

DOCKET SECTION

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

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Mailing Online Service )

Docket No. MC98-1

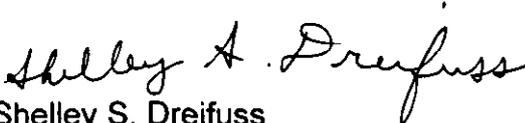
OFFICE OF THE CONSUMER ADVOCATE  
INTERROGATORIES TO UNITED STATES POSTAL SERVICE  
WITNESS: CHONG BUM LIM  
(OCA/USPS-ST9-1-10)  
(JANUARY 25, 1999)

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/USPS-T1-1-7 to witness Lee Garvey, dated July 21, 1998, are hereby incorporated by reference.

Respectfully submitted,



Gail Willette  
Acting Director  
Office of the Consumer Advocate



Shelley S. Dreifuss  
Attorney

OCA/USPS-ST9-1. These questions concern Library Reference MC98-1/27.

- a. Unnumbered pages 1 and 2 of LR MC98-1/27 present "MOL" costs.
  - i. Generally, what function is performed by the material and equipment listed as "MOL?"
  - ii. At what stage of the POL/MOL process is this equipment and material used?
  - iii. Please provide a breakdown of the discrete costs that sum to "MOL" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.
  
- b. Unnumbered page 3 of LR MC98-1/27 presents "MOL Data Network" costs.
  - i. Generally, what function is performed by the material and equipment listed as "MOL Data Network?"
  - ii. At what stage of the POL/MOL process is this equipment and material used?
  - iii. Please provide a breakdown of the discrete costs that sum to "MOL Data Network" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a

cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.

- c. Unnumbered page 4 presents "Print Sites" costs. Please confirm that the material and equipment listed for "Print Sites" are the computer hardware, software, and hardware/software maintenance required at each print site.
- i. Is the total cost of \$9,527.00 for one print site or multiple print sites? Please explain.
  - ii. Does the total cost of \$9,527.00 include the back-up server at each print site? If not, then would all costs listed for "Print Sites" double to reflect the fact that there is an active server and a back-up server? Please explain.
  - iii. How will the \$9,527.00 cost figure change as each new print site is added? For example, if the number of print sites doubles, would the \$9,527.00 cost double? Please explain.
- d. Unnumbered page 5 of LR MC98-1/27 presents "Web Server" costs.
- i. Generally, what function is performed by the material and equipment listed as "Web Server?"
  - ii. At what stage of the POL/MOL process is this equipment and material used?
  - iii. Please provide a breakdown of the discrete costs that sum to "Web Server" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for

categorizing a cost as “variable,” “one-time,” or a combination. Also, if a cost is partly “variable” and partly “one-time,” then set forth the allocation factor you employed to segregate the “variable” from the “one-time” portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.

- e. Unnumbered page 6 of LR MC98-1/27 presents “Database Server” costs.
  - i. Generally, what function is performed by the material and equipment listed as “Database Server?”
  - ii. At what stage of the POL/MOL process is this equipment and material used?
  - iii. Please provide a breakdown of the discrete costs that sum to “Database Server” costs and indicate whether each discrete cost is “variable,” “one-time,” or a combination of the two. Fully explain your rationale for categorizing a cost as “variable,” “one-time,” or a combination. Also, if a cost is partly “variable” and partly “one-time,” then set forth the allocation factor you employed to segregate the “variable” from the “one-time” portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.
- f. Unnumbered page 7 of LR MC98-1/27 presents “Datamart Server” costs.
  - i. Generally, what function is performed by the material and equipment listed as “Datamart Server?”
  - ii. At what stage of the POL/MOL process is this equipment and material used?

- iii. Please provide a breakdown of the discrete costs that sum to "Datamart Server" costs and indicate whether each discrete cost is "variable," "one-time," or a combination of the two. Fully explain your rationale for categorizing a cost as "variable," "one-time," or a combination. Also, if a cost is partly "variable" and partly "one-time," then set forth the allocation factor you employed to segregate the "variable" from the "one-time" portion. Show how the allocation factor was developed. Include copies of any source materials consulted in reaching your conclusion.

OCA/USPS-ST9-2. Throughout your testimony, you use the term "variable cost[s]."

- a. Do you use "variable cost" as equivalent to "volume variable cost?" Please explain.
- b. Do you use "variable cost" as equivalent to "short-run marginal cost?" Please explain.
- c. What period of time do you believe would be the "short run" in this case? Explain your reasoning in choosing this period of time.
- d. Do you use "variable cost" as equivalent to "long-run marginal cost?" Please explain.
- e. What period of time do you believe would be the "long run" in this case? Explain your reasoning in choosing this period of time.
- f. Do you use "variable cost" as equivalent to "ongoing cost," i.e., the term used by witness Seckar in response to PB/USPS-T2-2 (Tr. 5/1050-51)? See your testimony at page 2, lines 6-8.

- g. Do “ongoing costs,” as you and witness Seckar employ that term, include any fixed (i.e., non-volume-variable), costs?
- i. If so, state the specific costs for MOL that are fixed, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- ii. Also, state (and cite) the specific costs for POL that are fixed, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- h. Is the term “ongoing costs” limited to “short-run volume variable costs?”
- i. State the specific costs for MOL that are short-run volume variable, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- ii. Also, state (and cite) the specific costs for POL that are short-run volume variable, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- i. Does the term “ongoing costs” include “long-run volume variable costs?”
- i. State the specific costs for MOL that are long-run volume variable, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.

- ii. Also, state (and cite) the specific costs for POL that are long-run volume variable, ongoing costs. Provide citations for the listings of such costs by table, exhibit, workpaper, etc., including page, column and row (or line) numbers.
- j. At page 2, lines 8-11, of your testimony, you characterize one-time costs as consisting mainly of hardware, software, and installation and development services.
- i. Are these “start-up” costs? Please explain.
  - ii. At page 2 of your testimony you state that you have separated information technology costs into one-time costs and variable costs, thereby conforming to witness Seckar’s analysis presented in response to interrogatory PB/USPS-T2-2 (Tr. 5/1050-51). In his response he states that “fixed costs are one-time start-up costs for the experimental period . . . .” Do you share his view that the one-time costs are essentially the start-up costs for MOL? If your answer is negative, then please explain.
- k. In his response to interrogatory PB/USPS-T2-2, witness Seckar states that, “The Table 15 costs referenced in [the] question are not start-up costs, and therefore should not be included in the “fixed” category.
- i. Do you agree that he seems to view “fixed” costs as limited to “start-up” costs? If you do not agree, please give your reasons.
  - ii. For the purpose of your cost analysis in this proceeding, do *you* define “fixed” costs as limited to “start-up” costs? If this is not your definition, then state *your* definition.

iii. Are the start-up costs of a specific service part of the incremental costs of the service? Please explain.

I. Witness Seckar also states in the cited response that,

While these costs [seemingly the Table 15 costs] do not vary based on the volume changes forecasted for the five-year period, moreover, they would vary with more extreme volume fluctuations. For example, if the Mailing Online service were to end after the experiment concludes, technical help desk manager costs in years 2001 through 2003 would not be incurred as a result of the volumes in these years disappearing.

- i. Do you agree that witness Seckar seems to be stating that costs that do not vary, based on volume changes, over a five-year period can still be variable? If you do not agree, give your reasons for disagreeing.
- ii. Is it *your* view that costs that do not vary, based on volume changes, over a five-year period are variable? Please explain. Are they "volume variable?" Please explain. If they are variable, but not volume variable, please explain the distinction.
- iii. Do you agree that witness Seckar seems to be stating that a cost is characterized as variable if it disappears when the entire service for which it is incurred is terminated and, therefore, volume goes from some positive number to zero? If you do not agree, please give your reasons.
- iv. Do *you* hold the view that a cost should be characterized as variable if it disappears when the entire service for which it is incurred is terminated. and, therefore, volume goes from some positive number to zero? Please explain.

- v. Do you believe that variable costs are equivalent to the incremental costs of a service? Please explain.
- vi. Do you believe that the *prospective* incremental costs of a service may be partly volume variable and partly fixed? Please explain.
- vii. Should the *fixed* incremental costs of a service be termed "variable" because they are ongoing, i.e., they go on because the service goes on? Please explain.

OCA/USPS-ST9-3. At page 3 of your testimony, you set forth a diagram of your methodology for gathering and estimating MOL costs.

- a. Please present the costs of the complete POL system and show the allocation into POL, MOL, and SOL costs (step 1). Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- b. Please present all cost allocations made at step 2. Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- c. Please present all cost allocations made at step 3. Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).

- d. Please present all cost allocations made at step 4. Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- e. Please present all costs and/or cost allocations made at step 5. Include the allocation factor(s) used and your rationale for choosing the particular allocation factor(s). Also provide any source materials you consulted in choosing the particular allocation factor(s).
- f. Is it correct that your methodology classifies costs in the following way: there is some portion of POL costs that is not allocated to either MOL or SOL; rather the POL costs not specific to MOL or SOL are institutional costs to be recovered by means of a mark-up?
  - i. If you do not agree, state your reasons.
  - ii. If you do agree, what percentage of POL costs are allocated neither to MOL or SOL? Show how this percentage figure is calculated. Provide all computations and citations for any figures presented.
- g. Is it correct that at [www.postofficeonline.com](http://www.postofficeonline.com), mailers and recipients of Express Mail packages can track the movements of a package, and mailers and recipients of Priority Mail can confirm delivery of a package?
  - i. If you do not agree, state your reasons.
  - ii. If you do agree, explain how you have accounted for the expenses associated with Express Mail tracking and Priority Mail delivery confirmation in your cost methodology.

- iii. If your methodology does not allocate costs to Express Mail tracking and Priority Mail delivery confirmation, explain why you have omitted such an allocation.
- h. Do you agree that First Class letters, flats, and cards, Standard A letters and flats, and Periodicals reap no direct benefits from the existence of POL?
  - i. If you do agree, then state whether it is equitable for First Class letters, flats, and cards, Standard A letters and flats, and Periodicals to help defray POL expenses in the form of a mark-up for the First, Standard A, and Periodicals subclasses.
  - ii. If you do not agree, then state your reasons.

OCA/USPS-ST9-4. You discuss the POL Help Desk at page 4 of your testimony.

- a. Are you referring to the activities of the technical and/or the non-technical help desk? Please specify.
- b. What telephone number will prospective users of POL, e.g., MOL, SOL, Express Mail tracking, or Priority Mail delivery confirmation, dial to connect to the POL help desk? Please give the toll-free, long-distance, or local phone numbers that may be dialed.
- c. Since no telephone number is given at [www.postofficeonline.com](http://www.postofficeonline.com), how do POL customers become aware of the POL help desk telephone number? Please explain.
- d. When a caller dials the toll-free number for the Postal Service—800-222-1811 (this is the telephone number provided by calling toll-free information at 800-555-

1212)—is that call automatically routed to the POL help desk? If not, what postal or contractor personnel answer queries at 800-222-1811? If these individuals are not POL help desk personnel, how have you accounted for the hardware, software, personnel, etc. costs of fielding inquiries at 800-222-1811?

OCA/USPS-ST9-5. At pages 4-5 of your testimony, you indicate that you have allocated 20 percent of help desk calls to MOL.

- a. Is the remaining 80 percent allocated to SOL?
- b. If any calls to the POL help desk concern Express Mail tracking or Priority Mail delivery confirmation, how are these calls reflected in the cost allocation?
- c. Is any portion of the POL help desk calls allocated solely to POL and not to any specific services such as MOL, SOL, Express Mail tracking or Priority Mail delivery confirmation? If so, would these costs be classified as institutional and recovered by means of a mark-up? Please explain in full.
- d. Provide the full allocation of total help desk expenses.

OCA/USPS-ST9-6. At page 5 of your testimony you state that the 181GB of storage capacity is allocated to MOL (38 percent), POL, and SOL.

- a. What percentage is allocated to POL?
- b. What percentage is allocated to SOL?
- c. What percentage is allocated to Express Mail tracking? If no storage capacity costs have been allocated to Express Mail tracking, explain why not, especially in view of the fact that Express Mail packages can be tracked at [www.postofficeonline.com](http://www.postofficeonline.com).

- d. What percentage is allocated to Priority Mail delivery confirmation? If no storage capacity costs have been allocated to Priority Mail delivery confirmation, explain why not, especially in view of the fact that delivery of Priority Mail packages can be confirmed at [www.postofficeonline.com](http://www.postofficeonline.com).

OCA/USPS-ST9-7. Isn't it correct that, at the present time, POL exists for the purpose of providing four services—MOL, SOL, Express Mail tracking, and Priority Mail delivery confirmation?

- a. If you do not agree, state your reasons for disagreeing.
- b. If you accept the premise of the question, wouldn't you agree that the most equitable allocation of POL storage capacity costs would be to include a percentage of these costs in MOL's attributable cost base? If you do not agree, please explain.
- c. If you do agree, then wouldn't it be logical to add 38 percent of the POL storage capacity costs to the 38 percent already included as MOL's discrete storage capacity requirements? If you disagree, please explain.

OCA/USPS-ST9-8. At page 5 of your testimony, you state that two of four Web servers are due to POL requirements. By virtue of the same reasoning outlined in interrogatory OCA/USPS-ST9-7 above, wouldn't it be most equitable to allocate a portion of the two POL Web server costs to MOL since MOL is one of only four services currently offered at [www.postofficeonline.com](http://www.postofficeonline.com), i.e., POL? If you disagree, state your reasons.

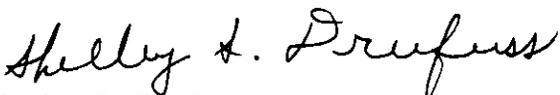
OCA/USPS-ST9-9. Of the 5000 SOL/POL users described at page 5 of your testimony, what percentage of these consists of SOL users and what percentage consists of POL users?

- a. Would Express Mail tracking customers or Priority Mail delivery confirmation customers ever be attempting to communicate over the T3 Internet connection at the same time as the MOL or SOL users?
- b. If so, why haven't you determined the percentage of simultaneous usage for which Express Mail tracking users and Priority Mail delivery confirmation users would be responsible?

OCA/USPS-ST9-10. The third sentence of Endnote C to your Exhibits appears to end in the middle of the sentence. Please provide the rest of the information for this Endnote.

#### CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

  
Shelley S. Dreifuss  
Attorney

Washington, D.C. 20268-0001  
January 25, 1999