

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

RECEIVED

APR 17 5 07 PM '00

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-117 THROUGH 119)

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-117 through 119, which were filed on April 3, 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



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998 Fax -5402
April 17, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE**

OCA/USPS-117. Please refer to the responses to interrogatories OCA/USPS-91 and OCA/USPS-T33-10 redirected from witness Fronk.

- (a) Please state explicitly that no reasonable approximation of caller service volumes by subclass can be extracted from ODIS data for FYs 1998 or 1999. If such reasonable approximations can be developed from ODIS, please provide them.
- (b) Please state explicitly that no reasonable approximation of caller service volumes by subclass can be extracted from CBCIS data for FYs 1998 or 1999. If such reasonable approximations can be developed from CBCIS, please provide them.
- (c) Please state explicitly that no reasonable approximation of caller service volumes by subclass can be extracted from any Postal Service data base for FYs 1998 or 1999. If such reasonable approximations can be developed, please provide them.
- (d) Please state explicitly that the Postal Service has no internal need for reasonable approximations of caller service volumes by subclass. If the Postal Service has developed such reasonable approximations for internal purposes, please provide reasonable approximations for FYs 1998 and 1999.
- (e) Please provide a breakdown of First Class Letter caller service volume between workshared and nonworkshared categories. If you cannot provide the requested breakdown, please confirm that the proportion of First Class Letter caller service volume that is workshared is small (e.g., less than ten percent). If you do not confirm, please explain.

RESPONSE:

- a) See responses to OCA/USPS-11 and OCA/USPS-16. ODIS no longer collects these data, so no reasonable approximation of caller service volumes by subclass can be extracted from ODIS data for FYs 1998 or 1999.
- b) CBCIS does not provide caller service volumes by subclass, so no reasonable approximation of caller service volumes by subclass can be extracted from CBCIS data for FYs 1998 or 1999.
- c) No postal data collection system collects caller service volumes by subclass, so no reasonable approximation of caller service volumes by subclass can be extracted from any Postal Service data base for FYs 1998 or 1999.

RESPONSE OF UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF OFFICE OF CONSUMER ADVOCATE

- d) The Postal Service has no internal need in the RPW area for information on caller service volumes by subclass.
- e) See response to subparts (a-c). The Postal Service has no information responsive to this request.

RESPONSE OF THE U.S. POSTAL SERVICE
TO INTERROGATORIES OF THE OCA

OCA/USPS-118. Please refer to the response to interrogatory OCA/USPS-92. The last sentence of the response states that "the Postal Service has been successful in capping the rate differential between letters and flats in Standard Mail (A) since the introduction of this rate differential."

- (a) Please confirm that one effect of this successful capping is (1) an increase in the implicit cost coverage for letters above the subclass average and (2) a decrease in the implicit cost coverages for nonletters below the subclass average. If you do not confirm, please provide an arithmetic example demonstrating that a passthrough of less than 100 percent of the letter/flat differential does not necessarily result in shifts in cost coverage as stated in this interrogatory.
- (b) Please provide estimates of the implicit cost coverage for letters and nonletters in each subclass of Standard (A) Mail.
- (c) Please provide an estimate of the cost differential between one-ounce letters and one-ounce flats in First Class letters.
- (d) Please provide estimates of the implicit cost coverage for letters and nonletters in First Class letters.

RESPONSE:

- (a) In the response to OCA/USPS-92, the reference to "capping" the rate differential between letters and flats was related to the proposed Standard Mail (A) rate design and its effort to limit the rate increase for 3/5-digit automation flats by maintaining the current per-piece differential between letters and nonletters. (See witness Moeller's testimony, USPS-T-35 at pages 5-6.) In previous proceedings, the Postal Service may also have selected passthroughs for the letter/nonletter differential with the intention of limiting the rate increase for nonletters. However, it is incorrect to assume that "capping" the differential (which presumably is the result of proposing less than 100 percent passthrough of the cost differential between letters and nonletters) necessarily leads to implicit coverages for letters that are above the subclass average, and for nonletters that are below the average. For instance, in Docket No. MC95-1, passthroughs of less than 100 percent were recommended for the ECR letter/nonletter differentials, yet the resulting cost coverage was 218.69 percent and 217.22 percent for nonletters and letters, respectively. (Docket No. MC-95-1, PRC Standard Mail Workpapers, final page.) This can occur if the revenue generated by the pound

RESPONSE OF THE U.S. POSTAL SERVICE
TO INTERROGATORIES OF THE OCA

RESPONSE to OCA/USPS-118 (continued)

rate significantly exceeds the costs generated by the additional weight.

Since only nonletter-rated pieces pay the pound rate, this additional revenue accrues only to nonletters, and, since it is much higher than the additional cost, can drive up the implicit cost coverage.

- (b) Data responsive to this question are not routinely developed. Total costs, which are necessary for the calculation of implicit coverages, are generally calculated only at the subclass level, unless estimates are used to assist with specific cost adjustments or rate design issues. (The implicit coverage referred to in response to subpart (a) was available due to the specific nature of the Docket No. MC95-1 case and the need to develop "bottom-up" costs for the reclassified rate categories
- (c) An estimate can be developed using data presented in USPS-LR-I-91, as revised March 1, 2000. Please recognize that this can only be viewed as an approximation since there is difficulty in measuring costs with the highest degree of precision on a weight-step-by-weight-step basis. Also, the USPS-LR-I-91 costs are on a Test Year before rates basis, before final adjustments and contingency. Recognizing these limitations, within single-piece, the one-ounce letter cost is estimated to be 19.6 cents (Section 1, page 15) and the one-ounce flat cost is estimated to be 93.9 cents (Section 1, page 18). Within presort, the one-ounce letter cost is estimated to be 9.8 cents (Section 2, page 15) and the one-ounce flat cost is estimated to be \$1.12 (Section 2, page 18).
- (c) Data responsive to this question are not routinely developed. Single-piece and nonautomation presort rates in the letters subclass are not shape-based, but are averaged across shapes. The Postal Service is unsure how to reliably develop such an implicit cost coverage given the available data.

RESPONSE OF THE U.S. POSTAL SERVICE
TO INTERROGATORIES OF THE OCA

OCA/USPS-119. Please refer to the response to interrogatory STAMPS.COM/USPS-T33-8. The interrogatory and response concern possible problems with an IBI discount. Specifically, they relate to the question of whether customers might create an IBI envelope to pay their bills rather than use the automation compatible courtesy reply envelope provided by the bill presenter.

- (a) Please confirm that this particular problem disappears if the net cost to the customer for using a CRE is less than the net cost to the customer of creating and posting an IBI envelope. If you do not confirm, please explain.
- (b) Please confirm that this particular problem can be avoided by offering a larger discount (e.g., three cents) for using an automation compatible CRE than the discount (e.g., one cent) for using an IBI envelope. If you do not confirm, please explain.

RESPONSE: STAMPS.COM/USPS-T33-8 referenced witness Fronk's response to E-STAMP/USPS-T33-1, which had identified a number of issues the Postal Service faces in adequately and fully evaluating any potential IBI-related discount. One of those issues is that any discounted postage rate for IBI would potentially create an incentive for mailers to throw away their courtesy envelopes in favor of making their own envelopes with a discounted rate.

(a) – (b) The Postal Service is unable to confirm because the customer decision hypothesized may involve factors other than net cost. For example, a customer using IBI postage may simply find that it is more convenient to use PC postage for all mailings than to maintain inventories of differently denominated stamps. Or, the customer may simply enjoy using IBI postage products more than stamps, even if a stamp could hypothetically result in a smaller net cost.

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 over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998 Fax -5402
April 17, 2000