

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Special Services Fees and Classifications

Docket No. MC96-3

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: SHERYDA C. COLLINS (USPS/OCA-T400-1-11)
(OCTOBER 22, 1996)

The Office of the Consumer Advocate hereby submits the answers of Sheryda C. Collins to interrogatories USPS/OCA-T400-1-4 and USPS/OCA-T400-5-11, dated October 8 and 9, 1996, respectively. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

Shelley S. Dreifuss

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Attorney
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ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-1-11

USPS/OCA-T400-1. Please refer to page 3 lines 8-9 of your testimony. Confirm that your opposition to the Postal Service's proposal to raise revenues outside an omnibus rate case is based solely on policy grounds. Please explain any negative response.

A. The next sentence on lines 9-11 of my testimony states, "Witness Sherman and witness Thompson address the principles of revenue neutrality in their testimony." These witnesses, particularly Thompson, present reasons not to target selected special services for fee increases for the purpose of increasing net revenue in this docket. I would not characterize their testimony as purely policy.

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USPS/OCA-T400-2. Please refer to page 6 lines 1-11 of your testimony and to Exhibit USPS-T-1C. Please confirm the following:

- a. The before-rates attributable cost for certified mail in this filing is \$297,811,000.
 - b. The before-rates revenues for certified mail in this filing are \$318,574,000.
 - c. The before-rates cost coverage for certified mail in this filing is 107 percent.
 - d. The after-rates attributable cost for certified mail in this filing is \$285,880,000.
 - e. The after-rates revenues for certified mail in this filing are \$416,705,000.
 - f. The after-rates cost coverage for certified mail in this filing is 146 percent.
 - g. If your responses to any of subparts a-f above are negative, identify with specificity all information which is either lacking or precludes you from offering a confirmation.
- A. a.-f. These numbers appear on Exhibit USPS-T-1C.
- g. N.A.

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USPS-OCA-T400-3. Please refer to page 8 lines 15-17 of your testimony.

- a. Identify the date on which the initial response to OCA/USPS-T8-8 was filed.
- b. Identify the three dates on which revisions were filed to witness Needham's response to OCA/USPS-T8-8.
- c. Confirm that witness Needham's final revision to OCA/USPS-T8-8 was filed two days before her appearance on her USPS-T8 testimony.

A. a. July 25, 1996.

b. The 131 percent figure is from the original interrogatory dated July 11, 1996. Its source is Patelunas' Exhibit 17E, page 23. (Docket No. R90-1, USPS-T-17.) The interrogatory was first answered on July 25, 1996, and supplied a 65 percent cost coverage figure in place of the 131 percent. The 65 percent figure became 127 percent by Notice of Errata dated August 15, 1996. The final Notice of Errata, which changed the coverage back to 65 percent, is dated September 9, 1996.

c. Confirmed. However, the September 9 Errata did not clearly explain the underlying reasons for the changes. Witness Lyons, who appeared on that day, gave the first real indication of a fundamental change to the underlying costing. Tr. 2/153-54. It was not until September 11, when she testified, that witness Needham stated there were errors in the Docket No. R90-1 workpapers. However, as I state in my testimony at pages 7 and 8, lines 20 and 1-2, respectively, "A complete explanation of

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CONTINUATION OF ANSWER TO USPS/OCA-T400-3:

what was done in the past, why it was in error, and exactly how
the methodology has changed [still] has not been forthcoming."

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USPS/OCA-T400-4. Please refer to page 20 lines 1-7 of your testimony.

- a. Please provide a schedule comparable to Schedule SS-16 with your proposed fees.
- b. Please provide the before- and after-rates total attributable costs for return receipts.
- c. Please provide the before- and after-rates total revenues for return receipts.
- d. Please provide the before- and after-rates cost coverages for return receipts.

A. a.

RETURN RECEIPT CURRENT AND PROPOSED FEE STRUCTURES

<u>Return Receipt Service</u>	<u>Current</u>	<u>Proposed</u>
To whom & date delivered	\$1.10	NA
To whom, date delivered & address	\$1.50	NA
To whom, date delivered & address if different	NA	\$1.10
Requested after mailing	\$6.60	\$6.60
Merchandise: To whom & date delivered	\$1.20	\$1.20
Merchandise: To whom, date & address	\$1.65	\$1.65

b.-d. For before-rates figures, see Lyons WP D, pages 2-3. After-rates figures are similar, as there is only a slight change in cost as a result of providing a corrected address and a slight change in revenue by keeping the current rate. See OCA version of USPS-T-1, WP D, pages 2-3, attached.

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USPS/OCA-T400-5. Please refer to page 6 lines 1-11 of your testimony and Tr. 4/1073. Please confirm the following:

- a. The Postal Service proposed attributable cost for certified mail in Docket No. R94-1 was \$305.8 million
- b. The Postal Service proposed revenues for certified mail in Docket No. R94-1 were \$293.2 million.
- c. The resulting cost coverage using subparts (a) and (b) for certified mail in Docket No. R94-1 was 96 percent.
- d. If your responses to any of subparts a-c above are negative, identify with specificity all information which is either lacking or precludes you from offering a confirmation.

A. a. Confirmed.

b. Not confirmed. See, Docket No. R94-1, Exh. USPS-11F, column (4), After Rates Revenue, \$526,248 (thousand).

c.-d. Since I am unable to confirm part (b), I am unable to confirm part (c). See Exhibit noted above; also see PRC Decision Appendix G, Schedule 1, "Revenue" column, \$526,248 (thousand).

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USPS/OCA-T400-6. Please refer to page 6 lines 1-11 of your testimony and Tr. 4/1073. Please confirm the following:

- a. The Postal Service proposed attributable cost for certified mail in Docket No. R90-1 was \$288.6 million.
- b. The Postal Service proposed revenues for certified mail in Docket No. R94-1 were \$188.4 million.
- c. The resulting cost coverage using subparts (a) and (b) for certified mail in Docket No. R94-1 was 65 percent.
- d. If your responses to any of subparts a-c above are negative, identify with specificity all information which is either lacking or precludes you from offering a confirmation.

A. a. Not confirmed. See Docket No. R90-1, USPS-T-22 at page 40 and WP6, page 2, \$147,859 (thousand).

b. Confirmed. See Docket No. R90-1, USPS-T-22 at page 40.

c.-d. Since I was unable to confirm part (a), I am unable to confirm part (c).

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USPS/OCA-T400-7.

- a. Have you ever submitted testimony in support of a rate or fee proposal for which the cost coverage was below 100 percent? If your response is affirmative, please provide a citation to the docket and testimony number.
- b. Has the OCA ever submitted testimony in support of a rate or fee proposal for which the cost coverage was below 100 percent? If your response is affirmative, please provide a citation to the docket and testimony.
- c. Do you agree with the principle that rates and fees for products should be priced so that after-rates revenues exceed costs? If your response is negative, please explain.
- d. In your opinion, is it appropriate to raise a rate or fee for a product for which the cost coverage has consistently been held below 100 percent?

A. a. I do not believe I have. However, I'm not sure of your definition of "a rate or fee proposal." Generally, cost coverages are applied at the subclass level, and not to rate cells. Thus, it is not necessary (or always possible) to calculate a cost coverage for every individual rate.

b. I do not know. I have not done research on all OCA proposals submitted over the last 25 years.

c.-d. Yes. However, I'm not sure of your definition of "a rate or fee for a product." Generally, cost coverages are applied at the subclass level, and not to rate cells. Thus, it is not necessary (or always possible) to calculate a cost coverage for every individual rate.

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USPS/OCA-T400-8. Please refer to page 6 lines 14-15 of your testimony.

- a. Please confirm that witness Needham considered the own-price elasticity of certified mail in analyzing the certified mail fee proposal. Please explain any negative response.
- b. Please confirm that witness Needham considered qualitative information about the value of service of certified mail from the mailer's perspective in analyzing the certified mail fee proposal. Please explain any negative response.
- c. Please confirm that witness Needham considered qualitative information about the value of service of certified mail from the recipient's perspective in analyzing the certifying mail fee proposal. Please explain any negative response.

A. a. Witness Needham states at page 70 of her testimony, "[C]ertified mail's own price elasticity of between -0.2 and -0.3 is evidence of a high value of service." (Footnote omitted.)

b. Confirmed.

c. Not confirmed. Witness Needham's discussion of the recipient's response to a certified mail piece seems to be confined to the high value of this response to the sender. See USPS-T-8 at page 70, lines 8-11, and page 71, lines 3-4.

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USPS/OCA-T400-9. Please refer to page 20 lines 8-14 of your testimony.

- a. Confirm that the OCA has never proposed an increase in a rate or fee for a product for which there is no corresponding change in per piece costs. If your response is negative, please identify the proposals and dockets in which such rates or fees were proposed.
- b. Confirm that the OCA has never proposed an increase in a rate or fee for a product for which there has been an increase in total after-rates costs over before-rates costs equal to or less than 0.3 percent. If your response is negative, please identify the proposals and dockets in which such rates or fees were proposed.

A. a.-b. I do not know. I have not done research on all OCA proposals submitted over the past 25 years.

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OCA/USPS-T400-10. Please refer to your testimony at page 24 lines 9-19.

- a. Please confirm that total manufacturing costs for postal cards in FY96 are reported as \$3,760,000 by witness Patelunas in Exhibit USPS-T-5H at p. 49 and are reported as \$4,950,000 by witness Needham in USPS-T-8 at p. 107. If you do not confirm, please explain your response.
- b. Please confirm that total attributable costs for postal and post card subclass costs are \$631,401,000 (See Exhibit USPS-T-5I at p. 1). If you do not confirm, please explain your response.
- c. Please confirm that, using witness Patelunas' manufacturing cost figure in subpart (a), that postal card manufacturing costs represent 0.6% of total postal and post card subclass attributable costs. If you do not confirm, please explain your response.
- d. Please confirm that, using witness Needham's manufacturing cost figure in subpart (a), that postal card manufacturing costs represent 0.8% of total postal and post card subclass attributable costs. If you do not confirm, please explain your response.
- e. Assume the Postal Service's stamped card proposal is adopted as proposed. Is it your belief that, in future rate proceedings involving changes in postal and postcard subclass rates, the Postal Service intends to continue to include postal card manufacturing costs in the attributable costs for the postal and post card subclass? Please provide a citation in support of this proposition.
- f. Assume that all of the Postal Service's proposals are adopted as proposed. Would you agree or disagree with the proposition that in the next rate proceeding in which postal and post card subclass rates are proposed to be changed, manufacturing costs for postal cards should be excluded from the total attributable costs for rate categories within that subclass? Explain any negative response.
- g. Isn't it true that all users of the postal and post card subclass pay, to some degree, for the manufacturing costs of postal cards? If your answer is no, please explain.
- h. If total manufacturing costs for postal cards were attributed to postal cards alone, please state what the per piece attributable costs for postal cards would be for the test year and the base year in this docket. Please show all calculations and provide citations for all numbers used in calculations.

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CONTINUATION OF INTERROGATORY & ANSWER TO USPS/OCA-T400-10:

- i. Do private post card users pay, through post card postage, for the stationery provided to postal card users? If your answer is anything other than an unqualified no, please explain.
- j. Do private post card users value free stationery given to post card users? If your answer is anything other than an unqualified no, please explain.
- k. Do postcard users receive any benefit from the free stationery provided to postal card users? If your answer is anything other than an unqualified no, please explain.

A. a.-d. Confirmed.

e. I have no way of knowing what the Postal Service intends to do in the future.

f. I agree.

g. No. Please see the response of witness Sherman to USPS/OCA-T100-11(d).

h. The base year attributable cost for postal cards including manufacturing costs is 7.5 cents as shown at USPS-T-5C at 10. The test year attributable cost for postal cards including manufacturing costs is 7.7 cents as shown at USPS-T-5J at 15.

i.-k. Please see witness Sherman's response to USPS/OCA-T100-11(e)-(g).

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USPS/OCA-T400-11. Please refer to page 20 lines 3-4 of your testimony.

- a. Is your conclusion that the fee for return receipts should not be raised based on your finding that the classification changes for return receipts only served to improve address hygiene?
- b. Did you consider any other circumstances in which correct address information may prove to be useful?
- c. Do you deny that there have been any other improvements to return receipt service, such as that discussed by witness Needham in her responses to OCA/USPS-T8-6 and OCA/USPS-T8-11?

A. a. No. Please see my testimony at 20, lines 5-14.

b. Not specifically. However, I did consider that the overall improvement in the number of correct addresses which would result from this proposal is negligible.

c. No. However, these other improvements are there regardless of whether or not the Postal Service's proposals for return receipt are adopted.

Development of Return Receipt and Caller Service Cost Coverages
(Revenue, Transactions, and Cost in Thousands)

		Before Rates					After Rates				
Return Receipt Non-Merchandise	Revenue	242,603	220,548	0.86	189,705	128%	242,603	220,548	NA	NA	
	Whom and When	6,811	4,541	1.10	4,984	137%	4,995	4,541	NA	NA	
	Whom When Where	249,414	225,089	0.87	194,689	128%	247,598	225,089	195,048	127%	
Subtotal											
Return Receipt Merchandise											
	Whom and When	3,561	2,968	1.04	3,088	115%	3,561	2,968	3,088	115%	
	Whom When Where	34,685	21,021	1.35	28,285	123%	34,685	21,021	28,285	123%	
Subtotal											
	Whom and When	38,246	23,989	1.05	31,373	122%	38,246	23,989	31,373	122%	
	Whom When Where	1,475	223	6.10	1,361	108%	1,475	223	1,361	108%	
Return Receipt After Mailing											
		289,135	249,301		227,423	127%	287,319	249,301	227,782	126%	
Total Return Receipt											

Sources:

Return Receipt Revenue and Transactions from OCA version of WP D at 2
Unit Costs from LR-SSR-104.

DECLARATION

I, Sheryda C. Collins, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T100-1-11 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed October 22, 1996

Sheryda C. Collins

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.

Shelley S. Dreifuss
SHELLEY S. DREIFUSS
Attorney

Washington, DC 20268-0001
October 22, 1996