

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

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MAYO TO INTERROGATORIES OF KEYSpan ENERGY
(KE/USPS-T39-7, 8(C), 9, 10(A-H), 11(A), AND 12)

The United States Postal Service hereby provides the responses of witness Mayo to the following interrogatories of Keyspan Energy: KE/USPS-T39-7, 8(c), 9, 10(a-h), 11(a), and 12, filed on March 21, 2000. Interrogatories KE/USPS-T39-8(a-b, d-e), 10(i) and 11(b-e) were redirected to witness Campbell.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 4, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-7-12)**

KE/USPS-T39-7 Please refer to your answer to Interrogatory KE/USPS-T39-1 (e) where you discuss the "breakeven" volume for nonletter-size BRM received in high volumes.

- (a) Please confirm that the correct equation to compute the "breakeven" volume for nonletter-size BRM under your proposal of 80,000 pieces per year is as follows:

$$.10 \times V = .01V + 600 \times 12 \text{ where } V = \text{"Breakeven" Volume}$$

- (b) Please confirm that the average volume received per nonletter-size BRM account in FY 1998 was 1.262 million pieces. See LR-T-39, WP-5, which shows a total of 5.409 million pieces received by four recipients. If you cannot confirm, please explain why not.
- (c) Please confirm that the average number of pieces received per recipient was more than 12 times the "breakeven" volume in effect in 1998 and more than 15 times the proposed "breakeven" volume. If you cannot confirm, please explain why not.
- (d) Did you consider this relationship between pieces actually received by BRM recipients versus the theoretical "breakeven" volume when you projected the average number of pieces received per recipient for QBRM received in high volumes, as shown in LR-T-39, WP-5? If you did consider that relationship, please explain how you gave that effect to such considerations and what impact, if any, they had on your calculations. If you did not consider that relationship, please explain why not?

RESPONSE:

- a. Confirmed.
- b. Confirmed that the average volume per account in FY 1998 was 1.262 million pieces. The total volume of 5.409 in your interrogatory should be 5.049.
- c. Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-7-12)**

KE/USPS-T39-7 (CONTINUED)

RESPONSE:

- d. No. Since the non-letter size BRM was not permanently implemented as this omnibus case was being prepared, I did not correlate the breakeven volume for non-letter size BRM with the proposed quarterly fee QBRM volume.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
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KE/USPS-T39-8 Please refer to your answer to Interrogatory KE/USPS-T39-1 (g). In that response you rely on USPS witness Campbell's cost study to conclude that it is less expensive to count 10,000 non-uniform, bulky small parcels than it is to count 10,000 clean, barcoded machinable letters.

- (a) Please confirm that 10,000 clean, barcoded machinable letters will take up more sacks (or trays) than 10,000 non-uniform, bulky small parcels, thereby requiring more sacks (or trays) to weigh and more time for postal service to derive an estimated quantity. If you cannot confirm, please draw upon your expertise to explain your answer.
- (b) Please confirm that 10,000 clean, barcoded machinable letters will require more sampling time to derive a weight-to-quantity conversion factor than the sampling time required for 10,000 non-uniform, bulky small parcels, thereby requiring more time to derive an estimate of the quantity. If you cannot confirm, please draw upon your expertise to explain your answer.
- (c) If you cannot confirm either situation in parts (a) and (b), how does charging a 3-cent BRM fee for the letters, which is three times the BRM fee for the small parcels, consistent with criterion 7 of the Act? (Criterion 7 of the Act calls for simple, identifiable relationships between the rates or fees charged.) Please explain your answer.
- (d) Please confirm that it is less costly to hand count 10,000 clean, barcoded machinable letters to obtain an estimated count than it is to weigh 10,000 clean, barcoded machinable letters to obtain an estimated count. If you cannot confirm, please draw upon your expertise to explain your answer.
- (e) Please confirm that it is more costly to hand count 10,000 non-uniform, bulky small parcels to obtain an estimated count than it is to weigh 10,000 non-uniform, bulky small parcels to obtain an estimated count. If you cannot confirm, please draw upon your expertise to explain your answer.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-7-12)**

KE/USPS-T39-8 (CONTINUED)

RESPONSE:

- a. Redirected to witness Campbell.
- b. Redirected to witness Campbell.
- c. The proposed three-cent fee is simple and one-half of the proposed QBRM without the quarterly fee piece fee of six cents, which provides for an identifiable relationship between the two fees. Additionally, the proposed postage discount for QBRM with the quarterly fee is three cents which is identical to the proposed fee. This demonstrates another identifiable relationship, specifically between the proposed fee and the proposed discount.
- d. Redirected to witness Campbell.
- e. Redirected to witness Campbell.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-7-12)**

KE/USPS-T39-9 Please refer to your answer to Interrogatory KE/USPS-T39-1 (h). In your response you propose BRM fees that are subject to a whole cent rounding constraint.

- (a) Do you agree that high volume QBRM recipients and high volume nonletter-size BRM recipients are sophisticated mailers who can understand more complex postal procedures and a fractional fee? If you do not agree, please *explain why not*?
- (b) Why do you propose fees that are subject to a whole-cent rounding constraint for high volume QBRM recipients and high volume nonletter-size BRM recipients?

RESPONSE:

- a. Although I would never wish to imply that high volume QBRM recipients and high volume non-letter size BRM recipients are not sophisticated mailers, the fact remains that these recipients are paying postage with whole-cent constraints when receiving BRM. With respect to BRM, I have nothing to base any speculation on with respect to BRM recipients using fractional fees or fractional postage.
- b. Consistent with the rest of the special service (including BRM) fees, both current and proposed, all fees are minimally in whole-cent constraints.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
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KE/USPS-T39-10 Please refer to your answer to Interrogatory KE/USPS-T39-2 (b) where you state that you are not concerned that QBRM letters are more costly to count than nonletter-size BRM "since each one employs a different method for rating purposes."

- (a) Please define "rating" as you have used that term.
- (b) Please describe the differences in the rating methods employed for QBRM and for nonletter-size BRM.
- (c) Please explain how the method of rating is relevant to the cost of counting.
- (d) Does the postal service count and rate BRM using the most efficient manner possible? Please support your answer.
- (e) Why does the apparently higher cost of counting clean, barcoded machinable letters, as compared to non-uniform, bulky small parcels, not concern you even if different methods are employed for rating purposes?
- (f) Are you aware that USPS witness Campbell did not attempt to study possible differences in the methods used to count QBRM received in high volumes and QBRM received in low volumes? See witness Campbell's response to Interrogatory KE/USPS-T29-2 (f) and KE/USPS-T29-1 1.
- (g) Does USPS witness Campbell's failure to study the possible differences in methods used to count QBRM received in high volumes and QBRM received in low volumes concern *you*? Please explain fully the reasons why it does or does not concern you.
- (h) In your opinion, why is it appropriate to propose different per piece fees for QBRM letters depending upon whether they are received in high or low volumes, without knowing whether or not there are different methods for counting these pieces?
- (i) In your opinion, is volume the primary factor in determining the method of counting BRM?

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
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KE/USPS-T39-10 (CONTINUED)

RESPONSE:

- a. I have used the term "rating" to broadly describe the process that results in postage determination based on the counts.
- b. In my response to KE/USPS-T39-2(b) I was referring to different counting methods for rating purposes, as opposed to different rating methods for rating purposes.
- c. Please see my response to KE/USPS-T39-10(b).
- d. It is not clear from the question which type of BRM you are referring to; however, I believe the Postal Service generally strives to use the most efficient methods possible in all operations, balancing competing considerations.
- e. As a pricing witness, I am concerned with the actual cost estimates, not necessarily the costing methodology. I price the special services based on actual cost estimates and other factors. Please see my response to KE/USPS-T39-2(a).
- f. Yes, based on his interrogatory responses.
- g. No. Please see my response to KE/USPS-T39-2(a).
- h. I proposed different per piece fees based on the costs, among other factors. Please see my testimony at pages 25-28.
- i. Redirected to witness Campbell.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-7-12)**

KE/USPS-T39-11. Please refer to your answer to Interrogatory KEIUSPS-T39-3 (f) where you state that your proposed \$850 quarterly fee for high volume QBRM was finalized when the Board of *Governors* approved the filing for Docket No. R2000-1.

- (a) Please confirm that three items, namely (1) the quarterly fee, (2) the associated per piece fee, and (3) the alternative per piece fee, all determine the "breakeven" volume necessary to make the proposed new QBRM category attractive to perspective recipients who receive high volumes. If you cannot confirm, please explain.
- (b) Please confirm that when USPS witness Campbell performed his cost analyses for QBRM received in high volumes and for QBRM received in low volumes (see USPS LR-I-162, Schedule B, pages 2 and 3), he did not have, at that time, the benefit of knowing what your proposed quarterly fee would be for OBRM received in high volumes. If you cannot confirm, please *explain*.
- (c) Please confirm that when USPS witness Campbell performed his cost analyses for QBRM received in high volumes and for OBRM received in low volumes (see USPS LR-I-162, Schedule B, pages 2 and 3), he did not have, at that time, the benefit of knowing what your proposed per piece fee would be for OBRM received in high volumes. If you cannot confirm, please explain.
- (d) Please confirm that when USPS witness Campbell performed his cost analyses for QBRM received in high volumes and for QBRM received in low volumes (see USPS LR-I-162, Schedule 81 pages 2 and 3), he did not have, at that time, the benefit of knowing what your proposed per piece fee would be for QBRM received in low volumes. If you cannot confirm, please explain.
- (f) Please confirm that when USPS witness Campbell performed his cost analyses for OBRM received in high volumes and for QBRM received in low volumes (see USPS LR-I-162, Schedule B, pages 2 and 3), he did not have, at that time, the benefit of knowing what the proposed "breakeven" volume for QBRM received in high volumes was going to be. If you cannot confirm, please explain.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
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KE/USPS-T39-11 CONTINUED

RESPONSE:

a. Confirmed.

b-e. Redirected to witness Campbell.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
TO INTERROGATORIES OF KEYSpan ENERGY (KE/USPS-T39-7-12)**

KE/USPS-T39-12. Please refer to your answer to Interrogatory KE/USPS-T39-6 (c)-(f). In your responses you discuss the derivation of the number of QBRM recipients likely to take advantage of the newly proposed QBRM rate category and the possible cost implications related thereto.

- (a) Please confirm that the method you employ is, in your opinion, the best possible method for ascertaining the number of QBRM recipients likely to take advantage of the newly proposed QBRM fee category and the possible cost implications related thereto. If you cannot confirm, please explain why not.
- (b) Please confirm that the method you employ provides the absolute maximum possible number of high volume QBRM recipients that would take advantage of the newly proposed QBRM fee category? If you cannot confirm, please explain.
- (c) In view of the marketing study performed by the Postal Service in MC99-2 to estimate the number of nonletter-size BRM recipients likely to take advantage of the new rate category proposed for recipients of high volumes, why did the Postal Service determine that no similar marketing study was necessary for purposes of estimating the number of QBRM letter recipients likely to take advantage of the new rate category proposed for recipients of high volumes in the R2000-1 proceeding? Please provide copies of all documents that discuss the need for developing estimates of the number of QBRM letter recipients likely to take advantage of the new fee category proposed for recipients of high volumes in the R2000-1 proceeding.
- (d) Please explain and illustrate with a numerical example how, in your words "the costing could possibly change and therefore the pricing could possibly change," depending on the actual number of high volume QBRM recipients who take advantage of the newly proposed rate category. For purposes of the example used in your response to this part, please assume that only 50, rather than 1358, high volume QBRM recipients take advantage of the newly proposed rate category.
- (e) Part (a) of the referenced KeySpan interrogatory asked you to provide copies of certain documents relating to your estimate of the number of QBRM pieces that will qualify for the 3-cent high volume per piece fee in the test year. Your response indicates that you "used an estimate based on the Prepaid Reply Mail migration estimate [you] used in Docket No. R97-1." Please provide copies of the documents that show the derivation of the migration estimate you used in Docket No. R97-1 and the derivation of the estimate you used in this proceeding.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
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KE/USPS-T39-12 (CONTINUED)

- (f) Your response to part (9) of Interrogatory KE/USPS-T39-6 indicates that "the Postal Service does not track all QBRM mailers in any centralized data system. Please state what Postal Service "data systems," including databases, or information systems of any kind or description, contain information about QBRM mailers (whether such data system is centralized or decentralized and whether the data system contains information regarding all QBRM mailers or only a portion of the QBRM mailer universe) and indicate for each such data system the type of QBRM recipient information contained and the approximate percentage of all QBRM recipients whose information is contained in such data system.
- (g) What data system was used to gather information that you used to determine how many QBRM reply mail pieces were received in the Base Year?

RESPONSE:

- a. Confirmed that this was the best method I had for purposes of ascertaining a number for my workpapers.
- b. Confirmed.
- c. The Postal Service assumed the one-third/two-thirds split from Docket No. R97-1 was a reasonable estimate to use in this case and no marketing study was necessary. Specifically, the assumption is that two-thirds of the QBRM volume would remain in non-quarterly fee QBRM and one-third of the QBRM volume would move to QBRM with the quarterly fee. Similarly, the assumption in Docket No. R97-1 was that two-thirds of BRMAS volume would shift to Prepaid Reply Mail and one-third of the BRMAS volume would remain.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
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KE/USPS-T39-12 (CONTINUED)

RESPONSE:

- d. Again, this would involve pure speculation and I cannot answer given a hypothetical volume. According to the data system referenced in (f) below, at least 486 BRM mailers have reported annual volumes for one ounce pieces exceeding the breakeven volume that would make the proposed QBRM with the quarterly fee attractive. Therefore, even hypothetically, I would venture to say a volume of 50 is unrealistic.
- e. Please see witness Fronk's Docket No. R97-1 workpaper (attached) which was used for both Dockets No. R97-1 and R2000-1.
- f. I am aware of one database that tracks BRM mailers. This database is the Corporate Business Customer Information System (CBCIS). CBCIS is a centralized system and contains information for the majority of the QBRM mailer universe. The type of recipient information includes customer name, account number, the postal facility, the area, the district, volume, and revenue.
- g. I used the Revenue, Pieces and Weight system to get the base year volume.

Migration of Test Year First-Class BRM to QBRM and to PRM

TEST YEAR BRM (Old Rates)	TEST YEAR BRM TO QBRM (Proposed Rates)	TEST YEAR BRM TO PRM (Proposed Rates)
<p>1. <u>Prebarcoded Letters at 2-cent BRM Fee (1 and 2 oz.)</u></p> <ul style="list-style-type: none"> • TY 1998 Volume of 419.4 million <u>1/</u> • First Ounce Postage \$.32 • BRMAS Fees \$.02 • Total Postage \$.34 	<p>1. <u>Letters to QBRM</u></p> <ul style="list-style-type: none"> • Volume is 132.8 million (of 419.4) <u>2/</u> • First Ounce Postage \$.30 (QBRM) • BRM Fee \$.06 • Total Postage \$.36 	<p>1. <u>Letters to PRM</u></p> <ul style="list-style-type: none"> • Volume is 286.6 million (of 419.4) <u>2/</u> • Break-even is 200,000 per permit • 294 Permits • First Ounce Postage \$.30 (PRM Rate) • Monthly Fee of \$1,000
<p>2. <u>Prebarcoded Cards at 2-cent BRM Fee</u></p> <ul style="list-style-type: none"> • TY 1998 Volume of 108.3 million <u>1/</u> • First Ounce Postage \$.20 • BRMAS Fees \$.02 • Total Postage \$.22 	<p>2. <u>Cards to QBRM</u></p> <ul style="list-style-type: none"> • Volume is 47.1 million (of 108.3) <u>2/</u> • First Ounce Postage \$.18 (QBRM) • BRM Fee \$.06 • Total Postage \$.24 	<p>2. <u>Cards To PRM</u></p> <ul style="list-style-type: none"> • Volume is 61.2 million (of 108.3) <u>2/</u> • Break-even is 200,000 per permit • 83 Permits • First Ounce Postage \$.18 (PRM Rate) • Monthly Fee of \$1,000

1/ Total Test Year card and letter volume of 527.7 million pieces from witness Needham (USPS-T-39). Allocated to cards and letters based on FY 1996 proportion of 79.48 percent letters and 20.52 percent cards.

2/ Portion of volume to QBRM and PRM determined using break-even analysis comparing monthly fee of \$1,000 (\$12,000 annually) with per-piece fee of 6 cents. PRM is financially advantageous at volumes of 200,000 pieces or more per year. Permits at this volume level determined using FY 1996 data contained in USPS Library Reference H180. Because Permit System data contained in that library reference represented 44.17 percent of the FY 1996 prebarcoded, 2-cent fee letter volume and 36.16 percent of the FY 1996 prebarcoded, 2-cent fee card volume, the library reference volume and permit number data for permits with annual volumes of at least 200,000 pieces were scaled up using these percentages and then multiplied by 3 percent to represent growth from FY 1996 to the Test Year.

Note: 286.6 million letters and 61.2 million cards convert from prebarcoded, 2-cent fee BRM to PRM with a \$1,000 monthly fee for PRM.

The new monthly fee of \$1,000, or \$12,000 per year, will be paid by 294 BRM letter customers, 83 BRM card customers, and an estimated 100 CEM customers, or a total of 477 customers.

DECLARATION

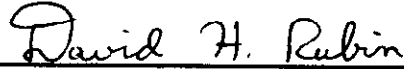
I, Susan W. Mayo, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Susan W Mayo

Dated: April 4, 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.



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