

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

POSTAL RATE AND FEE CHANGES, 1997

RECEIVED  
Docket No. R97-1  
Mar 12 4 31 PM '98

NOTICE OF ERRATA TO REBUTTAL TESTIMONY OF WITNESS CHRISTENSEN

The attached page shows nonsubstantive revisions to footnote 6 on page 7 of USPS-RT-7. In the first line of the footnote, "subclass i" is changed to "subclass j", and "activity j" is changed to "activity i". Also, in the first equation, the letter "M" is substituted for the letter "V" in the right-hand side term.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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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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1 mail handlings themselves serve as estimates of  $d \ln D / d \ln M$ .<sup>6</sup> In other words,  
2 the elasticity of the cost driver with respect to volume is equal to the ratio of  
3 handlings of subclass  $j$  in cost pool  $i$  ( $D_{ij}$ ) to the total handlings in cost pool  $i$  ( $D_i$ ).  
4 It follows that the appropriate distribution key for a distribution cost pool is the  
5 subclass distribution of the mail handlings in that cost pool.

6 The requirement that the distribution keys provide estimates of the  
7 variabilities of mail volumes with respect to the cost drivers exposes the error  
8 witnesses Buc, Cohen and Stralberg make by adopting witness Bradley's  
9 elasticities while proposing unrelated cost distribution methods. A fundamental  
10 assumption of their alternative mail processing cost distribution proposals is that  
11 it is inappropriate to construct mail processing distribution keys at the cost pool  
12 level. This is contrary to the theory set forth by witness Panzar linking unit  
13 volume-variable costs and economic marginal costs.

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<sup>6</sup> Consider a typical mailpiece of subclass  $j$ , that requires  $a_{ij}$  TPH in distribution activity  $i$ . Mathematically, this may be written as:

$$D_{ij} = a_{ij} M_j .$$

Total handlings in the activity are

$$D_i = \sum_j D_{ij} = \sum_j a_{ij} M_j .$$

So, for any subclass  $j$ ,

$$\partial D_i / \partial M_j = a_{ij} .$$

Also note that we can write:

$$\partial \ln D_i / \partial \ln M_j = (M_j / D_i) \cdot (\partial D_i / \partial M_j) .$$

Combining results,

$$\begin{aligned} \partial \ln D_i / \partial \ln M_j &= (M_j / D_i) \cdot (\partial D_i / \partial M_j) \\ &= (M_j / D_i) \cdot a_{ij} \\ &= a_{ij} M_j / D_i \\ &= D_{ij} / D_i . \end{aligned}$$