

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

NOTICE OF THE UNITED STATES POSTAL SERVICE REGARDING REVISIONS TO THE TESTIMONY AND WORKPAPERS OF WITNESS TAKIS (USPS-T-41)

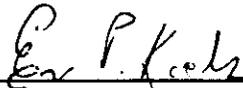
In accordance with Presiding Officer's Ruling No. R97-1/27, the United States Postal Service hereby provides the attached revised pages of the testimony of witness Takis. These changes and their impact, as well as related changes to the workpapers, are explained in the attached summary. Twelve copies of the revised pages of the workpapers are being filed with the Commission. Parties wishing to have a set of these revised pages may obtain them by contacting undersigned counsel. As discussed in the summary, the cumulative impact of these corrections are negligible.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Summary of Errata to Testimony and Workpapers of Witness William M. Takis, USPS-T-41

Through the course of the discovery process, Witness Takis (USPS-T-41) has identified four necessary changes to the BY1996 incremental costs calculated in his testimony and workpapers. In addition, changes by Witness Patelunas and Witness Takis to the TY1998(AR) volume variable costs used in Exhibits USPS-41B, USPS-41C, and Workpapers Tables IV.C.1 and IV.D.1 have an effect on test year incremental costs. In aggregate, these issues have negligible impacts on TY1998(AR) incremental cost estimates.

Changes to BY1996 Incremental Costs

1. MVS Personnel SPR incremental costs are calculated as a burden upon a base consisting of all other SPR costs. Initially, the total SPR costs used for the burden calculation excluded certain cost pools for the Express Mail subclass and included extraneous cost pools for each of the various groups of subclasses. As a result, the burden ratio used to calculate MVS Personnel SPR incremental costs for Express and for the groups was incorrect in the original filing. See Workpapers pp. A214, A224, A231 for the impact on subclasses and pp. B72, B80, B87 for the impacts on groups.
2. In the initial workpapers, 1995 data for the total number of CCS stops for SDR, MDR, and BAM routes were used in calculating Time-at-Stop incremental costs. Inserting the 1996 data results in a change in final costs for Time-at-Stop, as well as City Carrier Space costs and Access Street Support costs, both of which are calculated as a burden on a group of City Carrier cost pools, including Time-at-Stop. See Workpapers pp. A200, A201, A206 - A209, A211 - A213, A223, A224, A230, A231, A234, A245, A252, A255, A256, A259, A260, A263, A264, A267, A268, A271, A272, and A275 for the effect on subclasses. See pp. B68, B70 - B72, B79, B80, B86, B87, B90, B101, B108, B111, B112, B115, B116, B119, B120, B123, B124, B127, B128, and B131 for the effect on groups.
3. As was pointed out in Witness Takis' response to Interrogatory UPS/USPS T-41-7, the volume variable costs of the Eagle Network which are distributed to Priority were incorrectly entered into the incremental cost model. The number shown is \$29,785 while the true number is \$29,765. Relatedly, the incorrect incremental costs for Priority of the "Trans not SNPI" cost pool are also shown. As explained in Witness Takis' response to UPS/USPS T-41-7, these two errors cancel each other out and have no net impact on final incremental costs. See Workpapers pp. A218 and A220 and pp. B74 and B76 for the effects on subclasses and groups respectively.
4. The incremental cost model initially contained incorrect percentage reductions in BAM Load costs associated with the elimination of the various groups of subclasses. The change to the correct figures impacts final load costs, as well as load street support costs and city carrier space costs, both of which are calculated as burdens on groups of cost pools including load costs. See Workpapers pp. B14, B70 - B72, B79, B86, B102, B108, B111, B112, B115, B116, B119, B120, B123, B124, B127, B128, B131 for the effect of this correction on groups of subclasses (individual subclass estimates are not affected by this change).

Changes to TY1998(AR) Incremental Costs

TY1998(AR) incremental costs are calculated by multiplying the ratio of incremental costs in BY1996 to volume variable costs in BY1996 by the Volume Variable Costs in TY1998(AR). Per the changes listed above, BY1996 incremental costs have changed. In addition, Witness Patelunas has filed changes to TY1998(AR) volume variable costs. Lastly, in the original testimony and workpapers filed by Witness Takis, \$4.585 million in volume variable costs for stamped cards were excluded from test year volume variable costs. (See response to NAA/USPS-T41-7, part (c)). These are now included for the subclass "other". See Exhibits USPS-41-B and USPS-41-C and Workpapers pages C.1 and D.1.

IMPACTS OF CHANGES TO TAKIS' WORKPAPERS (USPS-T-41) ON INCREMENTAL COSTS OF SUBCLASSES
(all figures in 000s)

	INCREMENTAL COSTS AS FILED ORIGINALLY	INCREMENTAL COSTS WITH ERRATUM 1	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ERRATUM 2	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ERRATUM 3	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ERRATUM 4	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ALL ERRATUM	CHANGE FROM ORIGINAL FILING
FIRST-CLASS MAIL:											
LETTERS & PARCELS	17,246,764	17,246,764	0	17,244,995	-1,769	17,246,764	0	17,246,764	0	17,244,995	-1,769
POSTAL CARDS	570,256	570,256	0	570,204	-52	570,256	0	570,256	0	570,204	-52
PRIORITY MAIL											
EXPRESS MAIL	1,875,142	1,875,142	0	1,875,136	-7	1,875,142	0	1,875,142	0	1,875,136	-7
MAILGRAMS	588,319	588,413	94	588,318	-1	588,319	0	588,319	0	588,412	93
SECOND-CLASS MAIL:											
WITHIN COUNTY	425	425	0	425	0	425	0	425	0	425	0
OUTSIDE COUNTY:											
REG RATE PUB	76,665	76,665	0	76,657	-8	76,665	0	76,665	0	76,657	-8
NONPROFIT PUB	1,468,913	1,468,913	0	1,468,850	-63	1,468,913	0	1,468,913	0	1,468,850	-63
CLASSROOM PUB	322,044	322,044	0	322,024	-20	322,044	0	322,044	0	322,024	-20
	14,976	14,976	0	14,975	-1	14,976	0	14,976	0	14,975	-1
THIRD-CLASS MAIL:											
SINGLE PIECE RATE	188,614	188,614	0	188,613	-1	188,614	0	188,614	0	188,613	-1
BULK RATE REG CR	1,902,749	1,902,749	0	1,902,542	-207	1,902,749	0	1,902,749	0	1,902,542	-207
BULK RATE REG OTHER	4,254,028	4,254,028	0	4,253,432	-596	4,254,028	0	4,254,028	0	4,253,432	-596
BULK RATE NON-PROFIT CR	137,386	137,386	0	137,324	-62	137,386	0	137,386	0	137,324	-62
BULK RATE NON-PROFIT OTHER	983,326	983,326	0	983,308	-18	983,326	0	983,326	0	983,308	-18
FOURTH-CLASS MAIL:											
PARCELS ZONE RATE	701,986	701,986	0	701,982	-3	701,986	0	701,986	0	701,982	-3
BOUND PRINTED MATTER	286,224	286,224	0	286,221	-3	286,224	0	286,224	0	286,221	-3
SPECIAL 4TH-CLASS RATE	227,681	227,681	0	227,679	-2	227,681	0	227,681	0	227,679	-2
LIBRARY RATE	47,844	47,844	0	47,844	0	47,844	0	47,844	0	47,844	0
U.S. POSTAL SERVICE											
FREE MAIL	197,053	197,053	0	197,049	-3	197,053	0	197,053	0	197,049	-3
INTERNATIONAL MAIL	26,450	26,450	0	26,450	0	26,450	0	26,450	0	26,450	0
	1,186,234	1,186,234	0	1,186,230	-4	1,186,234	0	1,186,234	0	1,186,230	-4
SPECIAL SERVICES:											
REGISTRY	134,086	134,086	0	134,086	0	134,086	0	134,086	0	134,086	0
CERTIFIED	258,660	258,660	0	258,660	0	258,660	0	258,660	0	258,660	0
INSURANCE	35,661	35,661	0	35,661	0	35,661	0	35,661	0	35,661	0
COD	19,479	19,479	0	19,479	0	19,479	0	19,479	0	19,479	0
SPECIAL DELIVERY	3,493	3,493	0	3,493	0	3,493	0	3,493	0	3,493	0
MONEY ORDERS	166,580	166,580	0	166,580	0	166,580	0	166,580	0	166,580	0
STAMPED ENVELOPES	10,930	10,930	0	10,930	0	10,930	0	10,930	0	10,930	0
SPECIAL HANDLING	1,135	1,135	0	1,135	0	1,135	0	1,135	0	1,135	0
POST OFFICE BOX	529,575	529,575	0	529,575	0	529,575	0	529,575	0	529,575	0
OTHER	148,815	148,815	0	148,815	0	148,815	0	148,815	0	148,815	0

IMPACTS OF CHANGES TO TAKIS' WORKPAPERS (USPS-T-41) ON INCREMENTAL COSTS OF GROUPS
(all figures in 000s)

	INCREMENTAL COSTS AS FILED ORIGINALLY	INCREMENTAL COSTS WITH ERRATUM 1	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ERRATUM 2	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ERRATUM 3	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ERRATUM 4	CHANGE FROM ORIGINAL FILING	INCREMENTAL COSTS WITH ALL ERRATUM	CHANGE FROM ORIGINAL FILING
CLASSES:											
TOTAL FIRST	17,938,068	17,938,149	81	17,938,095	-1,973	17,938,068	0	17,913,048	-25,022	17,911,154	-26,915
TOTAL SECOND	1,886,949	1,886,917	-32	1,886,858	-92	1,886,949	0	1,886,949	0	1,886,828	-123
TOTAL THIRD	7,682,231	7,682,041	-190	7,680,827	-1,404	7,682,231	0	7,677,817	-4,613	7,676,023	-6,207
TOTAL FOURTH	1,280,388	1,280,389	1	1,280,380	-8	1,280,388	0	1,279,716	-672	1,279,709	-679
GROUPS:											
PRIORITY/EXPRESS	2,467,375	2,467,092	-283	2,467,367	-8	2,467,375	0	2,466,441	-934	2,466,150	-1,225
THIRD BULK REG/BULK CR	6,236,372	6,236,269	-103	6,235,413	-960	6,236,372	0	6,231,820	-4,553	6,230,757	-5,615

Changes to Takis Testimony and Workpapers (USPS-T-41) as a Result of Errata

<i>Page</i>	<i>Testimony Columns/Rows</i>	<i>Subclasses</i>		<i>Groups</i>	
		<i>Workpaper Page</i>	<i>Columns/Rows</i>	<i>Workpaper Page</i>	<i>Columns/Rows</i>
29	Line 1, change 8.80 to 8.79	A200	7-10	B68	7-10, R1, R6
29	Line 4, change 4.44 to 4.42	A201	a, f	B70	1, 3, 4, 6
		A206	1, 3	B71	1, 2, 7, 9, 10, 12
30	Line 12, change 1.013 to 1.014	A207	4, 6	B72	1, 2, 4, 6, 7, 9
30	Footnote 14, change 1.022 to 1.021	A208	7, 9	B74	2
		A209	10, 12	B76	10
Exhibit USPS-41-B,	columns 2 - 5, 7, 8	A211	1, 3	B79	6 - 9
Exhibit USPS-41-C,	columns 2 - 5	A212	4, 6	B80	4, 6, 7, 9
		A213	7, 9	B86	6 - 9
		A214	1, 3	B87	4, 6, 7, 9
		A218	2	B90	2, 5, 9
		A220	10	B101	2, 11
		A223	6, 7	B102	3, 10
		A224	4, 6, 7, 9	B108	9
		A230	6, 7	B111	8
		A231	4, 6, 7, 9	B112	9
		A234	2, 5, 9	B115	8
		A245	2, 11	B116	9
		A252	9	B119	5
		A255	5	B120	9
		A256	9	B123	5
		A259	5	B124	9
		A260	9	B127	5
		A263	4	B128	9
		A264	9	B131	6
		A267	4	B138	1 - 3
		A268	9	D1	2 - 5
		A271	4		
		A272	9		
		A275	5		
		A282	1 - 3, 5		
		A283	2, 3		
		C1	2 - 5, 7, 8		

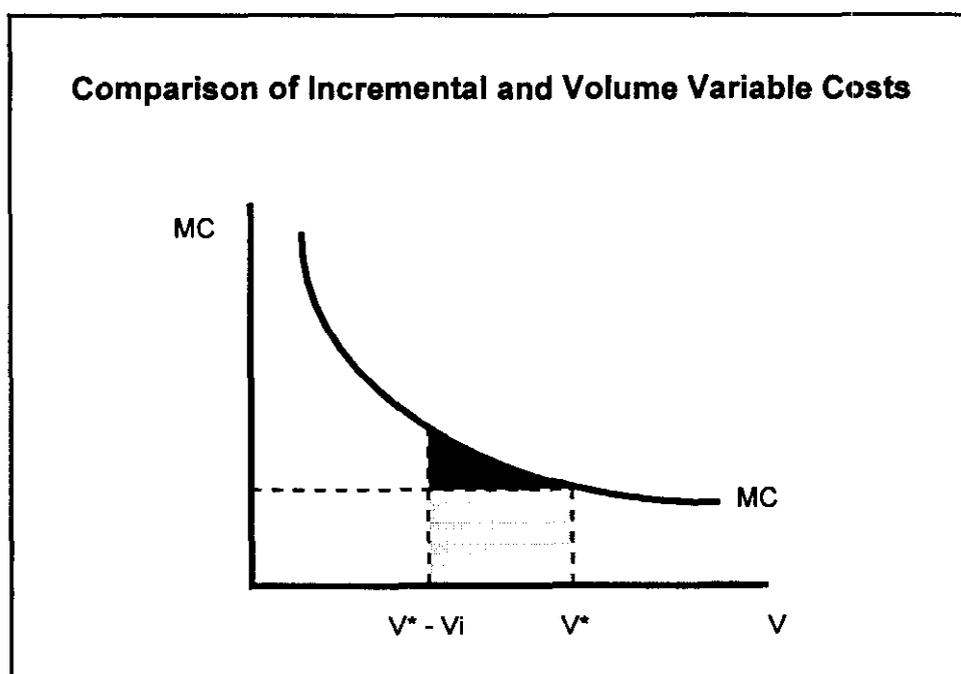
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1 parcels are approximately 8.79 percent higher than volume variable costs in
 2 TY1998(AR), while the ratios of incremental costs to volume variable costs for
 3 Periodicals Regular Rate, Standard A Bulk Rate Regular - Carrier Route, and Standard
 4 B Zone Rate Parcels are much smaller (1.38 percent, 4.42 percent, and 1.01 percent,
 5 respectively).

6

7 The reason for this relationship stems from the issues I discussed on pages 3 and 4 of
 8 my testimony above. Recall the graph I presented there, which I reproduce here:

9



10

11

12 In any situation where there exist significant economies of scale and a significant
 13 change in volume as a result of eliminating a particular subclass, the difference
 14 between incremental and volume variable cost will be relatively large (i.e., the area of
 15 the darkly-shaded triangle in the graph).¹³

16

¹³ This difference would only be exacerbated by the presence of specific fixed costs, which increase incremental costs but do not affect volume variable costs.

1 This is exactly the situation occurring in the individual subclasses within First-Class,
 2 Periodicals, and Standard Mail, as can be seen in the following table:

Volumes and Incremental Costs		
	Percent of Volumes (TY1998(AR))	IC/VVC Ratio (TY1998(AR))
First-Class L,F&P	48.96 %	1.088
Standard A - RR CR	14.71 %	1.044
Periodicals - RR Pub.	3.66 %	1.014
Standard B - Zone Rate	0.12 %	1.010

16 As can be readily seen from the table, the four example subclasses I have chosen have
 17 very different volumes, and therefore, amounts of "drivers" associated with them. When
 18 the amount of volume eliminated as a result of eliminating the subclass is relatively
 19 large when compared to total Postal Service volume, then we would expect the
 20 resulting ratio of incremental to volume variable cost to be large (*all else being equal*),
 21 as we are moving a relatively large distance "up the marginal cost curve".¹⁴ For
 22 example, First-Class letters, flats, and parcels make up 48.96 percent of total volume

14 This assumption of "all else being equal" is very important. For example, a particular subclass may have a relatively small amount of the driver, but relatively large incremental costs due to the presence of specific fixed costs or a relatively low variability. For example, incremental costs for Express Mail (relatively low volumes) are well above volume variable costs because of the treatment of the Eagle Network described above. As another example, consider differences between Standard A BRR-CR and BRR-Other:

	Percent of RPW Volume (TY1998(AR))	IC/VVC Ratio (TY1998(AR))	Single Subclass Stop Ratio for City Carriers
Standard A BRR-Other	19.29 %	1.021	1.65 %
Standard A BRR-CR	14.71 %	1.044	4.47 %

Even though the volume reduction will be higher after the removal of BRR-Other (i.e., more movement along the marginal cost curve), the ratio of incremental cost to volume variable cost is higher for BRR-CR partially because of the higher single stop ratios for BRR-CR (all of the cost of which are considered incremental).

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Estimated Incremental Costs for BY1996 and TY1998(AR) -- Subclasses

	[1] BY1996 VVC (\$000s)	[2] BY1996 IC (\$000s)	[3] BY1996 IC/VVC Ratio	[4] TY1998 (AR) VVC (\$000s)	[5] TY1998(AR) Estimated IC (\$000s)	[6] 1998 GFY Volumes (000s)	[7] TY1998(AR) VVC/Piece (\$/piece)	[8] Estimated TY1998 (AR) IC/Piece (\$/piece)
FIRST-CLASS MAIL								
LETTERS FLATS AND PARCELS	15,851,159	17,244,995	1.088	16,805,749	18,283,525	95,550,984	0.178	0.1913
CARDS	555,129	570,204	1.027	592,384	608,471	5,523,048	0.107	0.1102
PRIORITY MAIL								
EXPRESS MAIL	1,584,229	1,875,136	1.184	2,286,217	2,682,355	1,152,413	1.986	2.3276
MAILGRAMS	342,823	588,412	1.717	410,564	705,092	62,721	6.546	11.2417
	432	425	0.985	508	500	4,757	0.107	0.1052
SECOND-CLASS MAIL:								
WITHIN COUNTY	75,056	76,657	1.021	81,360	83,095	901,870	0.090	0.0921
OUTSIDE COUNTY:								
REG RATE PUB	1,448,904	1,468,850	1.014	1,577,889	1,599,611	7,147,574	0.221	0.2238
NONPROFIT PUB	317,766	322,024	1.013	331,471	335,913	2,161,077	0.153	0.1554
CLASSROOM PUB	14,874	14,975	1.007	12,755	12,842	47,452	0.269	0.2706
THIRD-CLASS MAIL:								
SINGLE PIECE RATE	188,355	188,613	1.001	-	-	-	-	-
BULK RATE-REG: CR	1,821,927	1,902,542	1.044	1,885,248	1,968,665	28,686,181	0.066	0.0666
BULK RATE-REG: OTHER	4,164,366	4,253,432	1.021	5,191,874	5,302,712	37,627,555	0.138	0.1409
BULK RATE NON-PROFIT: CR	136,575	137,324	1.005	125,121	125,807	2,571,283	0.049	0.0489
BULK RATE NON-PROFIT: OTHER	969,720	983,308	1.014	1,107,105	1,122,618	10,550,968	0.105	0.1064
FOURTH-CLASS MAIL:								
PARCELS ZONE RATE	694,997	701,982	1.010	753,327	760,898	234,660	3.210	3.2426
BOUND PRINTED MATTER	285,041	286,221	1.004	346,013	347,445	574,742	0.602	0.6045
SPECIAL 4TH-CLASS RATE	226,526	227,679	1.005	256,860	258,167	200,511	1.281	1.2875
LIBRARY RATE	47,835	47,844	1.000	49,085	49,094	28,728	1.709	1.7089
U.S. POSTAL SERVICE								
FREE MAIL—BLIND & HANDICAPPED & SERVICEMEN	196,097	197,049	1.005	-	-	-	-	-
	26,406	26,450	1.002	31,757	31,810	56,390	0.563	0.5641
INTERNATIONAL MAIL	1,158,518	1,186,230	1.024	1,206,030	1,234,878	1,006,682	1.198	1.2267
SPECIAL SERVICES:								
REGISTRY	83,098	134,086	1.614	79,779	123,889	14,288	5.374	8.6708
CERTIFIED	283,016	258,660	0.914	326,044	297,995	292,720	1.114	1.0180
INSURANCE	36,296	35,661	0.983	48,002	47,162	30,600	1.569	1.5413
COD	19,683	19,479	0.990	16,988	16,812	3,886	4.372	4.3262
SPECIAL DELIVERY	3,494	3,493	1.000	-	-	-	-	-
MONEY ORDERS	122,986	166,590	1.354	147,365	199,601	236,570	0.823	0.8437
STAMPED ENVELOPES	10,930	10,930	1.000	12,308	12,308	460,000	0.027	0.0268
SPECIAL HANDLING	1,136	1,135	0.999	1,283	1,282	-	-	-
POST OFFICE BOX	529,560	529,575	1.000	595,854	595,871	15,081	39.510	39.5114
OTHER	146,217	146,815	1.018	230,554	234,650	-	-	-

Column [1]: Alexandrovich WP-B

Column [2]: Takis WP Section IV (REVISED)

Column [3]: Column 2 / Column 1

Column [4]: Exhibit USPS-30B (REVISED 9/19/97)

Column [5]: Column 3 * Column 4

Column [6]: Exhibit USPS-6A

Column [7]: Column 4 / Column 6

Column [8]: Column 5 / Column 6

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Estimated Incremental Costs for BY1996 and TY1998(AR) – Groups

		[1] BY1996 VVC (\$000s)	[2] BY1996 IC (\$000s)	[3] BY1996 IC/VVC Ratio	[4] TY1998 (AR) VVC (\$000s)	[5] TY1998(AR) Estimated IC (\$000s)
TOTAL FIRST	<u>1/</u>	16,406,288	17,911,154	1.092	17,398,133	18,993,976
TOTAL SECOND	<u>2/</u>	1,856,600	1,886,826	1.016	2,003,475	2,036,092
TOTAL THIRD	<u>3/</u>	7,280,943	7,676,023	1.054	8,309,148	8,760,021
TOTAL FOURTH	<u>4/</u>	1,254,399	1,279,709	1.020	1,405,285	1,433,639
PRIORITY/EXPRESS	<u>5/</u>	1,926,852	2,466,150	1.280	2,676,781	3,425,973
THIRD BULK REG/BULK CR	<u>6/</u>	5,986,293	6,230,757	1.041	7,076,922	7,365,924

Row 1/: TOTAL FIRST refers to the grouping of products including First-Class letters, flats, and parcels and First-Class cards.

Row 2/: TOTAL SECOND refers to the grouping of products including second-class within county, outside county regular rate, nonprofit, and classroom.

Row 3/: TOTAL THIRD refers to the grouping of products including third-class single piece, bulk regular carrier route, bulk regular other, bulk nonprofit carrier route, and bulk nonprofit other.

Row 4/: TOTAL FOURTH refers to the grouping of products including fourth-class zone rate parcels, bound printed matter, special rate, and library rate.

Row 5/: PRIORITY/EXPRESS refers to the grouping of products including Priority Mail and Express Mail.

Row 6/: THIRD BULK REG/BULK CR refers to the grouping of products including third-class bulk regular carrier route and bulk regular other.

Column [1]: Exhibit USPS-41B, column 1

Column [2]: Takis WP Section IV

Column [3]: Column 2 / Column 1

Column [4]: Exhibit USPS-41B, column 4

Column [5]: Column 3 * Column 4

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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October 9, 1997