

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MAYO TO INTERROGATORIES OF KEYSpan ENERGY
(KE/USPS-T39-1-6)

The United States Postal Service hereby provides the responses of witness Mayo to the following interrogatories of KeySpan Energy: KE/USPS-T39-1-6, filed on February 14, 2000. Interrogatories KE/USPS-T39-1(f) and 4(a, c-e, g) were redirected to witness Campbell.

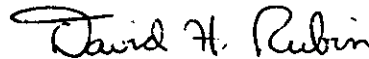
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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February 28, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-1. On page 27 of your prepared testimony you indicate that the seventh criterion for establishing postal rate and fee levels is to offer simple and identifiable relationships.

- (a) Please confirm that your proposed unit fee for pre-approved prebarcoded, automation-compatible QBRM letters received in bulk is 3 cents. If you cannot confirm, please explain.
- (b) Please confirm that your proposed unit fee for nonstandard, bulky, non-uniform and non-machineable BRM, weighing over two ounces and received in bulk, is 1 cent. If you cannot confirm, please explain.
- (c) Please confirm that at your proposed fees, the minimum quantity required to make the QBRM 3-cent fee attractive to bulk mail recipients is 113,000 per year. See page 28 of your prepared testimony. If you cannot confirm, please explain.
- (d) Please confirm that at current fees, the minimum quantity required to make the non-letter BRM 1-cent fee attractive to bulk mail recipients is 102,857 pieces per year. See Docket No. MC99-1, USPS-T-4, p. 17. If you cannot confirm, please explain.
- (e) Please confirm that at your proposed fees, the minimum quantity required to make the non-letter BRM 1-cent fee attractive to bulk mail recipients will be 80,000 pieces per year. ($.10 \times V = .01 \times 600 \times 12$; $V = 80,000$). If you cannot confirm, please explain.
- (f) Please confirm that in Docket No. MC99-2, USPS witness Schenk (USPS-T-3, p. 14) found that Postal Service personnel could weigh and count an average of 7,365.7 non-letter size BRM pieces per hour. If you cannot confirm, please explain.
- (g) Please consider two situations wherein the Postal Service must count BRM pieces for rating purposes. In situation A, there are 10,000 clean, barcoded, machineable letters. In situation B there are 10,000 non-uniform, bulky small parcels. In your view, would it be less expensive for rating purposes to count the pieces in situation A or situation B? Please explain your answer.
- (h) Please explain why you believe that the Postal Service's proposed 3-cent fee for QBRM letters and a 1-cent fee for BRM small parcels are both consistent with criterion 7?

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-1 (CONTINUED)

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed, compared to the proposed 6-cent fee.
- (d) Confirmed, assuming you were referring to Docket No. MC99-2.
- (e) Confirmed with respect only to the breakeven quantity of 80,000 pieces annually, compared to the proposed 10-cent fee. I cannot confirm the equation provided.
- (f) Redirected to witness Campbell.
- (g) According to the cost information I received from witness Campbell, it would appear to be less expensive for rating purposes to count the pieces in situation B, if weight averaging were used.
- (h) Both the proposed one-cent non-letter size and the three-cent QBRM letter proposed fees are simple in maintaining whole-cent rounding constraints. Further, the proposed one-cent non-letter size fee is the same as the current fee, which should make it extremely simple and easy to remember.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-2. On page 25 of your prepared testimony you state that the QBRM unit cost is 2.05 cents and the BRM non-letter unit cost is .58 cents.

- (a) Did you perform any independent evaluation of these cost figures provided to you by other Postal witnesses, or did you just simply accept them as they were given to you?
- (b) Were you at all concerned that, based on the Postal Service cost figures, the cost of counting clean, machineable QBRM reply mail letters received in bulk is more than 3 ½ times the cost of counting bulky, non-uniform small parcels? Please explain your answer.

RESPONSE:

- (a) I accepted the cost figures provided by witness Campbell.
- (b) I was not concerned that the QBRM letters were more costly than the non-letters since each one employs a different method for rating purposes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-3. On page 26 of your testimony you explain your derivation of the QBRM quarterly fee. You state, "the QBRM quarterly fee cost of \$237.93 was increased \$45". Your footnote to the \$237.93 quarterly fee cost reads, "Cost from USPS-T-29, page 16 plus contingency".

- (a) Where, precisely on page 16 of USPS-T-29, is that \$237.93 figure found, either with or without the contingency?
- (b) Did you mean to cite "the QBRM quarterly fee cost of \$237.93" to USPS-T-29, page 15, line 20?
- (c) If your answer to part (b) is yes, doesn't USPS witness Campbell derive a "volume weighted fixed cost per high-volume QBRM account...of \$232.13 per month" so that the cost is per month rather than per quarter?
- (d) How did you take USPS witness Campbell's monthly cost of \$232.13 to formulate your proposed quarterly cost of \$850?
- (e) Please explain why you increased the QBRM quarterly fee cost by \$45.
- (f) Please provide the date on which you finalized your proposed \$850 quarterly fee for high volume QBRM.
- (g) Did you perform any independent evaluation of the \$232.13 monthly cost figure provided to you by USPS witness Campbell, or just simply accept it as it was given to you?

RESPONSE:

- (a) An erratum was filed on January 28, 2000 which corrected the page cite from USPS-T-29, page 16 to page 15.
- (b) See my response to (a) above.
- (c) Yes. Also, please see an erratum filed February 18, 2000 that defines the QBRM quarterly fee cost as a monthly cost for the quarterly fee.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-3 (CONTINUED)

RESPONSE:

- (d) I added a 2.5 percent contingency to the monthly cost and followed the procedure outlined in my testimony on page 26, lines 2-3, as revised February 18, 2000.
- (e) Forty-five dollars was the monthly markup I applied to arrive at the proposed quarterly fee, based on the application of the statutory pricing criteria.
- (f) The Postal Service Board of Governors approved the filing of Docket No. R2000-1 on January 10, 2000, and my proposed fees were finalized then.
- (g) I accepted the cost figures provided by witness Campbell.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-4. On page 28 of your testimony you state that, for high volume QBRM recipients, “[o]nce the volume received reaches a level that requires a bill to be prepared essentially every day, further increases in volume have, at most, minimal effects on billing costs”.

- (a) For high volume QBRM recipients, wouldn't it make sense to derive a billing cost under the assumption that a “bill is prepared essentially every day”?
- (b) Is it your understanding that the development of the monthly billing costs assumes that a bill is prepared essentially every business day? Please explain.
- (c) Doesn't USPS witness Campbell assume “an average of 15 account transactions per accounting period” (USPS-T-29, p. 15, line 18) when deriving his monthly cost of \$232.13?
- (d) How many business days are there in on accounting period?
- (e) Did witness Campbell's derivation of the monthly billing cost assume that a bill would be prepared “essentially every day?”
- (f) Assuming your answer to part (e) is no, why didn't you insist that the monthly billing cost assume that a “bill is prepared “essentially every day?”
- (g) If the derived billing cost assumes that a bill is prepared 15 times within an accounting period, and a high volume QBRM recipient receives mail “essentially every day”, then wouldn't the derived billing cost understate the actual cost? Please explain your answer.

RESPONSE:

- (a) Redirected to witness Campbell.
- (b) No. See witness Campbell's response to part (c).
- (c-e, g) Redirected to witness Campbell.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-4. (CONTINUED)

- (f) I accepted witness Campbell's cost result. I do not believe that a bill must be prepared essentially every day for all QBRM recipients for my QBRM fee proposal to apply.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-5. On page 28 of your prepared testimony you indicate that at your proposed fees, "the volume at which it will pay to switch to the two-part (QBRM high-volume) fee structure is... 113,000 pieces per year."

- (a) Did you perform any studies or analyses to determine that such a volume would in fact result in cost savings to the Postal Service. If yes, please provide copies of all such documents?
- (b) Other than your proposed fees for QBRM letters in this proceeding, are there any other factors that you considered in determining the 113,000 annual minimum volume figure to "qualify" for the QBRM high volume program? Please explain your answer.
- (c) Please provide the date on which you realized that the break-even volume would be 113,000 pieces per year.

RESPONSE:

- (a) No.
- (b) No. There is no minimum volume to "qualify" for the QBRM letter fee utilizing the quarterly fee. Please see your wording in KE/USPS-T39-1(c).
- (c) The break-even volume was determined using the proposed fees, which were finalized when the Postal Service Board of Governors approved the filing of Docket No. R2000-1 on January 10, 2000.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-6. Please refer to USPS-T-39, WP-5.

- (a) Please explain why you believe (as noted in footnote 2) that one-third of the 461.61 million QBRM letters expected in the test year will qualify for the USPS proposed reduced 3-cent fee. As part of your answer, please provide any studies, analyses, or other documents you reviewed in formulating your response.
- (b) Please confirm that you estimate that 4 nonletter-size BRM recipients will qualify for the reduced 1-cent fee, and will pay the fixed monthly charges for the test year? If you cannot confirm, then please state what is the correct number of recipients who will take advantage of the nonletter-size BRM reduced per piece fee (with fixed monthly charge)?
- (c) What is the basis for your assumption (stated in footnote 5) that the average volume of letters received by high volume QBRM recipients will be equal to the minimum breakeven quantity of 113,000 pieces per year?
- (d) Please confirm that you estimate that 1,358 QBRM recipients will qualify for the reduced 1-cent fee and will pay the fixed quarterly charges for the test year? If you cannot confirm, then what is the correct number of recipients you expect will take advantage of the QBRM per piece fee of 3 cents (with fixed quarterly charge)?
- (e) Have you performed any marketing studies to test, justify, or support your estimates regarding (1) the number of high volume QBRM recipients that will take advantage of the proposed QBRM per piece fee of 3 cents (with fixed quarterly charge), or (2) the average volume of letters received by high volume QBRM recipients who do take advantage of this proposal. If such studies were performed, please supply those documents. If such studies were not conducted, please explain why not?
- (f) Suppose your estimate of 1,358 QBRM (high volume) recipients is high by wide margin and that the real figure is closer to, say 50. Would this change the costing and pricing of your proposal in any way? Please explain.
- (g) What was the volume per year for each of the top 100 QBRM recipients for FY 98 or the latest year for which such information is available? If the requested information is not available in the form requested, please provide the total QBRM revenue, or similar data, for each of the top 100 QBRM recipients for FY 98 or the latest year for which such information is available.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-1-6)**

KE/USPS-T39-6 (CONTINUED)

RESPONSE:

- (a) I used an estimate based on the Prepaid Reply Mail migration estimate I used in Docket No. R97-1.
- (b) Confirmed.
- (c) Footnote 5 provides the calculations for estimating the proposed number of quarterly fee accounts. In the absence of market research or studies, I believe this was the best method to arrive at an estimate.
- (d) I can only confirm that I estimate 1,358 QBRM mailers would find it advantageous to pay the quarterly fee and a 3-cent fee (as opposed to a 1-cent fee).
- (e) No. The Postal Service did not deem any marketing study for this issue necessary.
- (f) A response to this interrogatory involves pure speculation. If my proposal is recommended and approved, and the actual number of QBRM high volume mailers taking advantage of the quarterly fee option is 50, the costing could possibly change and therefore the pricing could possibly change. I cannot provide a definitive answer of whether costing and pricing changes are certain given a hypothetical volume of 50.
- (g) I am unable to provide the requested information since the Postal Service does not track all QBRM mailers in any centralized data system.

DECLARATION

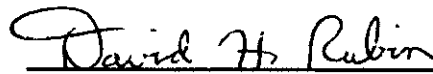
I, Susan W. Mayo, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Susan W Mayo

Dated: February 28, 2000

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.



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