

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF POSTAL SERVICE WITNESS BOZZO TO
INTERROGATORIES OF THE ABA AND NAPM (ABA&NAPM/USPS-T13-5 – 6, 11.b),
REDIRECTED FROM WITNESS SMITH
(June 24, 2005)

The United States Postal Service hereby provides the responses of witness Bozzo to the following interrogatories of ABA and NAPM, filed on June 10, 2005, and redirected from witness Smith: ABA&NAPM/USPS-T13-5 – 6, 11.b.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 24, 2005

Response of United States Postal Service Witness Bozzo
To Interrogatories of American Bankers Association and National Association of
Presort Mailers
Redirected from Witness Smith

ABA&NAPM-USPS-T13-5

In your response to a number of ABA&NAPM-USPS-T21 interrogatories, redirected from USPS witness Abdirahman, you state that the cost pool in question exhibits "lower volume variability" in this case compared to R2001-1.

- a. For all MODS and NONMODS mail processing cost pools, by 3 digit code as well, please state how many exhibit lower volume variabilities and identify them in a list, what percentage that is of the total cost pools, and total number of code operations, and on a unit cost weighted basis, what percentage it is of all such cost pools.
- b. Please explain for each cost pool with a lower volume variability in this case than the last case, what management cost savings, technological change, or other factor may have caused the result.

Response.

- a. Twenty-eight cost pools defined in both the BY 2000 and BY 2004 CRAs have lower variabilities in BY 2004. These are listed in Table 1, below. Cost pools are the finest level of operations for which variability factors are estimated in the CRA. For a list of the 3-digit MODS operations associated with each MODS cost pool, please see USPS-LR-K-55, Table I-2B. It is unclear what unit costs the question intends to be used to weight the cost pools, but the cost pools with variability increases constitute 57 percent of mail processing total (pool) labor cost and 56 percent of mail processing volume-variable cost. The cost pools not listed in Table 1 or in the response to ABA&NAPM/USPS-T13-6 were either undefined in BY 2000 or the variability did not change.
- b. Please see USPS-T-12 at 53-54 for discussion of changes in econometrically estimated variabilities. The 1CANCEL cost pool has an econometrically estimated variability in BY 2004, whereas the BY 2000 variability for the combined cancellation and meter prep cost pool in use at the time was

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computed from IOCS tallies. For the remaining operations except Non-MODS Registry, the changes result from the replacement of variabilities calculated from IOCS data with an average of the econometric variabilities. For Non-MODS Registry, the small decrease is a result of an update with FY2004 IOCS sample data versus comparable data from FY 2000; I am not aware of operational factors that would drive the change.

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Table 1. Cost Pools With Decreasing Variabilities, BY 2004 Pool Cost, and BY 2004 Volume-Variable Cost, Response to ABA&NAPM/USPS-T13-6(a).

Pool	Pool Cost	Volume-Variable Cost
BCS/	158,403	142,563
BCS/DBCS	1,272,441	1,081,575
FSM/1000	230,941	168,587
MECPARC	7,098	5,891
1SACKS_M	30,355	25,195
1CANCEL	299,092	137,582
1MTRPREP	32,263	26,778
1OPBULK	228,247	189,445
1OPPREF	562,762	467,092
1PLATFRM	1,351,900	1,122,077
1POUCHNG	138,269	114,763
1PRESORT	12,669	10,515
1SACKS_H	128,372	106,549
1SCAN	83,753	69,515
BUSREPLY	36,101	29,964
LD49	293,973	243,998
NMO	39,355	32,665
OTHR	354,242	294,021
PLA	225,861	187,465
PSM	71,879	59,660
SPB	77,825	64,595
SSM	30,307	25,154
Allied	1,010,558	838,763
Auto/Mech	216,212	179,456
MANF	246,898	222,208
MANL	962,846	837,676
MANP	77,846	60,720
Registry (Non-MODS)	70,385	24,635
Total Above Pools	8,250,853	6,769,106
Total All Pools	14,563,371	11,990,094
Percent of Total	57%	56%

Costs in \$000 from USPS-T-11 at 32-33

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ABA&NAPM-USPS-T13-6

In your response to some ABA&NAPM-USPS-T21 interrogatories, redirected from USPS witness Abdirahman, you state that the cost pool in question exhibits “higher volume variability” in this case compared to R2001-1.

- a. For all MODS and NONMODS mail processing cost pools, by 3 digit code as well, please state how many exhibit higher volume variabilities and identify them in a list, what percentage that is of the total cost pools, and total number of code operations, and on a unit cost weighted basis, what percentage it is of all such cost pools.
- b. Given your long expertise in this area, please explain for each cost pool with a higher volume variability in this case than the last case, what management cost savings, technological change, or other factor may have caused the result.

Response.

- a. Nineteen cost pools defined in both the BY 2000 and BY 2004 CRAs have higher variabilities in BY 2004. These are listed in Table 2, below. Cost pools are the finest level of operations for which variability factors are estimated in the CRA. For a list of the 3-digit MODS operations associated with each MODS cost pool, please see USPS-LR-K-55, Table I-2B. It is unclear what unit costs the question intends to be used to weight the cost pools, but the 19 cost pools with variability increases constitute 28 percent of both mail processing total (pool) labor cost and mail processing volume-variable cost.
- b. Please see USPS-T-12 at 53-54 for discussion of changes in econometrically estimated variabilities. For the remaining operations except MODS (LDC 18) Registry, the change results from the replacement of variabilities calculated from IOCS data with an average of the econometric variabilities. For MODS Registry, the small increase is a result of an update with

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FY2004 IOCS sample data versus comparable data from FY 2000; I am not aware of operational factors that would drive the change.

Table 2. Cost Pools With Increasing Variabilities, BY 2004 Pool Cost, and BY 2004 Volume-Variable Cost, Response to ABA&NAPM/USPS-T13-6(a).

Cost Pool	Pool Cost	Volume-Variable Cost
OCR/	211,011	164,589
FSM/	3,520	3,520
SPBS OTH	427,110	328,875
SPBSPRIO	95,150	73,266
MANF	246,898	222,208
MANL	962,846	837,676
MANP	77,846	60,720
PRIORITY	232,857	176,971
EXPRESS	100,914	83,759
MAILGRAM	3,520	2,922
REGISTRY	151,234	63,518
REWRAP	22,223	18,445
1EEQMT	30,848	25,604
1SUPPORT	277,680	230,474
1MISC	231,961	192,528
INTL ISC	165,161	137,084
LD79	184,307	152,975
EXPRS IN	39,832	33,060
MISC	603,099	500,572
Total Above Pools	4,068,017	3,308,765
Total All Pools	14,563,371	11,990,094
Percent of Total	28%	28%

Costs in \$000 from USPS-T-11 at 32-33

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ABA&NAPM-USPS-T13-11

In your response to ABA&NAPM-USPS-T21-46 c., redirected from USPS witness Abdirahman, you state with reference to MODS 79 LD 79 "The increase in the variability from .299 to .83 is the main factor in the higher unit costs."

- a. Can you explain, or direct this question to a witness who can explain what factors are actually at work in the real world of BMC's that would cause this variability to escalate so dramatically?
- b. Is this an indication of greater efficiency (greater variability, and consequently managerial ability to control in the absence of estimated volume) or less efficiency (higher unit cost).
- c. For mail processing labor that is redundant on a slow night, what cost reducing activities does management engage them in? If your answer is "none", what do they do during their shift?

Response:

- a. Answered by witness Smith.
- b. As noted in the response to ABA&NAPM/USPS-T13-6, the variability change was due to a change in the methodology for calculating the variability for the LD79 cost pool. It is not possible to draw general conclusions regarding the efficiency of operations from the degree of volume-variability.
- c. Answered by witness McCrery.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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