

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 YEZER TO INTERROGATORIES OF
DOUGLAS F. CARLSON
(DFC/USPS-T31-1-7)

The United States Postal Service hereby provides the responses of witness Yezer to the following interrogatories of Douglas F. Carlson: DFC/USPS-T31-1-7, filed on March 23, 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



Kenneth N. Hollies

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.



Kenneth N. Hollies

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April 6, 2000

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS YEZER TO
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DFC/USPS-T31-1. Please explain in detail how you calculated facility rental costs for post-office boxes located at facilities that the Postal Service owns.

RESPONSE:

I estimated cost per square foot of interior space if the facility were leased on a standard 5-year basis. Cost per square foot for facilities that the Postal Service owns was estimated in the same fashion as those for all other facilities used by the Postal Service. The technique used to estimate rent per square foot follows directly from my testimony. Once estimates of equation (1) are obtained, the estimated parameter values are multiplied by the characteristics of the facility and the resulting value of the function is the estimate of rent per square foot. Specific results are discussed in my supplementary testimony where the estimate parameters for equation (1) - which was estimated separately for various states and cities - are presented.

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DFC/USPS-T31-2. For facilities that the Postal Service owns, did you impute a rental cost to the facility based on market rental costs near the facility? If the answer is yes, please explain why imputing a rental cost does not overstate the cost of the facility to the Postal Service and box customers. Please explain your answer.

RESPONSE:

Imputed rental costs of facilities that the Postal Service owns are based on equations estimated using facility rents paid by the Postal Service in the same state or city. The imputed rental costs reflect the opportunity cost of space in facilities owned by the Postal Service and this is the appropriate cost concept in economics if an efficient supply of post office boxes is to be provided. If prices do not reflect opportunity cost of space then the Postal Service does not have the proper incentive to expand services.

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DFC/USPS-T31-3. Please provide the percentage of facilities that have post-office boxes that are in government-owned buildings. If a distinction exists between government-owned buildings and Postal Service-owned buildings, please explain and provide information for both.

RESPONSE:

Government ownership of buildings did not play a role in my analysis. The econometric estimates were based on buildings for which there was lease information. If there was no lease information, the reason, particularly specific ownership, was of no concern to me.

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DFC/USPS-T31-4. For the facilities that have post-office boxes that are in government-owned buildings or Postal Service-owned buildings, please provide the median and average construction date (or age) of these buildings and the median and average rental cost per square foot for boxes that you assigned for these buildings.

RESPONSE:

As noted in the response to DFC/USPS-T31-3, details of ownership were not part of my analysis. In addition, construction date (or age) of structure played no role in the analysis. No reliable raw data indicating construction date or age were available to me.

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DFC/USPS-T31-5. Please provide the median and average rental cost per square foot for rented space (not government-owned or Postal Service-owned).

RESPONSE:

The mean rent per square foot for rented space in any facility is \$7.35 and the median rent per square foot is \$5.96.

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DFC/USPS-T31-6. Please provide the median and average rental cost per square foot for facilities that have post-office boxes.

RESPONSE:

The mean rent per square foot for rented space in facilities with post-office boxes is \$7.27 and the median is \$5.94.

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DFC/USPS-T31-7. Please refer to your response to OCA/USPS-T31-2.

- a. Please provide all facts and information that you possess or upon which you relied to determine that customers will find post-office boxes located in malls to be convenient.
- b. Which proportion of box customers whose boxes are located in a mall would find a location away from the mall more convenient than a location in a mall due to problems associated with traffic, parking, and other maladies that may plague malls (e.g., in peak shopping seasons)? Please explain.
- c. Please explain the choice that customers have about the place where the Postal Service decides to locate post-office boxes.
- d. You stated that the convenience associated with mall locations should be reflected in pricing for boxes. Please discuss why it would be fair to charge a premium for the convenience that you have identified of mall locations to customers who are indifferent to mall locations or who dislike mall locations.
- e. Please confirm that, due to Postal Service decisions on locating postal facilities, customers may use a postal facility for reasons other than the convenience of the facility's location. (For example, a post office located in a mall may be the only post office in a particular city or community.) If you do not confirm, please explain.

RESPONSE:

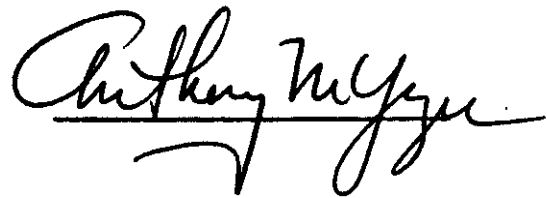
- a. This was not part of my study although I did find that space in enclosed malls was often more expensive. Accordingly, if this space is not more convenient for customers, then equally attractive post office boxes can be provided at lower cost in other locations. This is precisely why fees should reflect the opportunity cost of space.
- b. This was not part of my study. See response to part (a) and note that customers who prefer locations where space costs are higher will now pay higher fees than those who prefer locations where space costs are lower. Given that this is true of other services in our economy, it is also appropriate for post-office boxes.

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- c. If prices reflect the opportunity cost of additional space, as determined by my estimates, then the Postal Service will have an incentive to expand wherever consumer demand is expanding because fees will be sufficient to justify that expansion. If fees are below opportunity cost, then consumers may want more post-office boxes at current fee levels and yet there is no economic incentive to expand because fees are below opportunity cost.
- d. It is fair to charge higher prices where costs are higher and lower prices where costs are lower. That is the basis of our economy. There is no premium in pricing at cost. For similar reasons, it is fair to charge more for a larger box. If costs are higher, a fair pricing scheme charges more. It is unfair to charge the same price when costs differ.
- e. I do not understand the question. In the example given, the post office is used because of the convenience of its location.

DECLARATION

I, Anthony M. Yezer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, reading "Anthony M. Yezer". The signature is written in black ink and is positioned to the right of the declaration text.

Dated: April 6, 2020