

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

EVOLUTIONARY NETWORK DEVELOPMENT
SERVICE CHANGES, 2006

Docket No. N2006-1

UNITED STATES POSTAL SERVICE NOTICE OF FILING OF REVISION
TO SUPPLEMENTAL RESPONSE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6
(Question 1) [ERRATA]

The United States Postal Service hereby gives notice that is revising the spreadsheet attached to the supplemental answer to Question 1 of Presiding Officer's Information Request No. 6. The supplemental response was filed on July 21, 2006. There is no change in the narrative response. In the attachment, the productivity column (C6) has changed, and the marginal productivity column (C7) has been recomputed based on that change. The revised supplemental response supersedes the version filed on July 21, 2006.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF THE UNITED STATES POSTAL SERVICE
PRESIDING OFFICER'S INFORMATION REQUEST NO. 6, QUESTION 1
Revised: July 27, 2006

1. Attachment 1 contains variability factors calculated for various operations for three sizes: small, medium, and large. The variability factors were calculated in the following manner. The USPS-LR-L-56 data file vv9905.xls was used to construct operation-size cutoffs for this analysis. The TPH variable for the operation (cost pool) in question was sorted in ascending order, and the non-zero TPH observations were then divided into thirds (small, medium, large) for the TPH cutoff values. Thirty-three separate regressions were run, using R2006-1 witness Bozzo's econometric models, to calculate the variability factor; that is 11 cost pools times 3 operation sizes (small, medium, large). The "tph > 0" statement in the following TPS regression programs submitted within USPS-LR-L-56 was replaced with the constructed TPH cutoff values:
 - varmp_tpf_OTHAUTO_by2005.tsp
 - varmp_tpf_BCSSINGLE_by2005.tsp
 - varmp_tpf_AFSM_by2005.tsp
 - varmp_pp_MANPARPRI_by2005.tsp
 - varmp_man_LETFLT_by2005.tsp

The 33 regressions were individually run with the original vv9905.xls input file.

The results of these regressions do not appear to support inferences of economies of scale or density. In order to obtain a more specific indication of what aspect of the structural cost equations support such an inference

- a. Please fill out the table in Attachment 2 using the data and methods employed by the Postal Service to estimate the cost functions described in its response to VP/USPS-T1-21.
- b. Provide all underlying programs and data sets used in preparing the Postal Service's response to a. above. Please include an identification of the time period covered by the data set used and the docket from which the mail processing cost variability model came that is the source of the linearized equations that the END model uses.
- c. Provide a rationale for the classification criteria used for each size within each operation.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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RESPONSE

The Postal Service has not been able to replicate the results provided in Attachment 1. Nevertheless, it should be noted that twenty-two of the results in Attachment 1 are variabilities less than 100 percent. The Postal Service will provide corrected results for Attachment 1 as warranted.

Not all of the variabilities in the "structural cost equations" used in the END model yield variabilities less than 100 percent, however, the weighted average variability for the BY 2005 models is 85 percent. See Docket No. R2006-1, USPS-T-12 at 3.

- a. The cost functions described in VP/USPS-T1-21 were not estimated by size-based subsets of the data but rather over the full range of data. Thus, the Postal Service does not have a set of results similar to those presented in the question with which it could complete Attachment 2.

With respect to the table requested for Attachment 2, please note that the productivities, variabilities, and calculations of marginal time (workhours) per piece handling at the operation level employed in the BY 2004 CRA models that were the source for the END model was provided at Docket No. R2005-1, Tr. 5/1452.

- b. The Postal Service's BY 2004 mail processing cost variability models are the sources for the linearized equations in the END model. Thus, the full data sets and estimation programs have been provided in Section I of USPS-LR-K-56

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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RESPONSE to Question 1 (continued):

(Docket No. R2005-1). The time period covered by the data set is FY 1999-FY 2004.

- c. As indicated in the response to part (a), the mail processing variability models were not estimated by size category. The Commission's approach appears to have some potentially serious deficiencies, particularly in that its methods will not (in general) assign all observations for a facility to the same size category, seasonal fluctuations in piece handlings may affect the size classification, and facilities will not necessarily be assigned to the same size category (or categories) across operations.

The Postal Service has investigated methods that address these potential deficiencies. The results are reflected in the attached spreadsheet. The refined results, expanded to include AFSM operations (not reported in the Commission's Attachment 1) show similar evidence for the existence of economies of density to the models used in the Postal Service's BY 2005 CRA. Overall, only seven of the thirty-three elasticities differ by statistically significant amounts from the estimates used in the CRA; none of those exceed 100 percent. Six of the eight elasticities exceeding 100 percent occur in operations where the Postal Service's estimated elasticity for the CRA is within one standard error of 100 percent, and no elasticities exceed 100 percent by a statistically significant amount.

[1] Operation	[2] TPH/TPF Cutoffs	[3] Elasticity PRC Attachment 1	[4] Elasticity Corrected, w/ Size Categories by Site ID	[5] Standard Error
D/BCS Incoming				
Small	<=72537	0.53702	0.752	0.145
Medium	72537 to 156422	1.15008	0.819	0.092
Large	>156422	0.753747	0.734	0.100
D/BCS Outgoing				
Small	<=14456	0.570698	0.753	0.084
Medium	14456 to 56826	0.725645	1.011	0.065
Large	>56826	1.32706	1.057	0.079
OCR				
Small	<=11885	1.49201	0.822	0.083
Medium	11885 to 30965	0.551178	0.892	0.066
Large	>30965	0.801015	0.654	0.092
FSM/1000				
Small	<=3437	0.992176	0.752	0.054
Medium	3437 to 5773	0.734923	0.807	0.045
Large	>5773	0.744788	0.628	0.061
SPBS				
Small	<=2314	0.687394	0.845	0.070
Medium	2314 to 5415	1.09805	0.657*	0.082
Large	>5415	-0.171569	0.853	0.069
Manual Flats				
Small	<=1438	1.16158	1.518	0.301
Medium	1438 to 3437	0.931318	0.635*	0.114
Large	>3437	0.254093	0.716*	0.103
Manual Letters				
Small	<=6078	-1.54237	0.934	0.131
Medium	6078 to 14446	0.073337	0.784	0.437
Large	>14446	0.822586	0.16*	0.099
Manual Parcels				
Small	<=253	1.28123	0.307*	0.154
Medium	253 to 666	-9.23005	1.778	0.965
Large	>666	1.01047	0.957	0.545
Manual Priority				
Small	<=432	3.51535	2.880	3.210
Medium	432 to 1477	-18.8484	0.660	0.081
Large	>1477	0.168578	0.339	0.289
Cancellation				
Small	<=13161	0.954874	0.857*	0.101
Medium	13161 to 29361	0.237738	0.198*	0.122
Large	>29361	-1.22148	0.356	0.185
AFSM 100				
Small	<=20000	n/a	1.101	0.108
Medium	20000 to 45000	n/a	1.094	0.104
Large	>45000	n/a	1.135	0.145

*Differs from BY 2005 elasticity at 5% significance level or better

** TPH/Hour for manual and cancellation operations

Attachment to Supplemental Response to POIR 6 Q 1 --Revised 7/27/06

[6]	[7]	[8]	[9]
Productivity (TPF/Hour**, FY 2005, Median by Size Group)	Marginal Productivity [6]/[4]	BY 2005 Elasticity	BY 2005 Std. Error
		0.820	0.070
9,931	13,206		
9,285	11,337		
8,380	11,417		
		1.060	0.060
9,820	13,041		
9,836	9,729		
7,908	7,482		
		0.780	0.050
7,382	8,981		
7,125	7,988		
5,304	8,110		
		0.720	0.030
591	786		
601	745		
586	933		
		0.870	0.050
330	391		
293	446		
294	345		
		0.890	0.090
463	305		
506	797		
433	605		
		0.940	0.070
776	831		
621	792		
492	3,075		
		0.800	0.180
211	687		
295	166		
338	353		
		0.750	0.090
274	95		
326	494		
354	1,044		
		0.500	0.070
4,140	4,831		
3,834	19,364		
3,350	9,410		
		0.990	0.080
2,094	1,902		
2,028	1,854		
1,983	1,747		