

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, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BOZZO
TO INTERROGATORIES OF OF
THE AMERICAN BANKERS ASSOCIATION AND THE NATIONAL ASSOCIATION OF
PRESORT MAILERS REDIRECTED FROM WITNESS SMITH
(ABA&NAPM/USPS-T21-9 AND 10)

The United States Postal Service hereby provides the responses of witness Bozzo to the following interrogatories of the American Bankers Association and the National Association of Presort Mailers: ABA&NAPM/USPS-T21-9 and 10, filed on March 3, 2000, and redirected from witness Smith.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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March 17, 2000

Response of United States Postal Service Witness Bozzo
to Interrogatories of American Bankers Association and National Association of
Presort Mailers
(Redirected from Witness Smith, USPS-T-21)

ABA&NAPM/USPS-T21-9 From LR-I-83, page III-1, "Mail Processing Equipment Variabilities", please explain the variability number 1.005 for RBCS: workroom, and also RBCS: remote encoding site.

- a. Does this number mean more than 100% volume variability?
- b. How can a cost segment be more than 100% volume variable?

ABA&NAPM/USPS-T21-9 Response.

- a. Yes, the cited point estimate of the RBCS volume-variability factor (originally presented by Dr. Bradley in Docket No. R97-1) corresponds to 100.5 percent. It is my understanding that the 0.5 percentage point difference from 100 percent is not statistically significant.
- b. A cost segment (or, generically, cost pool) will be more than 100 percent volume-variable when the marginal cost exceeds the average cost. In this case, the volume-variable cost, which is marginal cost times volume, will exceed the total ("accrued") cost, which is average cost times volume. See also USPS LR-I-1, Appendix H. Note that whereas volume-variable cost can exceed total ("accrued") cost, incremental cost cannot.

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ABA&NAPM/USPS-T21-10.

- a. From Page III-8 of LR-83 [sic], why are "non-MODS" cost pool costs essentially 100% volume variable for manual letters while "MODS" cost pool costs for the (same) manual letters are 73.5% volume variable?

- c. From Page III-9 of LR-83 [sic], why are Standard A mail BMC "aggregate mail processing" labor costs nearly 100% volume variable (97.9%) while they are now claimed to be much less than 100% volume variable for First Class Mail?

ABA&NAPM/USPS-T21-10 Response.

There does not appear to be a part (b) to the interrogatory.

- a. The volume-variability factor for the MODS manual letters cost pool is an econometric estimate. Comparable data with which a volume-variability factor for the non-MODS manual letters cost pool might be estimated do not exist, so volume-variable costs for non-MODS cost pools are computed using the Commission's method from Docket No. R97-1. Please see USPS-T-15 at pages 132-135 for further discussion.

- c. The cited 97.9 percent variability is for all BMC mail processing operations, not for Standard A. The cited page of LR-I-83 also does not report variabilities for First-Class Mail, but rather for non-BMC operations and total mail processing (i.e., combined BMC and non-BMC operations). BMC volume-variable costs are computed using the Commission's method from Docket No. R97-1. Some MODS 1&2

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(non-BMC) cost pools employ econometric volume-variability factors,
presented at pages 119-120 of USPS-T-15. Please also see USPS-
T-15 at pages 132-133 and 135-136 for further discussion.

DECLARATION

I, A. Thomas Bozzo, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A. Thomas Bozzo

Dated: 3/17/00

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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