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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000–1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE (OCA/USPS–T32-11 AND 12)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS–T32-11 and 12, filed on February 28, 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.
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March 13, 2000

OCA/USPS-T32-11. Please confirm the following statements. If you cannot confirm a statement, please explain why. If you disagree with any definitions, please provide your definition.

(a) The markup for subclass *I* is defined as the difference between total revenue of subclass *I* and total attributable costs of subclass *I* all divided by total attributable cost of subclass *I*. $MU_I = \frac{TR_I - TAC_I}{TAC_I}$.

(b) The difference between total revenue and total attributable cost for subclass *I* is defined as the contribution to institutional costs of subclass *i*. $CI_i = TR_i - TAC_i$.

(c) The systemwide markup is defined as the sum of all contributions divided by the sum of all attributable costs. $MU = \frac{\sum_j CI_j}{\sum_j TAC_j}$.

(d) The relative portion of institutional costs contributed by subclass *I* is defined as the contribution to institutional costs of subclass *I* divided by the sum of all contributions. $POIC_i = \frac{CI_i}{\sum_j CI_j}$.

(e) The relative portion of attributable costs attributed to subclass *I* is defined as the total attributable costs of subclass *I* divided by the sum of all attributable costs. $POAC_i = \frac{TAC_i}{\sum_j TAC_j}$.

(f) A markup index for subclass *I* is defined as the markup for subclass *I* divided by the systemwide markup. $X_i = \frac{MU_i}{MU} = \frac{\frac{CI_i}{TAC_i}}{\frac{\sum_j CI_j}{\sum_j TAC_j}} = \frac{CI_i \times \sum_j TAC_j}{TAC_i \times \sum_j CI_j} = \frac{\frac{CI_i}{TAC_i}}{\frac{\sum_j CI_j}{\sum_j TAC_j}} = \frac{POIC_i}{POAC_i}$.

(g) Thus, a markup index for subclass *I* is equal to the relative portion of institutional costs contributed by subclass *i* divided by the relative portion of attributable costs attributed to subclass *i*. $X_i = \frac{POIC_i}{POAC_i}$.

(h) By the definition of proportionality, a markup index for subclass *I* is directly proportional to the relative portion of institutional costs contributed by subclass *I*, $X_i \propto POIC_i$, and inversely proportional to the relative portion of attributable costs attributed to subclass *I*, $X_i \propto \frac{1}{POAC_i}$.

(i) Simultaneously increasing the institutional share *and* decreasing the attributable share of costs borne by subclass *I* will unambiguously cause the markup index for subclass *I* to increase.

Response to OCA/USPS-T32-11:

In my responses to your interrogatory OCA/USPS-T32-6, I mistakenly believed that the question was asking me to confirm that there was some constant of proportionality that existed in the equations for calculating the markup index for each and every subclass. I did not understand that you were simply asking me to confirm that each index equaled the ratio of share of contribution to the share of attributable cost for that subclass.

(a) Confirmed, although in the context of this case, the calculation is made with respect to volume-variable costs.

(b) Confirmed, although in the context of this case, the calculation is performed with respect to volume-variable costs.

(c) Confirmed, although in the context of this case, the calculation is performed with respect to volume-variable costs.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed.

(g) Confirmed.

(h) Confirmed.

(i) I am uncomfortable with your question because I find it hard to understand how the *share* of institutional contribution for one subclass can change without the shares for other subclasses also changing. Likewise, I have difficulty envisioning how the one subclass's *share* of attributable costs would change without the shares of other classes changing as well. In other words, I don't see how to perform this shift *keeping all else equal*. However, I will confirm that if one chose

Response to OCA/USPS-T32-11, cont'd

two subclasses from an array of subclasses and found one with both a higher share of contribution and a lower share of attributable costs than was true for a second subclass of mail, the first one would have a higher markup index than the second.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-12. Please refer to the attachment to your response to interrogatory OCA/USPS-T32-6. Please confirm that column (6) divided by column (8) equals column (5). If you do not confirm, please explain.

Response:

Confirmed.

DECLARATION

I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Virginia J. Mayes

Dated: 3-13-00

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.

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