

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 MAYO
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE,
(OCA/USPS-T39-17, 18(B)-24)

The United States Postal Service hereby provides the responses of witness Mayo to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T39-17 and 18(b) to 24, filed on April 6, 2000. Interrogatory OCA/USPS-T39-18(a) has been redirected to witness Davis.

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 20, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO
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(OCA/USPS-T39-17-24)**

OCA/USPS-T-39-17. Please refer to your answer to OCA/USPS-T-39-5. Please explain in detail how you used the indemnity analysis in setting the fees for insurance.

RESPONSE:

I used the indemnity analysis directly and indirectly. Directly, I reviewed the percentage of claims per value level to see if there were any discrepancies that would be cause to consider more than one incremental fee per value level. Indirectly, I reviewed the costs from the indemnity analysis to verify that these costs were included in the total volume variable costs. Criterion 3 was used when designing the proposed insurance fees.

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OCA/USPS-T-39-18. Please refer to your answer to OCA/USPS-T-39-6 where you were asked to justify an incremental fee of 95 cents per additional \$100 of insurance.

As a result of Docket No. MC96-3, Special Services, the indemnity limit for insurance was increased from \$600 to \$5,000. This was amply supported by market surveys and participants' testimony. However, the incremental fee was not.

The \$.90 incremental fee for each \$100 value level was chosen because it merely extends the current incremental insured mail fee of \$.90 per \$100 in value recommended by the Commission in Docket No. R94-1. No indemnity analyses were performed to arrive at this fee. No other fees were considered. . . .

Tr. 4/1107, witness Needham's response to interrogatory OCA/USPS-T8-30.

The principal interest of the participants (including the OCA) was that the Postal Service be required to collect data to support future adjustments in the incremental fee. PRC Op. MC96-3 at 119. The Commission agreed that the lack of support for the incremental fee was a concern but that the \$.90 fee would be appropriate for purposes of the MC96-3 decision. The Commission recommended that the Postal Service attempt to accurately determine all cost changes that were related to the change in indemnity limits. PRC Op. MC96-3 at 122.

- a. Has the Postal Service studied the costs as they relate to the incremental fee as instructed by the Commission? If so, provide the studies and describe how the studies were utilized in this case. If not, explain in detail why not.
- b. If not, please explain exactly what the cost basis is for the incremental fee.
- c. You state that "the increase in the fee for the incremental value level worked in conjunction with the increase in the base price to provide a reasonable cost coverage for this service." Please reconcile the resulting high cost coverage of this element of the insurance fee with your response to OCA/USPS-T-39-4b. referring to the magnitude of fee increase needed to have the unnumbered fee cover costs.

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(OCA/USPS-T39-17-24)**

OCA/USPS-T-39-18.

RESPONSE:

- a. Redirected to witness Davis.
- b. The incremental fee was designed to help cover the total volume variable costs for insurance. Because of the variations in the average indemnity per transaction across value increments, I could not use this indemnity cost analysis as the sole basis for the proposed incremental fee.
- c. I do not have costs for each incremental value level and, therefore cannot calculate a cost coverage for this element. I do not believe the proposed overall cost coverage for insurance of 138 percent, that includes the incremental fee, is high, especially when compared to the Commission recommended cost coverages of 145 percent in Docket No. R97-1 and 148 percent in Docket No. MC96-3. Additionally, the proposed overall cost coverage for insurance is low when taking into consideration the proposed systemwide cost coverage in this proceeding.

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(OCA/USPS-T39-17-24)**

OCA/USPS-T-39-19. Does the indemnity analysis provided in response to OCA/USPS-T-39-5 contain the type and kind of information that was needed in Docket No. MC96-3 but was lacking? Please explain in detail.

RESPONSE:

I do not believe an indemnity analysis or other information was necessary for the insurance proposal in Docket No. MC96-3. The proposed extension of the incremental fee per value level was based upon the then-current incremental fee recommended by the Commission in Docket No. R94-1. See Docket No. MC96-3, Tr. 4/1107, and PRC Op., MC96-3, at 122.

The indemnity analysis presented in response to OCA/USPS-T-39-5 does present, for the first time in a Commission proceeding, actual indemnity information for the \$600.01 to up to \$5,000.00 value levels.

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(OCA/USPS-T39-17-24)**

OCA/USPS-T-39-20. Please refer to OCA/USPS-T-39-11.

- a. Please explain why you do not believe that it is generally widely known that the Postal Service sells money orders.
- b. Until the recent past (within the last 10 years) has the Postal Service been the sole or main provider of money order service? Please explain.
- c. Does the Postal Service anticipate advertising money orders on the Internet?
- d. Would it be feasible for the Postal Service to offer money orders on the Internet? Please explain.

RESPONSE:

- a. Based on my own personal experience I have encountered many people who do not know the Postal Service sells money orders. In passing convenience stores and check cashing facilities I usually see large signs in the windows advertising money orders. I do not see these types of signs in the front windows of post offices.
- b. The Postal Service first introduced money orders in the Civil War, and presumably was the only provider of money orders at that time. The most recent Non-Bank Financial Institution report shows that in 1996, the Postal Service's share of the money order market was 27 percent, with Traveler's Express at 28 percent, and American Express at 31 percent. (The remainder of the market is split among several companies with percentages ranging from 1 to 6 percent. See www.ustreas.gov/fincen/cooply.html.) I do not have this type of information prior to ten years ago.

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(OCA/USPS-T39-17-24)**

OCA/USPS-T-39-21. Please refer to OCA/USPS-T-39-13. There you state:
"Competitors offer money orders for various fees, and it is my understanding that these fees are based on the dollar value of the money order." Please explain in detail on what you base your "understanding".

RESPONSE:

I base my understanding of competitors' money order fees on advertisements I see in stores and information gained from calls I place periodically to a variety of establishments selling money orders locally. I have found competitors charging prices of from \$0.50 to \$6.00 for \$700 in money orders.

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OCA/USPS-T-39-22. Please refer to OCA/USPS-T-39-13. There you state: "I am not aware of any competitors that offer money orders valued up to \$700 for 28 cents."

- a. Are you aware of competitors who offer money orders for a single fee up to \$500?
- b. Are you aware of competitors who offer money orders for a single fee of 28 cents up to \$500?
- c. If your answer to b. is no, assume, hypothetically, that there are competitors who offer money orders for a single fee of 28 cents up to \$500. Please confirm that one could purchase two money orders with a value of \$700 for 56 cents, 34 cents less than the fee you propose.
- d. If your answer to b. is no, assume, hypothetically, that there are competitors who offer money orders for a single fee of 28 cents up to \$500. Please confirm that one could purchase three money orders with a value of \$1500 for 84 cents.
- e. Please confirm that under your proposal, three money orders with a total value of \$1500 would cost \$2.70.

RESPONSE:

- a. Yes.
- b. No. But see my response to OCA/USPS-T39-21.
- c-d. Your math appears to be correct, assuming a customer was willing to spend the time to purchase more than one money order for one payment.
- e. Confirmed.

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(OCA/USPS-T39-17-24)**

OCA/USPS-T-39-23. Please refer to OCA/USPS-T-39-13. There you state that "The Postal Service is proposing increases to the fees for money orders for the reasons described in my testimony at pages 77-79." On those pages you describe the pricing criteria of the Act. The discussion referred to is not responsive to the question asked in this interrogatory.

Please explain why the Postal Service proposes to increase the fee for money orders in the face of competition that charges less than your proposed fee. Include your proposed ninth criterion (found at page 78 of your testimony) in this discussion and explain how the Postal Service expects to capture a portion of this potentially large, new Internet market.

RESPONSE:

Again, I refer you to my testimony at pages 77-79 that describes the reasons for the proposed money order fees. I believe my discussion of the pricing criteria of the Act does explain the proposed money order fees. I mentioned Criterion 5, stating that there are many widely available alternatives to postal money orders. These alternatives do not necessarily have to be money orders. (See the Docket No. R94-1 testimony of witness Foster, USPS-T-11, at pages 63-64.) Also, the fees for the alternatives to postal money orders vary widely, with some priced higher and some priced lower than postal money orders. I believe that the proposed fees will not hurt the Postal Service's ability to attract Internet users to postal money orders. I know of one company whose money orders purchased over the Internet cost much more than the Postal Service's money orders. See www.Bid Pay.com/pricing.html.

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OCA/USPS-T-39-23 (CONTINUED).

The Postal Service faces competition from many companies that charge lower fees and rates than we do. That does not necessarily mean that we propose rates and fees that are lower than the competition, particularly when considering there are costs to be covered. The Postal Service prices individual products and services, such as money orders, using the nine pricing criteria of the Act.

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OCA/USPS-T-39-24. Please refer to OCA/USPS-T-39-13. There you state:
"Competitors offer money orders for various fees, and it is my understanding that these fees are based on the dollar value of the money order."

- a. Please provide a breakdown of the volume of money orders by dollar amounts of face value in increments of \$50 (i.e., \$0 – 50, \$51 –100, \$101 – 150, etc.) or other similar increments for which data is available. Identify the period from which the data is taken.
- b. Please provide the average face value of money orders.

RESPONSE:

- a. See attachment to this response.
- b. The average face value for a domestic money order in 1999 was \$129.05. The average face value for all money orders (military, domestic and international) in 1999 was \$130.05.

**Domestic Money Order Sales
Vouchers Reported 10-1-1998 through 9-30-1999**

Category	Number	Total Sales
\$0-\$50.00	105,169,767	\$2,824,182,513
\$50.01-\$100.00	43,652,680	\$3,354,331,331
\$100.01-\$150.00	17,160,153	\$2,165,626,708
\$150.01-\$200.00	11,699,817	\$2,120,925,336
\$200.01-\$250.00	6,937,355	\$1,585,571,571
\$250.01-\$300.00	6,773,431	\$1,911,029,245
\$300.01-\$350.00	4,385,222	\$1,436,860,673
\$350.01-\$400.00	4,557,184	\$1,742,885,740
\$400.01-\$450.00	2,728,728	\$1,167,998,049
\$450.01-\$500.00	4,661,961	\$2,283,996,434
\$500.01-\$550.00	1,879,979	\$992,647,968
\$550.01-\$600.00	2,137,739	\$1,250,111,376
\$600.01-\$650.00	1,303,620	\$819,879,772
\$650.01-\$700.00	6,361,971	\$4,431,582,051
219,409,607	\$28,087,628,767	

DECLARATION

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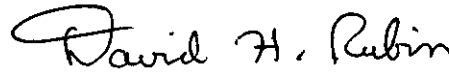
I, Susan W. Mayo, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Susan W Mayo

Dated: April 20, 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
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