

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ALEXANDROVICH TO INTERROGATORY OF DOUGLAS F. CARLSON (DFC/USPS-T5-16)

The United States Postal Service hereby provides the response of witness Alexandrovich to the following interrogatory of Douglas F. Carlson: DFC/USPS-T5-16, filed on November 13, 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



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November 25, 1997

Response of United States Postal Service Witness Alexandrovich
to
Interrogatories of DFC

DFC/USPS-T5-16.

a. Do you believe that stamped cards are less expensive to process than private post cards? (Note that this question does not ask you to agree that the cost differential is any particular number of cents; I am asking only for confirmation that the cost of processing stamped cards is lower than the cost of processing private post cards.) If your answer is anything other than an unqualified yes, please explain your answer fully, reconcile your answer with the data provided in Attachment 1 to Response to DFC/USPS-T5-2(b), and provide copies of all data, studies, and documents that support your position.

b. Please refer to your response to DFC/USPS-T5-13, where you stated, "Please note that if data collectors are identifying postal cards as belonging to the larger category of private postcards, then postal card costs could be understated." Please provide a complete explanation, using a numerical example if necessary, of why postal-card costs would be understated in the situation that you described.

c. Assume that the cost of processing stamped cards is lower than the cost of processing private post cards. If a stamped card, with its lower cost characteristics, were mistakenly identified as a private post card, please explain why assignment of the processing costs for this stamped card to the private-post-cards category would not cause the processing costs for *private post cards* to be understated.

Response to DFC/USPS-T5-16

- a. CRA unit mail processing costs for postal cards have historically been lower than those of private postcards, on average.
- b. The costs for postal cards would be understated in the circumstance described because it would reduce the cost pool associated with postal cards. Unit costs are developed by dividing total volume variable costs by volume. For example, IOCS tallies are used in the development of certain volume variable costs for a particular class, subclass, or special service—the numerator in the equation. Volume data from the Revenue, Pieces,

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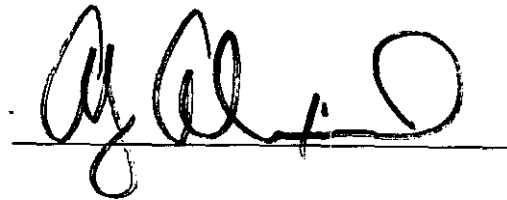
and Weight (RPW) report is used in the denominator to calculate unit volume variable costs. If an IOCS data collector mistakenly identifies a postal card as a private postcard, then the cost pool for postal cards will be reduced and the unit cost for postal cards will be understated.

Conversely, the cost pool for private postcards will be increased in this situation, thereby overstating the unit costs for private postcards.

- c. Your question indicates a misunderstanding of how unit costs are developed. As explained in subpart (b) above, unit costs are developed by dividing total volume variable costs by volume. Misidentifying a postal card as a private postcard reduces the costs associated with postal cards and increases the costs associated with private postcards. However, this IOCS coding error has absolutely no effect on the volume associated with either of these subclasses. RPW data, which are used to determine volumes, are collected independently of IOCS data. In the situation described in the question, an additional IOCS tally for private postcards would increase the costs associated with private postcards (numerator), while having no effect on the volume (denominator). As such, the unit costs of private postcards would increase.

DECLARATION

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

A handwritten signature in black ink, appearing to read "Joe Alexandrovich", is written over a horizontal line.

Dated: 11/25/97

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.



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