

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-T8-35-37)

The United States Postal Service hereby provides responses of witness
Needham to the following interrogatories of the Office of the Consumer Advocate:
OCA/USPS-T8-35-37, filed on July 26, 1996.

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

Respectfully submitted,

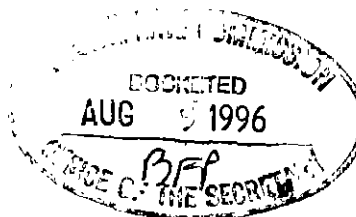
UNITED STATES POSTAL SERVICE

By its attorneys:

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August 9, 1996



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OCA/USPS-T8-35. The following table includes information provided in your testimony at 106 and data provided for postal cards in USPS Cost Segments and Components reports, stamps and dispensers, cost segment 16.

FY	Govt. Postal Cards Mfg. Costs	USPS Cost Seg. & Components Rpt. Cost and Dispensers Cost Segment 16
1989	\$4,913,678	\$4,914,000
1990	\$4,361,220	\$4,361,000
1991	\$4,927,198	\$4,927,000
1992	\$3,774,841	\$3,775,000
1993	\$4,156,707	\$4,157,000
1994	\$3,077,873	\$3,078,000
1995	\$4,352,568	\$4,353,000

- a) Does a relationship exist between the cost data provided in your Table XXIX entitled Government Postal Cards Manufacturing Costs, Source USPS LR-SSR-106 at 6, and the FY 1989-95 data provided in cost segment 16, stamps and dispensers, the USPS Cost Segments and Components report? If a relationship exists, please identify the type of relationship.
- b) The following refers to part a of this interrogatory. If a relationship between the data exists, please explain why your testimony refers to a specially created library reference as opposed to a report readily available to the Postal Service and on file with the Postal Rate Commission.
- c) The following refers to exhibit USPS-T-5H at 49. Please confirm that cost segment 16, stamp and dispenser postal card costs are \$3,760,000. If you do not confirm, please explain.
- d) The following refers to exhibit USPS-T-5J at 15. For FY96 proposed rates (with mix), please confirm that postal card volume is 421,302,000. If you are unable to confirm, please explain.
- e) The following refers to parts c and d of this interrogatory. Please confirm that the unit manufacturing cost is \$0.008925, when USPS witness Patelunas' stamped card manufacturing costs and volumes are used ($\$3,760,000 / 421,302,000 = \0.008925).

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- f) The following refers to part e of this interrogatory. Assume that the unit manufacturing cost of a stamped card is \$0.008925. Please confirm that a proposed fee of \$0.02 yields a stamped card cost coverage of 224 percent ($\$0.02/\0.008925). If not, explain.
- g) The following refers to your testimony at 107. Please confirm that FY 1996 stamped card manufacturing costs are \$4,950,000. If you do not confirm, please explain.
- h) Please explain why the stamp and dispenser postal card costs identified in part c of this interrogatory differ from those identified in your testimony.
- i) Please take into account your responses to parts a - h of this interrogatory and your testimony at 106-07. Please confirm that your addition of postal card manufacturing costs results in double counting those costs. If you are unable to confirm, please explain.

RESPONSE:

- a) Yes. The relationship between Table XXIX and cost segment 16 data is that the figures in Table XXIX are rounded to the nearest thousand in cost segment 16.
- b) Library Reference SSR-106 is a more convenient source because it contains all data which are used in my analysis on page 107 of my testimony.
- c) Confirmed.

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- d) Confirmed.
- e) Confirmed.
- f) Confirmed.
- g) Confirmed.
- h) When preparing my testimony, I obtained year-to-date FY 96 manufacturing costs and units shipped. The resulting unit cost of 1.175 cents was derived by dividing the costs by the units shipped. See USPS-T-8, Table XXIX. This unit cost (1.175 cents) was multiplied by the FY 96 volume to arrive at the manufacturing cost. The proposed fee revenue was divided by the manufacturing cost to obtain the proposed cost coverage. See USPS-T-8, Table XXX.
- i) Not confirmed. The 1.175 cent unit cost for postal card manufacturing presented in my testimony is presented as the unique cost of postal cards.

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The Postal Service maintains that the DMCS should be restructured so that this unique cost would be borne solely by the users of this product via a special service fee for stamped cards, rather than by all users of the postal and postcard subclass. I must emphasize that I have not "double counted" any costs in my testimony.

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OCA/USPS-T8-36. Your testimony at 103-04 indicates that,

given the associated 'bargain' with postal cards, the Postal Service recently decided to review current manufacturing costs of postal cards and analyze the value of service associated with the general design of a postal card and the convenient feature of pre-affixation of postage.

In your testimony at 104, you refer to USPS LR-SSR-106 at 7-13, and state, "The first article in Postal World describes the beneficial features of postal cards." Postal World also identifies prestamped postal card limitations.

- a) Please confirm that a postal card is 3 inches x 5 inches and is smaller than the maximum 4 inches x 6 inches allowed at the post card rate. If you are unable to confirm, please explain.
- b) Does the stamp or permit imprint on a postal card limit the space available to the card user? If you are unable to confirm, please explain.
- c) Does the postage on the return half of a double postal card limit the space available for preprinting a courtesy reply or Business Reply response? If you are unable to confirm, please explain.
- d) For the double card, please confirm that on the response half, "the perf/fold is located at the top, not the bottom as USPS itself prefers." USPS LR-SSR-106 at 7.
- e) Since postal cards bear "live" postage, please confirm that large volume users may need to add security measures to prevent postal card theft. If you are unable to confirm, please explain.
- f) Since postal cards bear "live" postage, please confirm that large volume users may need an accounting mechanism to allow for refunds due to postal card spoilage. If you are unable to confirm, please explain.

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RESPONSE:

- a) Confirmed, except that the maximum width for post cards is 4 1/4 inches.

See DMCS section 222.12(b).

- b and c) Generally, no more so than a stamp, permit imprint or other postage indicium on a postcard.

- d) I can confirm that the "perf/fold" is located at the top of the response half of the double postal card; I am unable to confirm that the Postal Service prefers the location of the "perf/fold" at the bottom of the double postal card.

- e) I am unable to confirm because I am not aware of the security measures employed by large volume postal card users. However, I note that since postal cards are larger and bulkier than individual stamps, they may be harder to conceal in theft.

- f) I am unable to confirm because I am not aware of the procedures for refunds due to postal card spoilage employed by large volume postal card users.

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OCA/USPS-T8-37. The following interrogatory refers to your testimony at 106-07.

- a) Please confirm that the postal card manufacturing costs identified in Table XXIX were attributed to postal cards in the years indicated. If you are unable to confirm, explain.
- b) Please confirm that in R94-1, the Commission recommended a cost coverage of 136.7 percent for the post card subclass. If you are unable to confirm, explain.
- c) Please explain why the attributed postal card manufacturing costs, which were marked up in R94-1 such that post cards had a 136.7 percent cost coverage, are now being required to assume an additional cost coverage of 170 percent.
- d) The following refers to OCA/USPS-T8-35(f) and part c of this interrogatory. Please explain why the attributed postal card manufacturing costs should be required to assume an additional cost coverage of 224 percent versus the 136.7 percent recommended in R94-1.

RESPONSE:

- a) Confirmed.
- b) Confirmed for the Postal and Post Cards subclass.
- c) Let me preface this response by emphasizing that we are discussing postal cards, and not the markup over the entire postal and post card subclass. There is no proposed increase to the postcard postage rate in this filing. The 170 percent after rates cost coverage applies only to

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postal cards, and more specifically to the two-cent fee for stamped cards proposed in this filing. Please see my testimony, USPS-T-8, pages 107-09, for an explanation for the proposed 170 percent cost coverage for stamped cards.

- d) Please see my response to OCA/USPS-T8-35(f).

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 9, 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.


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