

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
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
(CRPA/USPS-T32-1 THROUGH 7, 9, 10(a-b) AND 11)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of The Coalition of Religious Press Associations: CRPA/USPS-T32-1 through 7, 9, 10(a-b) and 11 (filed on March 23, 2000).

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


Objections to T32-8 and 10(c) were filed on April 3, 2000.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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CRPA/USPS-T32-1

On p.3 of your testimony, you refer to criterion number 9, "Other Factors", as one of the pricing criteria considered in postal rate-setting. Do you think that the historical record of why a mail classification was created, and thus why its rates over a period of time were higher or lower than the rates applied to other classifications, is an "other factor" that USPS should consider in proposing rate changes (and classification changes that may accompany a rate change) and that the Commission therefore should also consider?

Response:

No. The historical record of why rates were lower or higher than those for other categories of mail should have informed the constraints codified in the law.

Should circumstances change such that the provisions of the law no longer result in the rate relationships desired, changes to the law should be made to ensure that the desired relationships again hold. That said, such considerations may very well already fall within the realm of the other pricing criteria. For instance, had such concerns informed previous Commission decisions, they would have been embodied in the cost coverages, rate increases and rate relationships resulting from previous cases. Significant changes from such positions in subsequent cases presumably would have been tied to other pricing criteria – for instance, large increases in costs (criterion 3) or the effect of rates on mailers (criterion 4). In some circumstances, such as for preferred rate categories of mail governed by the Revenue Forgone Reform Act, or for magazines for which criterion 8 (ECSI value) specifies special treatment, the history of the classification and its rates have already been given explicit consideration. Criterion 4 already provides for consideration of the effect of the rate increases

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

on mailers, should a significant departure from previous positions be contemplated. Except under specific circumstances in which the Commission has previously made known that the cost coverage being recommended would have been different had only the considerations of the first eight pricing criteria been applied, and that the reason that the ninth criterion would outweigh the conclusion drawn by reference to the first eight was due to consideration of history, I would not agree with your proposal.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES

CRPA/USPS-T32-2

Confirm that your testimony does not review or comment on the legislative, regulatory (including the Postal Rate Commission) or other history and rationale of a separate mail classification for second-class (now Periodical) Nonprofit mail. If your testimony does review or comment on this history, please identify the location of this testimony.

Response:

Confirmed.

CRPA/USPS-T32-3

(a) On pp.4-5 of your testimony you discuss the "value of service" criterion of the Postal Reorganization Act. You summarize that criterion as having an operational component and economic demand component.

Please specify any value of service differences that you perceive, have studied, or are aware of, between regular-rate and non-profit periodicals. In your response, please identify whether you are referring to the "operational" feature of value of service, the economic, e.g., "the degree to which usage of the service declines in response to price increases", USPS-T-32, p.5, or both.

(b) Do you agree that "value of service" must also be judged by the requirements of section 101 (a) of the Postal Reorganization Act which states that the "basic function" of the Postal Service is to "bind the Nation together" and that "costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall *value* of such service to the people."? [Emphasis supplied].

Response:

- (a) In the context of criterion 2, I am aware of no measurable differences in the intrinsic value of service. With regard to the economic value of service, I would refer to the testimony of witnesses Tolley (USPS-T-6) and Thress (USPS-T-7) where they discuss the derivations of the own-price elasticities for Regular and Nonprofit Periodicals. Witness Tolley reports the own-price elasticity for Regular Periodicals to be -0.148 (USPS-T-6, p. 103) and for Nonprofit Periodicals to be -0.236 (USPS-T-6, p. 97).
- (b) As I am not a lawyer, I cannot respond fully to this question. Section 3622(a) requires that rate and classification changes be made in accordance with all of the policies of the Postal Reorganization Act, including those in §101(a).

CRPA/USPS-T32-4

Please explain why you do not show any price elasticity data for either Periodical or for Standard A Nonprofit Mail in Table 2, on p.6 of your testimony.

Response:

My Table 2 was meant only to serve as a summary of the information found in more detail in the testimonies of witnesses Tolley, Thress and Musgrave (USPS-T-6, USPS-T-7 and USPS-T-8, respectively). Furthermore, the intent of Table 2 was to illustrate the value of service considerations inherent in pricing criterion 2, used to set rate levels. The Revenue Forgone Reform Act established the relationships to hold between the cost coverages for the preferred rate mail categories, including Nonprofit Periodicals and Nonprofit Standard Mail (A), and their commercial categories. This means that the cost coverages for the Nonprofit subclasses were not developed independently through reference to the pricing criteria, but rather were tied to the cost coverages of the commercial categories. Thus, under neither the Revenue Forgone Reform Act nor the legislative changes proposed for Nonprofit categories would the pricing criteria hold sway over the cost coverages for the Nonprofit categories.

CRPA/USPS-T32-5

Please confirm that Witness Tolley, USPS-T-6, presents the following information in his written testimony:

- (a) A separate section (IV C) that discusses Nonprofit Periodical Mail as distinct from Regular Rate Periodical Mail (IV B) [sic].
- (b) Separate own-price elasticities for Nonprofit Periodical Mail as distinct from Regular Rate Periodicals.
- (c) Separate Before and After Test Year Volume Forecasts for the Nonprofit and Regular Rate subclasses of Periodical Mail.
- (d) Separate projections of volume declines (-2.25%) for Periodical Non-Profit Mail (after-rates, test year) which are twice as much as compared to Tolley's projected "Postal Rate Impact" volume decreases (-1.03%) for Periodical Regular Rate Mail (after rates, test year).
- (e) Did the Tolley or other data, information or history about Nonprofit Periodical Mail cause you to analyze the impact, fairness, or other aspects of proposed rate increases on this subclass alone, separate from Regular Rate Periodical Mail? If your answer is yes, produce all documents and data relevant to that analysis. If your answer is no, why did you not make this analysis? (If another USPS witness, employee, contractor or agent made such analysis, identify this person(s) and produce their analyses.)

Response:

- (a) Confirmed, although the section on Regular Periodicals is section IV E, not IV B.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) Yes. Please refer to my response to Presiding Officer's Information Request No. 1, Question 4 where I show the test year before and after rates volumes and the before and after rates revenue per piece figures for each of the Periodicals subclasses as currently configured.

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CRPA/USPS-T32-6

On p.6 of your testimony you claim that cost is the "most objective" of the nine pricing criteria. Do you agree with the following statement found in Vol I. Opinion and Recommended Decision, Docket R97-1, para. 3194 made in connection with higher-than-average growth in recent years in the unit costs of periodicals: "The analysis [in R97-1] presented thus far by the Service is incomplete, not well developed or examined, and may be selective." Is it your opinion that costs that are so described are "objective"?

Response:

I find it curious that there is seldom the same concern expressed when measured costs appear to *decline* inexplicably as there is when they appear to *increase* inexplicably. The Commission's statement regarding the analysis of the changes in Periodicals unit costs speaks for itself. I have not analyzed the cost trends or the testimony offered in Docket No. R97-1 which sought to explain these cost trends, so I have no basis upon which to agree or disagree with the Commission's opinion of the quality of the evidence presented. I do note, however, that the Commission has requested that the Postal Service provide a witness in this case to discuss periodicals processing costs (see the Commission's Order 1289). I will grant that there is sometimes disagreement as to the appropriate measure of costs, but given a set of costs, the determination of whether or by how much the revenue covers those costs is objective. The other pricing criteria do not provide such opportunity for objective determination of their applicability.

CRPA/USPS-T32-7

On p.10 of your testimony you state: "Worksharing removes attributable costs but leaves institutional costs unchanged". If two periodicals in the same subclass are identical in every respect, except that one is more workshared (prepared to avoid postal costs) than the other, and the workshared periodical qualifies for a presort discount which reflects cost savings in excess of 100% of the costs avoided by the workshared periodical, what is the effect on (1) the attributable costs of each of the two periodicals (2) the contribution to institutional costs paid by each of the two periodicals and (3) the cost coverage for the subclass as a whole?

Response:

I am not sure I understand your question. I must assume that you are asking me to compare two situations, one in which neither periodical participates in a worksharing program and then a second situation in which one periodical does participate in a worksharing program and receives a discount in excess of the cost savings. The periodical which did not perform worksharing in the first situation but does in the second would demonstrate a lower attributable cost after worksharing. The periodical that does not change its characteristics would not have changed its attributable cost. I cannot speak to the effect on "the contribution to institutional costs paid by each of the two periodicals" or to the "cost coverage for the subclass as a whole" as I do not know what the effect on rates would be. If the worksharing discount represents more than 100% of the measured cost savings, then all else equal, the first periodical would be paying a higher unit contribution than the workshared periodical. I do not know if the cost coverage for the subclass would have been adjusted or if the first periodical

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Response to CRPA/USPS-T32-7, cont'd

would have experienced an increase in rates to make up for the difference between the workshare discount and the cost savings, so I do not know what the result would have been.

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CRPA/USPS-T32-8

Produce all reports, testimony, briefing papers, memoranda or correspondence (including fax or e-mail) that USPS has sent to or received from members of Congress, Congressional staff, USPS governmental affairs staff, representatives of trade, industry, professional or lobbying groups since January 1, 1999 regarding "legislative amendments to the RFRA" to which you refer on p. 12 of your testimony. If such documentation does not exist, please identify all individuals who do not work for USPS, along with their organizational affiliation, who have conversed and/or met with USPS headquarters personnel since January, 1999, particularly in government affairs, pricing and marketing divisions, about this particular proposed amendment to RFRA.

Response:

An objection to this interrogatory was filed on April 3, 2000.

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CRPA/USPS-T32-9

What information has USPS received, and from whom has it received it, that would justify your making the following statement: "As discussed below, the Postal Service is proposing that these circumstances be addressed in this proceeding in a manner consistent with legislative amendments to the RFRA, which the Postal Service expects will be enacted." USPS-T-32; see also, p.14, lines 2-8.

Response:

The statement is not based upon information received by the Postal Service. It reports the intention of the Postal Service to work diligently to assist in the introduction, passage and enactment of legislation amending the RFRA.

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CRPA/USPS-T32-10

(a) According to an article on p.2 of the *Business Mailers Review*, March 20, 2000, Chairman McHugh of the House Postal Service Subcommittee prefers that the kind of amendment to RFRA, which you discuss and support, be part of H.R. 22, the omnibus postal reform bill. Since H.R. 22 has been under consideration for three years, and has yet to be voted on by the full House, and has never been formally considered by the Senate at all, would USPS want to link a major classification change like the elimination of Nonprofit and Classroom Periodical mail to this controversial and uncertain-to-pass legislation?

(b) Is the above-referenced article inaccurate? If so, what are the inaccuracies?

(c) Has USPS, or to the knowledge of USPS any other party, provided any member of Congress or any Congressional staff employee with legislative language to effect the reclassification of Periodicals Mail, either as separate legislation or as an amendment to H.R. 22 or any other bill that has been or is before the 106th Congress? If your answer is affirmative, please provide all drafts of such legislation.

Response:

(a) It is my understanding that the Postal Service endeavors to pursue the proposed RFRA amendment by whatever means will most likely assure its enactment into law. It would be pure speculation to try to predict which vehicle will best accomplish that objective.

(b) Without the ability to review all of the information to which *Business Mailers Review* had access, or the opportunity to judge how that information was interpreted, or access to the editorial processes employed at *Business Mailers Review*, I am not able to judge the accuracy of the article.

(c) An objection to this interrogatory was filed on April 3, 2000.

CRPA/USPS-T32-11


If USPS favors amendment of the RFRA, why does it want to change it in one respect but not another: i.e., provide a 5% rate differential between regular-rate and non-profit rate periodicals calculated on the postage paid on the non-advertising portion of those respective periodicals, but not provide a 5% rate difference between these subclasses that could be applied to "advertising pounds", which are excluded from USPS' proposal so as to be "consistent" with RFRA *current* provisions? USPS-T-32, p.14, n.5.

Response:

It is my understanding that the Postal Service views the current RFRA as balancing the objectives of (1) providing Nonprofit periodicals with lower rates than Regular Periodicals while (2) providing a level playing field for Regular and Nonprofit Periodicals in their competition for advertising. The rates resulting from R97-1 demonstrated anomalies by which it cost certain Nonprofit Periodicals more to mail at Nonprofit rates than at Regular rates. In order to prevent the R97-1 anomalies from becoming more extensive in R2000-1, the Postal Service supports legislative changes that would assure continued achievement of objective (1) but saw no need to modify the current mechanism for achieving objective (2).

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 6, 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", with a stylized, cursive script.

Michael T. Tidwell

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