

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

EVOLUTIONARY NETWORK DEVELOPMENT
SERVICE CHANGES, 2006

Docket No. N2006-1

REVISED RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2 (QUESTION 14)
July 10, 2006 [ERRATA]

The United States Postal Service hereby provides its revised response to Question 14 of Presiding Officer's Information Request No. 2. The original response was filed on June 12, 2006. The revised response merely corrects the spelling of the word "variability" in the fourth line from the bottom of that response. This revised response supersedes the original response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2**

Revised: July 10, 2006

Question 14.

The response to VP/USPS-T1-5, part b, states, "The incremental cost of adding volume to a large operation is less than a small and medium operation." Please provide any analysis that confirms this statement.

RESPONSE:

As stated in the response to VP/USPS-T1-5, the END cost functions are a linear form of the non-linear structural equations utilized by USPS Finance. The word "incremental" was used there in a way to mean "marginal." The intent was to convey the notion that not that all large facilities' operations were necessarily more efficient on the margin than smaller facilities, but rather that the model would find the efficient consolidation opportunities.

For a discussion of the marginal cost component of those functions, see the Docket No. R2006-1 testimony of witness Bozzo (USPS-T-12). His testimony shows that average costs decline (toward marginal cost) as workload increases for those operations whose variability is materially less than one. See also, the Docket No. R2006-1 response of witness Bozzo to VP/USPS-T12-6(b), which shows that there are some high productivity large facilities and that economies are present across the facility size spectrum.