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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS KAY TO INTERROGATORIES OF  
UNITED PARCEL SERVICE  
(UPS/USPS-T23-6)

The United States Postal Service hereby provides the responses of witness Kay to the following interrogatories of United Parcel Service: UPS/USPS-T23-6, filed on March 7, 2000.

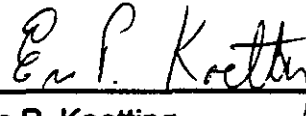
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Eric P. Koetting

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March 21, 2000

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS KAY TO  
INTERROGATORY OF UNITED PARCEL SERVICE**

**UPS/USPS-T23-6. Refer to your Workpapers, IC07.xls, tab Inputs. In column 6, line 53, total route costs of \$2,229,918,000 for Cost Segment 7 are from Meehan's B Workpapers, CS06&7.xls, tab 7.0.1 and 7.0.3. In column 6, line 55, volume variable costs of \$182,971,000 for Cost Segment 7 are from Meehan's B Workpapers, CS06&7.xls, tab 7.0.1 and 7.0.3. Refer also to your Workpapers, IC07.xls, tab Route Summary. Two product specific categories for Express Mail – (1) Drop/Pick-up for Special Purpose Routes ("SPR") and (2) Drop/Pick-up for Mixed Letter Route ("MLR") – are included in your incremental costs for route activities.**

**(a) Describe how incremental costs are derived for Express Mail – Drop/Pick-up for SPR and Drop/Pick-Up for MLR.**

**(b) Do Drop/Pick-up costs for SPR represent the only incremental costs within SPR route costs?**

**(c) Confirm that the only product-specific incremental costs within SPR route costs are attributed to Express Mail.**

**(d) Explain why Express Mail Drop/Pick-up costs are incremental costs and not volume variable costs. Identify any data sources and other documentation, including reports or studies, that support this conclusion.**

**(e) What cost segments besides Cost Segment 12 use allocations from these Cost Segment 7 costs (piggy-back)?**

**RESPONSE**

**(a) The steps that I use to derive the incremental cost for any cost component or cost pool (sub-component) are described on pages 4-9 of my testimony. In the case of the cost pools for Drop/Pick-ups for Express Mail Facilities, I first examine the workpapers of witness Meehan (USPS LR-I-80, file CS06&7.xls, tabs 7.0.5 and 7.0.4.4.) Worksheets 7.0.5 and 7.0.4.4 show cost pools for Drop/Pick-ups for Express Mail for special purpose routes (7.0.5, column 1 line 28 and column 2 line 28) and for motorized letter routes (WS 7.0.4.4, column 3 line 8. To determine the correct incremental cost analysis to apply to these cost pools, I categorize the cost pools according to the types identified in Table 1 of Dr. Bradley's testimony (USPS-**

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T-22, page 22). Three questions must be answered in order to categorize a cost pool:

- Are the costs in the pool fixed or variable?
- How many products are handled in the cost pool?
- Is the cost pool variability equal to 1, or less than 1?

Express Mail interfacility run costs are considered variable costs, in that they do not occur at zero volume (see USPS-T-22, page 19). Witness Nelson (Docket R97-1, USPS-T-19, page 8) describes Express Mail interfacility service:

“...Such movements typically involve modest piece volumes moving in small vehicles on schedules established entirely by Express Mail distribution requirements...In particular, they are caused by the existence of Express Mail service, but do not vary measurably with piece volume.”

This description of Express Mail interfacility service leads me to the conclusion that Express Mail is the only product handled in the cost pool. Thus, incremental cost is equal to the total cost in the pool.

(b) Yes.

(c) Confirmed.

(d) See the answer to (a) above.

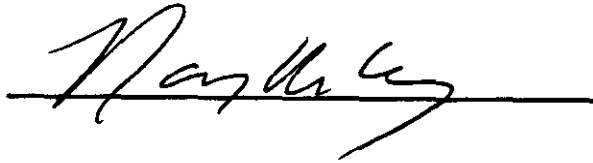
(e) The incremental cost for components dependent on the allocations of cost segments 6 and 7 is calculated in volume 2 my Workpapers, pages IIA-718 through IIA-750. The electronic version can be found in USPS LR-I-150, folder IC Model/R00-1, file IC Dependent.xls, tabs Office, Load, Access, and Route. The cost segment for each dependent component is listed. As discussed on pages 8 and 9 of my testimony, I include only volume-related incremental cost in the

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**calculation of incremental cost for dependent components. Product specific costs, which include intrinsic costs (costs that vary with the level of output but do not vary at the margin), are not included in the calculation of incremental costs for dependent components.**

**DECLARATION**

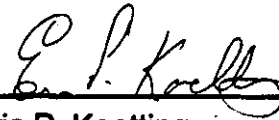
I, Nancy R. Kay, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Nancy R. Kay", is written over a solid horizontal line.

Dated: 3-20-00

**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.



Eric P. Koetting

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