

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 THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
THE MAJOR MAILERS ASSOCIATION
REDIRECTED FROM WITNESS HATFIELD
(MMA/USPS-T25-10 - 11)

The United States Postal Service hereby provides responses to the following interrogatories of the Major Mailers Association: MMA/USPS-T25-10 - 11, filed on August 28, 1997, and redirected from witness Hatfield.

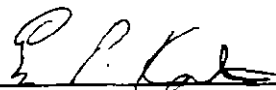
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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September 11, 1997

**RESPONSE OF THE U. S. POSTAL SERVICE TO
INTERROGATORIES OF MMA REDIRECTED FROM WITNESS HATFIELD**

MMA/USPS-T25-10. Please refer to USPS-T-25, Appendix V, p. 3. There you show the First-Class Mail Processing CRA Unit Cost Calculations by Cost Pool.

(A) Please confirm that the cost pools shown there were derived under the USPS proposed cost methodology that assumes that labor costs are not 100% variable with volume. If you cannot confirm, please explain.

(B) Please provide the cost pools and total shown there under the current accepted cost methodology whereby labor costs are assumed to be 100 % variable with volume.

RESPONSE:

(A) Confirmed.

(B) Unit costs by cost pool as shown on page 3 of Appendix V have not been calculated using cost methodologies other than that proposed in this docket. In addition, the major inputs necessary to calculate the requested cost have not been developed and are therefore not available.

The requested "current accepted cost methodology whereby labor costs are assumed to be 100% variable with volume" is interpreted to mean the mail processing costs based on witness Degen's testimony, USPS-T-12, and an assumed 100% volume variability for labor costs. The primary steps to develop the necessary inputs and compute the test year mail processing unit cost for First-Class presorted letters in the requested way are:

1. Calculate the Base Year Attributable costs (USPS-T-5A and supporting workpapers) by rerunning the base year model using the 100% volume variability for mail processing labor costs,
2. Calculate the Test Year Attributable Costs (USPS-T-15E and supporting workpapers) using the Base Year from step 1 (and possibly other modifications) and rerunning the rollforward model,
3. Calculate piggyback factors as done in LR-H-77, using the Test Year from step 2, and
4. Calculate the costs by shape (or benchmark costs) as requested by modifying LR-H-106 and LR-H-146, using inputs from all previous steps.

**RESPONSE OF THE U. S. POSTAL SERVICE TO
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MMA/USPS-T25-11. Please refer to Exhibit USPS-T-25, p. 2. There you show that the First-Class Carrier Route Presort unit processing cost is 2.2910 cents. The source of this figure is LR H-106.

(A) Please confirm that this unit cost was derived under the USPS proposed cost methodology that assumes that labor costs are not 100% variable with volume. If you cannot confirm, please explain.

(B) Please provide this unit cost under the current accepted cost methodology whereby labor costs are assumed to be 100 % variable with volume.

RESPONSE:

(A) Confirmed.

(B) The unit cost for First-Class carrier route presort letters has not been calculated using a methodology other than that presented in this docket. In addition, the major inputs necessary to calculate the requested cost have not been developed and are therefore not available.

The requested "current accepted cost methodology whereby labor costs are assumed to be 100% variable with volume" is interpreted to mean the mail processing costs based on witness Degen's testimony, USPS-T-12, and an assumed 100% volume variability for labor costs. The primary steps to develop the necessary inputs and compute the test year mail processing unit cost for First-Class carrier route presort letters in the requested way are:

1. Calculate the Base Year Attributable costs (USPS-T-5A and supporting workpapers) by rerunning the base year model using the 100% volume variability for mail processing labor costs,
2. Calculate the Test Year Attributable Costs (USPS-T-15E and supporting workpapers) using the Base Year from step 1 (and possibly other modifications) and rerunning the rollforward model,
3. Calculate piggyback factors as done in LR-H-77, using the Test Year from step 2, and
4. Calculate the costs by shape (or benchmark costs) as requested by modifying LR-H-106 and LR-H-146, using inputs from all previous steps.

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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