

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

UNITED STATES POSTAL SERVICE INTERROGATORIES AND REQUESTS FOR  
PRODUCTION OF DOCUMENTS TO OFFICE OF CONSUMER ADVOCATE  
WITNESS ROBERTS: USPS/OCA-T1-1 THROUGH 9  
September 13, 2006

Pursuant to rules 25 and 26 of the Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to Office of Consumer Advocate witness Mark Roberts: USPS/OCA-T1-1 through 9.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

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September 13, 2006

USPS/OCA-T1-1.

Do you agree that automation-compatible letter-shape mail pieces have distinct cost-causing characteristics for Postal Service sorting operations from nonmachinable pieces? If you do not agree, please explain your position.

USPS/OCA-T1-2.

Do you agree that automation-compatible letter-shape pieces may be sorted in the Postal Service's automation mailstream at lower marginal cost than otherwise identical pieces processed in the manual mailstream? If you do not agree, please explain your position.

USPS/OCA-T1-3.

Please refer to your testimony at page 9, lines 9-13.

- a. Please confirm that, in the "Roberts' Model," results of which are presented in Table 1 of your testimony, you assume "that there is an aggregate 'output' for each operation" that is measurable empirically as incoming and outgoing FHP measures that are disaggregated by shape but not disaggregated by cost pool. If you do not confirm, please explain fully.
- b. Have you estimated versions of your models that employ FHP disaggregated by cost pool, or which otherwise impose a "separability" restriction? If so, please describe fully the estimating equations, estimation methods, data employed, and results, including any relevant specification test results.
- c. If your response to part (b) indicates that you have not estimated versions of your models that employ cost pool-disaggregated FHP or which otherwise impose a "separability" restriction, or that you have not done so in the course of preparing OCA-T-1, please confirm that you have not formally tested the "separability" restriction.
- d. Please also refer to USPS-T-12 at page 26, lines 10-21. For each of the sorting operation activities listed by Dr. Bozzo (runtime, quasi-allied labor, setup and take-down, waiting for mail, "overhead" activities, and other not-handling activities), please provide your operational explanation why each would (or should) depend on volumes of mail other than those processed within the cost pool for a sorting operation. If you have no operational explanation(s) in any case, please so indicate.

USPS/OCA-T1-4.

Please refer to your testimony at page 9, lines 1-2, and page 10, footnote 2.

- a. Do you agree that the "mail volume, for a rate class, which is the ultimate term of interest" is measured by the Postal Service's Revenue, Pieces and Weight (RPW) system? If not, please explain the basis for your disagreement.
- b. Please explain your understanding of the differences between MODS FHP and the Revenue, Pieces and Weight (RPW) measure of "mail volume, for a rate class."

- c. Unless your response to part (a) indicates that FHP and RPW volumes for class, subclasses, and/or rate categories are conceptually identical, please either (1) confirm that Dr. Bozzo's characterization of the relationship between subclass volumes (i.e, the term  $V$  in USPS-T-12, equation 5) and FHP in USPS-T-12 (page 45, line 14, to page 46, line 5, esp. equations 5, 8 and 9) is correct or (2) provide, using comparable notation, the relationship between subclass volumes and your FHP measures that you believe to be correct.
- d. Please refer to USPS-LR-L-1, Appendix H, page H-5, describing the "distribution key" method for computing volume-variable costs for mail of various classes, subclasses, and other rate categories. Please refer to Docket No. R2000-1, USPS-T-15 at pages 53, lines 7-20, where Dr. Bozzo states:

Directly estimating the elasticities of cost drivers with respect to RPW volumes is infeasible, so the CRA extensively uses the "distribution key" method to compute volume-variable costs by subclass... The computational advantage of the distribution key method is that it dispenses with the marginal analysis of the relationship between volumes and the driver. The price of simplicity is what has been termed the "proportionality assumption." Formally, the distribution key method and the constructed marginal cost method are equivalent when the cost driver is a linear function of the mail volumes or, equivalently, the number of handlings of a representative piece of a given subclass is "constant."

Please confirm that the "proportionality assumption" concerns the "elasticities of cost drivers with respect to RPW volumes." If you do not confirm, please explain.

- e. Have you conducted any analysis of the relationship between MODS FHP and RPW volumes? If so, please provide a detailed description of the methods and results of your analysis.

USPS/OCA-T1-5.

Please refer to your testimony at page 10, footnote 2. Please also refer to USPS-T-12 at page 46, lines 6-13, where Dr. Bozzo states:

In the CRA,  $A$  is estimated (as shares of handlings by subclass, i.e., distribution keys) from In-Office Cost System (IOCS) data. The process makes use of the most widely-known function of IOCS: producing estimates of proportions of handlings of the subclasses of mail (see also USPS-T-46, Section II.B.1).

It is important to note that the IOCS-based distribution key analysis is updated annually with the current year's IOCS sample data, as are the calculations of total labor costs by operation and (potentially) the variabilities. [Footnotes omitted.]

Do you disagree with Dr. Bozzo's characterization of the CRA methods? If so, please state the basis for your disagreement.

#### USPS/OCA-T1-6.

Please refer to your testimony at page 10, lines 2-5, and page 11.

- a. Please confirm that the term “volume” in this passage specifically refers to FHP measures used in your analysis. If you do not confirm, please explain.
- b. Do you agree that the purpose of distribution handlings (i.e., first and subsequent handlings in sorting operations) is to sort pieces of mail to various nodes of the Postal Service network—ADCs, AADCs, 3- and 5-digit ZIP Codes, etc. If not, please explain your understanding of the purpose of the handlings.
- c. Please confirm that the terms  $\epsilon_j$  are the elasticity of TPF (or TPH) in cost pool  $j$  with respect to FHP for the shape of mail associated with cost pool  $j$ . If you do not confirm, please provide the correct definition.
- d. Please confirm that the result  $\epsilon_j > 1$  implies that a given percentage change in FHP results in a larger percentage change in TPF (or TPH) in cost pool  $j$ , other things equal. If you do not confirm, please provide what you believe to be the correct interpretation.

#### USPS/OCA-T1-7.

Please refer to USPS-T-12 at pages 17 and 20.

- a. Do you agree that mail does not normally flow from manual letter- and flat-shape sorting operations to automated sorting operations? If not, please explain the basis for your disagreement.
- b. Do you agree that mail does not normally flow from “downstream” (or “subsequent”) sorting stages (e.g., incoming operations) to “upstream” sorting stages (e.g., outgoing operations)? If not, please explain the basis for your disagreement.
- c. Please confirm that if mail does not normally flow from manual sorting operations to automated sorting operations, manual FHP will not normally result in subsequent handlings in automated sorting operations. If you do not confirm, please explain.
- d. Please confirm that if mail does not normally flow from “downstream” operations to “upstream” operations, FHP in “downstream” operations will not normally result in subsequent handlings in “upstream” operations. If you do not confirm, please explain.

#### USPS/OCA-T1-8.

Please refer to your testimony at page 2, lines 15-18, and Tables 1, 5, and 7.

- a. Please reconcile the differences between the results labeled “Roberts’ Model” in Table 1 and the results presented elsewhere.
- b. If the results labeled “Roberts’ Model” in Table 1 are not your recommended results, please provide a version of Table 1 incorporating your recommended results.

USPS/OCA-T1-9.

Please refer to your testimony at page 13 (Table 1) and page 14, footnote 6. Please enumerate all “differences in sample, other control variables, and econometric technique” you implemented in the models used for the “USPS Model” column of Table 1, and explain your reason(s) for implementing each change.

## **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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