

DOCKET SECTION

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

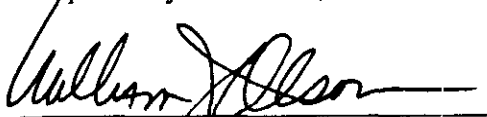
POSTAL RATE AND FEE CHANGES, 1997)

RECEIVED
FEB 17 9 30 AM '98
Docket No. R97-1

RESPONSE OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
TO FOLLOW-UP INTERROGATORY
OF UNITED STATES POSTAL SERVICE (USPS/NDMS-T2-32)
(February 17, 1998)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc., hereby provide the responses of witness John Haldi to the following interrogatory of the United States Postal Service: USPS/NDMS-T2-32, filed on February 2, 1998. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

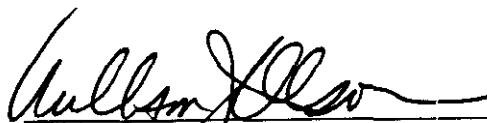


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Counsel for Nashua Photo Inc., District Photo Inc.,
Mystic Color Lab, and Seattle FilmWorks, Inc.

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.


William J. Olson

February 17, 1998

USPS/NDMS-T2-32

Please refer to your response to USPS/NDMS-T2-1b. You state that "the Postal Service has elected to charge off all start-up expenses as incurred, and concurrently impose a high markup on Priority Mail during the test year."

- (a) Please confirm that start-up costs are non-recurring one-time costs associated with the initiation of a new program; in this case the PMPC network. If you do not confirm, please explain what you mean by start-up costs.
- (b) Please confirm that the PMPC costs summarized in witness Patelunas's response to UPS/USPS-T-33-58 reflect the total costs related to the PMPC network included in this filing. If you do not confirm, please explain and provide any other costs related to the PMPC network included in this filing and their source.
- (c) Please confirm that the \$301.813 million of PMPC cost cited in part b), above, relate to the contract with Emery to run Phase I of the PMPC network. If you do not confirm, please provide your understanding of these costs.
- (d) Please confirm that the \$301.813 million of PMPC network costs are not start-up costs, but rather the ongoing contract cost paid to Emery for operating Phase I of the PMPC network. If you do not confirm, please explain which of these costs constitute start-up costs and why.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) From the Postal Service's perspective, all the costs of the PMPC contract may appear to be operating costs for Phase I of the PMPC network. This does not mean, however, that the contract payments do not include start-up costs for

Emery, although such costs may not be specifically identified as such. In fact, it is virtually unthinkable that a contract to establish a new PMPC network would not include start-up costs. Such costs would include training, security equipment, purchase of specialized equipment for sortation and handling of Priority Mail, and opening of the new facilities. Although implicit, the presence of start-up costs nevertheless could be revealed by the terms of the contract. For example, while the contract may anticipate the possibility of expanding volume, if payments on a unit basis are scheduled to decline over time, this would indicate expected economies associated with the familiar learning curve effect. From an economic perspective, the higher costs in the first year are appropriately thought of as start-up costs. The contract with Emery to operate the PMPC network (filed as LR-H-235) has been extensively redacted, so it is difficult to say just how much of the \$300.813 million of PMPC network costs in this docket are start-up costs. But whatever start-up costs Emery incurs to perform the contract, it can be expected to pass these costs on to the Postal Service. It is utterly naive to think otherwise.