

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

FOLLOW-UP INTERROGATORY OF THE UNITED STATES POSTAL SERVICE TO
OCA WITNESS SMITH (OCA-T-3)
(USPS/OCA-T3-26)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the following follow-up interrogatory to OCA witness Smith: USPS/OCA-T3-26.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 17, 2006

USPS/OCA-T3-26. Please refer to USPS/OCA-T3-12, which you claim in your response is a “meaningless” question.

a. Please confirm that the question asked for your opinion as to whether “density” is an endogenous or exogenous variable in the Postal Service optimization process. If you do not confirm, please explain your interpretation of the phrase, “Do you consider ‘density’ to be an endogenous or exogenous variable in the Postal Service optimization process.”

b. Please confirm that the question does not use the terms “equations” or “model,” but that both of those terms appear in your response.

c. Please confirm that on page 6 of your testimony you state:

An economist would refer to this effort as the attainment of equilibrium between isocosts and isoquants. The management probably thinks of the effort as making good decisions on how to get the job done as efficiently as possible—i.e., whether to work overtime, whether to pivot routes, whether to design routes in various configurations, etc. As a result of the consideration of tradeoffs, the cost to deliver a quantity of mail is determined. Density is an output of the process, not an input to the process. Density is determined partly by how the route is designed and partly by the characteristics of the service territory. [Emphasis added].

d. Please confirm that on page 6 of your testimony you also state:

However, ZIP code density—i.e., dp/sqm—is a function of the arrangement of the City Carrier delivery routes, which would be achieved through the determination of a least cost solution to a production function through the attainment of equalities between various marginal rates of technical substitution and input/price ratios in a cost minimization process. The value of the density variable is an output of the cost minimization process; density is not an input to the cost function. [Emphasis added.]

- e. Given that you twice describe density as an output of the Postal Service cost minimization process, please answer the original question posed in USPS/OCA-T3-12 as to whether you consider density to be an endogenous or exogenous variable with respect to the Postal Service's optimization (or cost minimization) process.

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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