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

POSTAL RATE AND FEE CHANGES	Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS BOZZO TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC. (VP/USPS-T12-8-15)
(June16, 2006)

The United States Postal Service hereby provides the responses of Witness Bozzo (USPS-T-12) to the following interrogatories of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.: VP/USPS-T12-8-15, filed on June 2, 2006.

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 16, 2006

VP/USPS-T12-8.

Please refer to your response to VP/USPS-T12-4.

a. With respect to the economies of “density” in mail processing operations that you analyzed, what effort did you make to ascertain whether such economies vary with respect to plant size?
b. Allowing for the existence of significant facility-specific cost-causing factors that are unrelated to economies of scale, economies of scope, or economies of density (as you discuss in your response to VP/USPS-T12-4(b)), do the economies of density in the mail processing operations which you analyzed increase uniformly with plant size? Please explain why you would or would not expect that to be the case.

Response.

a.-b. As I indicated in response to VP/USPS-T12-6(b), I inspected the coefficients of the translog labor demand models to determine that the models imply that “variabilities generally should not differ greatly between large and small facility groups.”

VP/USPS-T12-9.

a. For the facilities and cost pools included in your study of volume variability, did you collect any data similar to those presented in Docket No. R2001-1, USPST-39, by witness Kingsley at page 31, lines 1-2? That is, for some or all of the individual facilities included in your study, do you have data on (i) the number of AFSM 100s and BCS/DBCSs in each facility, (ii) the average run time per machine, (iii) the average number of sort plan changes per machine, and (iv) the average time to change sort plans? If so, please provide or indicate where those data can be found, or how they can be extracted from the data contained in USPS-LR-L-56.
b. With respect to a comparison of automated mail processing in smaller facilities with only a few sorting machines versus larger facilities with greater volume and more sorting machines, please cite all evidence of which you are aware showing that larger facilities with more volume and more machines have either (i) fewer scheme changes, or (ii) longer average run times between scheme changes, or (iii) both fewer scheme changes and longer run times.

Response.

a. No. However, a purpose of the IOCS data analysis presented in USPS-T-12, Table 2 (p. 27) is to provide system-wide information on the proportions of time spent in scheme changes presented for two facilities by witness Kingsley.

b. I am not aware of such evidence. Please see also witness McCrery's response to VP/USPS-T42-21(d).

VP/USPS-T12-10.

In Docket No. R2001-1, witness Kingsley (USPS-T-39) testified that "subject to practical requirements such as transportation costs and the need to make the best use of our existing space, **we prefer larger plants**." USPS-T-39, p. 29, ll. 10-12 (emphasis added). In your response to VP/USPS-T12-4, you discuss economies of "density" in the mail processing cost pools that you analyzed.

a. Do the economies of "density" implied by your results support a preference for larger plants as expressed by witness Kingsley? If so, please discuss, and explain the logical connection for such support.
b. Aside from economies of "density," does your study in any other way support the conclusion that larger plants are more economical, or more desirable, than smaller plants? If so, please explain.

Response.

a. The presence of economies of "density" implies that marginal costs in the operations are lower than average costs. So, other things equal, increased volume will reduce the average costs of operations, as non-volume-variable costs are spread over greater volumes.

b. My study suggests that any potential labor cost diseconomies from adding additional equipment to operations would be small—elasticities of labor input with respect to capital are small (see USPS-T-12 at 81). With respect to large plants defined in terms of the delivery network served, the econometric results provide mixed evidence as to the presence of economies of "scale" (i.e., less than unit elasticities with respect to volume and the network). The deliveries elasticities are, for the most part, not estimated with sufficient precision to reject a hypothesis of constant returns to scale—as opposed to unit volume-variability, which is soundly rejected—in the operations I study econometrically. It should be noted that many of the activities I discuss in USPS-T-12, section II.F, would not be very sensitive to the extent of the delivery network, suggesting possible economies from consolidation. See, for instance, the

hypothetical scenario from your interrogatory VP/USPS-T12-15. These imply that facilities with larger delivery networks will at least not tend to be less desirable, other things equal; there do not appear to be diseconomies caused by size in the operations I study that would outweigh economies from other operations and/or other cost segments.

VP/USPS-T12-11.

For your response to the following questions, please assume that a DBCS is processing First-Class letters on a particular sort scheme.

a. If, during the same shift, the volume of First-Class letters to be processed on that sort scheme were to increase, would you expect any increase in either the set up and takedown time on account of that change in volume? Please explain.
b. Would you consider the setup and takedown time for that particular sortation on the DBCS to be incremental to the cost of sorting First-Class Mail. Please explain the basis for your answer.

Response.

a. I would not normally expect an increase in setup or takedown time in the indicated scenario (or a decrease, in the case that volume declined). This assumes that the total volume can be processed on the machine within the available processing window. Note that it is possible, though in practice unlikely, that a small increase in volume on the margin could require the scheme to be run in parallel on an additional machine; this is why I consider the activity likely to exhibit “low” (rather than zero) volume variability in USPS-T-12 at p. 31, line 6. In the absence of large system-wide volume increases, volumes would not tend to drive any substantial net increase in setup or takedown time.

b. If the sort scheme solely processed First-Class Mail, then the setup and takedown time could be considered incremental to the class in the sense that the associated cost could be avoided if the First-Class Mail service were no longer provided. However, if mail other than First-Class mail were processed in the scheme, the setup and takedown time would not be incremental to First-Class Mail.

VP/USPS-T12-12.

Please refer to Docket No. R2005-1 and your response to ABA&NAPM/USPS-T21-1 (redirected from witness Abdirahman).

a. Please provide an updated table corresponding to that which you produced in response to the above-cited interrogatory.
b. Please indicate whether the cost data shown in the table correspond to total accrued cost or volume variable cost.
c. Please provide a cross-walk showing the correspondence between the activities in the table provided in response to preceding part a and the cost pools shown in Table 1 of your testimony (USPS-T-12, p. 3).
d. For the activities that comprise your cost pools, do the volume variable costs (or the accrued costs) of the activities sum to the volume variable costs of the entire cost pool? If not, please explain why not.
e. Does the Postal Service have data that would enable the cost for the various activities shown in the table provided in response to part a to be distributed to the classes and subclasses of mail?

Response.

a. The updated table is provided as Attachment 1 to this response.

b. As indicated in the response to ABA&NAPM/USPS-T21-1 (Docket No. R2005-1, Tr. 5/1422), the costs are witness Van-Ty-Smith's cost pool dollars split based on MODS workhours—i.e., "accrued" cost.

c. The table provided as Attachment 1 to this response indicates the cost pool for each listed operation.

d. The costs of the operations listed in Attachment 1 do not sum to the costs for the associated cost pools. The operations from ABA&NAPM/USPS-T21-1 constitute a subset of the operations mapped to the relevant cost pools that are employed in the letter-shape mailflow models.

e. It is technically possible to assign most IOCS tallies associated with the MODS cost pools to more finely disaggregated cost pools, using the MODS operation number

recorded during the IOCS reading or, possibly, other IOCS activity data. However, it cannot be assumed that there exists sufficient and sufficiently reliable IOCS sample data for an arbitrary disaggregation of MODS operations; nor is it necessarily possible to obtain reliable volume-variability factors at an arbitrary level of operational disaggregation. Accordingly, I believe data limitations would make it inadvisable, if not impossible, to separately distribute volume-variable costs to classes and/or subclasses for at least some of the listed operations.

Attachment 1, Response to VP/USPS-T12-12
MODS Productivity, LDCs, and Cost by Operation

Group	Group Name	Op.	Operation Name	TPF/Hour	LDC	Cost Pool	Cost ($000)
02	Incoming ISS	284	DBCS/DIOSS ISS INCOMING SCF PRIMARY	8,780	11	DBCS/Inc	426.7
02	Incoming ISS	285	DBCS/DIOSS ISS INCOMING PRIMARY	4,991	11	DBCS/Inc	112.1
02	Incoming ISS	286	DBCS/DIOSS ISS INCOMING SECONDARY	1,057	11	DBCS/Inc	83.3
02	Incoming ISS	287	DBCS/DIOSS ISS BOX SECTION	1,525	11	DBCS/Inc	31.8
06	Incoming OSS	273	DBCS/DIOSS OSS MANAGED MAIL	6,027	11	DBCS/Inc	2,211.7
06	Incoming OSS	274	DBCS/DIOSS OSS INCOMING SCF PRIMARY	15,162	11	DBCS/Inc	1,130.2
06	Incoming OSS	275	DBCS/DIOSS OSS INCOMING PRIMARY	13,586	11	DBCS/Inc	398.6
06	Incoming OSS	276	DBCS/DIOSS OSS INCOMING SECONDARY	10,897	11	DBCS/Inc	204.8
06	Incoming OSS	277	DBCS/DIOSS OSS BOX SECTION	2,219	11	DBCS/Inc	1.4
06	Incoming OSS	278	DBCS/DIOSS OSS SEC/SEGMENT 1ST PASS	134,400	11	DBCS/Inc	0.4
06	Incoming OSS	505	DIOSS EC-OSS BULKY MODE - I/C PRIMA	0	11	DBCS/Inc	152.1
06	Incoming OSS	506	DIOSS EC-OSS BULKY MODE - I/C SECND	0	11	DBCS/Inc	20.7
06	Incoming OSS	974	BCS-OSS-INCOMING SCF	7,944	11	DBCS/Inc	1,728.5
06	Incoming OSS	975	BCS-OSS-INCOMING PRIMARY	8,058	11	DBCS/Inc	867.4
06	Incoming OSS	976	BCS-OSS-INCOMING SECONDARY	9,506	11	DBCS/Inc	826.5
06	Incoming OSS	977	BCS-OSS-BOX SECTION	4,408	11	DBCS/Inc	22.0
06	Incoming OSS	978	BCS-OSS SECTOR/SEGMENT 1ST PASS	0	11	DBCS/Inc	10.3
06	Incoming OSS	979	BCS-OSS SECTOR/SEGMENT 2ND PASS	0	11	DBCS/Inc	0.8
10	In BCS SCF/Primary	484	DBCS-EC EC MODE-INCOMING SCF PRIMAR	2,294	11	DBCS/Inc	525.4
10	In BCS SCF/Primary	485	DBCS-EC EC MODE-INCOMING PRIMARY	1,731	11	DBCS/Inc	24.2
10	In BCS SCF/Primary	854	MPBCS CHUNKY MOD-INCOMING SCF PRIM	10,950	11	DBCS/Inc	62.9
10	In BCS SCF/Primary	855	MPBCS CHUNKY MOD-INCOMING PRIMARY	26,900	11	DBCS/Inc	0.5
10	In BCS SCF/Primary	864	BCS ON OCR-INCOMING SCF	7,236	11	DBCS/Inc	1,340.2
10	In BCS SCF/Primary	865	BCS ON OCR-INCOMING PRIMARY	9,764	11	DBCS/Inc	1,502.9
10	In BCS SCF/Primary	874	MPBCS-INCOMING SCF	6,619	11	DBCS/Inc	42,294.3
10	In BCS SCF/Primary	875	MPBCS-INCOMING PRIMARY	8,154	11	DBCS/Inc	12,501.9
10	In BCS SCF/Primary	894	DBCS/DIOSS BCS INCOMING SCF PRIM	6,839	11	DBCS/Inc	132,058.5
10	In BCS SCF/Primary	895	DBCS/DIOSS BCS INCOMING PRIMARY	7,343	11	DBCS/Inc	53,171.9
11	In BCS Secondary (1 Pass)	486	DBCS-EC EC MODE-INCOMING SECONDARY	96,523	11	DBCS/Inc	6.3

Group	Group Name	Op.	Operation Name	TPF/Hour	LDC	Cost Pool	Cost ($000)
11	In BCS Secondary (1 Pass)	856	MPBCS CHUNKY MOD-INCOMING SECONDARY	2,200	11	DBCS/Inc	0.2
11	In BCS Secondary (1 Pass)	866	BCS ON OCR-INCOMING SECONDARY	7,141	11	DBCS/Inc	3,385.2
11	In BCS Secondary (1 Pass)	867	BCS ON OCR-BOX SECTION	31,005	11	DBCS/Inc	26.7
11	In BCS Secondary (1 Pass)	876	MPBCS-INCOMING SECONDARY	6,460	11	DBCS/Inc	26,003.7
11	In BCS Secondary (1 Pass)	877	MPBCS-BOX SECTION	9,936	11	DBCS/Inc	1,539.0
11	In BCS Secondary (1 Pass)	896	DBCS/DIOSS BCS I/C SECONDARY	7,095	11	DBCS/Inc	70,562.5
11	In BCS Secondary (1 Pass)	897	DBCS/DIOSS BCS BOX SECTION	12,523	11	DBCS/Inc	9,583.3
11	In BCS Secondary (1 Pass)	909	CSBCS-INCOMING SECONDARY	23,921	11	DBCS/Inc	10.7
11	In BCS Secondary (1 Pass)	910	CSBCS-BOX MAIL	3,286	11	DBCS/Inc	1.4
12	In BCS Secondary (2 Pass)	868	BCS ON OCR-SECTOR/SEGMENT 1ST PASS	47,511	11	DBCS/Inc	0.3
12	In BCS Secondary (2 Pass)	869	BCS ON OCR-SECTOR/SEGMENT 2ND PASS	1,748	11	DBCS/Inc	7.6
12	In BCS Secondary (2 Pass)	878	MPBCS-SECTOR/SEGMENT 1ST PASS	10,817	11	DBCS/Inc	1,540.8
12	In BCS Secondary (2 Pass)	879	MPBCS-SECTOR/SEGMENT 2ND PASS	17,768	11	DBCS/Inc	680.7
12	In BCS Secondary (2 Pass)	898	DBCS/DIOSS BCS SECT/SEGM 1ST PASS	8,403	11	DBCS/Inc	5,877.5
12	In BCS Secondary (2 Pass)	899	DBCS/DIOSS BCS SECT/SEGM 2ND PASS	14,322	11	DBCS/Inc	1,961.6
12	In BCS Secondary (2 Pass)	908	CSBCS-SECTOR/SEGMENT	4,346	11	DBCS/Inc	22.3
12	In BCS Secondary (2 Pass)	914	MPBCS-DELIV POINT SEQ 1ST PASS	9,676	11	DBCS/Inc	1,737.1
12	In BCS Secondary (2 Pass)	915	MPBCS-DELIV POINT SEQ 2ND PASS	16,933	11	DBCS/Inc	679.4
12	In BCS Secondary (2 Pass)	916	BCS-OSS-DELIV POINT SEQ 1ST PASS	21,440	11	DBCS/Inc	28.4
12	In BCS Secondary (2 Pass)	917	BCS-OSS DELIV POINT SEQ 2ND PASS	21,468	11	DBCS/Inc	29.2
12	In BCS Secondary (2 Pass)	918	DBCS/DIOSS BCS DPS, 1ST PASS	6,297	11	DBCS/Inc	553,753.2
12	In BCS Secondary (2 Pass)	919	DBCS/DIOSS BCS DPS, 2ND PASS	19,414	11	DBCS/Inc	159,768.9
12	In BCS Secondary (2 Pass)	925	DBCS/DIOSS-OSS-DELIV P SEQ 1ST PASS	1,711	11	DBCS/Inc	682.1
12	In BCS Secondary (2 Pass)	926	DBCS/DIOSS-OSS-DELIV P SEQ 2ND PASS	14,139	11	DBCS/Inc	77.8
13	In BCS Secondary (3 Pass)	911	CSBCS-DELIVERY POINT SEQUENCE (DPS)	14,649	11	DBCS/Inc	329.6
01	Outgoing ISS	281	DBCS/DIOSS ISS OUTGOING PRIMARY	7,882	11	DBCS/Out	15,182.8
01	Outgoing ISS	282	DBCS/DIOSS ISS OUTGOING SECONDARY	121,007	11	DBCS/Out	8.2
01	Outgoing ISS	491	DIOSS EC-ISS BULKY MODE - O/G PRIMA	0	11	DBCS/Out	6.3
02	Incoming ISS	283	DBCS/DIOSS ISS MANAGED MAIL	5,830	11	DBCS/Out	609.5
05	Outgoing OSS	091	CIOSS TRS IMAGE LIFT MODE	6,632	11	DBCS/Out	2,163.5
05	Outgoing OSS	092	CIOSS TERNATIONAL OUTBOUND	7,492	11	DBCS/Out	1,303.9
05	Outgoing OSS	093	CIOSS FORWARD IMAGE LIFT MODE	6,925	11	DBCS/Out	2,473.0
05	Outgoing OSS	094	CIOSS REVERSE SIDE SCAN	5,326	11	DBCS/Out	307.4
05	Outgoing OSS	095	CIOSS RESCAN	4,901	11	DBCS/Out	120.1
Group	Group Name	Op.	Operation Name	TPF/Hour	LDC	Cost Pool	Cost

							($000)
05	Outgoing OSS	096	CIOSS OTHER MODE	6,407	11	DBCS/Out	240.4
05	Outgoing OSS	097	CIOSS INTRCEPT IMAGE LIFT MODE	6,365	11	DBCS/Out	1,383.2
05	Outgoing OSS	098	CIOSS FWDS LABEL MODE	7,037	11	DBCS/Out	2,374.5
05	Outgoing OSS	099	CIOSS RTS LABEL MODE	6,174	11	DBCS/Out	2,645.0
05	Outgoing OSS	261	DBCS/DIOSS OCR O/G PRIMARY	5,145	11	DBCS/Out	2,323.3
05	Outgoing OSS	262	DBCS/DIOSS OCR O/G SECONDARY	86,929	11	DBCS/Out	7.2
05	Outgoing OSS	271	DBCS/DIOSS OSS OUTGOING PRIMARY	9,839	11	DBCS/Out	75,000.0
05	Outgoing OSS	272	DBCS/DIOSS OSS OUTGOING SECONDARY	11,890	11	DBCS/Out	1,639.1
05	Outgoing OSS	971	BCS-OSS-OUTGOING PRIMARY	8,825	11	DBCS/Out	9,534.3
05	Outgoing OSS	972	BCS-OSS-OUTGOING SECONDARY	3,908	11	DBCS/Out	837.8
06	Incoming OSS	973	BCS-OSS-MANAGED MAIL	7,326	11	DBCS/Out	1,549.2
07	Out BCS Primary	291	DIOSS EC/DBCS BULKY MODE - O/G PRIM	310	11	DBCS/Out	0.4
07	Out BCS Primary	292	DIOSS EC/DBCS BULKY MODE - O/G SEC	0	11	DBCS/Out	0.1
07	Out BCS Primary	481	DBCS-EC EC MODE-OUTGOING PRIMARY	4,997	11	DBCS/Out	694.9
07	Out BCS Primary	851	MPBCS CHUNKY MOD-OUTGOING PRIMARY	2,175	11	DBCS/Out	190.3
07	Out BCS Primary	861	BCS ON OCR-OUTGOING PRIMARY	3,756	11	DBCS/Out	20.6
07	Out BCS Primary	871	MPBCS-OUTGOING PRIMARY	4,830	11	DBCS/Out	1,612.1
07	Out BCS Primary	891	DBCS/DIOSS BCS OUTGOING PRIMARY	8,506	11	DBCS/Out	58,497.4
08	Out BCS Secondary	482	DBCS-EC EC MODE-OUTGOING SECONDARY	24,091	11	DBCS/Out	9.1
08	Out BCS Secondary	852	MPBCS CHUNKY MOD-OUTGOING SECONDARY	1,456	11	DBCS/Out	12.9
08	Out BCS Secondary	862	BCS ON OCR-OUTGOING SECONDARY	13,567	11	DBCS/Out	64.9
08	Out BCS Secondary	872	MPBCS-OUTGOING SECONDARY	7,723	11	DBCS/Out	4,208.2
08	Out BCS Secondary	892	DBCS/DIOSS BCS OUTGOING SECONDARY	9,136	11	DBCS/Out	33,372.7
09	In BCS MMP	483	DBCS-EC EC MODE-MANAGED MAIL	4,124	11	DBCS/Out	193.3
09	In BCS MMP	853	MPBCS CHUNKY MOD-MANAGED MAIL	117	11	DBCS/Out	0.5
09	In BCS MMP	863	BCS ON OCR-MANAGED MAIL	7,142	11	DBCS/Out	384.2
09	In BCS MMP	873	MPBCS-MANAGED MAIL	7,377	11	DBCS/Out	18,786.0
09	In BCS MMP	893	DBCS/DIOSS BCS MANAGED MAIL	6,730	11	DBCS/Out	150,021.0
01	Outgoing ISS	881	MLOCR-ISS-OUTGOING PRIMARY	6,530	11	OCR	81,958.5
01	Outgoing ISS	882	MLOCR-ISS-OUTGOING SECONDARY	6,868	11	OCR	210.5
02	Incoming ISS	883	MLOCR-ISS-MANAGED MAIL	3,517	11	OCR	22,133.7
02	Incoming ISS	884	MLOCR-ISS-INCOMING SCF	5,393	11	OCR	16,262.3
02	Incoming ISS	885	MLOCR-ISS-INCOMING PRIMARY	4,505	11	OCR	7,252.2
02	Incoming ISS	886	MLOCR-ISS-INCOMING SECONDARY	5,412	11	OCR	101.2
Group	**Group Name**	**Op.**	**Operation Name**	**TPF/Hour**	**LDC**	**Cost Pool**	**Cost ($000)**

02	Incoming ISS	887	MLOCR-ISS-BOX SECTION	1	11	OCR	237.2
05	Outgoing OSS	961	DIOSS BULKY OCR MODE - O/G PRI	0	11	OCR	0.1
14	Manual Out Primary	030	MANUAL LTR-OUTGOING PRIMARY	400	14	MANL	326,440.6
15	Manual Out Secondary	040	MANUAL LTR-OUTGOING SECONDARY	636	14	MANL	51,085.9
16	Manual In MMP	043	MANUAL LTR-STATE DISTRIBUTION	535	14	MANL	88,442.9
16	Manual In MMP	045	MANUAL LTR-BULK BUSINESS	811	14	MANL	14,057.1
17	Manual In SCF/Primary	044	MANUAL LTR-SCF DISTRIBUTION	675	14	MANL	130,146.4
17	Manual In SCF/Primary	150	MANUAL LTR-INCOMING PRIMARY	523	14	MANL	82,692.4
18	Manual In Secondary	160	MANUAL LTR-INCOMING SECONDARY	667	14	MANL	118,166.5
18	Manual In Secondary	168	MANUAL LTR-PRIMARY BOX	361	14	MANL	58,841.3
18	Manual In Secondary	169	MANUAL LTR-SECONDARY BOX	541	14	MANL	42,044.5
19	Riffle Letters	029	RIFFLE LETTER MAIL	2,866	14	MANL	4,729.9
03	REC Mixed-Shape Keying	775	RBCS KEYING	787	15	LD15 OTH	98,562.8
04	LMLM	776	LETTER MAIL LABELING MACHINE	3,115	15	LD15 OTH	11,818.5

VP/USPS-T12-13.

Please refer to USPS-LR-L-1, Appendix I, page I-5. The table on that page classifies the relationship between volume variable costs and incremental costs into eight different types. The defining characteristics in two of those cost pools (type 6 and type 8) are that they have (i) a volume variability less than 1, and (ii) more than one product. As between type 6 and type 8, the differentiating factor is whether any of the non-volume variable costs can be classified as "intrinsic."

a. For each of the mail processing cost pools which you studied and found to have volume variability less than 1 (as shown in your Table 1 at page 3 of your testimony (USPS-T-12)), please indicate whether you would consider any of the non-volume variable costs to be "intrinsic," as defined in the above-cited reference.

b. With respect to your response to preceding part a, for each cost pool for which you assert that none of the non-volume variable costs are intrinsic, please explain why you consider none of those non-volume variable costs to be intrinsic.

c. With respect to your response to preceding part a, for each cost pool for which you assert that at least some of the non-volume variable costs are intrinsic, please estimate the proportion of the non-volume variable costs that you would consider to be intrinsic.

Response.

a. My understanding is that witness Pifer (USPS-T-18) treats the non-volume-variable costs in the SPBS Priority and Manual Priority cost pools as "intrinsic"—i.e., the non-volume-variable costs for those operations are treated as incremental to Priority Mail. As I stated in Docket No. R2005-1, Tr. 5/1502, I agree with this treatment. The non-volume-variable costs in the remaining cost pools are correctly treated as not representing "intrinsic" costs.

b. According to USPS-LR-L-1, Appendix I, page I-5:

> These costs are not increased by additional volume of the product. Nevertheless, they are caused by the provision of the entire volume of the product and are thus incremental to that product.

Unlike SPBS Priority and Manual Priority, the non-volume-variable costs in the other cost pools covered by my analysis cannot be viewed as being "caused" by the "provision of the entire volume" of any specific product (class or subclass), since the

operations exist to process mail of several classes and/or subclasses. Thus, the non-volume-variable costs are not “intrinsic” and not incremental to any specific product.

c. I do not have empirical estimates of the proportion(s) of “intrinsic” non-volume-variable costs for the SPBS Priority and Manual Priority cost pools. The Manual Priority example in USPS-LR-L-1, Appendix I, page I-5 provides a rationale for treating the entirety of the non-volume-variable costs in those cost pools as “intrinsic.”

VP/USPS-T12-14.

Please refer to the responses of witness McCrery to VP/USPS-T42-8e and VP/USPST42-9d. Please suppose that, on those limited occasions where Standard Regular letter mail is merged with First-Class Mail, the volume of Standard Regular letter mail were to increase to the point where the volume would be sufficient to justify setting up a separate sortation scheme.

a. Under a circumstance such as that described here, would you consider the setup and takedown time (and cost) of the additional sortation scheme for Standard Regular letter mail to be (i) fixed, or (ii) volume variable? Please explain the basis for your answer.
b. Under a circumstance such as that described here, would you consider the setup and takedown time (and cost) of the additional sortation scheme for Standard Regular letter mail to be incremental to the cost of sorting Standard Regular letter mail? Please explain the basis for your answer.

Response.

a.-b. In this scenario, the setup and takedown time (and cost) of the Standard Regular letter scheme would be neither “fixed” nor volume-variable. The setup cost is not volume-variable because further small additions of volume to the scheme do not increase the setup and take-down cost; given the existence of the scheme, the setup and takedown cost for the scheme is only avoidable if all of the mail is removed from it. That is, the cost is not variable on the margin, as in the marginal (unit volume-variable) cost concept, but with respect to the full increment of mail processed in the scheme. The cost may, however, be incremental to Standard Regular mail assuming the scheme were dedicated to the subclass—i.e., the cost of operations that work only Standard Regular is avoidable if the Postal Service did not provide the Standard Regular product.

VP/USPS-T12-15.

Please assume that the originating volume at one the Postal Service's smaller distribution facilities declines to the point where, as a direct result of the reduced volume, all originating sortation (of letters, flats and parcel-shaped mail) at that smaller facility is discontinued, after which the originating mail is consolidated and sorted with other originating mail at a nearby larger facility. (*See* Docket No. N2006-1, USPS-LR-N2006-1/6, for examples of such consolidation.) Please assume further that the larger facility is able to use existing sort schemes to process the originating letters, flats and parcels gained from the smaller facility. As a result of this consolidation, the daily setup and takedown time (and costs) for sorting letters, flats and parcels at the smaller facility are eliminated, but no new sort schemes are required at the gaining facility.

a. Under a circumstance such as that described here, and focusing solely on the setup and takedown time (and cost) of the discontinued sortation schemes for letters, flats and parcels at the smaller facility, would you consider those costs to have been (i) fixed costs, or (ii) volume variable costs? Please explain the basis for your answer.
b. Under a circumstance such as that described here, and focusing solely on the setup and takedown time (and cost) of the discontinued sortation schemes for letters, flats and parcels at the smaller facility, would you consider those costs to have been incremental to the cost of sorting letters, flats and parcels at that facility? Please explain the basis for your answer.

Response.

a.-b. In this scenario, the setup and takedown time (and cost) of the discontinued schemes would be neither fixed nor volume-variable. By hypothesis, those schemes' setup cost at the smaller facility is only avoidable with the transfer of all originating mail volume to the larger facility, and further decrements of the small plant's volume would not afford any greater setup cost avoidance opportunity. Since the small plant's setup costs in the hypothetical scenario are avoided while the Postal Service continues to provide service for the small plant's volumes the cost avoidance is not "incremental" to the small plant's volume, but rather is a consequence of a change in the Postal Service's operating plan.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Frank R. Heselton

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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Frank R. Heselton

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