

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

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAKIS TO INTERROGATORIES OF  
UNITED PARCEL SERVICE  
(UPS/USPS-T41-1-3)

The United States Postal Service hereby provides responses of witness Takis to the following interrogatories of United Parcel Service: UPS/USPS-T41-1-3, filed on August 4, 1997.


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.  
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August 18, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS  
TO INTERROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T-41-1.** Please confirm that use of Equation (7) on page 20 of your direct testimony can lead to significant understatement or overstatement of TY 1998 (AR) incremental costs. *As an example, please confirm that if the Postal Service made a major expenditure on a fixed cost item for the purpose of reducing its variable cost, then volume variable costs would go down while incremental costs could rise.*

**UPS/USPS-T-41-1 Response:**

Not confirmed (first part), as I am not clear as to what you mean by a "significant understatement or overstatement". Within the context of the Postal Service's request in this Docket, I believe that my "ratio approach" to estimating TY1998(AR) incremental costs, as described on pages 19 through 20 of my direct testimony, results in the best incremental cost estimates possible, given the alternatives I considered.

Not confirmed (second part), as I do not understand your question. Specifically, it is unclear from the phrasing whether the hypothetical expenditure occurs in BY 1996 or TY 1998, whether it is fixed and common to a group of subclasses or whether it is specific-fixed, whether the expenditure reduces volume variable costs for a number of subclasses, classes, or groups of subclasses/classes or for a specific subclass, etc. Given these ambiguities, it is impossible to answer your question.

In theory, however, I can imagine conditions where the scenario your question contemplates occurs. For example, if the hypothetical expenditure occurs in the test year, is specific-fixed for a particular subclass, and the savings in volume variable costs affect that subclass, then your scenario would be valid. However, such conditions are inconsistent with the treatment normally afforded cost reduction programs in the Postal Service's test year cost presentation. It is my understanding that Witness Patelunas (USPS-T-15) generally treats expenses and savings associated with projected cost reduction and other programs as volume variable. Hence, projected declines in volume variable costs in the test year are net of expenses incurred in their creation. Therefore, it appears that a situation similar to the one you describe (i.e., declining volume variable costs resulting from a cost reduction program that is considered "specific fixed") is unlikely to occur in practice given the cost analysis approaches and the roll-forward methodology employed by the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS  
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**UPS/USPS-T41-2.** Please confirm that Equation (10) on page 23 of your direct testimony refers to the natural logarithm.

**UPS/USPS-T41-2 Response:**

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS  
TO INTERROGATORIES OF UNITED PARCEL SERVICE

**UPS/USPS-T41-3.** Please confirm that the units in the table titled "Specific Fixed Costs Associated with Priority Mail and Express Mail (BY 1996)," on page 26 of your direct testimony, are thousands and not millions. As an example, please confirm that the first number should be \$64,236 thousand (i.e., \$64,236,000) and not \$64,236 million (i.e., \$64,236,000,000).

**UPS/USPS-T41-3 Response:**

Confirmed.

# DECLARATION

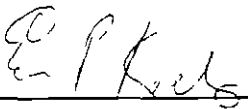
I, William M. Takis, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

W.M. Takis

Dated: 2-18-77

## 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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Eric P. Koetting

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