

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

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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

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RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES  
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION AND  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
(ABA&NAPM/USPS-T32-1 THROUGH 6)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of American Bankers Association and National Association of Presort Mailers: ABA&NAPM/USPS-T32-1 through 6 (filed on March 17, 2000).

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



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2998 Fax -5402  
April 3, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES

ABA&NAPM/USPS-T32-1 Please confirm that ratemaking criterion 6 of the Postal Reorganization Act [(39 U.S.C. section 3622(b)(6)) [sic]:

- a. does not exclude mailer preparation of First Class single piece letters and flats
- b. refers to "reducing costs to the Postal Service", not only volume variable costs or attributable costs
- c. does not specify the technical means by which rates are to reflect criterion 6
- d. does not limit the cost reductions from mailer preparation to attributable costs or volume variable costs

**Response:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES

ABA&NAPM/USPS-T32-2

- a. Please explain how you calculated the 3.4% and 3.8% numbers found in your testimony on page 20, lines 13 and 16, respectively.
- b. Please confirm that the percentage rate increase for one ounce single piece letters in this case, which you reference in the same sentence as a one cent increase "to 34 cents", is 3.0%, not "3.4 percent".
- c. Please confirm that the unweighted average rate increase for one ounce First Class workshared letters (in all worksharing categories) in this case is 4.2%, not 3.8%.

**Response:**

- a. Please refer to page 2 of the workpapers of witness Fronk (USPS-T-33).  
The percentage changes were calculated as the change from the Test Year Before Rates revenue per piece to the Test Year After Rates revenue per piece in each category.
- b. Confirmed.
- c. I am not convinced that such a calculation has value, but I confirm your arithmetic.

ABA&NAPM/USPS-T32-3 Regarding your statement on page 10, lines 10-11, that "[w]orksharing removes attributable costs but leaves institutional costs unchanged.":

- a. please confirm that your statement only applies to costs [sic] changes at the margin, not the incremental costs to the Postal Service of having to process an additional 45 billion pieces of First Class workshared letter mail per year, were such volumes transferred from private sector to USPS for processing.
- b. Please confirm that the costs to the Postal Service of collecting and preparing an additional 45 billion pieces of letter mail per year would entail an increase in institutional costs.

**Response:**

a.& b. I can confirm that at the margin, worksharing removes volume variable costs but leaves non-volume variable costs unchanged. Likewise, I can confirm that under your hypothetical, shifting 45 billion pieces from workshared to non-workshared would likely change costs by something other than the product of the estimated unit volume variable worksharing savings times 45 billion units. I cannot confirm whether the change in costs caused by such a shift would be classified as institutional or volume variable costs.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES

ABA&NAPM/USPS-T32-4 On page 17, lines 10-12, you state that "any excess of revenue over incremental cost means that the Postal Service's provision of that subclass benefits other subclasses."

- a. Please explain in full detail what you mean by "benefits".
- b. Please confirm that the larger the revenue contribution over incremental cost by a subclass, the larger the benefit conferred on other subclasses.
- c. In your testimony, did you consider how to quantify these benefits?
- d. If your answer to c. is in the negative, would a quantitative determination of those benefits, if it was made, influence the rates set in this case?
- e. Apart from the purely technical definition relating cross subsidy to [perfectly measured] incremental costs, please confirm that your statement says in essence that "'any excess of revenue over incremental cost means that the Postal Service" provision of that subclass subsidizes the provision of other subclasses.'" If you do not confirm, please explain fully.

**Response:**

- a. The excess of revenue would be available to offset institutional costs, thus meaning that other subclasses would not have to cover that portion of institutional costs.
- b. Confirmed.
- c. No, except as provided in my exhibit USPS-32E, where I show the excess of revenue over incremental costs for each subclass.
- d. No, because a quantitative determination of those benefits would mirror, to a great extent, the quantitative evaluations implicit in my development of rate levels as measured by the ratio of revenue to volume variable costs. Where the reflection would be less applicable, *i.e.*, when there are significant specific fixed costs associated with the subclass, I had already

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES**

**Response to ABA&NAPM/USPS-T32-4, cont'd**

**taken coverage of the specific fixed costs into consideration when setting the cost coverages.**

- e. No. Your restatement of the statement makes no sense. If every subclass contributes revenue above and beyond its incremental cost, that would mean that every subclass is subsidizing every other subclass.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES**

**ABA&NAPM/USPS-T32-5** You state on page 21, lines 11-12, that "The percentage increase for First Class Letters of 3.5% ranks as one of the lowest increases proposed in this case". Please confirm that the percentage increases as proposed in this case for First Class Workshared Letters first ounce are not 3.5%, but between 3.7% and 4.92%, while the rate increase for First Class single piece letters is 3.0%.

**Response:**

**Confirmed.** As with virtually every subclass, not every rate element received the average increase.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES

ABA&NAPM/USPS-T32-6 On page 23, line 5, you indicate that proposed revenues for First Class Letter Mail “substantially exceeds” incremental costs. You then in the very next sentence at line 8, go on to claim that this is “fair and equitable”.

- a. Do revenues that exceed incremental costs by a moderate amount but not a “substantial” amount meet the incremental cost test for lack of a cross subsidy?

Why would it not be as fair and equitable (or more fair and equitable) for First Class Letter Mail to exceed incremental costs by a moderate amount rather than a substantial amount?

**Response:**

- a. Yes.

Although the statement in which I refer to “fair and equitable” is, as you note, “in the very next sentence”, it is also in the next paragraph and is a summary concluding the discussion of *all* of the pricing criteria, not just criterion 3. The sentence reads, in full: “In summary, the proposed rate level for First-Class Mail Letters and Sealed Parcels is fair and equitable (criterion 1) in accordance with a careful consideration of the section 3622(b) criteria.” Coverage of costs is associated with pricing criterion 3. The question of whether the rate levels are fair and equitable is answered by consideration of all of the pricing criteria, not just the amount by which revenue covers incremental costs.

**DECLARATION**

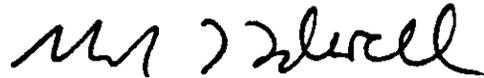
I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
Virginia J. Mayes

Dated: 4-3-00

**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.

A handwritten signature in black ink, appearing to read "M. Tidwell". The signature is fluid and cursive, with the first letter of the first name being a large, stylized 'M'.

Michael T. Tidwell

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