. I am unable to confirm or not confirm. The importance of assumptions which underlie an analysis depends on the impact a change in the assumptions would have on the final results.

b. Confirmed.

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DMA/UPS-T2-2. Please refer to your direct testimony at page 10, line 3, through page 11, line 2, where you state that “mixed mail distributions now reflect actual data on the contents of items and containers.”

a. Please describe the “actual data” to which you are referring, including the types of items or containers to which such “data” relates.

b. Except through analogy to the subclass composition of direct items, please explain fully whether you have any specific data on the subclass composition of (i) mixed items or (ii) mixed containers. If so, please summarize and provide a copy such data.

Response to DMA/UPS-T2-2.

a. By “actual data” I am referring to the counted mixed mail item data, identical and top-piece rule items data, and identified container information collected by IOCS data collectors and provided by the Postal Service in Library Reference H-23. This data pertains to mixed mail items (including bundles, con-cons, pallets, sacks of various colors, flat trays, letter trays, and parcel trays) and identified containers including BMC-OTRs, ERMCS, GPC/APCs, hampers, nutting trucks, postal packs, u-carts, and wiretainers.

b. Specific data on the subclass composition of mixed items is available in the form of counted mixed mail items. While these are called “direct” items, they are

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nevertheless mixed mail items (neither identical nor subject to the top piece rule) for which the actual contents have been counted by the IOCS data collector. This data is provided by the Postal Service in Library Reference H-23. The subclass composition of identified mixed mail containers is established by "analogy" to direct items including counted mixed mail items and shapes of loose mail not in containers.

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DMA/UPS-T2-3. Please refer to page 9, lines 6 through 11, of your direct testimony where you quote a Foster Associates report as stating, “the present undifferentiated allocation of equipment handling costs as ‘overhead’ needs review because, with automation (and, for that matter, mechanization) as distinct from manual processing, some mail classes are apparently more dependent on containerization and related handling equipment than others.”

a. Is it your understanding that the Foster Associates report takes the position that overhead and equipment handling costs should, in general, be higher at automated and mechanized operations than at manual operations? If your answer is other than an unqualified “yes,” please explain fully.

b. Please provide a copy of the Foster Associate’s report Overhead and Subclass Cost Study, cited on page 9 of your direct testimony.

Response to DMA/UPS-T2-3.

a. The Foster Associates report referred to in my testimony reaches no conclusions with respect to the expected relative magnitude of overhead and equipment handling costs at automated, mechanized, or manual operations. While it repeats a number of “working hypotheses” (originally presented by the Postal Service) on this subject, the report does not reach any conclusions about them.

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The working hypotheses were originally presented by the Postal Service in response to intervenor allegations in Docket No. R90-1 that both overhead and subclass cost increases resulted from automation, and that those increases should not be attributed to second and third class mail as a result. In response to this hypothesis, the Foster Associates report notes that the list of working hypotheses “demonstrates that there are sufficiently many factors other than automation potentially affecting overhead and subclass costs that the intervenors’ proposed methods of attributing . . . cost increases are simplistic.”

b. This report was filed with the Commission as USPS-LR-MPC-4 in Docket No. RM92-2 and is available at the Commission library.

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DMA/UPS-T2-4. Please refer to your direct testimony at page 8, line 14, through page 9, line 2, concerning the distribution of “not handling mail” tally costs.

a. Please confirm that you have performed no quantitative analysis to determine whether the not handling costs in each of the 50 cost pools are caused by the mail being handled in each cost pool. If not confirmed, please summarize the results of your analysis and provide a copy of any report detailing your analysis.

b. Please assume that not handling activities within cost pools are not caused by the handling activities within these pools. Please explain whether, in this situation, not handling costs should be distributed within these cost pools.

Response to DMA/UPS-T2-4.

a. Confirmed.

b. Whether not handling costs in a cost pool should be distributed within the same cost pool in the hypothetical example you cite would depend on the other alternatives available. If, for example, the alternatives to distributing the not handling costs within the same cost pool would be to ignore other important factors, then the best method may be to distribute the not handling costs within the same cost pools.

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DMA/UPS-T2-5. Please refer to your direct testimony at page 12, note 12, where you state that “[p]ostal supervisors have a strong incentive for ensuring the accuracy of the workhours data, since different supervisors are responsible for different operations.”

a. Have you performed any quantitative analysis concerning the percentage of time postal mail processing employees are clocked into one operation but are performing another? If so, please summarize the results of your analysis and provide a copy of any report detailing your analysis.

b. Have you performed any quantitative analysis concerning whether “the MODS activity at the operation group level and the employee’s activity are consistent in the vast majority of cases”? (See Tr. 12/6154). If so, please summarize the results of your analysis and provide a copy of any report detailing your analysis.

c. Assume that you were developing a mail processing cost distribution system. Would you distribute mixed mail and not handling costs based upon the operation into which an employee is clocked or based upon the operation that the employee is actually performing? Please explain your reasoning fully.

Response to DMA/UPS-T2-5.

a. I have not performed any quantitative analysis concerning the percentage of time postal mail processing employees are clocked into one operation but are

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performing another. I have, however, reviewed Postal Service witness Degen's testimony on this point, which concludes in part that "the MODS activity at the operation group level and the employee's activity are consistent in the vast majority of cases" (DMA/USPS-T-12-3(b)).

b. I have not performed any such quantitative analysis. However, I note that after reviewing the Postal Service inspection reports which raised these questions, witness Degen stated that "we determined that the conclusions of the report did not detract from our use of MODS data in the costing system" (Tr. 18/8247).

c. If I were developing a mail processing cost distribution system de novo, or were to suggest changes to the current system, I would likely recommend distributing mixed mail and not handling costs based upon the operation in which an employee is actually performing work, as that would seem to more closely reflect actual mail processing practices. However, since I do not have the data in this format, I support Mr. Degen's approach. The improvements he proposes in this case are significant.

DECLARATION

I, Stephen E. Sellick, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.



Stephen E. Sellick

Dated: January ²⁹~~30~~, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.


Stephanie Richman

Dated: January 30, 1998
Philadelphia, PA