

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

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MAILING ONLINE SERVICE

Docket No. MC98-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SECKAR
TO QUESTIONS POSED AT THE HEARINGS ON NOVEMBER 18 AND 20, 1998

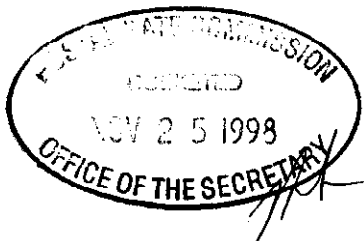
The United States Postal Service hereby provides the responses of witness Seckar to questions posed by Chairman Gleiman at the hearing on November 18, 1998, and by the Presiding Officer at the hearing on November 20, 1998. Each question is restated and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



David H. Rubin
David H. Rubin

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November 25, 1998

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
SECKAR TO QUESTION POSED BY CHAIRMAN GLEIMAN AT
THE HEARING ON NOVEMBER 18, 1998

Question (Tr. 5/1071-74)

What is it that was so unique and related only to Post Office Online in this contract change [Cross-Examination Exhibit PBX-1, tr. 5/1081] that it was such that you felt that the cost should not be borne at least in part by Mailing Online also. [Tr. 5/1074, lines 11-14]

Response:

The system developer contract (102590-97-B 1380) initially applied to the development of Mailing Online (NetPost at the time) when it was a stand-alone service being developed in Reston, Virginia. Modification No. 8 (Cross-Examination Exhibit PBX-1) provided funding for the contractor to do work at the PostOffice Online development site, San Mateo, California, once it was determined that Mailing Online would be part of PostOffice Online. As the Modification makes clear on its face, the additional funding relates to PostOffice Online development, rather than Mailing Online as a stand-alone service.

This modification enhances the general scope of CLIN 1006 and CLIN 1009 - Network Control and Access Services. Because of integration efforts for PostOffice OnLine, it is necessary to include San Mateo, CA as a contractor site for travel, management and development work. Network Control and Access Services must be managed at the San Mateo, CA ISSC to be positioned to support the overall effort for PostOffice OnLine.

Tr. 5/1081.

UPDATED RESPONSE OF POSTAL SERVICE WITNESS SECKAR TO QUESTION
POSED BY PRESIDING OFFICER LEBLANC AT THE HEARING
NOVEMBER 20, 1998

Question (Tr. 7/1733-34):

...I would like to know whether or not the Postal Service knows what the incremental costs of Mailing Online are.

Response:

The incremental costs provided in my original response have changed as a result of the Mailing Online information technology costs put forth by witness Lim, USPS-ST-9.

Based on these, the Mailing Online incremental cost for the experiment is \$205,813,149. Specifically, the incremental cost for the first year of the experiment, 1999, is \$76,088,663 and the incremental cost for the second year of the experiment, 2000, is \$129,724,487. These incremental costs include both the one time information technology costs needed to start the experiment and the variable information technology costs for each experimental year. While these two types of costs were originally discussed in my response to PB/USPS-T2-2, it is important to note the following. While the one time costs are fixed within the scope of the experiment, they may not be fixed beyond the experimental period. Additionally, my original response used the term ongoing (variable) information systems cost. Until empirical evidence can be collected and analyzed, the exact degree to which these costs are variable is unknown. For the time being, it is assumed that the ongoing costs are variable. They are thus referred to as variable in USPS-ST-9 and this updated response. For the basis and detailed breakdown of the estimates, please refer to Worksheets 1, 2, and 3 attached to this updated response.

Revised February 4, 1999

UPDATED RESPONSE OF POSTAL SERVICE WITNESS SECKAR TO
QUESTION POSED BY PRESIDING OFFICER LEBLANC AT THE HEARING
ON NOVEMBER 20, 1998

Question (Tr. 7/1733-34):

The Presiding Officer requested an update of the incremental costs of Mailing Online.

Updated Response:

The incremental costs provided in my original response have changed as a result of the Mailing Online information technology costs put forth by witness Lim, USPS-ST-9. Based on these, the Mailing Online incremental cost for the experiment is \$205,764,845. Specifically, the incremental cost for the first year of the experiment, 1999, is \$76,072,442 and the incremental cost for the second year of the experiment, 2000, is \$129,692,403. These incremental costs include both the one time information technology costs needed to start the experiment and the variable information technology costs for each experimental year. While these two types of costs were originally discussed in my response to PB/USPS-T2-2, it is important to note the following. While the one time costs are fixed within the scope of the experiment, they may not be fixed beyond the experimental period. Additionally, my original response used the term ongoing (variable) information systems cost. Until empirical evidence can be collected and analyzed, the exact degree to which these costs are variable is unknown. For the time being, it is assumed that the ongoing costs are variable. They are thus referred to as variable in USPS-ST-9 and this updated response. For the basis and detailed breakdown of the estimates, please refer to Worksheets 1, 2, and 3 attached to this updated response.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SECKAR
TO QUESTION POSED BY PRESIDING OFFICER LEBLANC
AT THE HEARING ON NOVEMBER 20, 1998

Question (Tr. 7/1733-34):

The Presiding Officer requested an update of the incremental costs of Mailing Online.

Response:

Incremental costs were originally provided in my response to OCA/USPS-T5-4(f) (Tr. 2/426). However, those estimates have changed as a result of errata filed on August 10, 1998. Based upon the most recent costs presented on August 10, 1998, the incremental cost of Mailing Online for 1999 is estimated to be \$69,000,943; and for the year 2000, \$120,130,771. As discussed in my response to OCA/USPS-T5-4(c), the incremental cost estimate for 1999 actually applies to the period 1998 to 1999, since the estimate includes an unspecified amount of costs that were incurred in 1998. I also note that these estimates are based on the costs presented in my testimony, rather than costs from the first printer contract, because it is my understanding that the Postal Service does not consider the printer contract to be a proxy for average Mailing Online costs during the experiment. See witness Plunkett's response to OCA/USPS-T5-37. Tr. 5/1106.

For the basis and detailed breakdown of the estimates, please refer to my Exhibit USPS-2A and the attached worksheet.

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Worksheet 1
Page 1
Revised February 4, 1999

Mailing Online Impression Costs

Total Costs	Notes	1999	2000	Total 1999 - 2000
Black & White 8.5x11 & 8.5x14				
(1) Hardware	From Table 12	\$2,628,000	\$4,467,600	\$7,095,600
(2) Maintenance	Ibid.	\$5,352,135	\$9,342,706	\$14,694,842
(3) Personnel	From Table 11	\$4,214,900	\$7,380,290	\$11,595,190
(4) Facility costs	From Table 10	\$149,985	\$254,975	\$404,960
(5) Consumables	From Table 13	\$1,635,022	\$2,853,553	\$4,488,575
(6) Information Systems - Variable	From Worksheet 2	\$2,473,456	\$2,738,253	\$5,211,709
(7) Information Systems - One-Time	From Worksheet 2	\$1,845,942	\$3,221,664	\$5,067,605
(8) TOTAL	Sum of (1) through (7)	\$18,299,440	\$30,259,040	\$48,558,481
Black & White 11x17				
(9) Hardware	From Table 12	\$1,752,000	\$2,978,400	\$4,730,400
(10) Maintenance	Ibid.	\$1,609,892	\$2,760,043	\$4,369,935
(11) Personnel	From Table 11	\$2,809,933	\$4,920,193	\$7,730,127
(12) Facility costs	From Table 10	\$99,990	\$169,983	\$269,973
(13) Consumables	From Table 13	\$458,999	\$801,077	\$1,260,077
(14) Information Systems - Variable	From Worksheet 2	\$694,373	\$768,709	\$1,463,082
(15) Information Systems - One-Time	From Worksheet 2	\$518,211	\$904,417	\$1,422,628
(16) TOTAL	Sum of (9) through (15)	\$7,943,398	\$13,302,823	\$21,246,220
Spot Color 8.5x11 & 8.5x14				
(17) Hardware	From Table 12	\$2,993,040	\$5,088,168	\$8,081,208
(18) Maintenance	Ibid.	\$5,524,363	\$9,599,289	\$15,123,652
(19) Personnel	From Table 11	\$8,429,800	\$14,760,580	\$23,190,380
(20) Facility costs	From Table 10	\$299,970	\$509,949	\$809,919
(21) Consumables	From Table 13	\$3,461,889	\$6,041,925	\$9,503,814
(22) Information Systems - Variable	From Worksheet 2	\$2,259,765	\$2,501,686	\$4,761,451
(23) Information Systems - One-Time	From Worksheet 2	\$1,686,464	\$2,943,333	\$4,629,797
(24) TOTAL	Sum of (17) through (23)	\$24,655,292	\$41,444,930	\$66,100,222
(25) Total Costs	(8) + (16) + (24)	\$50,898,130	\$85,006,793	\$135,904,923

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Mailing Online Impression Costs

Total Costs	Notes	1999	2000	Total 1999 - 2000
Black & White 8.5x11 & 8.5x14				
(1) Hardware	From Table 12	\$2,628,000	\$4,467,600	\$7,095,600
(2) Maintenance	<u>Ibid.</u>	\$5,352,135	\$9,342,706	\$14,694,842
(3) Personnel	From Table 11	\$4,214,900	\$7,380,290	\$11,595,190
(4) Facility costs	From Table 10	\$149,985	\$254,975	\$404,960
(5) Consumables	From Table 13	\$1,635,022	\$2,853,553	\$4,488,575
(6) Information Systems - Variable	From Table 15	\$2,466,064	\$2,723,632	\$5,189,696
(7) Information Systems - Fixed	From Table 14	\$1,845,942	\$3,221,664	\$5,067,605
(8) TOTAL	Sum of (1) through (7)	\$18,292,048	\$30,244,419	\$48,536,468
Black & White 11x17				
(9) Hardware	From Table 12	\$1,752,000	\$2,978,400	\$4,730,400
(10) Maintenance	<u>Ibid.</u>	\$1,609,892	\$2,760,043	\$4,369,935
(11) Personnel	From Table 11	\$2,809,933	\$4,920,193	\$7,730,127
(12) Facility costs	From Table 10	\$99,990	\$169,983	\$269,973
(13) Consumables	From Table 13	\$458,999	\$801,077	\$1,260,077
(14) Information Systems - Variable	From Worksheet 2	\$692,297	\$764,605	\$1,456,902
(15) Information Systems - One-Time	From Worksheet 2	\$518,211	\$904,417	\$1,422,628
(16) TOTAL	Sum of (9) through (15)	\$7,941,323	\$13,298,718	\$21,240,041
Spot Color 8.5x11 & 8.5x14				
(17) Hardware	From Table 12	\$2,993,040	\$5,088,168	\$8,081,208
(18) Maintenance	<u>Ibid.</u>	\$5,524,363	\$9,599,289	\$15,123,652
(19) Personnel	From Table 11	\$8,429,800	\$14,760,580	\$23,190,380
(20) Facility costs	From Table 10	\$299,970	\$509,949	\$809,919
(21) Consumables	From Table 13	\$3,461,889	\$6,041,925	\$9,503,814
(22) Information Systems - Variable	From Worksheet 2	\$2,253,012	\$2,488,328	\$4,741,339
(23) Information Systems - One-Time	From Worksheet 2	\$1,686,464	\$2,943,333	\$4,629,797
(24) TOTAL	Sum of (17) through (23)	\$24,648,538	\$41,431,572	\$66,080,110
(25) Total Costs	(8) + (16) + (24)	\$50,881,909	\$84,974,709	\$135,856,618

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Worksheet 1
Page 2
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Unit Costs		1999	2000	Average 1999 - 2000
(26) Black & White 8.5x11 & 8.5x14 Impressions	From Table 4	913,853,467	1,594,919,673	2,508,773,141
(27) Hardware	(1) divided by (26)	\$0.0029	\$0.0028	\$0.0028
(28) Maintenance	(2) divided by (26)	\$0.0059	\$0.0059	\$0.0059
(29) Personnel	(3) divided by (26)	\$0.0046	\$0.0046	\$0.0046
(30) Facility costs	(4) divided by (26)	\$0.0002	\$0.0002	\$0.0002
(31) Consumables	(5) divided by (26)	\$0.0018	\$0.0018	\$0.0018
(32) Information Systems - Variable	(6) divided by (26)	\$0.0027	\$0.0017	\$0.0021
(33) Information Systems - One-Time	(7) divided by (26)	\$0.0020	\$0.0020	\$0.0020
(34) TOTAL	Sum of (27) through (33)	\$0.0200	\$0.0190	\$0.0194
(35) Black & White 11x17 Impressions	From Table 4	256,545,865	447,741,418	704,287,283
(36) Hardware	(9) divided by (35)	\$0.0068	\$0.0067	\$0.0067
(37) Maintenance	(10) divided by (35)	\$0.0063	\$0.0062	\$0.0062
(38) Personnel	(11) divided by (35)	\$0.0110	\$0.0110	\$0.0110
(39) Facility costs	(12) divided by (35)	\$0.0004	\$0.0004	\$0.0004
(40) Consumables	(13) divided by (35)	\$0.0018	\$0.0018	\$0.0018
(41) Information Systems - Variable	(14) divided by (35)	\$0.0027	\$0.0017	\$0.0021
(42) Information Systems - One-Time	(15) divided by (35)	\$0.0020	\$0.0020	\$0.0020
(43) TOTAL	Sum of (36) through (42)	\$0.0310	\$0.0297	\$0.0302
(44) Spot Color 8.5x11 & 8.5x14 Impressions	From Table 4	834,902,418	1,457,128,894	2,292,031,313
(45) Hardware	(17) divided by (44)	\$0.0036	\$0.0035	\$0.0035
(46) Maintenance	(18) divided by (44)	\$0.0066	\$0.0066	\$0.0066
(47) Personnel	(19) divided by (44)	\$0.0101	\$0.0101	\$0.0101
(48) Facility costs	(20) divided by (44)	\$0.0004	\$0.0003	\$0.0004
(49) Consumables	(21) divided by (44)	\$0.0041	\$0.0041	\$0.0041
(50) Information Systems - Variable	(22) divided by (44)	\$0.0027	\$0.0017	\$0.0021
(51) Information Systems - One-Time	(23) divided by (44)	\$0.0020	\$0.0020	\$0.0020
(52) TOTAL	Sum of (45) through (51)	\$0.0295	\$0.0284	\$0.0288

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Unit Costs		1999	2000	Average 1999 - 2000
(26) Black & White 8.5x11 & 8.5x14 Impressions	From Table 4	913,853,467	1,594,919,673	2,508,773,141
(27) Hardware	(1) divided by (26)	\$0.0029	\$0.0028	\$0.0028
(28) Maintenance	(2) divided by (26)	\$0.0059	\$0.0059	\$0.0059
(29) Personnel	(3) divided by (26)	\$0.0046	\$0.0046	\$0.0046
(30) Facility costs	(4) divided by (26)	\$0.0002	\$0.0002	\$0.0002
(31) Consumables	(5) divided by (26)	\$0.0018	\$0.0018	\$0.0018
(32) Information Systems - Variable	(6) divided by (26)	\$0.0027	\$0.0017	\$0.0021
(33) Information Systems - One-Time	(7) divided by (26)	\$0.0020	\$0.0020	\$0.0020
(34) TOTAL	Sum of (27) through (33)	\$0.0200	\$0.0190	\$0.0193
(35) Black & White 11x17 Impressions	From Table 4	256,545,865	447,741,418	704,287,283
(36) Hardware	(9) divided by (35)	\$0.0068	\$0.0067	\$0.0067
(37) Maintenance	(10) divided by (35)	\$0.0063	\$0.0062	\$0.0062
(38) Personnel	(11) divided by (35)	\$0.0110	\$0.0110	\$0.0110
(39) Facility costs	(12) divided by (35)	\$0.0004	\$0.0004	\$0.0004
(40) Consumables	(13) divided by (35)	\$0.0018	\$0.0018	\$0.0018
(41) Information Systems - Variable	(14) divided by (35)	\$0.0027	\$0.0017	\$0.0021
(42) Information Systems - One-Time	(15) divided by (35)	\$0.0020	\$0.0020	\$0.0020
(43) TOTAL	Sum of (36) through (42)	\$0.0310	\$0.0297	\$0.0302
(44) Spot Color 8.5x11 & 8.5x14 Impressions	From Table 4	834,902,418	1,457,128,894	2,292,031,313
(45) Hardware	(17) divided by (44)	\$0.0036	\$0.0035	\$0.0035
(46) Maintenance	(18) divided by (44)	\$0.0066	\$0.0066	\$0.0066
(47) Personnel	(19) divided by (44)	\$0.0101	\$0.0101	\$0.0101
(48) Facility costs	(20) divided by (44)	\$0.0004	\$0.0003	\$0.0004
(49) Consumables	(21) divided by (44)	\$0.0041	\$0.0041	\$0.0041
(50) Information Systems - Variable	(22) divided by (44)	\$0.0027	\$0.0017	\$0.0021
(51) Information Systems - One-Time	(23) divided by (44)	\$0.0020	\$0.0020	\$0.0020
(52) TOTAL	Sum of (45) through (51)	\$0.0295	\$0.0284	\$0.0288

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Worksheet 2
Revised February 4, 1999

Mailing Online Information Systems Costs Worksheet

Mailing Online One-Time IS Costs

\$11,120,030

Allocation of One-Time Costs:	1999	2000	Total
Total piece volume	295,665,025	516,014,856	811,679,882
% of 2-year total	36.43%	63.57%	
One-Time IS costs allocated to each year	\$4,050,617	\$7,069,414	\$11,120,030
% of b&w 8.5x11 & 8.5x14 impressions	45.57%	45.57%	
% of b&w 11x17 impressions	12.79%	12.79%	
% of spot color 8.5x11 & 8.5x14 impressions	41.63%	41.63%	
Allocated to b&w, 8.5x11 & 8.5x14	\$1,845,942	\$3,221,664	
Allocated to b&w, 11x17	\$518,211	\$904,417	
Allocated to spot color, 8.5x11 & 8.5x14	\$1,686,464	\$2,943,333	
TOTAL	\$4,050,617	\$7,069,414	\$11,120,030

Mailing Online Variable IS Costs

1999
\$5,427,594

2000
\$6,008,648

Total
\$11,436,241

Allocation of Variable Costs:

% of b&w 8.5x11 & 8.5x14 impressions	45.57%	45.57%	
% of b&w 11x17 impressions	12.79%	12.79%	
% of spot color 8.5x11 & 8.5x14 impressions	41.63%	41.63%	
Allocated to b&w, 8.5x11 & 8.5x14	\$2,473,456	\$2,738,253	\$5,211,709
Allocated to b&w, 11x17	\$694,373	\$768,709	\$1,463,082
Allocated to spot color, 8.5x11 & 8.5x14	\$2,259,765	\$2,501,686	\$4,761,451
TOTAL	\$5,427,594	\$6,008,648	\$11,436,241

GRAND TOTAL

\$22,556,272

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Mailing Online Information Systems Costs Worksheet

Mailing Online One-Time IS Costs		\$11,120,030	
Allocation of One-Time Costs:			
	1999	2000	Total
Total piece volume	295,665,025	516,014,856	811,679,882
% of 2-year total	36.43%	63.57%	
One-Time IS costs allocated to each year	\$4,050,617	\$7,069,414	\$11,120,030
% of b&w 8.5x11 & 8.5x14 impressions	45.57%	45.57%	
% of b&w 11x17 impressions	12.79%	12.79%	
% of spot color 8.5x11 & 8.5x14 impressions	41.63%	41.63%	
Allocated to b&w, 8.5x11 & 8.5x14	\$1,845,942	\$3,221,664	
Allocated to b&w, 11x17	\$518,211	\$904,417	
Allocated to spot color, 8.5x11 & 8.5x14	\$1,686,464	\$2,943,333	
TOTAL	\$4,050,617	\$7,069,414	\$11,120,030
<hr/>			
Mailing Online Variable IS Costs		1999	2000
	\$5,411,373	2000	Total
		\$5,976,564	\$11,387,937
Allocation of Variable Costs:			
% of b&w 8.5x11 & 8.5x14 impressions	45.57%	45.57%	
% of b&w 11x17 impressions	12.79%	12.79%	
% of spot color 8.5x11 & 8.5x14 impressions	41.63%	41.63%	
Allocated to b&w, 8.5x11 & 8.5x14	\$2,466,064	\$2,723,632	\$5,189,696
Allocated to b&w, 11x17	\$692,297	\$764,605	\$1,456,902
Allocated to spot color, 8.5x11 & 8.5x14	\$2,253,012	\$2,488,328	\$4,741,339
TOTAL	\$5,411,373	\$5,976,564	\$11,387,937
 GRAND TOTAL			 \$22,507,967

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Worksheet 2
Revised February 4, 1999

Incremental Cost Estimate for Mailing Online Experiment

	1999	2000	Experiment
Impression Costs	\$50,898,130	\$85,006,793	\$135,904,923
Insertor Costs	\$8,593,250	\$14,882,676	\$23,475,926
Transportation Costs	\$758,340	\$1,307,227	\$2,065,567
Paper Costs	\$6,896,412	\$12,421,246	\$19,317,658
Envelope Costs	\$8,942,530	\$16,106,544	\$25,049,075
TOTAL	\$76,088,663	\$129,724,487	\$205,813,149

ATTACHMENT TO WITNESS SECKAR'S UPDATED RESPONSE
TO NOVEMBER 20 HEARING QUESTION

Incremental Cost Estimate for Mailing Online Experiment

	1999	2000	Experiment
Impression Costs	\$50,881,909	\$84,974,709	\$135,856,618
Insertion Costs	\$8,593,250	\$14,882,676	\$23,475,926
Transportation Costs	\$758,340	\$1,307,227	\$2,065,567
Paper Costs	\$6,896,412	\$12,421,246	\$19,317,658
Envelope Costs	\$8,942,530	\$16,106,544	\$25,049,075
TOTAL	\$76,072,442	\$129,692,403	\$205,764,845

**ATTACHMENT TO WITNESS SECKAR'S
RESPONSE TO NOVEMBER 20 HEARING
QUESTION**

Incremental Cost Estimate:

	1999	2000
Impression Costs	\$43,810,410	\$75,413,077
Inserter Costs	\$8,593,250	\$14,882,676
Transportation Costs	\$758,340	\$1,307,227
Paper Costs	\$6,896,412	\$12,421,246
Envelope Costs	\$8,942,530	\$16,106,544
	\$69,000,943	\$120,130,771

DECLARATION

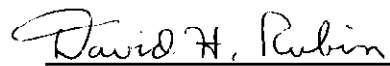
I, Paul G. Seckar, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Paul G Seckar

Dated: NOVEMBER 25, 1998

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.



David H. Rubin

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November 25, 1998