

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

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Postal Rate and Fee Changes, 2000

Docket No. R2000-1

POSTAL RATE JURISDICTION
OFFICE OF THE SECRETARY


**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)
February 22, 2000**

The Newspaper Association of America hereby submits the attached interrogatories to United States Postal Service witness Virginia Mayes (NAA/USPS-T32-1-30) and respectfully requests a timely and full response under oath.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants requesting such service in this proceeding in accordance with section 12 of the Rules of Practice.

February 22, 2000


William B. Baker

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INTERROGATORIES TO
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VIRGINIA MAYES (NAA/USPS-T32-1-30)

NAA/USPS-T32-1: Please refer to page 36, line 7, of your testimony. Please explain how the "system average increase of 6.4 percent" is calculated. In particular, please explain whether it is a weighted or an unweighted (by volume) average of the rate increases by subclass. If weighted, please identify what volumes were used.

NAA/USPS-T32-2: Please refer to page 8, lines 14-21 of your testimony. Is it your position that the comparison of rates to incremental cost is the only measure required to ensure that "unfair price competition" is avoided?

NAA/USPS-T32-3: Please refer to USPS-T-32, p. 5, line 18 to p. 6, line 21, which identifies the long-run own-price elasticities relied upon in your direct testimony.

- a. Did you use these elasticities to determine your proposed cost coverages and rate levels?
- b. If the answer to (a) is yes, identify each and every way they were relied upon.
- c. Did you rely upon any other parts of the direct testimonies of witnesses Tolley (USPS-T-6), Musgrave (USPS-T-8), or Thress (USPS-T-7)?
- d. If the answer to (c) is yes, identify each and every line of the testimonies and precisely how it was relied upon.
- e. Did you make any use of the cross elasticities or elasticities with respect to other variables reported by witnesses Tolley, Musgrave, and Thress? Explain your answer in detail.

NAA/USPS-T32-4. At USPS-T-32, p. 7, line 12 to p. 8, line 2, you state: "use of the refined costing approach . . . affects the measured volume-variable costs of

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

different mail classes to differing degrees, necessitating that the rate levels proposed by the Postal Service recognize these changes in relative cost levels.”

- a. Did these changes in measurement of costs affect the percentage rate changes and cost coverages of any class or subclass in any quantitative or qualitative way?
- b. If the answer to (a) is yes, identify each and every example of a class or subclass so affected and how it was affected.

NAA/USPS-T32-5. At USPS-T-32, p. 8, lines 2-3, you state that “coverage or markup indices” were not applied “mechanistically” based on “previous cost information.”

- a. Were “coverage” or “markup” indices used in determining specific levels of rates for classes and subclasses in any quantitative or qualitative way?
- b. If the answer to (a) is yes, identify each and every example of a class or subclass so affected and how it was affected. In answering the question, please distinguish between coverage or markup indices if you made any such distinction.
- c. Please refer to the Direct Testimony of Witness O’Hara (USPS-T-30 in Docket No. R97-1) at p. 16, lines 13 to p. 20, line 7. Do you agree with his testimony regarding the relative usefulness of markup and cost coverage indices?
- d. If your answer to (c) is not an unqualified yes, identify each and every way in which you disagree with witness O’Hara’s testimony.

NAA/USPS-T32-6. At USPS-T-32, p. 8, lines 10-13, you identify (1) “the overall rate of inflation in the economy,” (2) “the rate increases for other classes of mail,” and (3) the “overall system-average increase,” as indicators to compare to the proposed

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

percentage rate increase for a class of mail in order to measure of the effect of the proposed rate increases on mailers.

- a. Are these factors also relevant to the effect of the proposed rate changes on competitors? Explain fully the basis for your answer.
- b. Identify precisely the numerical values of the indicators identified at p. 8, lines 10-13, how these values were derived, and how they were considered in establishing the cost coverages and proposed rate levels for each of the classes and subclasses of mail.

NAA/USPA-532-7. Does USPS-T-32, p. 8, lines 14-21, identify all the factors you considered in evaluating the effects on competitors? If the answer is not an unqualified yes, please identify in detail all additional considerations and what proposed rates they affected.

NAA/USPS-T32-8. Does the availability of alternatives as identified at p. 9, lines 1-10, affect the specific cost coverages and percentage rate increases proposed by you?

- a. If your answer is yes, identify each and every class or subclass so affected and precisely how it was affected.
- b. Did the "availability, at reasonable cost, of alternative means of sending and receiving mail matter" (USPS-T-32, lines 2-3) lead you to propose higher percentage rate increases and cost coverages for any class or subclass than you otherwise would have proposed?
- c. If your answer is not an unqualified no, identify each such class or subclass and precisely how the recommended class or subclass was affected.

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

NAA/USPS-T32-9. At USPS-T-32, p. 10, lines 11-14, you state that the required system-average cost coverage will increase, all else equal, as the overall level of worksharing increases.

- a. Did this effect influence your proposed rate increases and cost coverages for the classes and subclasses of mail?
- b. If your answer is not an unqualified no, identify all examples and explain in detail how the proposed rate increases and cost coverages were affected.

NAA/USPS-T32-10. At USPS-T-32, p. 11, lines 7-8, you state that the sixth criterion (degree of preparation) was "most immediately" reflected in rate design. Did degree of preparation affect the rate levels of any class or subclass as well? Explain your answer in detail.

NAA/USPS-T32-11. At USPS-T-32, p. 11, lines 7-9, you state that the seventh criterion contains "the logic that understandable and rational relationships exist between various postal rates" and that this factor was "most immediately reflected in the rate design." The examples of this consideration that follow appear to be confined to matters of rate design.

- a. Did the seventh criterion play a role in determining the specific proposed level of rates for any class or subclass of mail?

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

- b. Unless your answer to (a) is an unqualified no, identify all classes and subclasses where the seventh criterion had an effect on the proposed cost coverage and percentage rate changes for the classes and subclasses of mail and identify the role of the effect.

NAA/USPS-T32-12. At USPS-T-32, p.11, line 18, to p. 12, line 4, you discuss the eighth and ninth criteria of the Act.

- a. Did these criteria have any qualitative or quantitative effect on the proposed cost coverages and rate levels?
- b. Unless your answer is an unqualified no, identify each and every subclass and class of mail and how it was affected.

NAA/USPS-T32-13. Did you consider the per unit (e.g., cents per piece) contribution of revenues in excess of per unit volume-variable, incremental or attributable costs in your proposals for percentage rate increases and cost coverages? Unless your answer is an unqualified no, identify each and every class and subclass that was affected and how it was affected.

NAA/USPS-T32-14. At USPS-T-32, p. 17, lines 1-3, you state: "the ratio of revenue to volume-variable cost is appropriate for assessing the burden of meeting the revenue requirement." You further state at p. 17, lines 6-9, that incremental cost data are relevant "for purposes of testing the adequacy of the Postal Service's proposed rates with regard to criterion 3 [cost]."

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

- a. Does this cited portion of your direct testimony imply that the ratio of revenue to volume-variable cost is the appropriate measure for applying the remaining criteria (other than criterion 3) in determining how the burden of meeting the total revenue requirement is distributed among the subclasses?
- b. If your answer is yes, explain why the ratio of revenue of volume-variable cost provides the only needed measure. If your answer is no, explain what other measures of revenues and costs are necessary.

NAA/USPS-T32-15. Please refer to the Direct Testimony of USPS witness O'Hara in Docket No. R97-1, at pg. 14, line 18 to p. 15, line 9, and assume that the cost coverage is 150 percent and the volume-variable cost of both products is again \$.20. Assume that the first product has \$1 million of specific fixed costs (cost incurred to serve that product alone but not included in its volume-variable cost).

- a. Please confirm that if both products pay a rate determined by the revenue to volume-variable cost, the first product, after netting out the revenues required to recover specific fixed costs, will contribute \$1 million less to the recovery of the remaining costs than the second product (all other factors assumed constant). If you cannot confirm, please explain why not.
- b. Please confirm that this is true in the example despite the fact that both products incur the same volume-variable cost per unit and by assumption have "the same evaluation on all the non-cost criteria" (O'Hara, p. 14, line 19). If you cannot confirm, please explain why not.

NAA/USPS-T32-16. At USPS-T-32, p. 18, lines 5-20, you cite to witness O'Hara's direct testimony in Docket No. R97-1, USPS-T-30, pp. 14-16, which purports to show alleged inefficiencies arising from calculating cost coverages based on

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

attributable costs or incremental costs. You state at lines 16-20 that the example allegedly shows an inefficiency because one product will be limited to applications where its value is equal to the *rate* resulting from the markup, whereas for the other product the last unit will be exactly worth its *volume-variable cost*.

- a. Please confirm that witness O'Hara's example in fact purports to show that both products will be limited to applications where the product is worth to the customer an amount equal to the rate produced by the markup (33¢ and 27¢ respectively in Witness O'Hara's example) and in no case would the last application be worth to the customer an amount equal to volume-variable cost.
- b. If you cannot confirm, please explain why not.

NAA/USPS-T32-17. At USPS-T-32, p. 18, lines 9-16, you discuss an example where two subclasses have identical volume-variable cost and identical evaluation on the pricing criteria of the act, yet one of those subclasses has specific fixed costs.

- a. Please confirm that if the ratio of revenue to volume-variable costs is used to assess the burden of meeting the revenue requirement, both pieces of subclasses of mail will pay the same postage per piece and make an identical cent per piece contribution over and above the volume-variable cost.
- b. If you confirm (a) above, do you believe the resulting rates violate the standards of unfairness and inefficiency referred to at p. 18, line 7? Explain fully your answer.

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

NAA/USPS-T32-18. At USPS-T-32, p. 20, lines 10-16, you propose a 196 percent cost average for First Class Mail, which you note results in a one cent increase in both the first and additional ounce rate for single piece First Class letters.

- a. What role did the one cent increase in the first and additional ounce rates play in your selection of the cost coverage for First Class Mail?
- b. Identify precisely the role that cost coverages, percentage rate increases and unit rate changes (cents per ounce) played in establishing the proposed rate levels and rate design discussed in your direct testimony, p. 20, line 8 to p. 23, line 9.
- c. Did you apply any of the Section 3622(b) ratemaking criteria to the one cent increase for the first and additional ounces of First Class mail as described at p. 20, lines 14-15 of your testimony? Please explain fully.
- d. Did you consider the costs associated with additional ounces in First Class mail in selecting the proposed coverage for First Class Mail? If so, please explain how those costs affected your selection of a proposed cost coverage.

NAA/USPS-T32-19. At USPS-T-32, p. 35, lines 13-15, you state that the proposed average rate increase for Standard Mail (A) Regular is 9.4 percent, resulting in a proposed coverage of 132.9 percent over volume-variable costs.

- a. Identify in detail all considerations which led you to conclude at p. 36, lines 11-14 that the fact that this proposed increase is greater than the system average increase (stated to be 6.4% at p. 36, line 7) "suggests that competitors are not unfairly targeted by this increase."
- b. What evidence would be necessary in your opinion to conclude that competitors had been unfairly targeted by a Postal Service rate proposal?
- c. Identify all factors you considered in concluding that the average rate increase for Standard Mail (A) Regular should be 9.4 percent in order to comply with the statutory ratemaking criteria.

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

NAA/USPS-T32-20. Please refer to the proposed Standard Mail (A) Regular average rate increase of 9.4 percent and the proposed average rate change for the Enhanced Carrier Route (ECR) subclass of 4.9 percent. Please provide any information that you believe represents a change in circumstances and facts between the Commission's decision in Docket No. R97-1 regarding Standard Mail (A) and ECR and the time you prepared your direct testimony.

NAA/USPS-T32-21. At USPS-T-32, p. 38, lines 4-8, you state that the Postal Service is proposing a cost coverage of 208.8 and a 4.9 percent average rate increase, ". . . reflecting a desire to lower the very high cost coverage of this subclass."

- a. Please identify all factors taken into account in determining that a reduction in ECR cost coverage would be desirable and how the specific value for the desired reduction was determined.
- b. Did a desire to reduce the pound rate for pound rated ECR pieces or any other rate design criteria affect the determination of the desired cost coverage? Explain your answer in detail.

NAA/USPS-T32-22. At USPS-T-32, p. 36, lines 6-8, you state that a 9.4 percent increase, higher than the system average of 6.4 percent, for Regular Standard A will have a ". . . noticeable, but reasonable impact on the users . . ." Please identify all factors you considered in reaching this conclusion.

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

NAA/USPS-T32-23. Please refer to p. 39, lines 15-16, of your testimony.

Explain in detail how you determined that the ratemaking factors identified by you “. . . would indicate a cost coverage even lower than that actually proposed” (p. 39, lines 15-16) and how concern over “. . . shifting the additional burden of covering institutional costs to other subclasses” (p. 39, lines 16-17) offset these factors in your view.

NAA/USPS-T32-24. At USPS-T-32, p. 39, lines 15-16, you state that “The average rate increase for ECR is slightly below the rate of inflation . . .” (p. 38, line 19) and “. . . below the system average in this case” (p. 39, lines 14-15).

- a. Please provide the rate of inflation and system average upon which you base this statement.
- b. Please describe all factors that you used in applying the indicators mentioned at p. 8, lines 10-13, to Standard (A) ECR Mail.
- c. Please explain why you believe that the proposed average rate increase for ECR Mail, which you label a “modest” 4.9%, satisfies the “fairness and equity criterion (criterion 1)” (p. 39, lines 18-20).

NAA/USPS-T32-25. Please explain what “need to maintain rate relationships across subclasses” (p. 39, lines 18-19) is accomplished by an ECR average rate increase of 4.9% and precisely how that need is satisfied by your proposals regarding ECR rate levels.

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

NAA/USPS-T32-26. At p. 39, lines 2-4, you state that among the range of alternatives available to ECR mailers, ". . . both alternate delivery firms and newspaper inserts may provide ways of delivering the same advertising message that would be carried in ECR." Did this availability influence the specific rate increases and cost coverages you proposed for ECR?

- a. If your answer is no, explain in detail why not.
- b. If your answer is yes, explain in detail how this availability affected your proposed rate increase and cost coverage.

NAA/USPS-T32-27. USPS Witness O'Hara in Docket No. R97-1 proposed a percentage rate increase for ECR below that of the system wide increase and a cost coverage of 228 percent (USPS-T-30, p. 34, lines 18-19).

- a. Do you believe that applying Witness O'Hara's proposed cost coverages for ECR Mail in Docket No. R97-1 would violate the ratemaking criteria as applied to ECR in this proceeding as discussed by you at p. 38, line 3 to p. 39, line 20? Explain your answer in full.
- b. Do you agree with Witness O'Hara (USPS-T-30, Docket No. R97-1, at p. 36, lines 4-9):

. . . a lower coverage for ECR would have made it more difficult to design rates so that the Automation 5-digit rate in Standard Regular was below the ECR basic rate, encouraging the movement of ECR basic letters into the automation mailstream. As has been the case since at least Docket No. MC95-1, this is an important operational goal of Postal Service management.

Explain the basis for your answer.

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
VIRGINIA MAYES (NAA/USPS-T32-1-30)

NAA/USPS-T32-28. Did criteria 8 (educational, cultural, scientific and informational value to the recipient) as mentioned by you at p. 11 lines 17-22, play any part in your proposals for the subclasses of Standard A Mail? Explain fully your answer.

NAA/USPS-T32-29. According to Exhibits USPS-32A, p. 1 of 2 and USPS 32B, p. 1 of 2, the effect of your proposals is to cause the cost coverage of Standard A (Regular) to increase from 121.4 to 132.8 and of Standard (A) ECR from 199.2 to 208.8. Explain why these proposed changes satisfy the "need to maintain rate relationships across subclasses" and otherwise accomplish desirable ratemaking standards.

NAA/USPS-T32-30. Please refer to the following passage from the Opinion of the Postal Rate Commission, in Docket No. R97-1, § 4005:

... the Commission relies on the precedential value of its past evaluations of the evidence as a starting point and then evaluates new evidence presented to determine whether changes from its past allocation decisions are appropriate.

- a. Do you agree or not that this procedure is an appropriate method for "... making reasoned assignments of institutional costs to the subclasses of mail"? Explain your answer.
- b. Did the Commission's recommended cost coverage and percentage rate increase for ECR Mail in Docket No. R97-1 affect your proposed cost coverages and percentage rate increases in this proceeding? Explain your answer in detail.

* * *