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WASHINGTON, D.C. 20268-0001
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996	Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3, QUESTIONS 1, 4, 5, AND 18
(September 5, 1996)

The United States Postal Service hereby provides responses to Presiding Officer's Information Request No. 3, questions 1, 4, 5, and 18, issued on August 29, 1996. The Postal Service has today filed a motion for extension of time to respond to questions 2-3, and 6-17.

Each question 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

Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990; Fax -5402
September 5, 1996

POSTAL RATE COMMISSION
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RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

1. In USPS-T-1, Workpaper D, page 4, the volume of domestic uninsured registered mail valued up to $100 decreases even though the rate does not change. Please explain why this is a reasonable expectation.

RESPONSE:

As in earlier cases in which changes in special service fees were proposed, no attempt was made in this case to construct a volume forecast specifically for each individual rate element of registered mail. Instead, as in the past, a fixed weight index of all rate elements was used to measure the aggregate proposed change in price for registered mail, which was then used to forecast an aggregate change in volume for registered mail. This is the same procedure utilized with respect to most categories of mail and types of services. For example, rather than attempt to forecast volume for each weight/zone rate cell for parcel post based on the proposed rate change for that particular rate cell, the forecast is instead done in aggregate, using a fixed weight index of proposed rate changes.

For rate design purposes, however, some assumptions must be made to break down the aggregate volume forecast to a rate element level. The assumption routinely employed for these purposes is to assume that the new aggregate volume will be spread over the constituent rate elements in the same proportions as the old volume. One consequence of this assumption is that volumes for each constituent rate element move in the same direction as the aggregate volume change caused by the aggregate rate change. In some instances, such as when one particular rate element does not change but the aggregate volume forecast increases or decreases, this causes a projected rate cell volume change despite the absence of any proposed

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price change for that rate cell. While this result may appear counterintuitive, it is merely the consequence of applying the same simplifying assumption that is customarily used for these purposes.

Moreover, I would not be surprised if the volume of domestic uninsured registered mail valued up to $100 decreases somewhat because of lost business from customers who used to send registered articles valued up to $100 along with other articles valued above $100. (This would be analogous to the situation in which, for example, a general increase in most parcel post rates causes a large customer to switch all of her business to a competitor, potentially leading to decreases in volume even in the few parcel post rate cells for which rates have not changed.)

DECLARATION

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

W Ashley Lyons

Dated: 9-5-96

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4. In OCA/USPS-T7-28, the OCA asks whether or not "the Group II post office boxes in use [that] are located in offices which do not provide city or rural delivery service pay the proposed Delivery Group D fees?" Witness Needham responds, "No, unless the boxes are used by nonresidents." In POIR No. 2, question 7, witness Lyons confirms that "the Group II boxholders of offices with no carrier delivery are included in the Group II revenue calculations" and states "customers at these offices who are eligible for delivery will pay group D fees." Given that these two responses are referring to the same customers, that is, boxholders at Group II offices with no carrier delivery, please explain this apparent contradiction.

RESPONSE:

My revised response to OCA/USPS-T7-28, filed August 28, 1996, removes this apparent contradiction. Both my revised response to OCA/USPS-T7-28, and witness Lyons' response to POIR No. 2, question 7 state that boxholders in post office boxes that are located in Group II offices without carrier delivery will pay Group D fees, assuming the boxholders are eligible for carrier delivery from another office. See proposed Schedule SS-10, footnote 2, in the Postal Service's Request. Our assumption that these boxholders are generally eligible for delivery is discussed in my response to POIR No. 2, question 5.

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5. Consider the following scenario: An office which has a noncity delivery route and has some customers who receive delivery from a city route originating at another post office. Under this scenario, what delivery group fees are boxholders currently paying? What delivery group fees will they be paying under the Postal Service's proposal?

RESPONSE:

These customers currently pay Group II fees, and under the Postal Service's proposal they would pay Group D fees. This answer assumes that the implementation process would not change the current practice that eligibility for delivery from a city route originating at another post office does not affect the box fees for such customers.

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18. The Postal Service is requested to comment on the following matters regarding the proposed DMCS language accompanying its Special Services filing:

a. Would it be appropriate to make a conforming change in the second sentence of § 222.13, by substituting the word "stamped" for the word "postal" where it appears in the phrase "and returned by mail as a single postal or post card?"

b. Would the organization and clarity of the Express Mail Insurance provisions, especially § 9a.021, be improved by separating document reconstruction from merchandise, and further distinguishing merchandise from negotiable instruments, currency and bullion?

c. In § 9a.021:

(1) Does the phrase "regardless of the number of claimants" mean that both sender and receiver may exercise insurance rights in the mailing? If not, please explain to whom it refers.

(2) Do the references to "per piece" in connection with both document reconstruction and merchandise indemnity refer to the "mailpiece" as a whole, or to individual documents or items comprising a mailing sent via Express Mail?

d. DMCS § 500.41c, currently reads:

> For [Express Mail] mailings valued at $15 or less, for negotiable items, or currency or bullion, the indemnity is $15 to be paid under terms and conditions prescribed by the Postal Service.

The successor provision (§ 9a.021) reads:

> For negotiable items, currency, or bullion, the maximum liability is $15.

Thus, in addition to eliminating the introductory clause of "For mailings valued at $15 or less," the new wording appears to change the level of exposure from a flat $15, and apparently no less, to a **maximum** of $15. Please comment on whether a substantive change was intended, and on the rationale for the limitation, given that there is a $1500 limit on merchandise.

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RESPONSE:

a) Yes; this would be consistent with changing the product name "postal cards" to "stamped cards."

b) The Postal Service is satisfied that the proposed language is sufficiently clear. The last sentence in DMCS SS-9a.021 creates a narrow exception to Express Mail insurance for certain specified items. In interpreting this provision and explaining coverage to claimants, the Postal Service has treated this provision as a general exception to Express Mail insurance. The Postal Service has not treated negotiable items, currency, or bullion as either merchandise or documents; rather, it intends to limit its liability for these narrowly defined items. Consequently, it does not appear necessary to characterize these as merchandise in the DMCS language as the questions suggests.

c) (1) No. It is my understanding that the "per occurrence" limitation applies to catastrophic losses of multiple Express Mail articles. For example, if a number of Express Mail articles traveling together are lost or damaged simultaneously, the maximum liability of the Postal Service for all *document reconstruction* claims arising from the catastrophic event that caused the loss or damage to the articles could not exceed $5000. In such circumstance, if the total amount properly payable for document reconstruction claims among the claimants exceeded

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$5000, the Postal Service would pay each such claimant a pro rata share based upon the amount of the payable claim. Merchandise claims would not be subject to the $5000 "per occurrence" limitation. Because the average payable document reconstruction claim is quite modest, averaging less than $100 per article, see USPS LR-SSR-109 at 2, the Postal Service believes that circumstances in which this provision would be invoked would be quite rare, if at all. As information, the reduction in the per occurrence limitation from $500,000 to $5000 would mirror the proposed 100-fold decrease in per piece coverage from $50,000 to $500.

c) (2) The term "per piece" refers to the Express Mail article, not to the contents.

d) First, we note that the limit on merchandise is presently $500, not $1500. *Two substantive change in the DMCS language are proposed. The first is that* for Express Mail articles with contents valued at less than $15.00, the Postal Service would only pay the claimant the actual value of the contents, rather than the $15.00 minimum. The second is that rather than offering a flat $15.00 payment in the event of loss or damage to negotiable items, currency, or bullion, the Postal Service would offer reimbursement *up to* $15.00 for each such loss. The Postal Service submits that these proposals are fair and equitable. First, the Postal Service already offers reasonable compensation in the event of loss for articles valued at $15.00 or less through reimbursement of Express Mail

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postage. See DMCS § 181; DMM § S500.2.0. Secondly, the proposal promotes equal treatment among claims. It is not necessary to favor mailers of low-value articles or negotiable items, currency, or bullion valued at less than $15.00 by offering reimbursement in excess of the actual loss. Claimants will receive reimbursement for the actual value of their losses in accordance with the insurance coverage provided.

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: September 5, 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.

Susan M. Duchek

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Washington, D.C. 20260–1137
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September 5, 1996