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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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 BRADLEY TO INTERROGATORIES OF
THE NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T22-1-4)

The United States Postal Service hereby provides the responses of witness Bradley to the following interrogatories of the Newspaper Association of America: NAA/USPS-T22-1-4, filed on March 22, 2000.

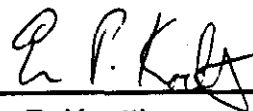
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992 Fax -5402
April 5, 2000

Response of United States Postal Service Witness Bradley
to
Interrogatories of NAA

NAA/USPS-T22-1. Please refer to page 15, lines 23-25 of your testimony, where you state that "Attributable costs incorporate only the cost of the last unit produced, whereas incremental costs incorporate the costs of all of the units produced."

- a. Please confirm that the quoted statement assumes that "attributable costs" are defined as marginal costs (or volume variable costs).
- b. Please confirm that the Postal Rate Commission has not, in past cases, defined "attributable costs" as marginal costs (or volume variable costs) in all cost segments.

NAA/USPS-T22-1 Response:

- a. Not confirmed. Attributable costs are defined as the sum of volume variable costs and specific-fixed costs.
- b. I'm not sure I understand the role of the qualifier "in all costs segments." I believe that the Commission has attempted to apply a consistent definition of attributable cost in all cost segments. That definition specifies that attributable cost is the sum of volume variable and what the Commission has defined as specific fixed costs. I can thus confirm that in cost segments that contain specific fixed costs, attributable cost will exceed volume variable cost.

Response of United States Postal Service Witness Bradley
to
Interrogatories of NAA

NAA/USPS-T22-2. Does the term "intrinsic cost" as defined in your testimony at page 20 include product specific costs that do not vary by volume (so long as at least one unit is produced)? If not, please explain.

NAA/USPS-T22-2 Response:

Intrinsic costs do not vary with volume at the margin. There are two types of product specific costs in the Postal Service cost structure: specific fixed costs and intrinsic costs. Neither vary with volume at the margin but the former is a fixed cost and the latter is a variable cost.

Response of United States Postal Service Witness Bradley
to
Interrogatories of NAA

NAA/USPS-T22-3. Are the access costs incurred by a city carrier in accessing a single subclass stop an example of an intrinsic cost? If not, how would you classify single subclass access costs?

NAA/USPS-T22-3 Response:

No. I would classify the pool of single subclass costs as volume related incremental cost. As volume of a subclass increases, some of that volume may go to a previously uncovered stop. If so, a single subclass stop is created and additional access cost is incurred.

**Response of United States Postal Service Witness Bradley
to
Interrogatories of NAA**

NAA/USPS-T22-4. Please identify the ways in which your definition of incremental costs differs from the Postal Rate Commission's definition of "attributable costs."

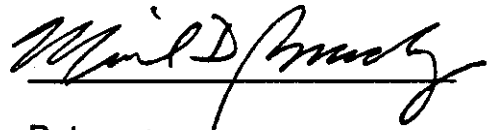
NAA/USPS-T22-4 Response:

The definition of attributable cost includes volume variable cost. This means that all units of the product are multiplied by the marginal cost of the last unit produced. Incremental cost, in contrast, multiplies each unit of the product produced by its own marginal cost. This means that in components in which the variability is less than one, incremental cost will exceed attributable cost.

In addition, the definition of incremental cost includes both specific fixed costs and intrinsic costs. The definition of attributable cost includes only specific fixed cost. It is informative to note, however, that this difference may be greater in definition than in measurement. In the past, the Commission seems to have classified some intrinsic costs as "specific fixed" and thus included them in attributable cost.

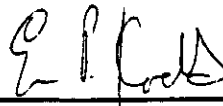
DECLARATION

I, Michael D. Bradley, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.


Date: April 15, 2000

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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Washington, D.C. 20260-1137
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