

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-T400-12-20)
(OCTOBER 24, 1996)

The Office of the Consumer Advocate hereby submits the answers of Sheryda C. Collins to interrogatories USPS/OCA-T400-12-20, dated October 10, 1996. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

Shelley S. Dreifuss

SHELLEY S. DREIFUSS
Attorney
Office of the Consumer Advocate



ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-12. Please refer to your testimony at page 23 lines 18-21.

- a. Please provide your definition of "implicit cost coverage."
- b. Using the definition in (a), what is the "implicit cost coverage" of:
 - i. stamped envelopes? Please show all calculations with citations to figures.
 - ii. single-sale stamped envelopes? Please show all calculations and provided [sic] citations for figures.
- c. Please provide underlying calculations, with citations for all figures, for the 289 percent cost coverage on line 21.

A. a. "Implicit cost coverage" is a term of art generally used to describe the "revenue divided by cost calculation" for a non-subclass of mail. For example, in the past, carrier route presort third-class mail was frequently said to have an implicit cost coverage of over 200 percent.

b. i-ii. My testimony does not address stamped envelopes, and I do not have the requested information.

c. 19.7 (postal card revenue per piece, USPS-T-5C, p. 10) plus 2 (proposed fee/additional revenue for stamped cards) divided by 7.5 (postal card cost per piece, USPS-T-5C, p. 10).

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-13. Please refer to your testimony at page 24 lines 5-16.

- a. Does the denominator of the fraction that underlies the 263 percent cost coverage figure include all postal card manufacturing costs?
- b. What percentage of the manufacturing costs of postal cards are [sic] in fact included in the attributable costs of postal cards? Please show all calculations.
- c. What percentage of the manufacturing costs of postal cards are [sic] borne by categories other than postal cards? Please show all calculations.

A. a. I believe it does. Witness Needham identified the manufacturing cost of postal cards for FY 1995 in her testimony at page 106 and verified at Tr. 4/1113-14 that these were the same costs shown in USPS-T-5A, page 49. These are the costs underlying the CRA and are the ones used in this calculation. Also see witness Patelunas' response to OCA/USPS-T5-10 at Tr. 2/251 and my response to USPS/OCA-T400-10(h).

b.-c. Since I answered part a. affirmatively, parts b. and c. are inapplicable.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-14. Please refer to your testimony at page 24
lines 16-19.

- a. Please quantify the "manufacturing costs" to which you refer
on lines 16-17.
- b. Please show all calculations underlying the 303 percent cost
coverage on line 19.

A. a. \$4,353,000.

b. \$33,182 USPS-T5B, p. 3

-4,353 USPS-T5A, p. 49

\$28,829

\$28,829/440,529 = USPS-T5C, p. 10 19.7/6.5 = 303%

.0654

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-15. Please refer to your testimony at page 29 [sic] lines 15-21. Is your statement that witness Needham applied a "price the market can bear" pricing approach to insured mail fees based solely on witness Needham's response to OCA/USPS-T8-38? If your answer is negative, please cite all sources for your observation.

A. I assume your citation is to page 28, lines 15-21. Yes, if the portions of her testimony and of SSR-LR-109, which are referenced in the interrogatory, are included in what is referred to as "witness Needham's response to OCA/USPS-T8-38." It is not my testimony that witness Needham only applied a "price the market can bear" pricing approach to the development of insured mail fees. She applied other factors, several of which are mentioned in my testimony.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-16. Please refer to your testimony at page 31 line 5.

- a. Please provide your definition of an "indemnity analysis."
- b. What is the citation for your statement that "[n]o indemnity analyses were performed [sic]."?
- c. If your response to (b) is a statement from witness Needham, please provide a quotation of the complete sentence from which your statement is derived, along with the citation.
- d. What is the proportion of paid domestic insurance claims to insurance volumes in FY 1995?

A. a. An example of what I consider an indemnity analysis is USPS-T-22, WP-7, Docket No. R90-1.

b.-c. The citation to this statement is witness Needham's answer to OCA/USPS-T8-30, Tr. 4/1107, quoted at page 28 of my testimony. The complete sentence, which I did not re-quote, states, "No indemnity analyses were performed to arrive at this fee." Witness Lyons did a type of indemnity analysis in this case. I did not mean to imply that this had not been done but to highlight the fact that it was, by necessity, prospective and, therefore, uncertain. I also indicate that information the Postal Service may have regarding claims on higher value registered mail is not an appropriate proxy to use for insured mail because of the difference in security between the two services. When the Postal Service has gained experience with the higher indemnity limits, another analysis should be performed with the actual claims data.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

CONTINUATION OF ANSWER TO USPS/OCA-T4-16:

- d. I have not calculated this figure.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-17. Is your statement at page 32 lines 26-27 based on your claim that no information has been provided by the Postal Service on the maximum paid Express Mail document reconstruction insurance claim for the most recent fiscal year?

A. My statement was based on witness Needham's colloquies with Mr. Popkin at Tr. 4/1270-71 and Chairman Gleiman at Tr. 4/1286.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-18. Please refer to your testimony at page 31 lines 10-12.

- a. Please define "appropriate data by insurance indemnity levels" with specificity.
- b. Did the OCA ask for the information in (a) through discovery? If your response is affirmative, please provide a citation.
- c. How would you go about obtaining "appropriate data by insurance indemnity levels"?
- d. Can this information be ascertained from information on the record? If not, please state the extent to which such information is on the record (with appropriate citations), and identify all information that you claim is not on the record that you would need to derive "appropriate data by insurance indemnity levels."

A. a. "Appropriate data by insurance indemnity levels" is data similar to that shown in Docket No. R90-1, USPS-T-22, WP-7 at 4-5 and Docket No. MC96-3, SSR-LR-109 at 3. I assume that this data is gathered routinely by the Postal Service.

b. Yes. See Tr. 4/1106.

c.-d. See my answer to (a) above and to

USPS/OCA-T400-16.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-19. Please refer to page 29 line 18 to page 30 line 2. Please identify all of the facts that inform your conclusion that "somewhat lower fees might still provide a contribution to institutional costs and allow the Postal Service to improve its competitive position."

A. My statement was based on the fact that the Postal Service's current and proposed fees for insured mail are considerably higher than competitors' fees. The Postal Service has indicated that various measures to improve security and carrier accountability are being studied and may soon be implemented. This should lead to fewer parcels being lost, stolen or misplaced. This, in turn, should cause indemnity claims to be smaller in relation to fee revenues than would be the case without these added security measures. In such a case, the Postal Service would be able to lower the fees, thereby encouraging greater use of postal insurance and mail services. This would benefit the individual "Aunt Minnie" parcel mailer, the large business mailer and the Postal Service.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

USPS/OCA-T400-20.

- a. Is it your testimony that postal card customers should not incur the same postage and stationery costs as private postcard mailers? If your answer is no, please explain.
- b. As a general principle, is it your view that identifiable costs attributable to a hypothetical product be subsidized by other products that do not share characteristics that contribute to the hypothetical product's attributable costs? Please explain your response.

A. a. Not necessarily. Post card and postal cards pay the same rate of postage. However, stationery costs may differ. Frequently, private post cards have full color pictures and glossy coating on one side. Also, I assume that multi-color printing and varying weight card stock is available. All of these would have a bearing on stationery costs.

b. Per a clarifying telephone call between OCA and Postal Service counsel, I will answer this question substituting "postal cards" for "hypothetical product", "post cards" for "other products" and "free stationery" for "characteristics".

As I show in my testimony at pages 21-25 and state in answer to USPS/OCA-T400-10(h), postal cards are not subsidizing post cards. Attributable cost per piece for postal cards, including stationery and manufacturing costs, is one-half the cost of post cards.

ANSWERS OF OCA WITNESS SHERYDA C. COLLINS
TO INTERROGATORIES USPS/OCA-T400-12-20

CONTINUATION OF ANSWER TO USPS/OCA-T400-20:

Part b. was framed as a hypothetical. However, I am unable to state a general principle concerning this hypothetical because, as I point out in the previous paragraph, the higher processing costs of private cards (in comparison to postal cards) far outweigh the stationery costs of postal cards.

DECLARATION

I, Sheryda C. Collins, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T400-12-20 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed October 24, 1996

Sheryda C. Collins

CERTIFICATE OF SERVICE

I hereby certify that I have ~~on~~ 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 24, 1996

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