

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

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POSTAL RATE AND FEE CHANGES, 2000

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Docket No. R2000-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES  
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA  
(NAA/USPS-T32-31 THROUGH 38)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of The Newspaper Association of America: NAA/USPS-T32-31 through 38 (filed on March 21, 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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April 3, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-31: Please refer to your answer to NAA/USPS-T32-21 where you state that Library Reference LR-I-149 demonstrates that "the cost coverage for [Standard Commercial] ECR as proposed by the Postal Service does not represent a reduction in the cost coverage relative to what the Commission recommended in Docket No. R97-1." Please also refer to USPS-LR-I-149, "PRC Version/Table of Markups", specifically to the spreadsheet named "LR-I-149.xls".

- a. What comparisons of cost coverages or indexes did you make make [sic] from the data in LR-I-149 and how were they made in reaching this conclusion.
- b. The 2<sup>nd</sup> column is labeled "Markups, Replic. PRC, R2000-1." Please cite the library reference spreadsheet or document which contains the backup for these calculations. If such backup is not currently available, please provide it. Please also explain the intent of the calculations.
- c. The 5<sup>th</sup> column is labeled "Markup Indices, Replic. PRC R2000-1." Please cite the library reference spreadsheet or document which contains the backup for these calculations. If such backup is not currently available, please provide it. Please also explain the intent of the calculations.
- d. The 6<sup>th</sup> column is labeled "Markup Indices, USPS Proposal R2000-1." Please cite the library reference spreadsheet or document which contains the backup for these calculations. If such backup is not currently available, please provide it. Please also explain the intent of the calculations.

Response:

- a. A cost coverage is  $(\text{revenue})/(\text{cost})$ . A markup is  $(\text{revenue} - \text{cost})/(\text{cost})$ .

The markups shown in LR-I-149 are simply cost coverages after subtracting 1 (or 100%). LR-I-149 can therefore be used to compare markups or cost coverages. I did not create a set of cost coverage indices.

- b. The markups may be derived by dividing the Test Year After Rates revenues found in my exhibit USPS-32B by the PRC version costs found in Library Reference LR-I-131, Volume J, Table E, then subtracting 100%.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

Response to NAA/USPS-T32-31, cont'd

These calculations were provided in response to the Presiding Officer's Ruling R97-1/8 in which the Commission stated that "the table of relative mark-ups, while not specifically required by the actual language of rule 54(a), would be a very helpful indication of the effect of variations from established attribution methodologies...The Postal Service is strongly urged to include such a table with future rate and classification requests." P.O. Ruling R97-1/8 at page 5.

- c. The markup indices provided in the 5<sup>th</sup> column may be derived by performing the calculations described in my response to subpart b above, then dividing the result for each subclass by the markup shown for "Total Mail & Services". As noted in my response to subpart b above, these calculations were provided in response to Presiding Officer's Ruling R97-1/8.
- d. The markups provided in the 3<sup>rd</sup> column are derived by dividing the Test Year After Rates revenues provided in my exhibit USPS-32B by the Test Year After Rates costs found in witness Kashani's (USPS-T-14) Workpaper WP J, Table E, then subtracting 100% from each ratio. The markup indices shown in column 6 may be derived by dividing the resulting markup for each subclass by the systemwide average, shown as "Total Mail & Services". As noted in my response to subpart b, these calculations were provided in response to Presiding Officer's Ruling R97-1/8.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-32. Please refer to your answer to NAA/USPS-T-32-20 [sic], where you state you believe that the cost coverage for ECR Mail in this case represents a lower mark-up index than the Commission's recommendation in Docket No. R97-1. Please reconcile this with your answer to NAA/USPS-T-32-27(a) where you state that the "cost coverages are not comparable because of the shifting of the system-wide average."

Response:

I assume that you are referring to my response to NAA/USPS-T32-30c rather than my response to NAA/USPS-T32-20. I see no need for reconciliation. It is my understanding that the Commission has used markup indices in the past for precisely the reason that systemwide averages shift.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-33. Please refer to your response to NAA/USPS-T-32-6(a), where you state that "better cost control for the competitive product" could provide a rationale for rate increases for competitive services lower than the rate of inflation and the system-wide average.

- a. By "better cost control," do you mean lower percentage changes in volume variable costs as measured by the Postal Service since Docket No. R97-1?
- b. If not, please explain what you mean.
- c. Would, conversely, "worse cost control for the competitive product" provide a rationale for a rate increase for the competitive service greater than the rate of inflation or the system-wide average?

Response:

- a. and b. By "better cost control" I meant lower percentage increases, or even decreases in costs – not necessarily limited to volume variable costs, but also perhaps including specific fixed costs as well – as measured by the Postal Service since Docket No. R97-1.
- c. It could. There are nine pricing criteria that must be taken into consideration when determining cost coverages; covering costs (criterion 3) is only one of them. I cannot say that "worse cost control" would necessarily translate into a higher rate increase for the competitive service -- or for a non-competitive service, for that matter -- than the rate of inflation or the systemwide average, but it could be one reason for such a higher rate increase.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-34. Please refer to the direct testimony of USPS Witness Bernstein, USPS-T-41, page 106, where he computes the "marginal cost change" from R97-1 to R2000-1 for ECR Mail as 12.5%. In LR-I-156, he identified the test-year "marginal cost" of ECR Mail as 0.75163, which is the same as Witness Moeller's measure of Before-Rates volume variable cost per unit (Moeller WP1, page 8). In Table 14D, Witness Bernstein computes the overall per piece percentage increase in marginal cost as 11.4%.

- a. Did you consider these relative percentage cost changes in proposing your cost coverages and increases in revenue/piece for ECR Mail? If so, how?
- b. Please reconcile (1) your conclusion that "cost control for the competitive product" would be relevant to the relationship between the proposed percentage rate increase for the competitive service and the system-wide percentage average (see your response to NAA/USPS-T32-6), and (2) Witness Bernstein's calculation that ECR marginal (i.e., volume variable) costs have increased faster than the system average, with your conclusion that the proposed cost coverage for ECR does not represent a reduction relative to that recommended by the Commission in Docket No. R97-1.

Response:

- a. I considered the relative percentage cost changes in proposing cost coverages and rate increases to the extent that such changes in costs were implicit in the test year unit costs and the test year before and after rates cost coverages. Conceivably, changes in revenue per piece could mitigate or compound changes in cost per piece in terms of the effect on cost coverage.
- b. I see no need for reconciliation. In my response to NAA/USPS-T32-6, I provided one set of circumstances in which a competitor might find the rate increase for a competitive service to be lower than the rate of inflation or the systemwide average and seek an explanation for the relatively low rate increase. I did not claim that such a set of circumstances existed or

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

did not exist for any particular service in this case. The response was given in the context of a hypothetical situation. As I noted in my response

Response to NAA/USPS-T32-34, cont'd

to your interrogatory NAA/USPS-T32-33, except to the extent that the change in costs would result in a change in test year before rates cost coverage, the change in costs would be considered under one of the nine pricing criteria (criterion 3). Consideration of all of the nine pricing criteria might not lead to a higher rate increase than the system average.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-35. Please refer to your answer to NAA/USPS-T32-7. Please describe the "reports of rate changes for several private companies which provide delivery services," please indicate:

- a. The time period covered by the reports
- b. The number of reports
- c. The nature of the rate changes described in those reports.

Response:

I was using the word "reports" in the sense of "information made available" or "announcements" or "press releases" rather than in the sense of a formal, prepared document that summarized rate changes.

- a. Generally, it is my recollection that United Parcel Service and FedEx increased rates in February and/or March of 1998, 1999 and 2000. FedEx applied of a 3% fuel surcharge effective February 1 of 2000 and an additional 1% fuel surcharge effective April 1 of 2000. DHL and Airborne announced fuel surcharges effective in early February, 2000.
- b. I am not certain that I am citing all of the rate changes announced by these firms, but as the statement was made by way of illustration, the announcements listed in my response to subpart a above were the ones I had in mind.
- c. The announcements usually included statements regarding general percentage changes for broadly defined ranges of rates (such as "ground service" or "domestic shipments"), changes to the application of surcharges such as for residential or customers in certain delivery areas, or changes in response to increases in fuel prices.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-36. Please confirm that the Postal Service does not have data sufficient to compare delivery performance across all classes and subclasses of mail. If you cannot confirm, please provide the comparative delivery performance of the Postal Service across all classes in the Base Year.**

**Response:**

**Confirmed.**

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-37. Please complete, for the Base Year, the information requested on the following chart:

	Percent of total volume	Percent of total revenue	Percent of total institutional cost contribution	Average unit contribution (in cents per piece)
First Class Mail				
Standard (A) (commercial) mail (Regular and ECR combined)				
Standard (A) (commercial) Enhanced Carrier Route Mail				

Response:

The information necessary to fill in this chart is already available in the testimony of witness Meehan (USPS-T-11) in her Exhibit 11C.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-38. Please complete, for the Test Year, the information requested on the following chart:

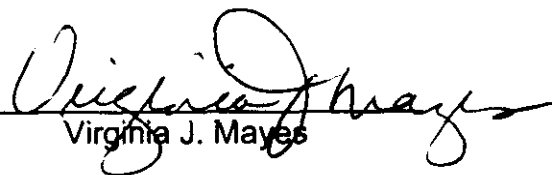
	Percent of total volume	Percent of total revenue	Percent of total institutional cost contribution	Average unit contribution (in cents per piece)
First Class Mail				
Standard (A) (commercial) mail (Regular and ECR combined)				
Standard (A) (commercial) Enhanced Carrier Route Mail				

Response:

The information necessary to fill in this chart is already available in the testimony of witness Kashani (USPS-T-14) in his Exhibits 14J (test year before rates) and 14M (test year after rates).

## 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.

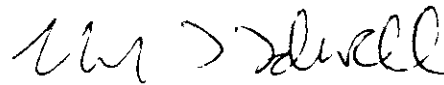
  
Virginia J. Mayes

Dated:

April 3, 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.

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 script and the last name "Tidwell" in a more legible, though still cursive, script.

Michael T. Tidwell

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