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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 VAL-PAK/CAROL WRIGHT
(VP-CW/USPS-T32-1 THROUGH 3)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of Val-Pak/Carol Wright: VP-CW/USPS-T32-1 through 3 (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.
Chief Counsel, Ratemaking



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March 13, 2000

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
VP-CW INTERROGATORIES**

VP-CW/USPS-T32-1. Please refer to your testimony at page 10, lines 1-8, which states:

The more highly-prepared the mail, the lower the postal cost attributed to that category of mail. The lower the costs attributed to that category of mail, the lower the cost base to which the rate level is applied. If the same cost coverage is assigned to two categories of mail differing only in the degree to which the mailer has prepared the mail, the more highly-prepared mail would have a reduced unit contribution. Thus, as the degree of preparation increases over time, all else equal, *the coverage required to obtain the same contribution also increases.* [Emphasis added.]

- a. Do you agree that if the same unit contribution is to be derived from two categories of mail, one of which has a lower unit cost than the other, then it is a mathematical truism that the category of mail with a lower unit cost will have a higher percentage markup, as your statement implies? Please explain any disagreement.
- b. Would you agree that for any given markup on the higher-cost category of mail, then from a strictly mathematical perspective essentially only one percentage markup on the lower-cost mail will result in the same unit contribution which you posit in your above-quoted testimony? (Ignore issues of rounding.) Please explain any disagreement.
- c. Before finalizing your testimony, did you use your proposed percentage markups to compute and compare the unit contribution from commercial ECR and Regular Standard A Mail to ascertain whether those unit contributions were essentially the same, in conformance with your above-quoted testimony? If you did not make such an effort, then in light of your above-quoted testimony please explain why did you not consider it necessary to do so?

Response:

- a. Yes.
- b. Yes.
- c. No. Please refer to my response to NAA/USPS-T32-13. I did not attempt to equalize the unit contributions for the two subclasses. The section of my testimony that you quoted above was not intended to be interpreted as a directive that the unit contributions from any two subclasses must bear a given

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
VP-CW INTERROGATORIES

Response to VP-CW-T32-1, cont'd

relationship to each other. It was intended to point out that, given that the institutional costs must be recovered, should the intention be to recover the same amount of contribution from any subclass in which mail has adopted more worksharing over time, the cost coverage would tend to increase.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
VP-CW INTERROGATORIES**

VP-CW/USPS-T32-2.

Please refer to Attachment A to VP-CW/USPS-T32-2, "STANDARD A
COMMERCIAL: TEST YEAR AFTER RATES FINANCES."

- a. Please confirm that the data shown in rows 1-3 agree with the data in the corresponding rows under Standard Mail (A) in Exhibit USPS-32B, page 1.
- b. Please confirm [sic] that entries in rows 7-9 of Attachment A represent unit values corresponding to rows 1-3, derived through division by the appropriate volumes shown in rows 4-6, the latter being after rates volume forecasts taken from USPS-LR-I-166, WP1, page 3, for the Regular and ECR Subclasses.
- c. If you cannot confirm (a) and (b) above in whole or in part, please explain.

Response:

- a. Confirmed.
- b. Confirmed.
- c. Not applicable.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO
VP-CW INTERROGATORIES**

VP-CW/USPS-T32-3.

Attachment A to VP-CW/USPS-T32-2, part C, column 4, indicates that the proposed unit contributions from less highly-prepared commercial Standard A Regular Mail is 5.48 cents, while the proposed markup on more highly-prepared commercial ECR mail is 8.19 cents.

- a. Would you agree that you propose a unit contribution from commercial ECR mail that is 2.71 cents, or 49 percent, more than the unit contribution from Regular? If you do not agree, please explain fully.
- b. Would you agree that your testimony quoted in VP-CW/USPS-T32-1 contains nothing which justifies a percentage markup on commercial ECR that goes beyond the same unit contribution from Regular Standard A Mail? Unless your answer is an unqualified negative, please explain (i) how your testimony justifies a substantially higher unit contribution, and (ii) what limit (if any) your testimony implies for the unit contribution (and the corresponding percentage markup) for more highly workshared ECR mail.

Response:

- a. I agree that the unit contribution figures associated with the cost coverages and percentage increases that I have proposed are as stated in your question.
- b. As I stated in my response to NAA/USPS-T32-13 and VP-CW/USPS-T32-1, I am not proposing unit contributions; I am proposing cost coverages and percentage increases. Criterion 4 directs that the effect of the rate increase on mailers be considered. The percentage increase proposed for Standard Mail (A) Regular is 9.4% whereas the percentage increase for Standard Mail (A) ECR is 4.9%.
Compared to the PRC's costing in the recommended decision from Docket No. R97-1, the Postal Service's systemwide markup is higher in this case, indicating that markups are, in general, higher than those recommended by the Commission in the most recent omnibus case. Although I did not rely upon a markup index when determining the cost coverages for this case, I will note that


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VP-CW INTERROGATORIES

Response to VP-CW-T32-3, cont'd

Library Reference, LR-I-149 shows the markup index for ECR has dropped from 1.863 in the Commission's recommendation for R97-1 to 1.601 in the current proposal.

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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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