

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(UPS/USPS-T31-1-2)

The United States Postal Service hereby files the responses of witness O'Hara to above-listed interrogatories, filed on July 7, 2006.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS O'HARA  
TO INTERROGATORY OF UNITED PARCEL SERVICE**

**OCA/USPS-T31-1.** Are “product specific” costs attributable to the class of mail for which they are incurred?

**RESPONSE:**

It is my understanding that “product specific” costs are included in “attributable cost” under the Commission’s costing methodology.

“Product specific” costs are also included in the “incremental cost” measure that the Postal Service uses to determine whether Criterion 3 is met by a given subclass. Please see my testimony at page 11, line 35 through page 12, line 9 for a brief description the incremental cost concept and how it differs from the Commission’s attributable cost.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS O'HARA  
TO INTERROGATORY OF UNITED PARCEL SERVICE**

**UPS/USPS-T31-2.** Are the “product specific” costs of a class or subclass of mail included in the cost base to which the markup determined by you and the Postal Service’s pricing witnesses are applied in determining the total revenues to be recovered by that class of mail?

**RESPONSE:**

For the purpose of evaluating the relative contribution of various subclasses to institutional costs, the Postal Service examines the ratios of proposed revenue to volume-variable cost across subclasses. Volume-variable cost does not include “product specific” costs.

Given that Criterion 3 is satisfied, the Postal Service believes that unit volume-variable cost is the appropriate cost measure for evaluating the relationship between prices and cost with respect to the other criteria. The unit volume variable cost of a subclass measures the resources needed to provide an additional unit of service in each subclass and mailers use price to determine how much volume to mail in various subclasses.