

DOCKET SECTION

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
THE FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION,
UPS, AND ADVO
(FGFSA/USPS-T41-1-3, UPS/USPS-T41-25, ADVO/USPS-T41-1)

The United States Postal Service hereby provides responses of witness Takis to the following interrogatories of the Florida Gift Fruit Shippers Association, UPS, and ADVO: FGFSA/USPS-T41-1-3, UPS/USPS-T41-25, and ADVO/USPS-T41-1, filed on September 16, 1997.

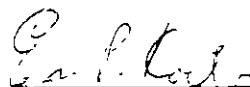
Each interrogatory is stated verbatim and is followed by the response.

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.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
September 30, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORIES OF THE FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS-T41-1. The Postal Service contracts for highway transportation to service Intra-BMC mail. Each contract is for a specific route to be operated on a prescribed, contracted for time schedule, to provide service of a specified cube capacity, regardless of actual mail volume, from a BMC to one or more SCFs or other postal facilities, with scheduled intermediate stops for unloading and partial loading, together with a return from those postal facilities to the BMC.

- (a) Do you categorize those contracts as being examples of incremental costs since it is merely the cost caused by the provision of the entire amount of the transportation service? If not, how do you categorize them?
- (b) Is each segment or leg of the route an example of incremental costs? If not, how do you categorize them?
- (c) If actual mail volume exceeds the contracted for capacity, and additional transportation service is obtained to handle the excess, is the cost of the additional transportation an example of marginal costs? If not, please explain.
- (d) Are these contracts "cost drivers" as you use those terms on page 5 of your testimony? If so, explain how the cost of a contract varies with volume of mail.

FGFSA/USPS-T41-1 Response:

Part (a): Incremental cost is the cost caused by the provision of the entire amount of a particular *product* or subclass, not of the entire amount of a particular cost pool or activity. That being said, part of the costs of providing Intra-BMC highway transportation are incremental to various Postal Service products. The actual incremental costs (and the calculations used to arrive at them) associated with Intra-BMC highway transportation are shown on pages IV.A 33 through IV.A 38 of my workpapers.

Part (b): See my response to part (a) above. Incremental costs for Intra-BMC highway transportation are calculated using the variability factor and functional form estimated by Witness Bradley in USPS-T-13 and in accordance with the translog procedure I describe in my testimony (page 16) and my workpapers (Section II-3 through II-9). I do not analyze individual routes or the segments or legs thereof.

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Part (c): I consider these costs to be marginal to the extent that Witness Bradley's analysis of the volume variability of purchased transportation costs considers them to be marginal.

Part (d): It is my understanding that Witness Bradley used cubic foot-miles as the cost driver in estimating the volume variability of Intra-BMC highway transportation costs, not individual contracts.

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FGFSA/USPS-T41-2. Do you agree that the cost of each Intra-BMC contract is a joint cost, as that term is used by an economist, of providing the transportation service for the entire route? If not, please explain.

FGFSA/USPS-T41-2 Response:

Please see Witness Bradley's response to FGFSA/USPS-T13-56.

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FGFSA/USPS-T41-3. Have you made a determination that the costs of contract purchased transportation for Intra-BMC are volume variable costs? If so, please explain the basis for your determination.

FGFSA/USPS-T41-3 Response:

I have not made a determination that the costs of contract purchased transportation for Intra-BMC are volume variable costs. The determination that these costs are partially volume variable and the estimate of the actual variability were made by Witness Bradley (USPS-T-13).

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

UPS/USPS-T41-25. In reference to Exhibit USPS-41B, and your derivation of incremental costs for Parcel Post, please describe how your analysis treats OBMC, DBMC, and DSCF mail as distinct from other Parcels Zone Rate mail. Your description should include an explanation of how, and to what extent, costs associated with returning trucks or empty equipment to the origination point for these subclasses are taken into account in your analysis and workpapers.

UPS/USPS-T41-25 Response:

My analysis does not treat OBMC, DBMC, and DSCF mail as distinct from other Parcels Zone Rate mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T41-1. Please refer to Section IV., page A 2, of your workpapers. For the facer/canceler operation cost pool ("CANCEL"), please confirm that:

- (a) First Class Letters and Cards account for 88.9 percent of the total volume variable costs of the facer/canceler operation cost pool;
- (b) First Class Letters and Cards plus Single-Piece Third Class Mail account for 89.4 percent of the total volume variable costs;
- (c) First Class Mail, Single-Piece Third Class Mail, and Priority Mail account for 92.9 percent of the total volume variable costs.
- (d) Third Class Bulk Rate Mail (Regular plus Nonprofit, but excluding Single Piece mail) account for 2.6 percent of the total volume variable costs.

If you cannot confirm, please provide the correct figures and identify their source.

ADVO/USPS-T41-1 Response:

Part (a): Confirmed.

Part (b): Confirmed.

Part (c): Confirmed, if by First Class Mail, you mean First Class Letters, Flats, and Parcels and First Class Cards.

Part (d): 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: 9-30-97

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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