

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

RECEIVED

FEB 29 4 31 PM '00

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS KANEER TO INTERROGATORIES OF  
THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T40-1-7)

The United States Postal Service hereby provides the responses of witness Kaneer to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T40-1-7, filed on February 15, 2000.

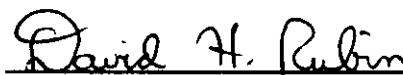
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



David H. Rubin

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2986 Fax -6187  
February 29, 2000

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T40-1. Please refer to your testimony at pages 9 and 10, lines 19-23, and lines 1-2 respectively, and Figure 1.**

- (a) Please explain why you chose to classify average rental cost per square foot into seven cost groups.**
- (b) Did you consider classifying average rental cost per square foot into less than or more than seven groups? If so, please explain fully why you rejected less than or more than seven cost groups. If not, please explain why you did not consider alternatives.**
- (c) Please explain why you chose to use mean of the cost distribution rather than median to center cost group IV.**

**RESPONSE:**

- (a) The seven proposed cost groups reasonably mirror the underlying cost distribution as depicted in Figure 1.**
- (b) Yes. The seven cost groups reasonably reflect facility space cost estimates and distributions, fee schedule simplicity, and judgments regarding fee impact on current box customers, as well as administrative burden (see my response to interrogatory 2 below). Given that the current classifications contains four fee groups, five cost groups would not ultimately provide a sufficient number of fee groups to differentiate among all four of the current groups, especially given the fee "gap" between current fee Groups C and D. This consideration alone requires one group to act as a "bridge". In the future, an odd number of cost groups will allow for a central "mid" cost range from which higher and lower groups can vary for classification purposes. Nine and eleven fee groups were rejected at least at this time, as a first step towards cost homogeneity (see my response to interrogatory 5 below).**
- (c) Means are commonly used as measures of centrality.**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T40-2. Please refer to your testimony at page 10, lines 14-17, and Figure 1. In the absence of “fee shock mitigation,” do you view the seven cost groups in Figure 1 as the ideal fee groups for post office boxes? Please explain why or why not.**

**RESPONSE:**

No. The seven cost groups constructed in Figure 1 rely on facility space cost estimates and distributions projected to the test year, fee schedule simplicity, judgments regarding fee impact on current box holders, as well as administrative burden. As circumstances change, it is likely that these cost groups' specifications will need adjustments.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T40-3. Please refer to your testimony at page 11, lines 14-17.**

- (a) Please explain why you decided not to propose capacity utilization as a factor determining post office box fees at this time.**
- (b) Do you intend to propose capacity utilization as a factor determining post office box fees in a future Commission proceeding? In your answer, please identify the information needed or issues to be considered when deciding to propose capacity utilization as a factor determining post office box fees.**

**RESPONSE:**

- (a) As stated at page 11, lines 14-17, "to keep the new classification schedule simple" (see Section 3622(b) pricing criteria 7, "simplicity of structure"). An additional factor might likely require more groups and greater administrative burden, especially as location-based fee groups as proposed in this docket are promulgated.**
- (b) Current capacity utilization patterns reflect the current classifications presently in effect -- including the current fee group cost heterogeneity conditions. Therefore, it is premature to consider utilization as a factor in post office box fee determination in light of the changes to box fee classifications being proposed in this docket. For this reason, the Postal Service has not fully developed the issues, nor information, needed to propose capacity utilization as a factor determining post office box fees at this time.**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T40-4. Please refer to your testimony at page 12, lines 13-15, where it states that “average rent in column (e) [of Exhibit C, table 2] declines uniformly from Cost Group I to Cost Group VII.”**

- (a) Please confirm that the difference in average rent between Groups I and II, Groups II and III, Groups III and IV, Groups IV and V, and Groups V and VI, and Groups VI and VII is \$6.75, \$2.99, \$2.24, \$1.79, and \$1.70, respectively.**
- (b) Please explain what you mean by “declines uniformly.”**
- (c) Please confirm that uniformity of decline in the average rent from Cost Group I to Cost Group VII was a goal in selecting your cost groups. If you do not confirm, please explain.**

**RESPONSE:**

- (a) Confirmed.**
- (b) In this instance, I was indicating that the averages for the cost groups decline from the highest to the lowest across all seven groups; i.e., Group I is higher than Group II, Group II is higher than Group III, etc.**
- (c) Uniformity of decline, as defined in my response to part (b) of this interrogatory, was a goal. Uniformity, as measured by the listed differences between group cost averages given in part (a), was not a goal.**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T40-5. Please refer to your testimony at page 12, lines 19-23.**

- (a) Please explain why you chose to assign “post office box service ZIP Codes to [ ] six location cost-based groups.”**
- (b) Did you consider assigning post office box service ZIP Codes to less than or more than six location cost-based groups? If so, please explain fully why you rejected less than or more than six location cost-based groups. In your answer, please explain why you specifically rejected seven location cost-based groups. If not, please explain why you did not consider alternatives.**

**RESPONSE:**

- (a) The primary consideration was to be conservative in the number of new fee groups proposed in light of the new location-based allocation of space provision costs. Also see my testimony page 14 lines 10-13, as well as footnote 14 appearing on page 15.**
- (b) Yes. Given that current postal box locations fall into four Fee Groups (A through D), the degree of cost overlap between these groups, the fact that some fees are also increasing, and the need to consider fee shock on current box holders, six groups provide a reasonable first step towards developing cost homogeneous groups. Fewer than six fee groups would not mirror the underlying location cost distribution as well as does six. Seven or more fee groups are not needed at present, especially given the degree of heterogeneity of the current four groups. Also, see my response to part (a).**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T40-6. Please refer to your testimony at page 13, lines 6-7. Please explain and give examples of how “the cost groups can become increasingly cost homogeneous as ZIP Codes are appropriately reassigned.”**

**RESPONSE:**

The complete sentence at page 13, lines 6-7 begins with the phrase “Over time,” to indicate a progression of increasing cost group homogeneity being achieved in future proposals. For a hypothetical example: please refer to page 13, lines 10-29 “Proposed Classifications”. Hypothetically, Groups C5 and D6 might be re-specified in a future proposal to include both former Group D and C locations. Thus these two groups would be more cost homogenous. Over time, through careful, controlled, re-specification of the box group classifications proposed in this docket, carrier delivery type can be eventually eliminated as a factor in determining post office box fees -- since it is a poor indicator of box costs -- without subjecting box holders to undue “fee shock”.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KANEER TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-T40-7. Please refer to your testimony at page 17, lines 5-8.**

- (a) Please provide the proportion of individual and business boxholders for each box size.**
- (b) Please provide any data to support your assumption about the tendency of individual customers to use size 1 boxes.**

**RESPONSE:**

- (a) The only data I currently have is survey data from Docket No. MC96-3, USPS-LR-SSR-111, page 57 (attached).**
- (b) Box size one has the highest proportion of individual use of the three box sizes, one through three – the only sizes surveyed (see Docket No. MC96-3 USPS-LR-SSR-111 page 57). Also see LR-I-155, pages 71-72.**



**USPS Library Reference SSR-111**

**Market Research On Post Office Box Price Sensitivity**

**OPINION RESEARCH CORPORATION**  
Princeton NJ 08542-0183

Question 1

Do you rent this box for ...

	Total Sample	Total Tier1	Tier 1 Box Size			Total Tier2	Tier 2 Box Size		
			1	2	3		1	2	3
Total unweighted	1206	600	200	200	200	606	202	203	201
Total weighted	149929	72519	46579	19456	6484	77411	51413	20650	5348
Personal Use	78798 53%	30071 41%	25362 54%	4144 21%	566 9%	48726 63%	36661 71%	10501 51%	1564 29%
Business Use	29400 20%	22931 32%	10476 22%	8253 42%	4202 65%	6469 8%	2181 4%	2533 12%	1755 33%
Both Personal And Business Use	41447 28%	19231 27%	10497 23%	7018 36%	1716 26%	22216 29%	12571 24%	7617 37%	2028 38%
DK/Refused	284 .	284 .	244 1%	41 .	0 0	0 0	0 0	0 0	0 0

057

**DECLARATION**

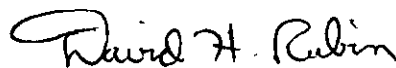
I, Kirk T. Kaneer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
KIRK T. KANEER

Dated: 2/29/00

## 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.

A handwritten signature in cursive script that reads "David H. Rubin". The signature is written in black ink and is positioned above a horizontal line.

David H. Rubin

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2986 Fax -6187  
February 29, 2000