

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 MAIL ORDER ASSOCIATION OF AMERICA  
(MOAA/USPS-T32-11 THROUGH 13)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of Mail Order Association of America (MOAA): MOAA/USPS-T32-11 through 13 (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



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Michael T. Tidwell

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April 6, 2000

RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T-32-11 The direct testimony of George S. Tolley shows that total volume of Standard Mail A Enhanced Courier [sic] Route decreased in the year 1999. See USPS-T-6 at 129.

a. Were you aware of 1999 volume figures at the time you prepared your testimony making rate recommendations? If so, did you give any consideration to proposing lower rates for ECR in view of this decrease in volume? Please explain your answer fully.

b. If you were not aware of the decrease in volume does the fact that ECR mail volumes decreased now give you a reason to revisit your rate recommendations? Please explain your answer fully.

**Response:**

- a. Yes. No. It is my understanding that ECR volume declined at least in part as a result of ECR basic letters migrating to Regular Auto 5-digit, responding to new rate relationships that went into effect in January of 1999. It is also my understanding that judgments regarding the degree to which the decline in volume in ECR in FY 1999 would extend into the future fell within the realm of witnesses Tolley (USPS-T-6) and Thress (USPS-T-7). Witness Tolley shows ECR volume further declining in FY 2000 relative to FY 1999 but rebounding in 2001 before rates. The decline in the test year from before to after rates results in a volume that is still higher than the 2000 volume.
- b. Not applicable.

RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T-32-12 You recognize on page 43 of your testimony that the rate increase proposed for Bound Printed Matter (BPM) is "the highest rate increase proposed for any subclass in this case." The increase reflects sharply increased costs.

a. Please provide a summary of any explanation that was given to you to account for the increase in BPM costs.

b. In the event that you have not been provided with an explanation for the increase in BPM costs, are you, as an expert in postal matters and volume trends, able to provide any explanation for the cost increases? If so, please provide such an explanation.

c. Please provide a summary of what, if any, steps are being taken by the Postal Service to address the increase in BPM costs, i.e. operational or other steps being taken to bring costs back into line with historical patterns.

**Response:**

- a. I am unaware of any definitive explanation for the increase in Bound Printed Matter. I was aware of summaries that showed that costs had increased in several different cost segments, suggesting that the cost increase was systemic and not isolated to one measurement system or postal function. I was also aware that most of the increase occurred between 96 and 97, not between 97 & 98. In particular, this was before the weight limit increased from 10 to 15 pounds. I was also aware that some changes in costing methodology, such as changes in mail processing volume variabilities, had tended to affect Bound Printed Matter costs. Please refer to the responses of witness Meehan to subparts (b) of the following interrogatories: AAP/USPS-T11-1, AAP/USPS-T11-2 and AAP/USPS-T11-3.
- b. Please refer to my response to subpart a above. I am unable to explain the increase in Bound Printed Matter costs.

RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

Response to MOAA/USPS-T32-12, cont'd

- c. The realignment of Bound Printed Matter rates in order to create incentives for dropshipping and establish a true DDU rates rather than continue the use of the local rate is designed to move in that direction. I am unaware of any further steps specifically aimed at decreasing Bound Printed Matter costs.

RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-13 In its decision in Docket No. R97-1, the Commission rejected NAA witness Chown's use of "total weighted attributable cost" as a base for the allocation of institutional costs. PRC Rec. Dec., R97-1, at 258. Nevertheless, the Commission found that "witness Chown's point remains valid," in assessing ECR's appropriate contribution to institutional costs. *Id.* at 259. The Commission stated that a subclass that "is a relatively heavy user of one or more functions that engender significant amounts of institutional costs" should result in a unit contribution from the subclass "sufficient to recognize the value of those functions to users of the subclass." *Id.* At. 259.

a. Do you concur in whole or in part with the Commission's analysis of the Chown testimony? Please explain fully.

b. Regardless of whether you do or do not concur in the PRC's conclusions in R97-1, are you satisfied that the rates that you have recommended for Standard Mail ECR satisfy the Commission's concern about "the adequacy of contributions from subclasses that heavily rely on functions which account for a large share of the institutional costs of the Postal Service."? Please explain your answer fully.

**Response:**

- a. I concur in part with the Commission's analysis in that the Commission did not accept witness Chown's methodology as an appropriate substitute for current practices. See paragraph 4069 of the R97-1 Recommended Decision where the Commission states that "the Chown proposal is not a substitute replacement for the current Commission allocation procedure." I further concur with the Commission's decision to "not use total weighted attributable costs instead of attributable costs as the base for the allocation of institutional costs as witness Crowder [sic] suggests." *Id.* at para. 4083.
- b. Yes. The cost coverage for ECR is one of the highest proposed in this case. If costs are attributable, are directly or indirectly caused by a

Response to MOAA/USPS-T32-13, cont'd

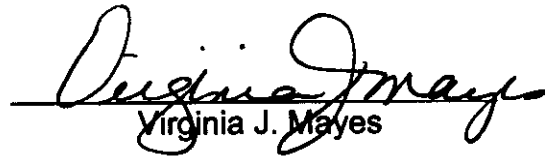
subclass of mail, then they ought to be attributed. Although a subclass or category of mail may make use of part of the postal network, I do not believe that to be equivalent to "causing" those costs to exist. Witness Chown's concerns can be and are addressed by use of the incremental cost test to assure that, for example, the combined revenues from all products using the delivery system cover the incremental costs associated with those products as a group. At paragraph 4071 of the R97-1 Recommended Decision, the Commission summarizes Chown's argument as follows: "Witness Chown maintains that using total attributable costs as the markup base implicitly assumes that institutional costs are incurred to provide the different functions of the Postal Service in proportion to the attributable costs of these functions. Tr. 25/3326." I disagree with this assertion. This would be true if every subclass received the same markup. They do not. The pricing criteria provided in the Postal Reorganization Act indicate many reasons for using different markup factors, and in the past, both the Postal Service and the Commission have been able to adequately use the pricing criteria in balance with each other to determine appropriate markups over attributable or volume-variable costs. The Commission points out that "witness Chown reasons that the current system unfairly burdens mailers that use functions that give rise to mostly attributable costs, and unfairly benefits mailers that predominantly use functions that incur few attributable costs." *Id.* at para. 4071. I

Response to MOAA/USPS-T32-13, cont'd

believe that examination of the markups proposed in this case or recommended by the Commission in R97-1 would demonstrate that this statement is not true. According to Table 4-1 at page 254 of the R97-1 Recommended Decision, summarizing witness Chown's work, First-Class Mail, Periodicals, Standard A Regular, ECR, and Bound Printed Matter are relatively heavy users of the delivery system. Library Reference LR-I-149 shows the markups and markup indices from R97-1 as well as the proposals for this case. LR-I-149 shows that the markup indices for the subclasses identified as "heavy" users of the delivery system are, with the exception of that for Periodicals which is mitigated by deference to criterion 8, all among the highest recommended by the Commission. Witness Chown's "new metric" sounds a lot like fully distributed costing to me.

## 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

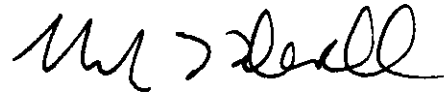
Dated:

April 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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written in a cursive style.

Michael T. Tidwell

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