

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES
TO INTERROGATORIES OF GREETING CARD ASSOCIATION
(GCA/USPS-T32-1 THROUGH 10)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of Greeting Card Association:

GCA/USPS-T32-1 through 10 (filed on March 3, 2000).

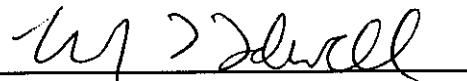
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-1. Please refer to page 22, lines 20-22, and page 23, lines 1-2, of your prepared testimony (USPS-T-32). Please describe fully your understanding of the educational, cultural, scientific, and informational value (hereinafter, "ECSI" value) to the recipient, of First-Class letters.

Response:

It is my understanding that the Commission first recognized the ECSI value of First-Class Mail in the determination of rate levels in Docket No. R87-1 as a result of the testimony of New York State Consumer Protection Board (NYSCPb) witness Bossert. Witness Bossert apparently presented the results of a limited survey in which respondents were asked to indicate the relative values they placed on different types of mail. The Commission stated:

[The survey] indicates that respondents value certain types of First Class most highly (personal correspondence, post cards, and greeting cards) and that magazines and newspapers were valued more than books and records.

This survey provides evidence that certain types of First-Class mail have a high ECSI value, and (b)(8) suggests that this fact supports restraining increases in the rates for First-Class letters and cards. A weakness with this argument is that the types of First-Class found to have a high ECSI value are not a major proportion of the First-Class letter mailstream. The majority of First-Class Mail is sent to or from businesses, and a utility bill, another category in the NYSCPb survey, was considered

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Response to GCA/USPS-T32-1, cont'd

to have a relatively low ECSI value. We conclude that the NYSCPБ survey should be considered in setting First-Class rates, but that it does not warrant adjusting the coverage target for First-Class. [PRC Op. R87-1, para. 4101-4102]

In the same recommended decision, the Commission further states: "We find that First-Class Mail does have some educational, cultural, scientific, and informational value [criterion (8)], on the basis of the presentation of NYSCPБ in this proceeding, and the recommended rates incorporate this finding." Id. at para. 5032.

In the recommended decision for Docket No. R94-1, the Commission states: "In the past, the Commission has identified the letter subclass for First-Class Mail as one to which the ECSI considerations of subsection 3622(b)(8) are applicable. The Commission's recommendations for First-Class letters reflect this factor by recognizing the importance of an affordably-priced communications medium for the general public and for businesses and organizations." [PRC Op. R94-1, para. 5068.]

Please also refer to my response to AAP/USPS-T32-4.

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GCA/USPS-T32-2.

- a. Please explain which of the four components – educational, cultural, scientific, and informational – of ECSI value you believe are applicable to –
 - i. First-Class letters of a business or transactional nature; and
 - ii. First-Class letters of a non-business or personal-correspondence nature.
- b. Please provide any studies your response relies upon.

Response:

Please refer to my responses to GCA/USPS-T32-1 and AAP/USPS-T32-4.

- a.i. In the Commission's recommended decision for Docket No. R87-1, the Commission notes that "[t]he majority of First-Class Mail is sent to or from businesses, and a utility bill, another category in the NYSCP survey, was considered to have a relatively low ECSI value." [PRC Op. R87-1, at para. 4102.] Although I could understand that, in the general sense of the word, letters of a "business or transactional nature" would have value of an "informational" nature, it seems to me that the same argument could be made for virtually any written transmission. Thus, given my understanding that ECSI value consideration was intended to accord special treatment to mail of a particular nature and of special value to society, I do not believe that the broad, general sense of the word "informational" was intended.

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Response to GCA/USPS-T32-2, cont'd

- a.ii. Without knowing the content of the "letters of a non-business or personal-correspondence nature", or knowing the particular value of such a transmission to the individual recipient, I cannot respond to this question.

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Response to GCA/USPS-T32-2, cont'd

An argument could be made, for instance, that greeting cards or other personal correspondence would have high value to the recipient, but I can think of certain circumstances – such as a greeting card from a local merchant or from a despised relative – that would render this argument *invalid*.

- b. I did not rely on any studies. However, the testimonies of NYSCP B witness Bossert (Docket No. R87-1) and GCA witness Erickson (Docket No. R97-1) are a matter of record. In addition, the Postal Service has filed copies of the Household Diary Studies with the Commission. Please refer to chapter IV for descriptions of the contents of First-Class Mail.

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GCA/USPS-T32-3. You testify, at page 23, lines 1-2, that the Postal Service has considered the informational value of First-Class mail.

- a. Please describe fully the manner in which the Postal Service considered the informational value of First-Class Mail.
- b. Did the Postal Service consider the cultural value of First-Class letters to the recipient? If your answer is not an unqualified "no," please describe fully the analyses made and any conclusions reached with respect to such cultural value to recipients.
- c. In the course of its consideration of the ECSI value of First-Class mail, did the Postal Service consider personal (non-transactional) correspondence by First-Class letter mail separately from business correspondence by First-Class letter mail? If your answer is not an unqualified "no." please describe fully the separate analyses made and any separate conclusions reached with respect to these types of mail.

Response:

Please see my response to GCA/USPS-T32-3.

- a. The nature of First-Class Mail as a medium for transmitting financial data, invoices, business information, and other material is well-established.

Please refer to chapter IV of the Household Diary Study where the contents of First-Class Mail are detailed.
- b. Yes. Please refer to my response to subpart a of this interrogatory. As a sidenote, the National Postal Museum has displayed personal letters such as from soldiers at war to their families at home, suggesting that personal letters have cultural value to more than just the recipients.
- c. Yes. When determining the cost coverage for First-Class Mail Letters, I was well aware that there were two components to the Letters subclass, one of which was a category for bulk, presorted or otherwise workshared

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Response to GCA/USPS-T32-3, cont'd

letters and one was for single-piece letters. I was also aware that personal correspondence is a relatively small portion of First-Class Mail.

As noted in my response to GCA/USPS-T32-4, the rate increase was held below the rate of inflation.

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GCA/USPS-T32-4.

- a. Is it your position that the rates the Postal Service has proposed in this proceeding would promote the use of First-Class mail so as to increase ECSI value to recipients?
- b. If your answer to part a. is other than an unqualified "no," please describe which categories or uses of First-Class mail you believe would be promoted so as to increase ECSI value to recipients.

Response:

Although I am not a lawyer, I do not interpret the pricing criteria of the Postal Reorganization Act to direct the Postal Service or the Postal Rate Commission to "promote the use of First-Class Mail so as to increase ECSI value to recipients." Rather, I understand the purpose of pricing criterion 8 to be directing that the rate levels should *reflect* the ECSI value. As I stated in my response to OCA/USPS-T32-7, the rate increase proposed for First Class Letters is below the rate of inflation and thus, represents a decrease in the real price of postage for those pieces.

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GCA/USPS-T32-5.

- a. Have you compared the markup over attributable costs (or over volume variable costs) sought by the Postal Service for First-Class mail in this proceeding with that recommended by the Commission in prior rate cases?
- b. If your answer to part a. is other than an unqualified "no," please state which prior rate cases you used as vehicles for comparison and describe fully the conclusions you drew from the comparison.
- c. If your answer to part a. is other than an unqualified "no," please state whether the result of the comparison influenced your conclusion as to the appropriate markup for First-Class mail in the present case.

Response:

- a. Yes.
- b. I referred to Schedule 3 of Appendix G of the Commission's Opinion and Recommended Decision in Docket No. R97-1 which shows the markups for rate cases going back to R71-1. The Postal Service's proposed cost coverage for First-Class Letters represents a markup higher than any shown in that schedule. The systemwide markup is also higher than any shown in that schedule.
- c. No.

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GCA/USPS-T32-6. Please refer to your prepared testimony at page 2, line 10, through page 3, line 12. Section 3622(b) of the Postal Reorganization Act directs the Commission to render a recommended decision "in accordance with the policies of this title and the following factors:" – after which phrase, the nine criteria you reproduce at pages 2-3 of your testimony are listed. Please describe fully your understanding of the phrase "in accordance with the policies of this title".

Response:

My understanding of the phrase is that the Commission is to issue a recommended decision which comports with *all* of the requirements of the Postal Reorganization Act, with the nine pricing criteria appropriately considered in the determination of the rate levels.

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GCA/USPS-T32-7. Please refer to your prepared testimony at page 19, lines 7-21.

- a. Please explain fully what is meant by "formal use" (line 17).
- b. Did you make any use other than "formal use" of witness Bernstein's Ramsey prices, or of any other set of prices purporting to be Ramsey prices?
- c. If your answer to part b. is other than an unqualified "no," please identify and provide (i) any set of prices purporting to be Ramsey prices, other than witness Bernstein's, of which you made use, and (ii) any modification you made or caused to be made in witness Bernstein's Ramsey prices before making other-than-formal use of them.

Response:

- a. By "formal use" I meant that I did not change any cost coverage determination as a result of seeing the Ramsey prices developed by witness Bernstein's model.
- b. Please refer to my response to OCA/USPS-T32-1(b).
- c. (i) I did not refer to any Ramsey prices other than those produced by witness Bernstein.
(ii) Not applicable.

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GCA/USPS-T32-8. Did you use any set of prices, other than a set which would be covered by interrogatory GCA/USPS-T32-7, as either (i) a starting point, or (ii) a vehicle for comparison, for the prices you recommend? If your answer is other than an unqualified "no," please provide or describe such set(s) and explain fully the use you made of such set(s).

Response:

Please refer to my response to NAA/USPS-T32-3(b) and 3(e) where I describe some of the steps in the iterative process. In the development of the proposed rate levels, there were many sets of prices used, none of them Ramsey prices and none of them tied to the Commission's markup index from the most recent omnibus rate case, none of them derived from a mechanistic approach to pricing. Rather, various sets of prices were developed which tried to address postal policy concerns while complying with the nine pricing criteria and aiming at financial breakeven. As the process continued, various constraints were applied and rate levels had to be adjusted in order to achieve financial breakeven. Each set of rate levels was used to project volumes, revenues and costs, either using my simplified version or the more-sophisticated full system of volume forecasts and cost rollforward model, and each iteration led to further refinement of the set of rate levels.

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GCA/USPS-T32-9. Please refer to page 19, lines 17-19, of your prepared testimony. Do you believe that movement toward Ramsey prices would be beneficial in terms of achieving any objective of the Postal Reorganization Act other than that potentially served by the allocative efficiency effects of Ramsey pricing? If your answer is other than an unqualified "no," please explain fully which objective(s) you believe would be served and how movement toward Ramsey prices would serve such objective(s).

Response:

No, however, it is important to note that the potential benefits of the most direct impact of Ramsey pricing, the improved allocative efficiency, are significant (please refer to the testimony of witness Bernstein, USPS-T-41) and are consistent with the objectives of fairness and equity, concern about the impact of rate increases of mailers, and the availability of alternatives.

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GCA/USPS-T32-10. Please refer to your prepared testimony at page 5, line 3, through page 6, line 21.

- a. Is it your testimony that the prices you have proposed reflect, in a manner consistent with the principles you set out at page 5, lines 7-17, the differing price elasticities set out in tabular form on page 6?
- b. You state at page 19, lines 19-21, that "movement toward or away from Ramsey prices was considered in the development of the rate level proposals in this case but did not significantly affect conclusions." If your answer to part a. was other than an unqualified "no," please explain fully whether your use of price elasticities as described in your testimony at pages 5 and 6 is the reason why movement toward or away from Ramsey prices did not significantly affect your conclusions.
- c.
 - i. Please define "significantly" as used in the passage which is quoted from page 19 of your prepared testimony at the beginning of part b.
 - ii. In particular, does "significantly" mean that no rate in First-Class mail was changed as a result of consideration of movement toward or away from Ramsey prices? If any rate was so changed, please identify it and state the magnitude and direction of the change.

Response:

- a. Yes.
- b. I'm not sure I understand the question. As noted in my testimony and in my responses to NAA/USPS-T32-3 and NAA/USPS-T32-8, the own-price elasticities were used to inform me about the economic value of service and provide some guidance regarding the availability of alternatives. Versions of the elasticities were used to approximate the results of alternative sets of rate levels early in the rate development process. The elasticities *could* have been used in a more explicit manner to develop rate levels more consistent

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Response to GCA/USPS-T32-10, cont'd

with a Ramsey model, such as presented by witness Bernstein, but I did not do so. Joint consideration of all of the pricing criteria led to a set of proposed rate levels that depart from the set of Ramsey prices presented by witness Bernstein.

- c. i. Please refer to my responses to OCA/USPS-T1b and subpart b above.
- ii. The First-Class rates themselves were developed by witness Fronk, USPS-T-33. I did not make any change to the First-Class rate levels as a result of consideration of movement toward or away from Ramsey prices. Please refer to my response to OCA/USPS-T32-1b.

DECLARATION

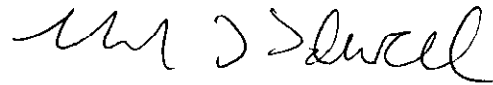
I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


Virginia J. Mayes

Dated: 3-17-00

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". The signature is fluid and cursive, with the first name "Michael" written in a stylized, somewhat abbreviated manner.

Michael T. Tidwell

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March 17, 2000