

DOCKET SECTION

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

POSTAL RATE AND FEE CHANGES, 1997)
_____)

Docket No. R97-1

**RESPONSE OF THE DIRECT MARKETING ASSOCIATION, INC. WITNESS
BUC TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
(USPS/DMA-T1-22-23)**

The Direct Marketing Association, Inc. hereby provides responses of witness Buc to the following interrogatories of the United States Postal Service (USPS/DMA-T1-22-23), filed on February 4, 1998.

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

Respectfully submitted,



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February 18, 1998

USPS/DMA-T1-22. Please refer to your response to USPS/DMA-T1-6 part c. You state that "IOCS . . . was designed to find the cost of mail processing by class and subclass." Please also refer to page 1 of Exhibit USPS-47A (USPS-ST-47).

- a. Please confirm that "[t]he In-Office Cost System uses a probability sample of work time to estimate the costs for time spent on various activities, including time spent processing each category of mail and several special services." If you do not confirm, please explain fully.
- b. Please confirm that the "various activities" for clerks and mailhandlers include, but are not limited to, "time spent processing each category of mail and several special services." If you do not confirm, please explain fully.

USPS/DMA-T1-22 Response:

- a. I can confirm only that page 1 of Exhibit USPS-47A contains the cited quote. However, the cited exhibit contains no definition of "activities." When I worked as a cost analyst for the Postal Service, the director of the Revenue and Cost Analysis Division of the Postal Service was adamant that IOCS could not be used to determine the cost of discrete mail processing operations because of its sample design and the limited number of IOCS tallies. The sampling framework of IOCS has not changed materially since then, although I understand that recently the Postal Service has reduced substantially the number of IOCS tallies.
- b. I can neither confirm nor deny. Exhibit USPS-47A does not indicate whether IOCS may be used to estimate the costs for mail processing "activities" or operations in addition to estimating the costs for "time spent processing each category of mail and several special services." However, also see my response to subpart a. above.

USPS/DMA-T1-23. Please refer to your response to USPS/DMA-T1-11, part a. You state that your programs do not use any IOCS data other than office group to distribute mixed mail costs.

- a. Please confirm that your programs assign costs for mixed class-specific activity codes (activity codes 5300-5461) to the appropriate subclass(es) of mail. If you do not confirm, please explain fully.
- b. Please refer to line 1111 of the SAS log at page 29 of DMA-LR-2. Did you intend to exclude activity code 5461 from the direct tally set? If so, please explain fully. If not, please provide a version of Exhibit DMA 3 in which activity code 5461 is included in the direct tally set.

USPS/DMA-T1-23 Response:

- a. It would be more accurate to say that my programs, like witness Degen's, reassign certain direct costs within the distributing sets before distributing mixed mail costs. The question appears to be making a semantic, rather than a substantive, point based on a misunderstanding of the term "mixed." Witness Degen considers IOCS tallies with the activity codes 5300-5461 to be part of the distributing sets: "[d]istributing sets consist of records with a mail or special service activity code (F262=1000-4950, 53XX-54XX, and 0010-0300 for specified situations) and distributed sets consist of those without." USPS-LR-H-146 at II-3. Thus, like my programs, witness Degen considers such records to be *direct*, rather than *mixed*, tallies despite the moniker assigned them by IOCS.

b. No. In performing my distribution, I merely reproduced a line of code that was filed with witness Degen's testimony as USPS-LR-H-218. Witness Degen's SAS log entitled "MOD1DIR," reads:

```
ELSE IF '1000' <=ACTV<= '4950' OR '5300' <=ACTV<= '5460'  
      THEN OUTPUT DIRECT;
```

I should have edited this log to read:

```
ELSE IF '1000' <=ACTV<= '4950' OR '5300' <=ACTV<= '5461'  
      THEN OUTPUT DIRECT;
```

Please note, however, that this change does not materially affect my cost distributions. I have attached a revised copy of Exhibit DMA-3 reflecting this change.

EXHIBIT DMA-3 (Revised 2/18/98)

DMA's Alternative Methodology and Witness Degen's Proposed Methodology Distributing Volume-Variable Mail Processing Costs by Subclass (\$000s)

Class	Subclass	DMA Alternative BY 96 Cost Distribution				Degen Total	Difference Total
		MODS	Non-MODS	BMC	Total		
		[1]	[2]	[3]	[4]	[5]	[6]
First Class	Letters & Parcels	3,854,655	783,002	4,806	4,642,463	4,651,746	-9,283
First Class	Presort Letters & Parcels	807,532	212,044	538	1,020,114	1,063,109	-42,995
First Class	Single Piece Cards	123,957	26,170	87	150,214	139,939	10,275
First Class	Presort Private Cards	30,909	7,707	0	38,616	36,425	2,191
Priority		256,368	57,074	1,588	315,031	477,897	-162,866
Express		40,555	10,853	17	51,424	84,169	-32,745
Mailgrams		110	0	0	110	74	36
Periodicals	Within County	9,438	5,058	68	14,564	15,161	-597
Periodicals	Regular	303,568	82,934	13,163	399,665	461,712	-62,047
Periodicals	Nonprofit	55,451	14,009	3,097	72,557	80,739	-8,182
Periodicals	Classroom	2,266	1,132	586	3,983	5,684	-1,701
Standard (A)	Single Piece Rate	52,148	11,376	12,175	75,699	78,662	-2,963
Standard (A)	ECR	137,715	68,017	15,225	220,957	266,254	-45,297
Standard (A)	Regular	1,035,527	290,569	140,491	1,466,586	1,545,319	-78,733
Standard (A)	Nonprofit ECR	17,844	5,309	1,357	24,510	28,948	-4,438
Standard (A)	Nonprofit Regular	278,678	58,339	19,998	357,015	367,512	-10,497
Standard (B)	Parcels - Zone Rate	39,636	14,378	71,863	125,876	159,880	-34,004
Standard (B)	Bound Printed Matter	21,269	10,655	35,196	67,120	74,506	-7,386
Standard (B)	Special Rate	16,694	7,525	45,917	70,136	68,491	1,645
Standard (B)	Library Rate	4,884	1,390	9,203	15,477	16,350	-873
USPS		54,904	14,424	3,479	72,807	77,658	-4,851
Free for Blind/Handicapped		5,923	744	2,105	8,772	10,100	-1,329
International		164,813	5,252	27,232	197,297	209,018	-11,721
Special Services	Registry	34,634	8,884	330	43,848	42,162	1,686
Special Services	Certified	8,776	15,837		24,613	18,473	6,140
Special Services	Insurance	304	609	29	942	771	171
Special Services	COD	1,091	1,782		2,873	1,815	1,058
Special Services	Special Delivery	300			300	243	57
Special Services	Money Orders				0		0
Special Services	Stamped Envelopes				0		0
Special Services	Special Handling	165	157		322	200	122
Special Services	Post Office Box				0		0
Special Services	Other	68,847	25,001	395	94,243	76,063	18,180
Total Volume-Variable		7,428,960	1,740,229	408,946	9,578,135	10,059,080	-480,945

[1] DMA-LR-2 at page 84 adjusted to reflect activity code 5461 in the direct tally set. See USPS/DMA-T-1-23.

[2] DMA-LR-2 at page 119.

[3] DMA-LR-2 at page 38.

[4] = [1] + [2] + [3].

[5] USPS-T-12, Table 5, page 23, Column "Total."

[6] = [4] - [5].

DECLARATION

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

Lawrence G. Buc

Dated: Feb 18, 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, as modified by the Special Rules of Practice.


Michael D. Bergman

February 18, 1998
Washington, D.C.