

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-T8-44-53)

The United States Postal Service hereby provides responses of witness
Needham to the following interrogatories of the Office of the Consumer Advocate:
OCA/USPS-T8-44-53, filed on August 9, 1996.

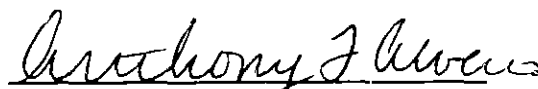
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

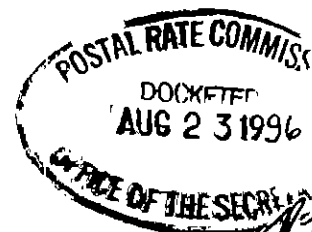
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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August 23, 1996



RESPONSE OF U.S. POSTAL SERVICE WITNESS NEEDHAM
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OCA/USPS-T8-44. Please provide a copy of the Methods Handbook which you refer to in answer to OCA/USPS-T8-23 as a Library Reference.

RESPONSE:

Please see USPS LR-SSR-138 and USPS LR-SSR-139.

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OCA/USPS-T8-45. Please refer to your answer to OCA/USPS-T8-26. The "ninety-eight percent of regular return receipt customers" was a reference to non-merchandise return receipts. There you state:

Notwithstanding, that customers presently do not make relatively high use of this option [receiving the delivery address] does not imply that they will not receive better service, or services they do not need or want. The return receipt proposal would provide address confirmation to all return receipt customers and represents a value-added enhancement to the basic service. In any event, if given the option between a pure fee increase or a fee increase with a value-added service enhancement, I am confident that customers would choose the latter.

- a) It is not clear how one receives a service enhancement in this case: a customer at present can obtain an address on the return receipt for an additional fee of \$.40 but overwhelmingly chooses not to. Now the Postal Service proposes to provide the information, which the customer has chosen not to receive, and charge him the additional \$.40. Please try again to explain how this constitutes better service and not primarily a fee increase.
- b) Hasn't the customer already essentially voted against the "value-added service enhancement" by not purchasing it? Please explain.
- c) Please explain why a customer who is purchasing a "premium product," such as return receipt service, should be compelled to purchase an added service such as address correction.

RESPONSE:

- a) Consider that the current basic service option for return receipts is a signature and date. The proposal in this filing is for a basic service option for return receipts that includes a signature, date and address (if different).

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Obviously, there is the enhancement of an address (if different) of the proposed basic return receipt service option over the current basic return receipt service option. Had the Postal Service proposed a fee increase for the current basic return receipt service option without any enhancement, this would be a pure fee increase. However, the Postal Service is not proposing a fee increase to the current return receipt service option of providing a signature, date, and address, with the exception of providing the address only if it differs from the address on the mailpiece. I remain confident that, if given the choice between a pure fee increase with no enhancement and a fee increase with an enhancement, customers would opt for the enhancement.

- b) Not at all. Not all customers may be aware of the current option of providing the address where the mailpiece was delivered.

- c) A basic service option which included the delivery address if different from the address on the mailpiece would provide better service to customers and would save both employees and customers time. Good address hygiene in turn also improves service, thereby enhancing customer satisfaction and improving postal operations.

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OCA/USPS-T8-46. Could a "premium product" be defined as a product offered for a fee that provides ancillary benefits to a mailer when his piece of mail is entered into the mailstream in any of the First, Periodical or Standard classes? If not, please provide your definition of a "premium product."

RESPONSE:

Yes.

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OCA/USPS-T8-47. Please refer to your response to OCA/USPS-T8-17. Please explain how you determined that providing the "address if different" is a sufficient enhancement to the service to justify the increase in fees that you propose.

RESPONSE:

Please see my response to OCA/USPS-T8-45 (a) and (c).

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OCA/USPS-T8-48. Please refer to your answer to OCA/USPS-T8-28. You answer in the affirmative. However, the citations given in your response do not make specific reference to the selling, shipping and manufacturing costs of postal cards. Please provide citations specific to these costs.

RESPONSE:

It is my understanding that in Docket Nos. R90-1 and R94-1, data on the selling, shipping, and manufacturing costs of postal cards were included in the cost segment and component data presented by witness Barker (see Docket No. R90-1, USPS-T-13, Exhibit USPS-13A at pages 17 and 67, and Docket No. R94-1, USPS-T-4, Exhibit USPS-4A at pages 19 and 50). It is my further understanding that in the above-referenced exhibits, manufacturing costs of postal cards are presented in cost segment 16, "stamps and dispensers." Cost segment 3, "Window Service" ("Window Service Post Office Box" in Docket No. R90-1) includes window service selling costs associated with postal cards. Shipping costs associated with postal cards are included in the costs of other accountable paper and are treated as institutional.

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OCA/USPS-T8-48. Please refer to your answer to OCA/USPS-T8-28. You answer in the affirmative. However, the citations given in your response do not make specific reference to the selling, shipping and manufacturing costs of postal cards. Please provide citations specific to these costs.

RESPONSE:

It is my understanding that in Docket Nos. R90-1 and R94-1, data on the selling, shipping, and manufacturing costs of postal cards were included in the cost segment and component data presented by witness Barker (see Docket No. R90-1, USPS-T-13, Exhibit USPS-13A at pages 17 and 67, and Docket No. R94-1, USPS-T-4, Exhibit USPS-4A at pages 19 and 50). It is my further understanding that in the above-referenced exhibits, manufacturing costs of postal cards are presented in cost segment 16, "stamps and dispensers." Cost segment 3, "Window Service" ("Window Service Post Office Box" in Docket No. R90-1) includes window service selling costs associated with postal cards. Shipping costs associated with postal cards are included in the costs of other accountable paper and are treated as institutional.

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OCA/USPS-T8-49. The following interrogatories relate to the analysis of the pricing criteria in your testimony at pages 108-113.

- a) USPS-T-5C at page 10 (Base Year Cost and Revenue Analysis) shows the per-piece revenue for postal cards as \$0.197 and the per-piece cost as \$0.075. Please confirm that these produce an implicit cost coverage of 263% for postal cards ($19.7/7.5$). If you are unable to confirm, please explain why.
- b) Please confirm that the GPO manufacturing costs for postal cards shown at page 106 of your testimony (specifically \$4,352,568 for FY 1995) are a subset of the total attributable costs for postal cards shown at Exhibit USPS-T-5C at page 1. If you are unable to confirm, please explain why.
- c) Please confirm that the FY 1995 implicit cost coverage for postal cards without the proposed 2-cent stamped card fee would be 309 percent ($19.7/(7.5-1.175)$). If you are unable to confirm please explain.
- d) Were you aware of the facts contained in a-c above when you proposed the new special service of stamped cards and its attendant 2-cent fee? If so, please explain how it was taken into account when you considered the pricing criteria of the Act.
- e) If you were not previously aware of the above, please explain how you would now take it into account in formulating a proposal for a fee for stamped cards.
- f) If you were not previously aware of the above and your proposal for stamped cards would remain the same as in the Request, please explain how you would change your testimony regarding the pricing criteria and provide errata.

RESPONSE:

- a) Confirmed.

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- b) Exhibit USPS-T-5C at page 1 does not present total attributable costs for postal cards separately. Attributable costs are presented only for First-Class Mail as a whole. Nevertheless, the total attributable cost for First-Class Mail does include GPO manufacturing costs for postal cards.
- c) Not confirmed. It is incorrect to subtract the per piece manufacturing cost of 1.175 cents in this scenario. This per piece manufacturing cost is incurred whether or not the proposed two-cent fee is implemented.
- d) While I did not consider the specific facts referenced in subparts a-c of this interrogatory, I was aware that the manufacturing costs of postal cards were included in the Postal and Post Card subclass when I developed my proposal. Please see my testimony, USPS-T-8, pages 108-113, for my discussion of the application of the pricing criteria to the stamped card proposal.
- e) and f) It is not now necessary to consider the issues raised in subparts a-c because they refer to the rate for postal cards, as opposed to the specific stamped card fee the Postal Service proposes.

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OCA/USPS-T8-50. Would your proposal for a new special service, stamped cards, eliminate the rate category Postal Cards from the Postal and Post Cards Subclass? Please explain why or why not.

RESPONSE:

No. The product name "stamped cards" would replace the product name "postal cards" in the Postal and Post Cards subclass. The introduction of special services for particular rate categories does not necessarily eliminate the rate categories to which they may be combined. The special service for stamped envelopes has not eliminated the applicable rate categories reflected in the various postage denominations.

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OCA/USPS-T8-51. You state at page 110 of your testimony that postal cards currently are not directly bearing their manufacturing costs. Please confirm that the rate postal cards pay does cover their attributable manufacturing costs. If you are unable to confirm, please explain why.

RESPONSE:

I stated in my testimony that postal cards are not directly bearing their manufacturing costs when compared to private postcards. See USPS-T-8, page 110, lines 7-9. Currently, all Postal and Post Card subclass users are covering the manufacturing costs of postal cards. The Postal Service proposes that these costs be treated separately through the stamped card fee. This will enable postal card users to directly bear the manufacturing costs for the stamped paper provided.

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OCA/USPS-T8-52. What percent of postal cards is presorted?

RESPONSE:

The Postal Service has no information responsive to this request. I note, however, that postal cards are available only for the single-piece, nonpresorted postcard rate.

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OCA/USPS-T8-53. In answer to interrogatory OCA/USPS-T5-11 witness Patelunas states: "A remedy to the misidentification problem is proposed in this case: simply treat cards as cards without the postal-private distinction."

- a) Is this what you are proposing? Please explain.
- b) If you are not proposing to eliminate all distinctions between postal and private cards, please indicate which Postal Service witness does and provide an appropriate citation.

RESPONSE:

- a) While I am not directly proposing to treat cards as cards without the postal-private distinction, my proposal to establish a special service fee for stamped (postal) cards would provide special treatment for stamped card manufacturing costs, which is one cost distinction between post and postal cards. Thus, one possible outcome of my proposal would be to combine the remaining post and postal card costs, and accordingly, for purposes of the post and postal card rate, simply treat all cards as cards.
- b. No other witness is making a proposal in this case concerning postal cards.

DECLARATION

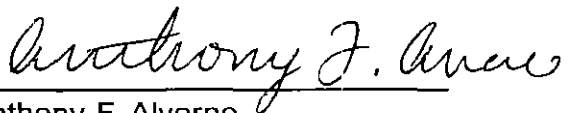
I, Susan W. Needham, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Susan W Needham

Dated: August 23, 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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August 23, 1996