

ORIGINAL

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

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67-100-100

MAILING ONLINE SERVICE

Docket No. MC98-1

REVISED RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS PLUNKETT TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS-T5-10),
AND QUESTION 2 OF PRESIDING OFFICER'S INFORMATION REQUEST NO. 2
(January 14, 1999)

The United States Postal Service hereby provides the revised responses of witness Plunkett to Office of the Consumer Advocate interrogatory OCA/USPS-T5-10, filed on July 22, 1998, and Question 2 of Presiding Officer's Information Request No. 2, filed on October 16, 1998. These responses are updated to reflect the new information technology costs provided today by witnesses Lim and Seckar.

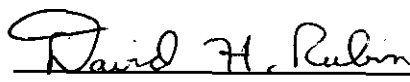
Each interrogatory or question is stated verbatim and is followed by the response.

Respectfully submitted,

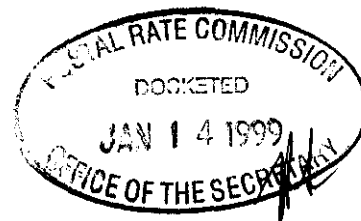
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


David H. Rubin

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January 14, 1999



REVISED RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

Revised January 14, 1999

OCA/USPS-T5-10. Please refer to USPS-T-5, Exhibit B, page 1, Note (1).

- a. Please confirm that fixed information systems costs are \$2,285,697. See USPS-T-2, Exhibit A, at 26. If you do not confirm, please explain.
- b. Please confirm that the fixed information system costs referred to in part (a) above were incurred in the development of Mailing Online service. If you do not confirm, please explain.
- c. Please explain how the fixed information systems costs referred to in part (a) above are to be recovered through premailing fees from Mailing Online service customers.
- d. Please confirm that the fixed information systems costs referred to in part (a) above will become institutional, rather than attributable, costs of the Postal Service. If you do not confirm, please explain.

OCA/USPS-T5-10 Response.

- a. As indicated in witness Lim's testimony (USPS-ST-9), the "one-time" information systems costs are now \$11.1 Million.
- b. Confirmed that the one-time costs presented by witness Lim were, or will be, incurred in the development of Mailing Online and Post Office Online. In the absence of empirical data that would allow a more definitive distribution of fixed costs, the one-time costs that are shared between Mailing Online and the rest of Post Office Online have been allocated using conservative planning assumptions. As a consequence, witness Seckar's estimates of unit information systems costs may contain costs that could more appropriately be described as having been caused by the development of PostOffice Online.
- c. The one-time costs are much smaller than the excess of revenues over costs projected for the Mailing Online experiment. Please see the attached.
- d. Not confirmed. See my responses to parts (b) and (c). Moreover, the implication of the question, that one-time information systems costs will be treated as ongoing

REVISED RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

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institutional costs of the Postal Service, conflicts with the cost estimates presented by witness Seckar. Witness Seckar spreads all of these costs over the experimental period only. These costs are more akin to startup costs than institutional costs.

Revenues Including Variable Information Systems Costs

Page 1

| | Note | 1999 | 2000 | Total 1999-2000 |
|---|--|---------------|----------------|-----------------|
| <u>Impression Costs</u> | | | | |
| Total Impression Costs | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 25 | \$ 50,881,909 | \$ 84,974,709 | \$ 135,856,618 |
| One-time Info Systems Costs (BW, 8.5x11 & 8.5x14) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 7 | \$ 1,845,942 | \$ 3,221,664 | \$ 5,067,605 |
| One-time Info Systems Costs (BW, 11x17) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 15 | \$ 518,211 | \$ 904,417 | \$ 1,422,628 |
| One-time Info Systems Costs (Spot Color, 8.5x11 & 8.5x14) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 23 | \$ 1,686,464 | \$ 2,943,333 | \$ 4,629,797 |
| Total Impression Costs excl. one-time info systems costs | =(a) - (b) - (c) - (d) | \$ 46,831,292 | \$ 77,905,296 | \$ 124,736,588 |
| <u>Paper Costs</u> | | | | |
| 8.5x11 B&W pages | USPS T-2A page 9 line 45 | 541,001,192 | 944,192,341 | 1,485,193,533 |
| 8.5x11 Spot Color pages | USPS T-2A page 10 line 71 | 433,424,586 | 756,442,279 | 1,189,866,865 |
| Pages printed on 8.5x11 paper | =(f) + (g) | 974,425,778 | 1,700,634,620 | 2,675,060,398 |
| 8.5x11 paper - Price per piece | USPS T-2A page 28 | \$ 0.0049 | \$ 0.0050 | |
| 8.5x11 paper - Total cost | =(h) * (i) | \$ 4,762,993 | \$ 8,578,708 | \$ 13,341,702 |
| 8.5x14 B&W pages | USPS T-2A page 9 line 49 | 60,416,029 | 105,442,192 | 165,858,221 |
| 8.5x14 Spot Color pages | USPS T-2A page 10 line 75 | 48,402,467 | 84,475,301 | 132,877,768 |
| Pages printed on 8.5x14 paper | =(k) + (l) | 108,818,496 | 189,917,493 | 298,735,989 |
| 8.5x14 paper - Price per piece | USPS T-2A page 28 | \$ 0.0053 | \$ 0.0055 | |
| 8.5x14 paper - Total cost | =(m) * (n) | \$ 580,568 | \$ 1,045,672 | \$ 1,626,240 |
| 11x17 B&W pages | USPS T-2A page 9 line 53 | 84,417,856 | 147,331,826 | 231,749,682 |
| 11x17 Spot Color pages | USPS T-2A page 10 line 79 | 67,631,597 | 118,035,295 | 185,666,892 |
| Pages printed on 11x17 paper | =(p) + (q) | 152,049,453 | 265,367,121 | 417,416,574 |
| 11x17 paper - Price per piece | USPS T-2A page 28 | \$ 0.0102 | \$ 0.0105 | |
| 11x17 paper - Total cost | =(r) * (s) | \$ 1,552,851 | \$ 2,796,866 | \$ 4,349,717 |
| Total Pages | =(h) + (m) + (r) | 1,235,293,727 | 2,155,919,234 | 3,391,212,961 |
| Total Paper Cost | =(j) + (o) + (t) | \$ 6,896,412 | \$ 12,421,246 | \$ 19,317,658 |
| <u>Envelope Costs</u> | | | | |
| First-Class Letters | USPS T-2A page 6 line 92 | 77,672,143 | 135,558,745 | 213,230,888 |
| Standard Mail (A) Letters | USPS T-2A page 6 line 94 | 172,640,919 | 301,304,758 | 473,945,677 |
| Total letter size pieces | =(w) + (x) | 250,313,062 | 436,863,503 | 687,176,565 |
| # 10 Envelope no window and logo - Price per piece | USPS T-2A page 28 | \$ 0.0272 | \$ 0.0281 | |
| Envelope Costs - letter size pieces | =(y) * (z) | \$ 6,820,530 | \$ 12,284,574 | \$ 19,105,104 |
| First-Class flats | USPS T-2A page 6 line 93 | 14,072,713 | 24,560,663 | 38,633,376 |
| Standard Mail (A) flats | USPS T-2A page 6 line 95 | 31,279,247 | 54,590,685 | 85,869,932 |
| Total flat size pieces | =(bb) + (cc) | 45,351,960 | 79,151,348 | 124,503,308 |
| Flat sized envelope no window and no logo - Price per piece | USPS T-2A page 28 | \$ 0.0468 | \$ 0.0483 | |
| Envelope Costs - flat size pieces | =(dd) * (ee) | \$ 2,122,000 | \$ 3,821,971 | \$ 5,943,971 |
| Total Envelopes | =(y) + (dd) | 295,665,022 | 516,014,851 | 811,679,873 |
| Total Envelope Cost | =(aa) + (ff) | \$ 8,942,530 | \$ 16,106,544 | \$ 25,049,075 |
| <u>Transportation Costs</u> | | | | |
| First-Class Letters | USPS T-2A page 6 line 92 | 77,672,143 | 135,558,745 | 213,230,888 |
| First-Class Letters - Transportation cost per piece | USPS T-2A page 7 line 140 | \$ 0.00055 | \$ 0.00054 | |
| Total First-Class letter transportation costs | =(ii) * (jj) | \$ 42,594 | \$ 73,423 | \$ 116,017 |
| First-Class flats | USPS T-2A page 6 line 93 | 14,072,713 | 24,560,663 | 38,633,376 |
| First-Class flats - Transportation cost per piece | USPS T-2A page 7 line 141 | \$ 0.00083 | \$ 0.00082 | |
| Total First-Class flats letter transportation costs | =(ll) * (mm) | \$ 11,717 | \$ 20,198 | \$ 31,915 |
| Standard Mail (A) Letters | USPS T-2A page 6 line 94 | 172,640,919 | 301,304,758 | 473,945,677 |
| Standard Mail (A) Letters - Transportation cost per piece | USPS T-2A page 7 line 142 | \$ 0.00120 | \$ 0.00119 | |
| Total Standard Mail (A) letter transportation costs | =(oo) * (pp) | \$ 207,925 | \$ 358,421 | \$ 566,347 |
| Standard Mail (A) flats | USPS T-2A page 6 line 95 | 31,279,247 | 54,590,685 | 85,869,932 |
| Standard Mail (A) flats - Transportation cost per piece | USPS T-2A page 7 line 143 | \$ 0.01586 | \$ 0.01567 | |
| Total Standard Mail (A) flat transportation costs | =(rr) * (ss) | \$ 496,104 | \$ 855,185 | \$ 1,351,289 |
| Total Transportation Costs | =(kk) + (nn) + (qq) + (tt) | \$ 758,340 | \$ 1,307,227 | \$ 2,065,567 |
| Total Printing and Transportation Costs | =(e) + (v) + (hh) + (uu) | \$ 63,428,575 | \$ 107,740,313 | \$ 171,168,888 |
| 25% Markup on printing and transportation costs | =(ww) * 25% | \$ 15,857,144 | \$ 26,935,078 | \$ 42,792,222 |
| Total Revenue Including Markup | =(ww) + (xx) | \$ 79,285,719 | \$ 134,675,391 | \$ 213,961,110 |
| Net Contribution | =(yy)-(vv) | \$ 15,857,144 | \$ 26,935,078 | \$ 42,792,222 |

Revenues Excluding Variable Information Systems Costs

Page 2

| | Note | 1999 | 2000 | Total 1999-2000 |
|--|--|---------------|----------------|-----------------|
| <u>Impression Costs</u> | | | | |
| (a) Total Impression Costs | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 25 | \$ 50,881,909 | \$ 84,974,709 | \$ 135,856,618 |
| (b) One-time Info Systems Costs (BW, 8.5x11 & 8.5x14) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 7 | \$ 1,845,942 | \$ 3,221,664 | \$ 5,067,605 |
| (c) One-time Info Systems Costs (BW, 11x17) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 15 | \$ 518,211 | \$ 904,417 | \$ 1,422,628 |
| (d) One-time Info Systems Costs (Spot Color, 8.5x11 & 8.5x14) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 23 | \$ 1,686,464 | \$ 2,943,333 | \$ 4,629,797 |
| (e) Variable Info Systems Costs (BW, 8.5x11 & 8.5x14) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 6 | \$ 2,466,064 | \$ 2,723,632 | \$ 5,189,696 |
| (f) Variable Info Systems Costs (BW, 11x17) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 14 | \$ 692,297 | \$ 764,605 | \$ 1,456,902 |
| (g) Variable Info Systems Costs (Spot Color, 8.5x11 & 8.5x14) | Attachment to witness Seckar's updated response to hearing question Tr. 7/1733-34, Worksheet 1 line 22 | \$ 2,253,012 | \$ 2,488,328 | \$ 4,741,339 |
| (h) Total Impression Costs excl. info systems costs | =(a) - (b) - (c) - (d) - (e) - (f) - (g) | \$ 41,419,920 | \$ 71,928,732 | \$ 113,348,651 |
| <u>Paper Costs</u> | | | | |
| (i) 8.5x11 B&W pages | USPS T-2A page 9 line 45 | 541,001,192 | 944,192,341 | 1,485,193,533 |
| (j) 8.5x11 Spot Color pages | USPS T-2A page 10 line 71 | 433,424,586 | 756,442,279 | 1,189,866,865 |
| (k) Pages printed on 8.5x11 paper | =(i) + (j) | 974,425,778 | 1,700,634,620 | 2,675,060,398 |
| (l) 8.5x11 paper - Price per piece | USPS T-2A page 28 | \$ 0.0049 | \$ 0.0050 | \$ 0.0099 |
| (m) 8.5x11 paper - Total cost | =(k) * (l) | \$ 4,762,993 | \$ 8,578,708 | \$ 13,341,702 |
| (n) 8.5x14 B&W pages | USPS T-2A page 9 line 49 | 60,416,029 | 105,442,192 | 165,858,221 |
| (o) 8.5x14 Spot Color pages | USPS T-2A page 10 line 75 | 46,402,467 | 84,475,301 | 132,877,768 |
| (p) Pages printed on 8.5x14 paper | =(n) + (o) | 108,818,496 | 189,917,493 | 298,735,989 |
| (q) 8.5x14 paper - Price per piece | USPS T-2A page 28 | \$ 0.0053 | \$ 0.0055 | \$ 0.0108 |
| (r) 8.5x14 paper - Total cost | =(p) * (r) | \$ 580,568 | \$ 1,045,672 | \$ 1,626,240 |
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| (t) 11x17 Spot Color pages | USPS T-2A page 10 line 79 | 67,631,597 | 118,035,295 | 185,666,892 |
| (u) Pages printed on 11x17 paper | =(s) + (t) | 152,049,453 | 265,367,121 | 417,416,574 |
| (v) 11x17 paper - Price per piece | USPS T-2A page 28 | \$ 0.0102 | \$ 0.0105 | \$ 0.0208 |
| (w) 11x17 paper - Total cost | =(u) * (w) | \$ 1,552,851 | \$ 2,796,866 | \$ 4,349,717 |
| (x) Total Pages | =(k) + (p) + (u) | 1,235,293,727 | 2,155,919,234 | 3,391,212,961 |
| (y) Total Paper Cost | =(m) + (r) + (w) | \$ 6,896,412 | \$ 12,421,246 | \$ 19,317,658 |
| <u>Envelope Costs</u> | | | | |
| (z) First-Class Letters | USPS T-2A page 6 line 92 | 77,672,143 | 135,558,745 | 213,230,888 |
| (aa) Standard Mail (A) Letters | USPS T-2A page 6 line 94 | 172,640,919 | 301,304,758 | 473,945,677 |
| (bb) Total letter size pieces | =(z) + (aa) | 250,313,062 | 436,863,503 | 687,176,565 |
| (cc) # 10 Envelope no window and logo - Price per piece | USPS T-2A page 28 | \$ 0.0272 | \$ 0.0281 | \$ 0.0554 |
| (dd) Envelope Costs - letter size pieces | =(bb) * (cc) | \$ 6,820,530 | \$ 12,284,574 | \$ 19,105,104 |
| (ee) First-Class flats | USPS T-2A page 6 line 93 | 14,072,713 | 24,580,683 | 38,653,376 |
| (ff) Standard Mail (A) flats | USPS T-2A page 6 line 95 | 31,279,247 | 54,590,685 | 85,869,932 |
| (gg) Total flat size pieces | =(ee) + (ff) | 45,351,960 | 79,151,348 | 124,503,308 |
| (hh) Flat sized envelope no window and no logo - Price per piece | USPS T-2A page 28 | \$ 0.0468 | \$ 0.0483 | \$ 0.0951 |
| (ii) Envelope Costs - flat size pieces | =(gg) * (hh) | \$ 2,122,000 | \$ 3,821,971 | \$ 5,943,971 |
| (jj) Total Envelopes | =(bb) + (gg) | 295,665,022 | 516,014,851 | 811,679,873 |
| (kk) Total Envelope Cost | =(dd) + (ii) | \$ 8,942,530 | \$ 16,106,544 | \$ 25,049,075 |
| <u>Transportation Costs</u> | | | | |
| (ll) First-Class Letters | USPS T-2A page 6 line 92 | 77,672,143 | 135,558,745 | 213,230,888 |
| (mm) First-Class Letters - Transportation cost per piece | USPS T-2A page 7 line 140 | \$ 0.00055 | \$ 0.00054 | \$ 0.00109 |
| (nn) Total First-Class letter transportation costs | =(ll) * (mm) | \$ 42,594 | \$ 73,423 | \$ 116,017 |
| (oo) First-Class flats | USPS T-2A page 6 line 93 | 14,072,713 | 24,580,683 | 38,653,376 |
| (pp) First-Class flats - Transportation cost per piece | USPS T-2A page 7 line 141 | \$ 0.00083 | \$ 0.00082 | \$ 0.00165 |
| (qq) Total First-Class flats letter transportation costs | =(oo) * (pp) | \$ 11,717 | \$ 20,198 | \$ 31,915 |
| (rr) Standard Mail (A) Letters | USPS T-2A page 6 line 94 | 172,640,919 | 301,304,758 | 473,945,677 |
| (ss) Standard Mail (A) Letters - Transportation cost per piece | USPS T-2A page 7 line 142 | \$ 0.00120 | \$ 0.00119 | \$ 0.00239 |
| (tt) Total Standard Mail (A) letter transportation costs | =(rr) * (ss) | \$ 207,925 | \$ 358,421 | \$ 566,347 |
| (uu) Standard Mail (A) flats | USPS T-2A page 6 line 95 | 31,279,247 | 54,590,685 | 85,869,932 |
| (vv) Standard Mail (A) flats - Transportation cost per piece | USPS T-2A page 7 line 143 | \$ 0.01586 | \$ 0.01567 | \$ 0.03153 |
| (xx) Total Standard Mail (A) flat transportation costs | =(uu) * (vv) | \$ 496,104 | \$ 855,185 | \$ 1,351,289 |
| (yy) Total Transportation Costs | =(nn) + (qq) + (tt) + (xx) | \$ 758,340 | \$ 1,307,227 | \$ 2,065,567 |
| (zz) Total Printing and Transportation Costs | =(h) + (y) + (kk) + (yy) | \$ 58,017,203 | \$ 101,763,749 | \$ 159,780,952 |
| (aaa) 25% Markup on printing and transportation costs | =(zz) * 25% | \$ 14,504,301 | \$ 25,440,937 | \$ 39,945,238 |
| (bbb) Total Revenue Including Markup | =(zz) + (aaa) | \$ 72,521,503 | \$ 127,204,686 | \$ 199,726,189 |
| (ccc) Net Contribution | =(bbb)-(zz) | \$ 14,504,301 | \$ 25,440,937 | \$ 39,945,238 |

**REVISED RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 2**

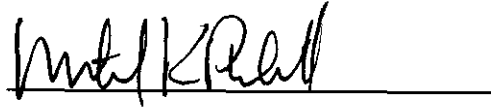
Revised January 14, 1999

2. In the proposed fee schedule, the pre-mailing fee for Mailing Online is shown as $1.25 * (\text{printer costs} + .1)$. USPS Request, Attachment B1. In the response of witness Plunkett to Interrogatory OCA[USPS]-T[]5-28, the information systems cost is shown as .16 cents for two impressions and .4 cents for five impressions, implying a per impression charge of .08 cents. Tr. 2/618. Please reconcile this apparent discrepancy.

RESPONSE: According to witness Seckar's current estimates, the variable information systems cost of Mailing Online cents for 1999-2000 are \$0.0021 per impression. This estimate exceeds the adjustment factor added to printer costs in the fee proposal. See my testimony at page 6, lines 11-15. That factor was developed by rounding witness Seckar's original estimate of the variable information systems cost (\$0.0065) to the nearest tenth of a cent. Application of the same methodology to the new cost estimate would result in a per impression cost of \$0.002. However, because the information systems cost adjustment factor is added with other costs prior to the application of a markup, the need for adherence to convention is less compelling in this instance. Therefore, an adjustment of \$0.0021 could be used.

DECLARATION

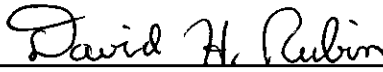
I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Michael K. Plunkett", is written over a horizontal line.

Dated: 1/14/99

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
January 14, 1999