

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

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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

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RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES  
TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T32-15 THROUGH 18)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of Office of the Consumer Advocate: OCA/USPS-T32-15 through 18 (filed on March 22, 2000).

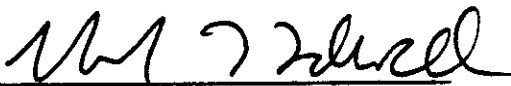
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
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April 10, 2000

RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-15. Please refer to your response to interrogatory GCA/USPS-T32-4. You state that "the rate increase proposed for First Class Letters is below the rate of inflation and thus, represents a decrease in the real price of postage for those pieces."

- (a) Please explain how a nominal price increase in the test year can be considered a real price decrease when compared to prices in effect in 2000.
- (b) Please identify the point in time after rates increase that the rate increase for First Class Letters will become a real price decrease when compared to the rates in effect on the day before rates increase.
- (c) Please identify the periods of time before and after rate increases that you are comparing in your response to GCA/USPS-T32-4.

**Response:**

Please refer to the response of witness Tayman to DMA/USPS-T9-16 where he shows the cumulative inflation, as measured by the CPI-U, from January, 1995 through January, 1999; from January, 1999 through January, 2001; and from January, 1995 through January, 2001.

- (a) Given the time frame that you have specified and the forecasted rate of inflation from 2000 to 2001, the rate increase for First-Class Letters will represent an increase in the real price as well as in the nominal price.
- (b) Using the forecasted CPI-U and an implementation date of January 2001, the rate of inflation will have caught up to the increase for First-Class Letters by May, 2002.
- (c) *In keeping with precedent, I was comparing the increase in rates relative to the increase in the CPI-U since the implementation of the R97-1 rates.*

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OCA/USPS-T32-16. Please refer to your response to interrogatory GCA/USPS-T32-5(c). You state that your examination of markups recommended by the Commission in past cases did not influence your choice of markup for First Class Letters in this case.

- (a) Have you had occasion to compare prior Commission recommended relative contributions for First Class Letters with the actual *relative contributions* calculated from CRA reports? If so, what were the results of that comparison? If not, why not?
- (b) Have you had occasion to compare prior Commission recommended relative contributions for Standard Mail (A) with the actual *relative contributions* calculated from CRA reports? If so, what were the results of that comparison? If not, why not?

**Response:**

I am not familiar with the term "relative contribution." I do not recall ever seeing it used in past rate proceedings.

(a) & (b) I have not compared the Commission's recommended markups, contribution targets, or contribution shares with the effective markups, contributions, or contribution shares as reported in the CRA reports. I did not view that as a meaningful comparison for my purposes. Such comparison would serve only to show discrepancies between the Commission's forecasts of either revenue or cost, or both, and the actual performance of revenue, cost or both. I accept the quality of the volume, revenue and cost forecasts provided in this case by other postal witnesses to be the responsibility of those witnesses and, for my purposes, to be the best available. I can think of no reason why I would want to determine how far the Commission's forecasts deviated from reality, although that may be something the Commission may want to examine.

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OCA/USPS-T32-17. Please refer to your response to interrogatory OCA/USPS-T32-7. In defending your proposal to increase the relative institutional cost burden on First Class Letters, you state, "Mailers pay rates, not institutional cost burdens, not markups."

- (a) Please provide the unit attributable cost of First Class Letters in 1999 dollars for each year of the period 1995 to 1999 as calculated from CRA reports.
- (b) Did the real unit attributable cost of First Class Letters change over the period 1995 to 1999? If so, what was the direction and magnitude of change?
- (c) Should (and did) a change in real unit attributable cost affect the rate increase proposed for a category of mail? Please explain your response.
- (d) Did the relative share of cost attributed to First Class Letters change over the period 1995 to 1999? If so, what was the direction and magnitude of change?
- (e) Should (and did) a change in the share of attributable cost affect the rate increase proposed for a category of mail? Please explain your response.

**Response:**

- (a) Please see the table below.

FCM Letters	1995	1996	1997	1998	1999
Nominal Unit Cost	0.195	0.196	0.167	0.165	0.178
Real Unit Cost	0.213	0.208	0.173	0.168	0.178
% Change Real Unit Cost		-2.2%	-17.0%	-2.8%	5.7%

The costs shown for 1997 through 1999 are the volume-variable costs.

- (b) Please refer to the chart attached in response to subpart (a) above. The FY 1999 unit cost for First-Class Letters in 1999 dollars is 16.6 percent lower than the FY unit cost for First-Class Letters in 1999 dollars.
- (c) Not necessarily. It depends on how the "category of mail" is measured and defined. The "category of mail" to which your questions refer is First-Class Letters which is composed of single-piece letters and workshared letters. A change in the real unit attributable cost for an aggregated

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Response to OCA/USPS-T32-17, cont'd

"category of mail" may not reflect decreasing costs for subcategories of mail within the defined category, but may be caused by a shift in mail mix within the "category of mail." This shift in mail mix may also change the real unit revenue for the aggregated "category of mail", resulting in an *unchanged cost coverage or a changed cost coverage which, in the context of the extant system of cost coverages, is deemed to satisfy the pricing criteria.* Changes in costs – not necessarily unit costs – may result in changes in the before-rates cost coverage for a subclass such that consideration of the pricing criteria in support of the goal of achieving financial breakeven in a given test year would suggest that a change in the rates is necessary to realign the revenue with the cost for that subclass.

(d) I can only compare the attributable cost figures for the years 1995 through 1996 to the volume variable costs reported for First Class Letters for the years 1997 through 1999. Over the period of time that you have selected to consider, the share of costs (attributable or volume variable) associated with First Class Letters decreased from 53.3% in 1995 to 46.0% in 1999.

(e) Not necessarily. Please refer to my response to subpart (c) above. Examination of the "share of attributable cost" in isolation from the associated share of revenue would not be useful. It would be – and was – useful to examine the shares of both revenue and cost in the test year both before and after rates in order to appropriately assign cost coverage

RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

Response to OCA/USPS-T32-17, cont'd

targets to all subclasses in accordance with the pricing criteria and the  
desire to achieve financial breakeven in the test year after rates.

RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-18. Please refer to your response to interrogatory OCA/USPS-T32-4. You state, "In the current case, in deference to criterion 4, it was necessary to moderate cost coverages for several subclasses of mail which experienced substantial increases in costs...."

- (a) Please list these subclasses.
- (b) Did any of these subclasses receive "moderated" cost coverages in any case since and including Docket No. R90-1? If so, please identify the subclass(es) and the case(s) in which cost coverages were moderated.
- (c) Should (and did) the fact that a subclass of mail has a history of "moderated" cost coverages affect the cost coverage proposed in this case? Please explain your response.

**Response:**

- (a) I listed the subclasses in my response to AAPS/USPS-T32-6, and in my testimony in the discussion of the application of the pricing criteria to each subclass of mail, I also make mention of this moderation. To repeat, the subclasses for which the cost coverages were moderated were Bound Printed Matter, Priority Mail, and Periodicals.
- (b) Yes. The cost coverages for Periodicals and Priority Mail were moderated by the Commission in Dockets No. R97-1 (PRC Op. & Rec. Dec., R97-1 at para. 5817-5818 and 5306, respectively). The cost coverage for Periodicals was reduced by the Commission in both Docket No. R94-1 (PRC Op. & Rec. Dec., R94-1 at para. 5163) and in Docket No. R90-1 relative to their recommendation in Docket No. R87-1. (PRC Op. & Rec. Dec., R90-1 at para. 5243-58) The cost coverage for Bound Printed Matter was reduced in R90-1, although not to the level proposed by the Postal Service in that case. (PRC Op. & Rec. Dec., R90-1 at para. 5388-89) The Commission also moderated their recommended cost coverage

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Response to OCA/USPS-T32-18, cont'd

for Bound Printed Matter in Docket No. R94-1. (PRC Op. & Rec. Dec., R94-1 at para. 5389-90)

- (c) Yes. This is one reason that I am uncomfortable in relying upon markup indexes or cost coverage indexes in setting rate levels. The relative position of a subclass in the array of markups or markup indices may have been the result of a Commission decision to mitigate a rate increase implied by a cost increase in a previous case. In the absence of deference to criterion 4 and the necessity to mitigate rate increases by cutting the cost coverage, the remaining pricing criteria may have implied a higher cost coverage for that mail category. For instance, in previous cases, the Commission moderated the cost coverage for Express Mail. In the current case, I propose that the cost coverage assigned to this category of mail be somewhat higher, acknowledging that the circumstances which led to mitigation in the past may no longer exist.



**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.

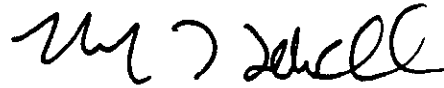
  
Virginia J. Mayes

Dated:

April 10, 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" and last name "Tidwell" clearly distinguishable.

Michael T. Tidwell

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