

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS NEEDHAM TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T8-8-9, 11-17)

The United States Postal Service hereby provides responses of witness Needham to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T8-8-9, 10-17, filed on July 11, 1996. Interrogatories OCA/USPS-T8-10 and 18 were redirected to witness Patelunas and the Postal Service, respectively.

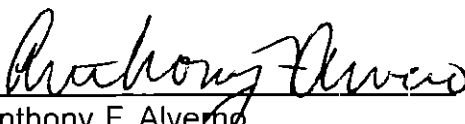
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

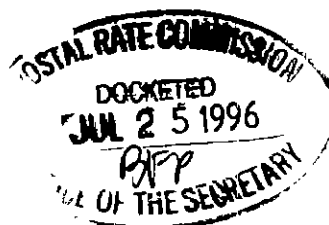
UNITED STATES POSTAL SERVICE

By its attorneys:

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July 25, 1996



RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
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OCA/USPS-T8-8. The purpose of this and the next interrogatory is to compare the Postal Service's cost coverage proposals for return receipt and certified mail in this proceeding with the Postal Service's proposals in prior proceedings. Please confirm, correct, or, as appropriate, complete the following tables pertaining to certified mail and return receipt. The sources of Table I are the Cost and Revenue Analysis Reports, TY at proposed rates.

Table I
Certified Mail (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90 Postal Service	288.6	379.0	131%
Docket No. R94 Postal Service	305.8	526.2	172%
Docket No. MC96-3 Postal Service	285.9	784.3	274%

Table II
Return Receipt (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90 Postal Service	158.8	191.9	121%
Docket No. R94 Postal Service			
Docket No. MC96-3 Postal Service			

RESPONSE:

When comparing the Postal Service's cost coverage proposals for certified mail and return receipts in this proceeding with corresponding proposals for these service in prior proceedings, it is necessary to use the pure cost coverage

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methodology applied by the Postal Service in this proceeding. The certified mail cost coverages in Table I of the question are inflated because they are calculated with ancillary service revenues. I have accordingly backed out the ancillary service revenue from certified mail revenue in the revised table below.

Table I (Revised)
Certified Mail (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	288.6	188.4	65%
Docket No. R94			
Postal Service	305.8	293.2	96%
Docket No. MC96-3			
Postal Service*	285.9	416.7	146%

*Source: Exhibit USPS-T-1C

Table II
Return Receipt (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	158.8	191.9	121%
Docket No. R94			
Postal Service	178.0	236.8	133%
Docket No. MC96-3			
Postal Service*	214.0	365.6	171%

*Source: Exhibit USPS-T-1C

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methodology applied by the Postal Service in this proceeding. The certified mail cost coverages in Table I of the question are inflated because they are calculated with ancillary service revenues. I have accordingly backed out the ancillary service revenue from certified mail revenue in the revised table below.

Table I (Revised)
Certified Mail (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	147.9	188.4	127%
Docket No. R94			
Postal Service	305.8	293.2	96%
Docket No. MC96-3			
Postal Service*	285.9	416.7	146%

*Source: Exhibit USPS-T-1C

Table II
Return Receipt (\$ millions)

	Cost	Revenue	Coverage
Docket No. R90			
Postal Service	158.8	191.9	121%
Docket No. R94			
Postal Service	178.0	236.8	133%
Docket No. MC96-3			
Postal Service*	214.0	365.6	171%

*Source: Exhibit USPS-T-1C

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OCA/USPS-T8-9. In Docket No. R90-1, witness Patelunas' Exhibit 17E, p. 26 shows the following figures for certified mail: Total attributable costs--\$288.6 million; Revenue--\$379.0 million; and Revenue as a percent of attributable cost—131 percent. These figures appear to contain costs and revenues for the ancillary services return receipts and restricted delivery. Witness Larson backs out these costs associated with the ancillary services (see Docket No. R90-1, USPS-T-22, WP-6, p.2) and provides tables in her testimony which show attributable costs, revenue and cost coverage separately for both certified mail and return receipt. The cost coverage for certified is 127 percent and for return receipt is 121 percent (see USPS-T-22, pp. 40 and 49.)

In Docket No. R94-1, witness Patelunas had a similar exhibit, 7X, which contains the following figures for certified mail: Total attributable costs--\$305.8 million; Revenue--\$526.2 million; and Revenue as a percent of attributable costs—172.1%. Witness Foster at USPS-T-11, pp. 65 and 67 speaks of a cost coverage for certified mail of 172.1 percent and for return receipts of 133.1 percent. However, his testimony does not contain tables with separate costs and revenues, as does witness Larson's testimony, nor does he calculate these in his workpapers.

- a) Please provide the appropriate breakout figures.
- b) Is the 172.1 percent cost coverage figure cited above comparable to the 127 percent figure in R90-1? Please explain.
- c) In this docket, witness Patelunas again supplies an exhibit similar to the ones cited above. Exhibit 5J shows the following figures for certified mail: Total attributable costs--\$285.9 million; Revenue--\$784.3 million; and Revenue as a percent of attributable costs—274.3 percent. Are these figures comparable to the Docket Nos. R90-1 or R94-1 figures? Please explain in detail why or why not. Please provide comparable figures and, if necessary, explain any - changes to costing or data collection.

RESPONSE:

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- a) For certified mail and return receipt pure cost coverages, please see response to OCA/USPS-T8-8. For restricted delivery revenues and costs, see Docket No. R94-1, Exhibit USPS-11F at pages 3, 7.
- b) The question compares certified mail cost coverages including ancillary service revenues. As explained in my response to OCA/USPS-T8-8, however, ancillary service revenues should be excluded from the certified mail cost coverage calculation. Since both cost coverages in the question include ancillary service revenues, the two figures are comparable in that regard, but serve no purpose for analysis here.
- c) Again, the question calculates a certified mail cost coverage including ancillary service revenues. As explained in my response to OCA/USPS-T8-8, however, ancillary service revenues should be excluded from certified mail cost coverage calculations. Since the cost coverage in the question includes ancillary service revenues, the figures presented in the *interrogatory* (not the response) to OCA/USPS-T8-8 are comparable.. Comparable figures to those proposed in this proceeding can be found in my *response* to OCA/USPS-T8-8 in Table I (revised).

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OCA/USPS-T8-10. Please provide a citation to witness Patelunas' testimony or exhibits for the after rates cost figure of \$214, 021 shown in USPS-T-1 (Lyons), Exh. C.

RESPONSE:

Redirected to witness Patelunas.

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OCA/USPS-T8-11. The following questions request information on changes in factors pertaining to cost coverage for certified mail and return receipts. The cost coverage percentages mentioned in this interrogatory may be somewhat different from the percentages contained in interrogatory OCA/USPS-T8-8 because the source of the percentages is different. See interrogatory OCA/USPS-T8-9.

- a) Have there been any changes in the value of the mail service provided users of return receipt service since the Postal Service requested a cost coverage of 121 percent for return receipt service in Docket No. R90-1? Please explain and provide documentary support, if any.
- b) Have there been any changes in the value of the mail service provided users of certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? Please explain and provide documentary support, if any.
- c) Have there been any changes in the value of the mail service provided users of return receipt service since the Postal Service requested a cost coverage of 133.1 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.
- d) Have there been any changes in the value of the mail service provided users of certified mail service since the Postal Service requested a cost coverage of 172.1 percent for certified mail service in Docket No. R94-1? Please explain and provide documentary support, if any.
- e) Have there been any changes in "the effect of rate increases" on users of return receipt service since the Postal Service requested a cost coverage of 121 percent for return receipt service in Docket No. R90-1? See Section 3622 (b) (4). Please explain and provide documentary support, if any.
- f) Have there been any changes in "the effect of rate increases" on users of certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? See Section 3622 (b) (4). Please explain and provide documentary support, if any.

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- g) Have there been any changes in "the effect of rate increases" on users of return receipt service since the Postal Service requested a cost coverage of 133 percent for return receipt service in Docket No. R94-1? See Section 3622(b) (4). Please explain and provide documentary support, if any.
- h) Have there been any changes in "the effect of rate increases" on users of certified mail service since the Postal Service requested a cost coverage of 172 percent for certified mail service in Docket No. R94-1? See Section 3622(b) (4). Please explain and provide documentary support, if any.
- i) Has there been any change in the availability of alternative means of using return receipt service since the Postal Service requested a cost coverage of 121 percent for return receipt service in Docket No. R90-1? Please explain and provide documentary support, if any.
- j) Has there been any change in the availability of alternative means of using certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? Please explain and provide documentary support, if any.
- k) Has there been any change in the availability of alternative means of using return receipt service since the Postal Service requested a cost coverage of 133 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.
- l) Has there been any change in the availability of alternative means of using certified mail service since the Postal Service requested a cost coverage of 172 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.
- m) Has there been any change in the degree of preparation of certified mail by those using certified mail service since the Postal Service requested a cost coverage of 127 percent for certified mail service in Docket No. R90-1? Please explain and provide documentary support, if any.
- n) Has there been any change in the degree of preparation of mail by those using return receipt service since the Postal Service requested a cost

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coverage of 121 percent for return receipt service in Docket No. R90-1?
Please explain and provide documentary support, if any.

- o) Has there been any change in the degree of preparation of mail by those using certified mail service since the Postal Service requested a cost coverage of 172 percent for certified mail service in Docket No. R94-1? Please explain and provide documentary support, if any.
- p) Has there been any change in the degree of preparation of mail by those using return receipt service since the Postal Service requested a cost coverage of 133 percent for return receipt service in Docket No. R94-1? Please explain and provide documentary support, if any.

RESPONSE:

The cost coverages in this interrogatory are overinflated, as explained in my response to OCA/USPS-T8-8. Without accepting the cost coverages in the interrogatory, however, I proceed to answer each subpart as follows:

- a) Since the filing of Docket Nos. R90-1 and R94-1, there has been a change which has resulted in an increase in the value of service for return receipt customers. Specifically, a "print name" block was added to all accountable delivery signature forms by December 1994. This change was especially beneficial to return receipt customers who in the past had difficulty deciphering illegible signatures. In requesting that recipients provide both a signature and a printed name, the difficulty in deciphering illegible signatures has been eliminated.

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b and d) Since Dockets No. R90-and R94-1, there has been a change which has resulted in an increase in the value of service for certified mail customers. Specifically, a fluorescent tag was added to the certified mail label in March 1993, so certified mail could be pulled out of the automated system at the delivery point and moved into the accountable mail system. The certified mail detectors to identify the fluorescent tags were deployed beginning in September 1995.

Additionally, since Docket No. R90-1, there has been another change which has resulted in an increase in the value of service for certified mail customers. As mentioned in my response to OCA/USPS-T8-11(a), since December 1994, accountable delivery signature forms now contain a "print name" block.

c, e-m, and o) Not to my knowledge; however, since Docket No. R94-1, the Postal Service conducted market research concerning certified mail and return receipt usage, and the results of that study have contributed to the justification for the proposals for these products in this proceeding. See USPS LR-SSR-110.

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n and p) As explained in my testimony (USPS-T8-8 at pages 88-89 and 93), the Postal Service's proposal for return receipt service would reduce the number of product options, thereby simplifying preparation for mailers and saving time for customers and postal employees.

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OCA/USPS-T8-12. If there have been no significant changes in any of the criteria bearing on the institutional cost contribution for return receipt, why do you now, as opposed to waiting for the next omnibus rate case, propose increasing the institutional cost contribution for return receipts? Is the sole purpose to generate additional net revenues? Please explain.

RESPONSE:

As explained in my response to OCA/USPS-T8-11, there has been a change in the value of service criterion for return receipt service. With respect to the reasons for instituting this proceeding at this juncture, please see witness Lyon's testimony, USPS-T-1, at pages 5-7, for an explanation of the multiple purposes of this proceeding.

The sole purpose of the return receipt proposal is not is not to generate additional new revenues. As explained in my testimony, USPS-T-8 at pages 86-94, this proposal would provide a form of address correction in conjunction with return receipt service. The proposal would accordingly provide a value-added enhancement to return receipt service for the same price as the enhanced option that is presently offered.

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OCA/USPS-T8-13 If there have been no significant changes in any of the criteria bearing on the institutional cost contribution from certified mail, why do now, as opposed to waiting for the next omnibus rate case, propose increasing the institutional cost contribution for certified mail? Is the sole purpose to generate additional net revenues?

RESPONSE:

Please see my response to OCA/USPS-T8-11 for changes in Criterion 2 which bear on the institutional cost contribution for certified mail. With respect to the reasons for instituting this proceeding at this juncture, please see witness Lyon's testimony, USPS-T-1, at pages 5-7, for an explanation of the multiple purposes of this proceeding. The purposes for the proposal are explained in my testimony, USPS-T-8 at 68-73.

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OCA/USPS-T8-14. Please refer to page 72, lines 4-12, of your testimony. The proposed fee increase for certified mail is 36 percent.

- a) If the certified mail fee were set at the current 107 percent cost coverage for the Docket No. MC96-3 test year, what would the fee be?
- b) Other than instances where the Commission had to recommend substantial rate increases to barely cover attributable costs, are you aware of any instance since Docket No. R84-1 where the Commission recommended a 36 percent rate increase for a class, subclass or special service? Please identify all instances.
- c) If the certified mail fee were set at 146 percent cost coverage using FY 95 as the test year, what would the fee be?
- d) Please refer to p. 92, line 13. If the return receipt fees were set at the current 127 percent cost coverage for the Docket No. MC96-3 test year, what would the fees be assuming adoption of the classification proposals?
- e) If the return receipt fees were set at 171 percent cost coverage using FY 95 as the test year, what would the fees be assuming adoption of the classification proposals?

RESPONSE:

- a. If the current cost coverage for certified mail of 107% (as reflected on Exhibit USPS-T-1C) is applied to MC96-3 after rates test year costs, the fee that results is the current fee of \$1.10.
- b. The Commission recommended that certain post office box fees be increased by more than 36 percent in Docket No. R90-1.

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c. If the certified mail fee were set at 146% of FY 95 costs the fee would be \$1.42 as calculated in Attachment 1.

d. Assuming the adoption of the proposed classifications and no change from before rates volumes, the fees would be \$1.11 for non-merchandise, \$1.59 for merchandise, and \$6.60 for requested after mailing. Please refer to Attachment 2 for supporting calculations.

e. Assuming the adoption of the proposed classifications, if the return receipt fees were set at 171% of FY 95 costs the fees would be \$1.45 for non-merchandise, \$2.19 for merchandise, and \$10.21 for requested after mailing. Please refer to the Attachment 1 for supporting calculations.

Hypothetical at 127% Cost Coverage and Before Rates Volume
Return Receipt
(in Thousands)

Test Year 96, Using Before Rates Volumes		Test Year 96, Using Before Rates Volumes		Test Year 96, Using Before Rates Volumes		Test Year 96, Using Before Rates Volumes	
Return Receipt Non-Merchandise	Revenue	242,603	189,705	128%			
	Cost	189,705	189,705	128%			
	Coverage						
	Current Fee		\$1.10				
	Adjusted Fee		\$1.50				
Total		249,414	194,689	128%			
Return Receipt Merchandise							
Whom and When		3,562	3,088	115%			
Whom When Where		34,685	28,285	123%			
Total		38,246	31,373	122%			
Return Receipt After Mailing		1,472	1,361	108%			
Total Return Receipt		289,132	227,423	127%			289,132

Test Year 1996 Unit Costs

SSR-104 Cost Study Updates

Category	Unit Cost	Volume	Total Cost
Non-Merchandise			
RR-Whom and When	\$ 0.86	220548	190,871
RR-Whom When Where	\$ 1.10	4541	5,000
Merchandise			
RR-Whom and When	\$ 1.04	2968	3,087
RR-Whom When Where	\$ 1.35	21021	28,378
RAM	\$ 6.10	223	1,362

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OCA/USPS-T8-15. In Docket No. R94-1 the Postal Service proposed and the Commission recommended a 10.2 percent rate increase for certified mail. This increased the certified mail fee from \$1.00 to \$1.10. Assuming implementation of the Postal Service's proposal in this proceeding, the certified mail fee will have increased by 50 percent by the next omnibus rate case. Other than instances where the Commission recommended substantial rate increases to cover attributable costs, are you aware of any instance since Docket No. R84-1 where the Postal Service proposed, or the Commission recommended, a 50 percent rate increase for a class, subclass or special service? Please identify all instances.

RESPONSE:

Certain post office box fees were increased by more than 50 percent following Docket No. R90-1. I must also note that I know of no instance since Docket No. R84-1 where the Postal Service has had such a low coverage for a premium product, such as certified mail.

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OCA/UPS-T8-16. In Docket No. R90-1, the Commission rejected the Postal Service's proposed 34 percent rate increase for post and postal cards. The Commission reduced the proposed rate increase to 27 percent. Therein, at para. 5045, the Commission stated:

We have taken into account the fact that they involved an uncommonly high (27%) increase. In addition, mailers have few low-cost alternatives to the post or postal card, given the Private Express statutes; and so we have tried to moderate the impact of the necessary increases.

- a) In recommending what amounts to a 50 percent rate increase for certified mail between omnibus rate cases did you consider the Commission's reasoning when it rejected the proposed 34 percent rate increase for post and postal cards in Docket No. R90-1?
- b) In light of the above quotation, please explain how you tried to "moderate the impact" of the increase on certified mail?
- c) The above quotation states that one of the reasons for moderating the impact is that there are "few low-cost alternatives." Are there "low-cost alternatives" to certified mail? Please explain and identify the low-cost alternatives.
- d) If there are few or no "low cost alternatives" to certified mail, especially with the return receipt option, please explain whether and to what extent you lowered the proposed certified mail fee increase to account for the unavailability of "low-cost alternatives."

RESPONSE:

- a) In recommending the proposed increase to the certified mail fee, I did not specifically consider the Commission's rejection of the Postal Service's proposed rate increase for postcards and postal cards in Docket No.

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R90-1. I note, however, that the Commission rejected a rate for a premium product which resulted in a higher cost coverage than the systemwide average and opted instead for a rate which resulted in a cost coverage below, yet close to, the systemwide average. The Postal Service's proposal for certified mail seeks to accomplish that objective, *i.e.*, . to bring the certified mail in line with the Docket No. R94-1 systemwide cost coverage.

I did not review the referenced quotation when I tried to "moderate the impact" of the certified mail increase. Rather, as opposed to proposing an even higher fee for certified than \$1.50, I chose to look instead at the resulting proposed cost coverage (which, in my estimation, is still low for a premium product) of 146 percent and determined that the proposed fee would be reasonable and consistent with the statutory criteria. Please see my testimony at page 72, lines 4-12, where I discuss criterion 4 and the consideration given the impact of the proposed increase on certified mail customers.

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c and d) Please see my response to OCA/USPS-T8-16(b) where I discuss the development of the fee with consideration given to the proposed cost coverage. With respect to "low-cost alternatives" to certified mail, registered mail with a fee of \$4.85 is an alternative. Even so, registered mail provides enhanced security and accountability, features that may not be as important for certified mail users for a considerably higher fee. Therefore, certified mail continues to stand out as a high value product for a low fee, even when considering the proposed increase.

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OCA/USPS-T8-17. Please answer the questions in interrogatory OCA/USPS-T8-16, substituting return receipt service for certified mail service. In answering the questions, you may assume that the proposed rate increase between omnibus rate increases is different in amount from that for certified mail.

RESPONSE:

a-d) My proposal for return receipt is for restructuring and not an outright fee increase. While customers would pay more for the proposed basic service option for return receipts, it would provide an enhancement to the existing basic service option. Notwithstanding, I did not consider the quoted language when considering the proposed changes to return receipt service.

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OCA/USPS-T8-18. Please provide the most recent public information available on when the Postal Service will file with the Commission its next proposal for omnibus rate increases. If there is any reason to believe that the most recent public information is no longer valid, please explain and provide the most current information when the Postal Service will file its next proposal for omnibus rate increases.

RESPONSE:

Redirected to witness Lyons.

DECLARATION

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

Susan W Needham

Dated: July 25, 1996

DECLARATION

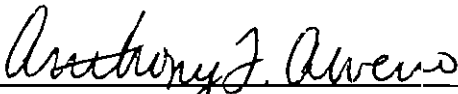
I, Susan W. Needham, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Susan W Needham

Dated: August 15, 1996

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.


Anthony F. Alverno

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July 25, 1996