

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 DAVIS
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T30-2-5), AND REVISED RESPONSE OF WITNESS DAVIS
TO INTERROGATORY OCA/USPS-T39-4(A), REDIRECTED FROM WITNESS MAYO
[ERRATUM]

The United States Postal Service hereby provides the responses of witness Davis to interrogatories OCA/USPS-T30-2 to 5, filed by the Office of the Consumer Advocate on April 3, 2000. Interrogatory OCA/USPS-T30-1 has been redirected to the Postal Service. The Postal Service also provides witness Davis' revised response to OCA/USPS-T39-4(a), correcting an error in the original response, filed on March 30, 2000. This correction is explained in witness Davis' response to interrogatory OCA/USPS-T30-2.

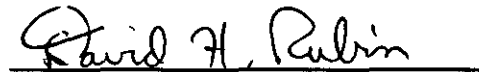
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -6187
April 17, 2000

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

OCA/USPS-T-30-2. Please refer to your answer to OCA/USPS-T-39-4a.
(redirected from witness Mayo).

You state that there was "an apparent error in the Docket No. R97-1 cost study for insurance" which understated test year CRA costs. Please provide the correct costs for insurance in that docket.

RESPONSE:

After further review, it appears that the cost study in Docket No. R97-1 used the correct input, although improper documentation for this specific input prevents me from confirming this. A revised response to OCA/USPS-T39-4(a), filed today, deletes mention of the "apparent error" as a reason for the increasing insurance costs. Errata to my testimony and library reference, to make them consistent with the Docket No. R97-1 approach, are being filed today.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DAVIS
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OCA/USPS-T-30-3. Please refer to your answer to OCA/USPS-T-39-4a. (redirected from witness Mayo). You state that there was "an apparent error in the Docket No. R97-1 cost study for insurance" which understated test year CRA costs.

- a. Please confirm that the Postal Rate Commission used the appropriate level of costs for insurance when recommending fees in Docket No. R97-1. (See Appendix G, Schedule 1.)
- b. Please confirm that the cost coverage for insurance recommended by the Commission was 144.7%.

RESPONSE:

- a. Confirmed that \$47,223,000 (as presented in Appendix G, Schedule 1) is the correct attributable cost for purposes of determining the cost coverage for insured mail in Docket No. R97-1, given the Postal Rate Commission's methodology for volume variabilities.
- b. Confirmed.

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

OCA/USPS-T-30-4. Please refer to your answer to OCA/USPS-T-39-4a.
(redirected from witness Mayo).

- a. Is the methodology that you used for insurance in this docket the same as that used by the Postal Service in Docket No. R97-1? Describe any differences.
- b. Is the methodology you used for insurance in this docket the same as that used by the Postal Service in Docket No. R90-1? Describe any differences.

RESPONSE:

- a. The methodology used for insurance in this docket, as revised today, is similar to that used by the Postal Service in Docket No. R97-1. I have employed the same general approach of determining a unit delivery cost for numbered insured mail, then developing a unit cost by type of insurance transaction. I have enhanced the determination of the unit delivery cost for numbered insured mail by replacing previous calculations, which relied on several assumptions regarding delivery, with CRA cost segment data. After developing costs that are net of indemnity costs, I then add the average indemnity cost per transaction (insured value of \$0 - \$50) to the cost of unnumbered insurance. I also add the average indemnity cost per transaction (insured value of \$50 - \$100) to the base cost of numbered insurance.
 - b. The methodology used for insurance in this docket is similar to that used by the Postal Service in Docket No. R90-1. Since the cost study from Docket No. R97-1 appears to use the same methodology as the cost study from Docket No. R90-1, please refer to my response to part (a) above.
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DAVIS
TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T-30-5. Please refer to your answer to OCA/USPS-T-39-4a. (redirected from witness Mayo). There you state that "it may be that the decentralization of claims processing has resulted in higher volume variable costs for insurance".

- a. Please explain in detail what "the decentralization of claims processing" entails.
- b. Please explain how this decentralization causes higher costs.
- c. Please explain the rationale for decentralization if it causes costs to increase rather than decrease.

RESPONSE:

- a. I understand that in FY 1998, responsibility for paying claims for unnumbered insurance was transferred from the St. Louis Accounting Service Center to the field. Specifically, DMM Issue 55, at S010.4.1, requires the adjudication and payment or disallowance of domestic non-bulk unnumbered insured claims at the local post office level as opposed to the St. Louis Accounting Service Center.
- b. I do not have specific information on the cost impact of decentralization of claims processing and am not aware that such information exists. Therefore, I cannot say with certainty that decentralization causes higher costs. Decentralization might lead to higher costs if economies of scale are lost.
- c. I believe that the rationale for decentralization is to provide faster service to customers filing claims for unnumbered insurance.

REVISED April 17, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DAVIS
TO INTERROGATORY OF OFFICE OF THE CONSUMER ADVOCATE
(Redirected From Witness Mayo, USPS-T-39)**

OCA/USPS-T39-4. Please refer to your testimony at page 60.

- a. Please explain the reason for the large increase in costs for insurance which caused you to propose a 59% increase in the rate for Unnumbered Insurance up to \$50.

RESPONSE:

- a. The increase in costs for insurance is due to the following. First, I understand that the costs in C/S-3 and C/S-7 have increased due in part to methodological changes resulting in higher variability factors for insurance (please refer to USPS-T-12, USPS-T-15 and USPS-T-17).
Second, it may be that the decentralization of claims processing has resulted in higher volume variable costs for insurance. Please refer to my revisions (filed April 17, 2000) to USPS-T-30 (p.14) and USPS-LR-I-108 (p.43, electronic file name: "insured mail.xls"), which result in lower increases to unit volume variable costs for unnumbered insurance.

DECLARATION

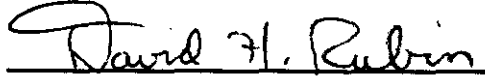
I, Scott J. Davis, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Scott J. Davis

Dated: April 17, 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.



David H. Rubin

475 L'Enfant Plaza West, S.W.
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April 17, 2000