

DOCKET SECTION

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

RECEIVED

OCT 1 4 34 PM '97

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
ADVO, INC., UPS, AND THE OCA
(ADVO/USPS-T41-3-7.a, OCA/USPS-T41-1,
AND UPS/USPS-T41-26-34, 36)

The United States Postal Service hereby provides responses of witness Takis to the above interrogatories of Advo, UPS, and the OCA, filed on September 17, 1997. Interrogatories ADVO/USPS-T41-2 was redirected to witness Degen, while ADVO 7.b-d. - 8 were redirected to witness Moden. UPS/USPS-T41-35 was redirected to the Postal Service.

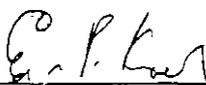
Each interrogatory is stated verbatim and is followed by the response.

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
October 1, 1997

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

ADVO/USPS-T41-3. Please refer to witness Takis's workpaper IV.B, pages 1 and 2. For the facer/canceler operation cost pool ("CANCEL"), you show total accrued cost of \$287.698 million, of which \$188.154 million is volume-variable and \$99.544 million is non-volume-variable. You show that First Class Mail accounts for 88.914 percent of total volume variable costs, or \$167.295 million. You have also calculated an incremental cost for First Class Mail of \$226.649 million. (If you disagree with any of these figures, please provide the correct figures and explain how they were derived).

- (a) Does this mean that if First Class Mail were removed from the system, the Postal Service's accrued cost for this cost pool, by your estimate, would become \$61.049 million (i.e., \$287.698 million total accrued cost minus \$226.649 million First Class incremental cost)?
- (b) Does this mean that if First Class Mail were removed from the system, the remaining total volume-variable cost for other classes for this cost pool would become \$20.859 million (i.e., \$188.154 million total v-v cost minus \$167.295 million First Class v-v cost)?
- (c) Does this mean that if First Class Mail were removed from the system, the volume variability for the facer/canceler operation cost pool would become 33.4 percent (i.e., \$20.859 million total v-v cost for the remaining classes divided by \$61.049 million accrued cost)?

If you disagree with any of the above figures, explain why, provide the correct figures, and show how you calculated them.

ADVO/USPS-T41-3 Response:

Part (a): Yes.

Part (b): No. In the absence of First-Class Mail, the total volume-variable cost for the remaining classes would equal \$20.859 million only if the marginal cost for this operation were constant with volume. Insofar as the cost function for this operation has a translog form, and marginal cost varies with volume, this assumption is false.

I did not calculate new estimates of volume variable costs for the "CANCEL" operation after eliminating First-Class Mail as part of my testimony, and therefore, I cannot provide it here. To do so, however, one would take the following steps:

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

- Step 1: Calculate new level of the cost driver for the "Cancel" operation based on the elimination of First-Class Mail.
- Step 2: Derive the marginal cost curve for the "CANCEL" operation by taking the derivative of the cost function (with respect to the driver) estimated by Witness Bradley (USPS-T-14).
- Step 3: Determine new values for total volume variable costs by substituting remaining levels of the driver into the marginal cost equation.

Part (c): No. See my answer to Part (b).

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

ADVO/USPS-T41-4. Please refer to your workpapers, Section IV.A and IV.B.

- (a) Please confirm that you used the 65.4 percent volume variability factor derived by Witness Bradley for the "Cancel & Mtr. Prep" MODS activity (USPS-T-14, Table 7) to develop incremental cost estimates for the following cost components related to facer/canceler operations:

<u>Component</u>	<u>Takis Workpapers Source</u>	
	<u>Subclasses</u> <u>WP Section IV.A</u>	<u>Groups</u> <u>WP Section IV.B</u>
Cancel	pp. 1-6	pp. 1-2
Capital - Letters Cancel	13-18	5-6
Capital - Flats Cancel	13-18	5-6
Capital - Cull	13-18	5-6
Labor - Letters Cancel	19-24	7-8
Labor - Flats Cancel	19-24	7-8
Labor - Cull	19-24	7-8
Parts/Supplies - Letters Cancel	25-30	9-10
Parts/Supplies - Flats Cancel	25-30	9-10
Parts/Supplies - Cull	25-30	9-10

- (b) Please confirm that each of the above components represents a separate part of the total costs related to the facer/canceler operation (i.e., the costs shown in one component, such as "labor - letters cancel," are not included in or duplicative of costs shown in any of the other components, such as "cancel"). If not, identify and quantify any overlaps between components, and explain how totals for these components may be calculated

ADVO/USPS-T41-4 Response:

Part (a) and (b): Confirmed.

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

ADVO/USPS-T41-5. Please refer to Takis workpaper Section IV.B and the components and workpaper references listed in (a) above. Subject to rounding differences, please confirm that for the combined ten cancel-related operation components listed in (a) above:

- (a) the total accrued cost is \$428.983 million.
- (b) the total volume variable cost is \$280.555.
- (c) the total non-volume-variable cost is \$148.428 million.
- (d) the total volume-variable cost for First Class Mail is \$253.952 million.
- (e) First Class Mail's volume-variable cost constitutes 90.5 percent of the total volume-variable cost.
- (f) First Class Mail's incremental cost is \$349.426 million.

If (except for rounding differences) you cannot confirm, please provide the correct figures, and show how you calculated them.

ADVO/USPS-T41-5 Response:

Parts (a) through (f): Confirmed.

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

ADVO/USPS-T41-6. At page 57 of his testimony (USPS-T-14), witness Bradley states:

"A fourth reason why a variability may differ from one is the way in which the activity is used in the mail flow. In some cases, a particular activity may be used as a 'gateway' activity. This means that the activity serves as an early recipient of mail in the mail flow. As such, it must be up and running and ready to receive mail as it comes into the stream. For example, the cancelling activity serves as a gateway activity for mail flowing through all of the sorting technologies. In this activity, the mail is faced and canceled before it is set [sic] to other activities for sorting throughout the evening."

Do you agree that the "gateway" nature of the facer/canceler activity explains, at least in part, its relatively low volume variability (65.4 percent)? If not, please explain why you disagree with witness Bradley and what you believe to be the explanations for this relatively low volume variability.

ADVO/USPS-T41-6 Response:

The question you pose is beyond the scope of my testimony. I have no basis to disagree with Dr. Bradley.

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

ADVO/USPS-T41-7. At page 59 of his testimony (USPS-T41-14), witness Bradley states that “[s]imilarly, the variability for the canceling activity reflects its pivotal role and [sic] the primary gateway activity for each night’s sorting.” At page 57, Bradley states that “[m]uch mail processing must be done within strict time limits set by dispatch times.”

- (a) Do you agree that the canceling activity plays a “pivotal role” as “the primary gateway activity for each night’s sorting”? If not, please explain why you disagree with witness Bradley and what relative role you believe the canceling operation plays in preparing for each night’s sorting activities.
- (b) Is the staffing of personnel in the facer/canceler operation affected in any way by the fact that nearly all of the volume processed in this operation is First Class Mail? Explain your answer.
- (c) Do First Class delivery standards, or efforts by management to achieve high delivery performance or meet performance targets for First Class Mail, play any part in staffing decisions for this operation. Explain your answer.
- (d) Is the staffing of personnel in the facer/canceler operation affected in any way by the need to process First Class mail within strict time limits to meet critical dispatch times? Explain your answer.

ADVO/USPS-T41-7 Response:

Part (a): As with ADVO/USPS-T41-6, this question is beyond the scope of my testimony

Parts (b) through (d): Redirected to Witness Moden.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T41-1. Please refer to page 12, lines 16-23 of your testimony where you discuss the Eagle Network. Please relate your comments here to the proper treatment of the costs of Bulk Mail Centers, which process standard and periodical mail. Do you regard Bulk Mail Centers as necessary to these categories of mail? Should Express Mail, Priority Mail, and First-Class Mail share the costs of these facilities? Please explain your answer fully.

OCA/USPS-T41-1 Response:

As shown in Exhibit USPS-41C of my testimony, I did not consider the group consisting of Standard A & B and Periodicals Mail. More specifically, I did not contemplate the elimination of this group of products and its effect on the BMC network (i.e., whether the BMCs would be "eliminated", as would be the case with the Eagle Network if Express Mail were not offered by the Postal Service, or whether the BMCs are "necessary" for processing these classes of mail). Therefore, I have not determined whether all non-volume variable costs associated with BMCs are incremental to the group consisting of Standard A & B and Periodicals Mail. However, I do believe that my analysis correctly assigns incremental costs associated with BMCs to the individual subclasses and groups of subclasses that I considered in my analysis.

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

UPS/USPS-T41-26. Please confirm that the spreadsheets in your workpapers (Library Reference H-170) do not contain the formulas used to calculate the numbers stated in the spreadsheet. If you confirm, please provide, in electronic form, the precise and specific formulas used to calculate the numbers stored in the spreadsheets. If not confirmed, please explain where in the spreadsheet the specific formulas used to calculate the numbers in the spreadsheet are contained.

UPS/USPS-T41-26 Response:

Confirmed. The formulas used to develop my incremental cost estimates were filed in electronic form as LR-H-199, "Linked Electronic Version of Takis Workpapers".

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

UPS/USPS-T41-27. In your response to UPS/USPS-T41-5, you identified various specific fixed costs. Do you agree that the totals of all fixed costs for Express Mail, Priority Mail, and Parcel Post are \$208,286,000, \$249,360,000, and \$22,000, respectively. If you do not agree, please explain.

UPS/USPS-T41-27 Response:

Subject to my discussion of the definition of "specific fixed costs" in my response to UPS/USPS-T41-5, the totals of all "specific fixed costs" for Express Mail, Priority Mail, and Parcel Post are \$208,286,000, \$249,360,000, and \$22,000, respectively.

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

UPS/USPS-T41-28. Please refer to Library Reference H-1, "Summary Description of USPS Development of Costs by Segments and Components," and to your response to UPS/USPS-T41-5.

- (a) Are you aware of any other costs that should be considered to be "specific fixed costs," in addition to those listed in Library Reference H-1, under the Postal Service's traditional definition of "specific fixed costs"?
- (b) Please confirm that, in addition to the specific fixed costs identified in Library Reference H-1 and in your answer to (a) above, your response to UPS/USPS-T41-5 identified certain additional costs that you have designated "specific fixed costs" because the costs you have identified are "product specific costs."
- (c) If "product specific costs" is not the correct designation for the costs that are labeled "specific fixed costs" in your response to UPS/USPS-T41-5, please provide the designation for these costs and define with specificity this term.
- (d) Please define with specificity "product specific costs" as you use that term in your response to UPS/USPS-T41-5.
- (e) Please confirm that you believe that "product specific costs," shown in your answer to UPS/USPS-T41-5, are economically and functionally the same as "specific fixed costs." (See (b), (c), and (d) above.) If not confirmed, please explain.
- (f) Please confirm that the total costs shown in your response to UPS/USPS-T41-5, which you designated "specific fixed costs," should be treated the way the Postal Rate Commission has treated "specific fixed costs" in past proceedings. If not confirmed, please explain.

UPS/USPS-T41-28 Response:

Part (a): I am aware of other costs, in addition to those listed in Library Reference H-1, that I term "specific fixed costs" *as I define them in my response to UPS/USPS-T41-5*. These costs are delineated in my response to UPS/USPS-T41-5. To the best of my knowledge, there is no "traditional definition" of "specific fixed costs." Rather, as I note in my response to UPS/USPS-T41-5 (especially footnote 1), the term "specific fixed" has been used by both the Postal Service and the Commission to refer to a variety of cost concepts.

Part (b): Confirmed.

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

Parts (c) and (d): Incremental costs are comprised of two different types of costs related to the provision of the entire amount of a particular product or group of products. The first type is costs which vary with volume over the relevant range of volume for the particular subclass or group of subclasses in question. An example of this first type of cost is depicted in the two shaded areas under the marginal cost curve in the diagram on page 4 of my testimony. The second type is costs that do not vary with volume over this range, but are incurred solely for the provision of the product or group of products in question. These may be partially fixed or partially variable, but are not volume variable in the strict use of the term in postal costing (see my response to UPS/USPS-T41-5). It is this second type of costs that I refer to as "product specific" in my response to UPS/USPS-T41-5. I introduced the term "product specific" in order to make clear the over-riding concern of my testimony – the calculation of total incremental costs for subclasses or groups of subclasses, whatever the nature of the incremental costs and in spite of the conceptual confusion surrounding the term "specific fixed" costs.

For the sake of clarifying my testimony and my responses to interrogatories regarding "specific fixed" and "product specific" costs, I would note that the confusion about the term "specific fixed" centers on whether the costs which have been called "specific fixed" in the past are truly "fixed". In fact, it is my understanding that in past Dockets before the Commission, the term "specific fixed" has been applied to "attributable" costs that do not meet the technical definition of "volume variable" (as that term is used in postal costing), regardless of whether they really are "fixed" (see my response to UPS/USPS-T41-5). Insofar as the Postal Service has, as of this Docket, moved beyond the concept of "attributable costs" in favor of producing volume variable costs and, separately, incremental costs for each subclass, it may be useful as well to move beyond the use of the term "specific fixed". The term "product specific", because it does not falsely imply any degree of "fixedness" or "variability", correctly encompasses all the cost concepts required to calculate the portion of incremental costs that do not vary with the volume of the particular subclass or group of subclasses in question.

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

Part (e): Not confirmed. As I discuss in my response to Parts (b), (c) and (d) of this interrogatory and in my response to UPS/USPS-T41-5, "product specific" costs are a more general term than "specific fixed" costs. Further, the term "specific fixed" cost as used by the Postal Service and the Commission over time is an ill-defined concept with no well-specified economic or functional meaning.

Part (f): Not confirmed, as I do not understand what you mean by "treated the way the Postal Rate Commission has treated 'specific fixed costs' in past proceedings." The total costs shown in my response to UPS/USPS-T41-5 should be treated as part of incremental costs, and therefore used for performing incremental costs tests. This is the first docket in which the Commission is being presented with incremental cost estimates.

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

UPS/USPS-T41-29. The first column of the table below reproduces Cost Segment categories used in LR-H-1. Please confirm that, using your response to UPS/USPS-T41-5, it is correct to classify specific fixed costs by subclass and Cost Segment category as shown in the table below. If not confirmed, please explain.

CS	Category	Subclass	Specific Fixed Costs (Thousands)
3.1	Clerks and Mailhandlers	Express	10,669
16	Computer Tracking & Tracing	Express	12,306
16	Computer Tracking & Tracing	Parcel	22
16	Computer Tracking & Tracing	International	1,760
16	Advertising	Letters	184
16	Advertising	Cards	10
16	Advertising	Priority	50,704
16	Advertising	Commercial Regular	763
16	Advertising	Commercial OCR	739
16	Advertising	International	13,776
18	Money Orders	Money Orders	3,163

UPS/USPS-T41-29 Response:

Not confirmed. Clerks and Mailhandlers "specific fixed costs" come under C/S 3.3, not under C/S 3.1. In addition, to the best of my knowledge there are no subclasses called "Commercial Regular" or "Commercial OCR". "Specific fixed costs" comprised of advertising expenditures (CS16) for Third Class Bulk Regular Rate (Other) and Third Class Bulk Regular Rate (Carrier Route) total \$763,000 and \$739,000, respectively. Finally, the "total" figure listed does not equal the sum of the numbers in the right-hand column.

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

UPS/USPS-T41-30. Please refer to pages II-17, II-18, and IV.A 202 of your workpapers, and to your response to UPS/USPS-T41-5. Please confirm that the six cost pools listed below in Cost Segment 7 are specific fixed costs. If not confirmed, please explain and provide a corrected table.

CS	Category	Subclass	Specific Fixed Costs
7	Letter Stop EM Box	Express	3,501
7	Stop EM Box SPR	Express	1,153
7	Drive EM Box SPR	Express	790
7	Drop / PU EM Facility SPR	Express	3,597
7	Drop / PU EM Facility MLR	Express	400
7	EM Collection Box MLR	Express	262
Total			9,703

UPS/USPS-T41-30 Response:

Confirmed, subject to my discussion of the definition of "specific fixed costs" in my response to UPS/USPS-T41-5.

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

UPS/USPS-T41-31. Please refer to page IV.A 202 of your workpapers and to your response to UPS/USPS-T41-5.

- (a) Please confirm that the Express Specific Fixed cost pool in C/S 9 is a specific fixed cost. If not confirmed, please explain.
- (b) On page IV.A 202 of your workpaper, you show \$8,577,000 as the specific fixed cost for C/S 9 Express Specific Fixed. However, in your response to UPS/USPS-T41-5, you state that \$8,528,000 is the specific fixed cost for C/S 9 Express Specific Fixed. Please confirm that \$8,528,000 is the correct figure. If not confirmed, please provide the correct figure.

UPS/USPS-T41-31 Response:

Parts (a) and (b): The Express Specific Fixed cost pool in C/S 9, in spite of its name (carried over from LR-H-3), is partially volume variable. The "specific fixed" portion is \$8,528,000, the number shown in my response to UPS/USPS-T41-5. The number shown on page IV.A 202 of my workpapers is equal to this "specific fixed" costs plus the volume variable costs of \$49,000, or total accrued costs of \$8,577,000.

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

UPS/USPS-T41-32. Please refer to page IV.A 202 of your workpapers and to your response to UPS/USPS-T41-5. Please confirm that the portions of Cost Segment 14 shown below are specific fixed costs. If not confirmed, please explain and provide a corrected table.

<u>CS</u>	<u>Category</u>	<u>Subclass</u>	<u>Specific Fixed Costs</u>
14	Network	Express	107,196
14	Western Air	Express	14,436
14	Xmas Network	Priority	64,236
Total			185,868

UPS/USPS-T41-32 Response:

Confirmed, subject to my discussion of the definition of "specific fixed costs" in my response to UPS/USPS-T41-5.

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

UPS/USPS-T41-33. Please confirm that, according to your response to UPS/USPS-T41-5, portions of Cost Segment 3.1 shown below are specific fixed costs. If not confirmed, please explain and provide a corrected table.

<u>CS</u>	<u>Category</u>	<u>Subclass</u>	<u>Specific Fixed Costs</u>
3.1	Express	Express	43,686
3.1	LDC 48 Express	Express	1,762
3.1	Priority	Priority	122,827
3.1	SPBS Priority	Priority	11,593
Total			179,868

UPS/USPS-T41-33 Response:

Confirmed, subject to my discussion of the definition of "specific fixed costs" in my response to UPS/USPS-T41-5.

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

UPS/USPS-T41-34. Please refer to your response to UPS/USPS-T41-5. The last sentence of the response says: “[n]ote that these costs do not include piggyback factors.”

- (a) Please list the applicable missing piggyback factors.
- (b) Please provide three new tables comparable to the three tables provided in your response to UPS/USPS-T41-5, but with the numbers shown there increased to reflect the effect of the applicable piggyback factors.

UPS/USPS-T41-34 Response:

Parts (a) and (b):

Cost Segment	Cost Pool	Subclass	Specific Fixed Cost	Piggyback Factor	Total Cost with Piggyback
3.1	Express	Express	43,686	1.24047	54,191
3.1	LDC 48 Express	Express	1,762	1.24047	2,186
3.1	Priority	Priority	122,827	1.24048	152,364
3.1	SPBS Priority	Priority	11,593	1.24048	14,381
3.3	Clerks and Mailhandlers	Express	10,669	1.15133	12,283
7	Letter Stop Em Box	Express	3,501	1.31575	4,606
7	SPR Stop Em Box	Express	1,153	1.31575	1,517
7	Drive Em Box SPR	Express	790	1.32335	1,045
7	Drop/PU EM Facil SPR	Express	3,597	1.32335	4,760
7	Drop/PU EM Facil MLR	Express	400	1.32335	529
7	Em Coll Box MLR	Express	262	1.32335	347
9	Express Specific Fixed	Express	8,528	1.42049	12,114
14	Network Air	Express	107,196	N/A	107,196
14	Western Air	Express	14,436	N/A	14,436
14	Xmas Network	Priority	64,236	N/A	64,236
16	Computer Track & Trace	Express	12,306	N/A	12,306
16	Computer Track & Trace	Parcels Zone Rate	22	N/A	22
16	Computer Track & Trace	International	1,760	N/A	1,760
16	Advertising	First Class Letters	184	N/A	184
16	Advertising	First Class Cards	10	N/A	10
16	Advertising	Priority	50,704	N/A	50,704
16	Advertising	Third Class Bulk CR	739	N/A	739
16	Advertising	Third Class Bulk Other	763	N/A	763
16	Advertising	International	13,776	N/A	13,776
18	Money Order Admin	Money Orders	3,163	1.10998	3,511

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

UPS/USPS-T41-36. Please refer to Attachment 1, which relates to the Postal Service program known as "the Hub and Spoke Project (HASP)." The attachment suggests that HASP is designed to serve First Class Mail and Priority Mail only.

- (a) If it is the case that HASP serves only First Class Mail and Priority Mail, are the costs incurred in connection with HASP incremental costs for a group of products that consists of First Class Mail and Priority Mail?
- (b) Were you aware of HASP at any point before you filed your testimony?
- (c) Are costs incurred in connection with HASP part of the incremental costs of First Class Mail and Priority Mail as identified in your testimony? If so, please provide, separately for First Class Mail and for Priority Mail, how much of the incremental costs for these classes as identified in your testimony are HASP costs.

UPS/USPS-T41-36 Response:

Part (a): If it is the case that HASP facilities serve only First Class Mail and Priority Mail (and I have not verified the validity of this assumption), then it is also the case that all costs incurred in connection with HASP facilities are incremental to the group of products that comprise First-Class and Priority Mail, but not necessarily to the individual subclasses comprising this group. I have not considered this group of products in my testimony.

Part (b): No, I was not aware of HASP at any point before I filed my testimony.

Part (c): As noted in my response to part (a), to say that *any or all* of the costs associated with HASP are incremental to the group of subclasses that comprise First-Class and Priority Mail is not to say that any or all of the costs associated with HASP are incremental to the individual subclasses comprising this group. However, on the assumption that at least some HASP-related costs are at least partially volume variable, then it would be the case that at least some HASP-related costs are part of the incremental costs of the individual subclasses comprising the group of First-Class and Priority Mail.

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

However, my analysis was performed on a cost pool by cost pool basis. It is my understanding that HASP-related program costs are spread between several different cost pools. Therefore, while the costs associated with HASP facilities are accounted for in my testimony to the extent they are included in BY1996 and TY1998(AR) costs, I have not examined them separately or as a unit. Therefore, it is impossible for me to say how much of the incremental costs for the subclasses that comprise the group of First-Class and Priority Mail are related to operations at HASP facilities.

Table of Contents

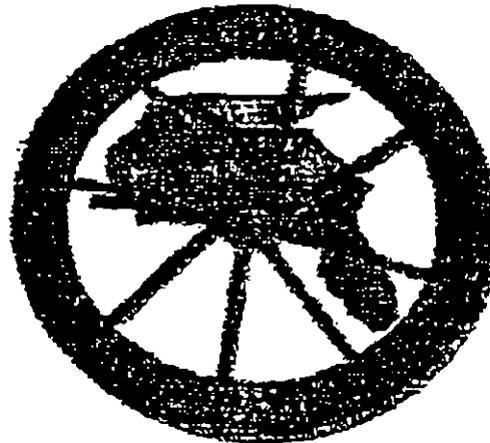
memo to mailers

September 1997

USPS opens another HASP; expects to save \$10 million

The USPS has opened a new mail facility in Clinton, TN, that is expected to save about \$10 million annually in transportation costs. Clinton is located 12 miles north of Knoxville.

The facility is part of the Hub and Spoke Project (HASP) designed to centralize mail transfer locations by grouping ZIP Code ranges from mail bearing two- and three-day delivery commitments that is trucked from any of 91 cities in the eastern U.S. The mail will be sorted into First-Class Mail and Priority Mail containers and delivered nonstop to its final area distribution center.



A HASP facility concentrates the volume of mail transported to a particular destination, resulting in more effective utilization of transportation and improved service. The first national HASP opened in August 1996 in Indianapolis and a second off the Capitol Beltway in Washington, DC. Other HASPs, which have been in existence for a few years as regional facilities include Binghamton, NY; Bronx, NY; Harrisburg, PA; Carteret, NJ; and Worcester, MA. They are being incorporated into the national HASP network.

In addition to providing a consistent departure and arrival profile between origin-destination pairs, use of surface transportation contributes to a reduction of congestion at air transfer hubs; and surface transportation is generally less costly.

Table of Contents

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: 10-1-97

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 1, 1997