

ORIGINAL

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

RECEIVED
AUG 23 4 43 PM '96

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
DAVID B. POPKIN AND DOUGLAS F. CARLSON
(DBP/USPS-T7-1-3 AND DFC/USPS-T7-1-14)

The United States Postal Service hereby provides responses of witness Needham to the following interrogatories: DBP/USPS-T7-1-3, filed by David B. Popkin on August 9, 1996, and DFC/USPS-T7-1-14, filed by Douglas F. Carlson on August 9, 1996.


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

Respectfully submitted,

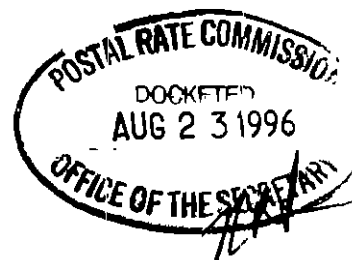
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -5402
August 23, 1996



RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO INTERROGATORIES
OF DAVID B. POPKIN

DBP/USPS-T7-1. With respect to the determination of whether I would be subject to the non-resident post office box fee, advise whether each of the following would require it: [a] I live in a large city such as New York City and the building that I live in has its own unique 5-digit ZIP Code and therefore would not match any box section available [b] also in a large city where there is no box section utilized in the postal facility corresponding to my ZIP Code [c] a firm has its own unique 5-digit or even 3-digit ZIP Code and therefore will not match any post office box section [d] I want to obtain a personal box at the post office that corresponds to my business location [e] if the box section has a different ZIP Code than the delivery area [for example, Paramus, NJ 07652 delivery vs. 07653 box section] [f] if I reside or establish a business at a temporary location. [g] if I reside within the corporate limits of a municipality which is served by delivery from another office [h] if I reside in an area within the corporate limits of a municipality having a postal facility and I am not eligible to obtain city or rural delivery [i] same as h except there is no postal facility.

RESPONSE:

Your question concerns the details of how residents and non-residents would be defined with respect to application of the non-resident fee. These are issues that would be determined during the implementation process, which, I understand, would consider comments from interested parties. I do not expect that the Postal Service intends to define resident in a very limited way. For example, it is unlikely that the customer in [e] would face a nonresident fee. See also my response to NAPUS/USPS-T2-1.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO INTERROGATORIES
OF DAVID B. POPKIN

DBP/USPS-T7-2. Is an individual who lives in a house which is eligible to receive city or rural delivery by a carrier operating out of a given post office eligible to obtain box service without paying the non-resident fee at any other postal facility other than the given post office? If so, explain. If carriers operate out of several postal facilities all having the same 5-digit ZIP Code, may the resident fee be paid at any of these facilities regardless of one from which the specific carrier operates? Witness Landwehr refers to the San Luis AZ post office which has not city or rural delivery service. He also states that a large proportion of box holders do not reside in the San Luis service area. What is the service area for a post office that does not have any delivery service such as San Luis?

RESPONSE:

See my response to T7-1. There is no specific postal definition of the service area of a non-delivery office like San Luis. This does not mean the concept is meaningless, however, as the San Luis postmaster appears to have an understanding of it. See witness Landwehr's response to interrogatory DFC/USPS-T3-3. Moreover, retail customers for non-delivery offices are often drawn from the local area. The concept of service area is likely to be defined more during the implementation process.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO INTERROGATORIES
OF DAVID B. POPKIN

DBP/USPS-T7-3. [a] Explain the rationale behind the non-resident post office box fee with respect to not being considered discriminatory. [b] Have there been any plans or discussions to establish other fees or surcharges with respect to other classes of users to obtain the same service such as has been done with the non-resident post office box fee [this could include-but not be limited to- charging extra for non-residents to purchase stamps at the post office, charging a surcharge for small mailers to mail single letters vs. large mailers sending the same single letter, charging extra for earlier delivery of mail on a give carrier route]? [c] If so, provide complete details and status.

RESPONSE:

- a) Please see my testimony, USPS-T-7, pages 25-28; page 29, lines 15-21; page 30, lines 1-4; page 33, lines 15-21; page 37, lines 13-17; and page 41, lines 15-21, where I discuss the rationale behind the proposed non-resident fee, and explain the distinction between residents and non-residents.
- b) Not to my knowledge.
- c) Not applicable.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-1. On page 7, lines 13-14, you stated, "In some offices, customers have convenient 24-hour access to their boxes."

- a) Do you confirm that hours of access may affect a customer's decision as to where to obtain post-office-box service? If not, please explain the basis for your contention.
- b) Do you confirm that a customer may value access to his post-office box 24 hours a day, 7 days a week higher than access between, for example, 6:00 AM and 6:00 PM, Monday through Saturday?

RESPONSE:

- a) I can confirm that hours of box access is one of many factors that may affect a customer's decision as to where to obtain post office box service.
- b) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-2. If the nonresident fee is approved, does the Postal Service plan to standardize the hours at all post offices during which customers have access to their post-office boxes?

RESPONSE:

No, not to my knowledge.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-3. On page 25, lines 1-3, you stated that "The proposed \$18.00 semi-annual fee for nonresidents would be applied in all offices, and would reflect the added value of service non-residential box customers receive." Suppose two customers, A and B, live one block from each other in City X. A and B have different five-digit ZIP Codes. The post office serving A's five-digit ZIP Code allows access to the post-office boxes between 8:00 AM and 6:00 PM Monday through Saturday; the box lobby at A's post-office is closed on Sunday. The post office serving B's five-digit ZIP Code provides access to the boxes 24 hours a day, 7 days a week. Both A and B work in another city and do not arrive home from work until 7:00 PM. (A and B leave for work in the morning before mail is distributed to the boxes.) Neither A nor B would rent a box at a semiannual rate of \$20 at the post office serving A's part of the city because the post office would be closed by 7:00 PM. Both A and B would rent a box for the semiannual rate of \$20 at the post office serving B's area.

- a) Do you confirm that the situation described above could exist?
- b) According to 39 U.S.C. § 3622(b), postal rates and fees must be fair and equitable. Please explain why a rate schedule that charged A, but not B, an \$18 nonresidential fee would be fair and equitable.
- c) According to 39 U.S. § 3622(a), the Postal Service may request a recommended decision from the Postal Rate Commission on changes in fees if the Postal Service determines that such changes would be in the public interest. Please explain how the Postal Service determined that a rate schedule that charged A, but not B, an \$18 nonresident fee would be in the public interest.
- d) Do you confirm that A would be required to pay an \$18 nonresident fee to obtain 24-hour access to his post-office box due to a condition--box lobby hours--within the control of the Postal Service?
- e) Please explain why \$18, and not some other amount, reflects the added value to A of having a box at the post office serving B's area.
- f) In your response to OCA/USPS-T7-5(b), you stated that three dollars per month is a "reasonable" fee to pay for the "value associated with box service at an office of the customer's choosing." Response to Interrogatories OCA/USPS-T7-5(b). Please explain why three dollars per month would be a reasonable fee to charge A given that B, who lives one block away from A, would pay no extra monthly charge.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-3

Page 2 of 3

- g) Is it possible that a box at A's local post office would be worth only a semiannual fee of \$15 to him because he would not be able to pick up his mail until the following day?
- h) If your answer to (g) is yes, is it possible that a box at the post office serving B's area is worth \$20 to A?
- i) If your answers to (g) and (h) are yes, would the added value to A of nonresident box service be \$5, not \$18?

RESPONSE:

a) Confirmed.

b and c) Please see my testimony at page 41, lines 15-21, where I discuss the fairness and equity of a non-resident fee. In designing fees one must rely on group distinctions and averaging. I do not believe fairness and equity, and the public interest, can be determined on an individual-by-individual basis. I do believe that ZIP Codes, like ounce and pound increments, can be used fairly and equitably to distinguish among groups of customers.

d) No. The details of how the non-resident fee would apply will be determined during the implementation process. I can confirm that there could be situations in which customers would choose to pay the non-resident fee to obtain 24-hour access to a post office box.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-3

Page 3 of 3

- e) Please see my responses to OCA/USPS-T7-5 (b) and (c). I do not claim that the \$18 fee will reflect the exact amount of added value for every customer.
- f) For a \$3 per month non-resident fee, A would be able to choose post office box service at an office which may offer additional value to A over his/her local post office. When dealing with boundaries, whether they be school boundaries, cable television service boundaries, or ZIP Code area boundaries, it is important to remember that there will always be a cut-off point, and there will always be an A next door or across the street who will be in a different area from B.
- g) Yes.
- h) Yes, one can define any hypothetical. Thus, A might find the box serving B's area is worth \$40 to him.
- i) I agree that $\$20 - \$15 = \$5$. By the same token, A might value the non-resident box service by more than an additional \$18.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-4. In your testimony, you implied that the nonresident fee would make more boxes available for residents and that the Postal Service would view this outcome favorably. See, e.g., USPS-T-7 at p. 25.

- a) Excluding general delivery, do you confirm that a resident, as defined for this case, who wishes to receive mail delivery in City R, which provides city carrier delivery, has two choices about how to receive mail directly from the Postal Service: (1) Receive mail at his residence address in City R; and (2) Obtain a post-office box at the post office in City R?
- b) Excluding general delivery, do you confirm that a nonresident, as defined for this case, who wishes to receive mail delivery in City R has available to him only a post-office box (Choice (2) in (a) above)?
- c) Please explain why the Postal Service is more concerned that the customer in (a) be able to obtain a box in City R in a timely fashion than the customer in (b).

RESPONSE:

- a) Not confirmed. The customer might be able to receive mail at his business, or at the address of someone who will act as his agent.
- b) Not confirmed. See my response to a).
- c) The Postal Service is not more concerned about a resident customer obtaining box service in a timely fashion over a nonresident customer. Under the Postal Services's proposal, those nonresidents willing to pay an additional fee for the value (to them) of having box service other than in

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-4

Page 2 of 2

c) (continued)

their local post office would still be able to receive box service. For those non-resident customers choosing another alternative, boxes would become available to those customers wanting box service, whether they are residents or non-residents.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-5. In Section IX, you introduced newspaper articles as evidence of the "high value of service from, and the demand for, post-office-box service." USPS-T-7 at p. 25, lines 19-20.

- a) Do you confirm that post offices in towns and cities with vanity addresses experience a demand for boxes by nonresidents that is atypically higher than the general pattern of demand for boxes by nonresidents that the entire pool of post offices in the country experiences? If not, please explain and provide available data.
- b) If your answer to (a) is yes, for typical, non-vanity post offices do you confirm that factors other than prestige of the address may be most significant for nonresidents who obtain box service at other than their local post office?

RESPONSE:

- a) I am unable to confirm because the demand for boxes by non-residents in United States border towns may be even higher than the demand in vanity address areas. Additionally, I am not aware of all non-vanity, non-border cities and towns that, for whatever reasons, may have atypically higher demands for box service by non-residents.
- b) Not applicable. Moreover, I do not have the information to confirm.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-6. In your response to OCA/USPS-T7-5(b), you stated that the \$18 nonresident fee "was not determined based on costs." Response to Interrogatories OCA/USPS-T7-5(a). Please explain how the \$18 nonresident fee meets the requirement of 39 U.S.C. § 3622(b) that each type of mail service bear the direct and indirect postal costs attributable to that service plus that portion of all other costs that are reasonably assignable to that service.

RESPONSE:

When developing fees it is important to address the criteria of Section 3622 (b) of Title 39, United States Code, to the greatest extent possible. Therefore, although the proposed non-resident fee was not determined based on costs, the fact that this type of fee was developed fortifies the Postal Service's commitment to addressing Criterion 3. Specifically, the Postal Service has determined that non-resident boxholders are more apt to present costlier situations than non-residents. (See USPS-T-3.) The proposed non-resident fee is geared at reacting to these costlier situations by moving to recover these costs.

In addition, the non-resident fee would help increase the cost coverage for post office box service from 100 percent to 128 percent. The non-resident fee thus would directly help the post office box service to bear its direct and indirect postal costs and make a contribution to institutional costs.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-7. In your response to OCA/USPS-T7-5(c), you stated that you rejected a semiannual nonresident fee lower than \$18 (\$3 per month) because the lower fee was not divisible by six in a whole dollar amount. Response to Interrogatories OCA/USPS-T7-5(c). Why did you not consider a monthly fee of \$2 or \$1.

RESPONSE:

I did not consider monthly fees of \$1 or \$2 because neither of these amounts seemed sufficient. I feel \$3 per month, or approximately 10 cents per day, is a reasonable fee for the added value for non-residents.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-8. In your response to OCA/USPS-T7-5(d), you implied that a nonresident fee would "alleviate the problems caused by nonresident box customers." Response to Interrogatories OCA/USPS-T7-5(d).

- a) Please explain how the fee would alleviate the problems, given that the fee is not based on costs (see Response to Interrogatories OCA/USPS-T7-5(a)).
- b) In your testimony, you suggested that the nonresident fee would likely cause nonresidents to give up their boxes. USPS-T-7, p. 25, lines 5-6. Earlier, you stated that the fee would reflect the added value of service nonresidential box customers receive. USPS-T-7, page 25, lines 2-3. If the \$18 nonresident fee truly reflected--and did not exceed--the added value of the nonresident service to the nonresident boxholder, why would you expect these boxholders to give up their boxes?

RESPONSE:

- a) Please see my response to DFC/USPS-T7-6. Non-resident boxholders choosing to pay the proposed non-resident fee would help offset the unique cost burden they create, and would provide additional revenue for box expansion, if applicable.
- b) Please see my response to DFC/USPS-T7-3(e), where I state that no fee can reflect the exact amount of added value for every customer. It is anticipated that, even though the Postal Service views the non-resident fee proposal as reasonable, some non-resident boxholders will seek alternatives to box service as opposed to paying the fee.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-9. On page 37, lines 21-22, you stated that some video rental stores within a chain charge a fee when customers rent a video at one store and return it to another store.

- a) Is it possible that the stores charge this fee to recover the cost of transporting videos back to the original store or correcting a resulting imbalance in inventory?
- b) Please confirm that a letter delivered to a post office in City X for a customer who lives in City Y is not also delivered in City Y or otherwise transported to City Y after delivery in City X.

RESPONSE:

- a) Yes, it is possible that the fee is charged for transportation or correcting an imbalance in inventory. Similar to the non-resident fee proposal, however, the video store is providing a convenience to the customer.
- b) Not confirmed. The mail might require forwarding by the Postal Service, or might be transported to City Y by the recipient after delivery in City X.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-10. On page 38, lines 2-4, you stated that many ATM customers will pay a transaction fee "if they use their ATM card at a bank other than their own bank or branch of their mail bank."

- a) Please cite an example of a bank that charges a customer an extra fee for using an ATM that is owned and operated by that same bank but located at a branch other than the branch where the customer's account is located.
- b) Do you confirm that a large majority of the ATM charges you described in lines 2-4 occur when customers of one bank use the ATM of another bank?
- c) Might the charges described in (b) reflect the cost of the second bank's involvement in the transaction?
- d) Please confirm that a letter delivered to a post-office box in City X for a customer who lives in City Y does not involve the postal services of an agency other than the Postal Service.

RESPONSE:

- a) My bank, First Virginia Bank, not only charges a fee for using an ATM that is owned and operated by First Virginia and located at a branch other than the branch where the customer's account is located, but also charges a fee for using the ATM at the branch where the account is located.
- b) Not confirmed. I have not conducted any studies on this.
- c) Perhaps. However, I think it is useful to note here that many banks nationwide are charging a fee at their ATMs even if the customer's own bank

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-4

Page 2 of 2

c) (continued)

is not charging the customer a fee for using that ATM. Many ATM machines now have a screen that pops up before a transaction is completed which alerts the customer that they will be charged a fee by that bank for the transaction, regardless of whether or not the customer's own bank will charge a fee for the transaction. Moreover, I do not believe that recent sharp increases in ATM fees reflect any significant increases in costs of bank involvement in the transaction. Rather, these increases might better reflect the demand for ATM service.

d) The letter may undergo further "postal services" after delivery by the Postal Service.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-11. On page 38, lines 8-14, you stated that local county governments in Northern Virginia charge nonresident fees for nonresidents who use county recreational facilities.

- a) Are these county recreational programs in any way subsidized by taxes paid by county residents?
- b) Do residents who live in the five-digit service area of a post office contribute tax dollars that subsidize the operation of their local post office?

RESPONSE:

- a) I do not know, but that would not be surprising.
- b) The Postal Service does not receive any tax subsidies for post office operations.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-12. On page 37, lines 15-17, you stated that nonresident box patrons can take advantage of many opportunities for "increased prestige, business, and convenience, as reflected in their choice of an address other than where they reside or have their business."

- a) Please state the percentage of nonresident boxholders who choose to have a nonresident box for either prestige or business reasons.
- b) Please explain why it is fair to charge a nonresident fee for customers who choose to have a nonresident box solely for convenience reasons when they perceive their local post office as comparatively less convenient because of factors within the discretion and control of the Postal Service--e.g., lobby hours and speed of window service.

RESPONSE:

- a) Prestige or business reasons for non-resident box service vary by individual.

What may not be a prestigious or good business address for one individual may be very prestigious or a good business address to another individual.

Therefore, no information exists on the percentage of non-resident boxholders who choose to have a non-resident box for either prestige or business reasons.

- b) The fact is all postal facilities are not the same, and neither are customer needs with respect to box service. The Postal Service believes it is fair to charge a non-resident fee for those individuals who choose box service outside of their local area, to reflect the value of service for these customers, and because it has been observed that these customers can be more costly to serve. See the testimony of witness Landwehr, USPS-T-3.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-13. Suppose that a person lives in City X but obtains a driver's license using the street address of a CMRA located in the five-digit ZIP Code service area of Post Office Y. (Suppose, for example, that his driver's license lists his CMRA address as 2500 Main Street, Apartment 100.) This customer then applies for a post-office box at Post Office Y and shows his driver's license as proof of local residence.

- a) Please confirm that this customer is, according to the definition for this rate case, a nonresident.
- b) If you confirm in (a), how would the Postal Service identify that this customer is not, in fact, a resident and assess the proper \$18 nonresident fee?

RESPONSE:

- a) That could be, although the details of residency will be determined during the implementation process.
- b) Postal employees might know that the address on the driver's license was that of a CMRA, and reject the license as proof of residency. In other cases, the customer might not be charged a non-resident fee. The Postal Service realizes that there will be individuals representing themselves as residents, when in fact they are really non-residents by definition. To obtain "proof" of residency, however, may end up being more costly for non-residents than the proposed non-resident fee. As witness Lion makes clear, USPS-T-4, a CMRA address can be quite costly.

RESPONSE OF POSTAL SERVICE WITNESS NEEDHAM TO
INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T7-14. Please explain how a nonresident fee that is assessed against nonresident customers who obtain a post-office box at a post office that does not suffer from a shortage of boxes meets the 39 U.S.C. § 3622(a) "public interest" requirement.

RESPONSE:

It is in the "public interest" that fees reflect the value of service for non-residents, and contribute to the more costly situations associated with non-residents. See my testimony at pages 25, 33, 37, and 41.

DECLARATION

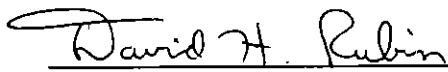
I, Susan W. Needham, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

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.



David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
August 23, 1996