

ORIGINAL

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*Before the*

## UNITED STATES POSTAL RATE COMMISSION

In the Matter of:

POSTAL RATE AND FEE CHANGE

Docket No.

R2000-1

VOLUME II

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402 Constitution Avenue, N.W., Suite 1918

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BEFORE THE  
POSTAL RATE COMMISSION

- - - - -X  
In the Matter of: :  
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1  
- - - - -X

Third Floor Hearing Room  
Postal Rate Commission  
1333 H Street, N.W.  
Washington, D.C. 20268

Volume XI  
Tuesday, April 25, 2000

The above-entitled matter came on for hearing,  
pursuant to notice, at 9:31 a.m.

BEFORE:

HON. EDWARD J. GEILMAN, CHAIRMAN  
HON. GEORGE A. OMAS, VICE CHAIRMAN  
HON. W.H. "TREY" LeBLANC, COMMISSIONER  
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER  
HON. RUTH GOLDWAY, COMMISSIONER

ANN RILEY & ASSOCIATES, LTD.  
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Washington, D.C. 20036  
(202) 842-0034

## 1 APPEARANCES:

2 On behalf of the National Association of Letter  
3 Carriers, AFL-CIO:  
4 KEITH SECULAR, ESQ.  
Cohen, Weiss & Simon  
330 W. 42nd Street  
New York, NY 10036

5 On behalf of the Newspaper Association of America:  
6 ROBERT J. BRINKMANN, ESQ.  
Newspaper Association of America  
429 14th Street, NW  
7 Washington, DC 20045

8 WILLIAM B. BAKER, ESQ.  
9 Wiley, Rein & Fielding  
1776 K Street, NW, Suite 1100  
Washington, DC 20006

10 On behalf of the National Association of Presort  
11 Mailers:  
HENRY A. HART, ESQ.  
12 Reed, Smith, Shaw & McClay, LLP  
1301 L Street, NW  
13 East Tower, Suite 1100  
Washington, DC 20005

14 On behalf of the Classroom Publishers Association:  
15 STEPHEN F. OWEN, JR., ESQ.  
5335 Wisconsin Avenue, NW  
16 Suite 920  
Washington, DC 20015

17 On behalf of OCA-PRC:  
18 KENNETH E. RICHARDSON, ESQ.  
EMMETT RAND COSTICH, ESQ.  
19 SHELLEY S. DREIFUSS, ESQ.  
TED P. GERARDEN, DIRECTOR  
20 Office of the Consumer Advocate  
Public Rate Commission  
21 1333 H Street, NW  
Washington, DC 20005

22 On behalf of Hallmark Cards, Incorporated:  
23 DAVID F. STOVER, ESQ.  
SHELDON BIERMAN, ESQ.  
24 2970 S. Columbus Street, Suite 1B  
Arlington, VA 22206

25

ANN RILEY & ASSOCIATES, LTD.  
Court Reporters  
1025 Connecticut Avenue, NW, Suite 1014  
Washington, D.C. 20036  
(202) 842-0034

## 1 APPEARANCES: (continued)

2 On behalf of ADVO, Incorporated; and the  
3 Saturation Mail Coalition:  
4 JOHN M. BURZIO, ESQ.  
5 THOMAS W. McLAUGHLIN, ESQ.  
6 Burzio & McLaughlin  
7 1054 31st Street, NW, Suite 540  
8 Washington, DC 20007

9 On behalf of the American Postal Workers Union,  
10 AFL-CIO:  
11 SUSAN L. CATLER, ESQ.  
12 O'Donnell, Schwartz & Anderson, P.C.  
13 1300 L Street, NW, Suite 1200  
14 Washington, DC 20005

15 On behalf of the American Bankers Association:  
16 IRVING D. WARDEN, ESQ.  
17 1120 Connecticut Avenue, NW  
18 Washington, DC 20036  
19 On behalf of the Amazon.com:  
20 WILLIAM B. BAKER, ESQ.  
21 Wiley, Rein & Fielding  
22 1776 K Street, NW, Suite 1100  
23 Washington, DC 20006

24 On behalf of the Association of American  
25 Publishers:  
26 MARK PELESH, ESQ.  
27 JOHN PRZYPYSZNY, ESQ.  
28 Drinker, Biddle & Reath, LLP  
29 1500 K Street, NW, Suite 1100  
30 Washington, DC 20005

31 On behalf of the Alliance of Nonprofit Mailers;  
32 American Library Association:  
33 DAVID M. LEVY, ESQ.  
34 CHRISTOPHER T. SHENK, ESQ.  
35 Sidley & Austin  
36 1722 Eye Street, NW  
37 Washington, DC 20006

38 On behalf of the McGraw-Hill Companies,  
39 Incorporated:  
40 TIMOTHY W. BERGIN, ESQ.  
41 Squire, Sanders & Dempsey, LLP  
42 P.O. Box 407  
43 Washington, DC 20044

44

ANN RILEY & ASSOCIATES, LTD.  
Court Reporters  
1025 Connecticut Avenue, NW, Suite 1014  
Washington, D.C. 20036  
(202) 842-0034



## 1 APPEARANCES: (continued)

On behalf of the American Business Press:

2 DAVID STRAUS, ESQ.

MERCIA ARNOLD, ESQ.

3 Thompson, Coburn

700 14th Street, NW, Suite 900

4 Washington, DC 20005

5 On behalf of the Florida Gift Fruit Shippers  
Association:

6 MAXWELL W. WELLS, JR., ESQ.

Maxwell W. Wells, Jr., PA

7 14 E. Washington Street, Suite 600

8 Orlando, FL 32802

9 On behalf of the Association for Postal Commerce;  
Pitney-Bowes and the Recording Industry  
Association; R.R. Donnelly & Sons Company:

10 IAN D. VOLNER, ESQ.

FRANK WIGGINS, ESQ.

11 HEATHER McDOWELL, ESQ.

Venable, Baetjer, Howard & Civiletti

12 1201 New York Avenue

Washington, D.C. 20005

13 On behalf of the Direct Marketing Association:

14 DANA T. ACKERLY, ESQ.

Covington & Burling

15 1201 Pennsylvania Avenue, NW

Washington, D.C. 20004

16 On behalf of Time Warner, Inc.:

17 JOHN M. BURZIO, ESQ.

TIMOTHY L. KEEGAN, ESQ.

18 Burzio & McLaughlin

1054 31st Street, NW, Suite 540

19 Washington, DC 20007

20 On behalf of ValPak Direct Marketing Systems,  
Inc.; ValPak Dealers Association, Inc.; Carol  
21 Wright Promotions, Inc.; Association of Priority  
Mail Users, Inc.; District Photo, Inc.; Cox  
22 Sampling; and Mystic Color Lab:

WILLIAM J. OLSON, ESQ.

23 JOHN S. MILES, ESQ.

William J. Olson, PC

24 8180 Greensboro Drive, Suite 1070

McLean, VA 22102

25 ANN RILEY & ASSOCIATES, LTD.

Court Reporters

1025 Connecticut Avenue, NW, Suite 1014

Washington, D.C. 20036

(202) 842-0034

## 1 APPEARANCES: (continued)

2 On behalf of the United Parcel Service:

3 JOHN E. MCKEEVER, ESQ.

4 Piper, Marbury, Rudnick &amp; Wolfe, LLP

5 3400 Two Logan Square

6 18th &amp; Arch Streets

7 Philadelphia, PA 19103

8 On behalf of the Dow Jones &amp; Company, Inc.:

9 MICHAEL F. MCBRIDE, ESQ.

10 BRUCE W. NEELY, ESQ.

11 JOSEPH FAGAN, ESQ.

12 LeBoeuf, Lamb, Greene &amp; MacCrae, LLP

13 1875 Connecticut Avenue, NW, Suite 1200

14 Washington, DC 20009

15 On behalf of the Parcel Shippers Association; and  
16 E-Stamp Corporation:

17 TIMOTHY J. MAY, ESQ.

18 Patton Boggs, LLP

19 2550 M Street, NW

20 Washington, D.C. 20037

21

22 On behalf of Stamps.com:

23 DAVID P. HENDEL, ESQ.

24 Wickwire Gavin, P.C.

25 8100 Boone Boulevard, Suite 700

Vienna, VA 22182

On behalf of the National Newspaper Association;  
and the Professional Football Publication

Association:

TONDA F. RUSH, ESQ.

King &amp; Ballou

6054 N. 21st Street

Arlington, VA 22205

On behalf of Key Span Energy; Long Island Power  
Authority; and Major Mailers Association:

MICHAEL W. HALL, ESQ.

34693 Bloomfield Avenue

Round Hill, VA 20141

On behalf of the Mail Advertising Services  
Association International; and Smart Mail, Inc.:

GRAEME W. BUSH, ESQ.

Zuckerman, Spader, Goldstein, Taylor &amp; Kolken, LLP

1201 Connecticut Avenue, NW

Washington, DC 20036

ANN RILEY &amp; ASSOCIATES, LTD.

Court Reporters

1025 Connecticut Avenue, NW, Suite 1014

Washington, D.C. 20036

(202) 842-0034

## 1 APPEARANCES:(continued)

2 On behalf of the Coalition for Religious Press  
3 Associations:  
4 JOHN STAPERT, ESQ.  
5 1215 17th Street, NW  
6 Washington, D.C. 20036

7  
8 STEPHEN FELDMAN, ESQ.  
9 Law Offices of Stephen M. Feldman  
10 601 Pennsylvania Avenue, NW  
11 Building SJE 900  
12 Washington, D.C. 20004

13 On behalf of the Magazine Publishers of America:  
14 JAMES CREGAN, ESQ.  
15 ANNE NOBLE, ESQ.  
16 Magazine Publishers of America  
17 Suite 610  
18 1211 Connecticut Avenue, NW  
19 Washington, D.C. 20036

20 On behalf of the Mail Order Association of  
21 America:  
22 DAVID TODD, ESQ.  
23 Patton Boggs L.L.P  
24 2550 M Street, NW  
25 Washington, D.C.

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Court Reporters  
1025 Connecticut Avenue, NW, Suite 1014  
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## C O N T E N T S

1	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
2	VIRGINIA J. MAYES				
3	BY MR. TIDWELL	4168		4669	
	BY MR. SUENDIMAN		4420		
4	BY MR. MCKEEVER		4450/4612		
	BY MR. WARDEN		4455		
5	BY MR. PELESH		4458		
	BY MR. TODD		4477/4661		
6	BY MR. BAKER		4489		
	BY MR. COSTICH		4500		
7	BY MR. MAY		4543		
	BY MR. FELDMAN		4566		
8	BY MR. OLSON		4617		
9	DOCUMENTS TRANSCRIBED INTO THE RECORD:				PAGE
10	Designated Written Cross Examination of Virginia J. Mayes, USPS-T-32				4170
11	Additional Designated Written Cross Examination of Virginia J. Mayes, AAP/USPS-T-32-4 and 10; AAPS/USPS-T-32-19; Carlson/USPS-T-32-40; 12 CRPA/USPS-T-32-3; MOAA/USPS-T-32-11; 13 NAA/USPS-T-32-8 and 36; OCA/USPS-T-32-1, 5, 14, 17; PSA/USPS-T-32-2; UPS/USPS-T-32-3 and 6; and VPCW/USPS-T-32-12(b)				4421
14	Additional Designated Written Cross Examination of Virginia J. Mayes, UPS/USPS-T-32-12 and 13				4450
15					
16	E X H I B I T S				
	EXHIBITS AND/OR TESTIMONY		IDENTIFIED		RECEIVED
17	Direct Testimony of Virginia J. Mayes, USPS-T-32		4169		4169
18	Library Reference Number I-174		4170		4170
19	Designated Written Cross Examination of Virginia J. Mayes, USPS-T-32		4170		4170
20	Additional Designated Written Cross Examination of Virginia J. Mayes, AAP/USPS-T-32-4 and 10; 21 AAPS/USPS-T-32-19; Carlson/USPS-T-32-40; CRPA/USPS-T-32-3; MOAA/USPS-T-32-11; 22 NAA/USPS-T-32-8 and 36; OCA/USPS-T-32-1, 5, 14, 17; 23 PSA/USPS-T-32-2; UPS/USPS-T-32-3 and 6; and VPCW/USPS-T-32-12(b)		4421		4421
24	Additional Designated Written Cross Examination of Virginia J. Mayes, 25 UPS/USPS-T-32-12 and 13		4450		4450

## P R O C E E D I N G S

[9:31 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we continue our hearings to receive testimony of Postal Service Witness, Mayes, in support of Docket R2000-1.

I was reading over the new version of H.R. 22 last night, and I noticed that it's got a provision in it. I can't remember the Section; maybe it was 3723, that says that enactment of the legislation would result in termination of any ongoing rate case.

So those of you who don't want to proceed any further with this rate case, you know, we'll excuse you from the hearing room today. You can go up to the Hill and lobby.

As a matter of fact, several of us Commissioners, having sat through a couple of weeks of hearings, think we might want to go up to the Hill and lobby in favor of the bill at this point.

But for those of us who enjoy pain, we'll continue on today. Does any participant have an issue that they'd like to discuss today before we begin with our scheduled witness?

[No response.]

CHAIRMAN GLEIMAN: If not, Mr. Tidwell, would you please introduce your witness?

1 MR. TIDWELL: The Postal Service calls Virginia  
2 Mayes to the stand.  
3 Whereupon,

4 VIRGINIA J. MAYES,  
5 a witness, having been called for examination, and, having  
6 been first duly sworn, was examined and testified as  
7 follows:

8 DIRECT EXAMINATION

9 BY MR. TIDWELL:

10 Q Ms. Mayes, you've been handed two copies of a  
11 document entitled the Direct Testimony of Virginia Mayes on  
12 behalf of the United States Postal Service.

13 It's been designated for purposes of this  
14 proceeding as USPS-T-32. Was that document prepared by you  
15 or under your supervision?

16 A Yes, it was.

17 Q If you were to provide the contents of that  
18 document as your testimony today, orally, would it be the  
19 same?

20 A Yes, it would. I note that the two copies that  
21 you handed me incorporate a couple <sup>of</sup> small changes that result  
22 from the errata filed on Friday, the 21st.

23 Q And could you indicate for the record, what those  
24 changes are?

25 A On page 36 at line 7, the 6.4 percent becomes 6.5

1 percent.

2 And on page 38, let's see, line 19, the word,  
3 below, becomes, above. And with those changes --

4 MR. TIDWELL: Mr. Chairman, with those changes,  
5 the Postal Service would move into evidence, the Direct  
6 Testimony of Ms. Mayes.

7 CHAIRMAN GLEIMAN: Is there any objection?

8 [No response.]

9 CHAIRMAN GLEIMAN: Hearing none, I'll direct that  
10 counsel provide the Reporter with two copies of the  
11 corrected Direct Testimony of Witness Mayes, and order that  
12 the testimony be received into evidence, and, as is our  
13 practice, it will not be transcribed into the record.

14 [Direct Testimony of Virginia J.  
15 Mayes, USPS-T-32, was received into  
16 evidence.]

17 BY MR. TIDWELL:

18 Q Ms. Mayes, the Presiding Officer's Ruling -- in  
19 response to that ruling, the Postal Service identified one  
20 Library Reference as being associated with your testimony.

21 That was Library Reference I-174, which is an  
22 electronic version of the rate level spreadsheets. Are you  
23 sponsoring that Library Reference?

24 A Yes, I am.

25 CHAIRMAN GLEIMAN: That being the case, I will

1 direct that the Library Reference be entered into evidence,  
2 and not be transcribed into the record.

3 [Library Reference Number I-174 was  
4 received into evidence.]

5 CHAIRMAN GLEIMAN: Ms. Mayes, have you had an  
6 opportunity to examine the packet of Designated Written  
7 Cross Examination that was made available to you earlier  
8 today?

9 THE WITNESS: Yes, I have.

10 CHAIRMAN GLEIMAN: If the questions contained in  
11 that packet were asked of you today, would your answers be  
12 the same as those you previously provided in writing?

13 THE WITNESS: Yes, they would, with a few  
14 exceptions, again, resulting primarily from the changes that  
15 were filed on Friday the 21st.

16 CHAIRMAN GLEIMAN: And have those changes been  
17 incorporated into the packet?

18 THE WITNESS: Yes, they have.

19 CHAIRMAN GLEIMAN: That being the case, if counsel  
20 would provide two copies of the Corrected, Designated  
21 Written Cross Examination of Witness Mayes to the Court  
22 Reporter, I'll direct that the material be received into  
23 evidence and transcribed into the record.

24 [Designated Written Cross  
25 Examination of Virginia J. Mayes]



1 was received into evidence and  
2 transcribed into the record.]  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS VIRGINIA J. MAYES  
(USPS-T-32)

<u>Party</u>	<u>Interrogatories</u>
American Bankers Association and National Association of Presort Mailers	ABA&NAPM/USPS-T32-1-5
Association of American Publishers	AAP/USPS-T32-1-2, 4-7, 9-12 GCA/USPS-T32-1 MOAA/USPS-T32-2, 4, 9-10 PSA/USPS-T32-1
Association of Priority Mail Users, Inc.	APMU/USPS-T32-1-8
Coalition of Religious Press Associations	CRPA/USPS-T32-1-7, 9, 10a-b, 11 NAA/USPS-T32-36
Direct Marketing Association, Inc.	AAP/USPS-T32-4 AAPS/USPS-T32-12 CRPA/USPS-T32-1, 6 GCA/USPS-T32-1-2, 10 MOAA/USPS-T32-13 NAA/USPS-T32-2, 5-6, 8, 11-14, 17-21, 23-24, 27, 29-30, 34 OCA/USPS-T32-1, 4, 7, 16 PSA/USPS-T32-1-4 UPS/USPS-T32-6 VP-CW/USPS-T32-1, 3

Greeting Card Association	GCA/USPS-T32-1-3, 5, 7-16
Mail Order Association of America	AAP/USPS-T32-1-2, 4, 9-12 AAPS/USPS-T32-4-6, 11d, 17, 19 GCA/USPS-T32-1-10 MOAA/USPS-T32-1-2, 4-6, 8-10, 12-13 NAA/USPS-T32-2-30 OCA/USPS-T32-18 VP-CW/USPS-T32-1, 3, 12-15
Newspaper Association of America	AAPS/USPS-T32-1, 4, 6, 8, 10, 11d, 14-15, 17-19 ABA&NAPM/USPS-T32-4 DFC/USPS-40 redirected to T32 GCA/USPS-T32-5, 7-10, 15-16 MOAA/USPS-T32-1, 6, 11, 13 NAA/USPS-T32-2-24, 26-36 OCA/USPS-T32-2, 4-7, 11, 13-18 UPS/USPS-T32-1-4, 6 VP-CW/USPS-T32-1, 3, 7, 9-10, 12-15 POIR No. 3, Question 5
Office of the Consumer Advocate	OCA/USPS-T32-1, 3-6, 11-12, 14-18
Parcel Shippers Association	PSA/USPS-T32-1-5, 7, 10
United Parcel Service	AAP/USPS-T32-12 AAPS/USPS-T32-4, 6, 17 DFC/USPS-40 redirected to T32 MOAA/USPS-T32-1 NAA/USPS-T32-2, 6, 10, 30, 33, 36 OCA/USPS-T32-1-2, 4-5, 13, 17-18 PSA/USPS-T32-1-3 UPS/USPS-T32-1, 3
Val-Pak Direct Marketing, Val-Pak Dealers, & Carol Wright	VP-CW/USPS-T32-1-4, 6-10, 12-15

Respectfully submitted,

  
Cyril J. Pittack

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS VIRGINIA J. MAYES (T-32)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory:</u>	<u>Designating Parties:</u>
AAP/USPS-T32-1	AAP, MOAA
AAP/USPS-T32-2	AAP, MOAA
AAP/USPS-T32-4	AAP, DMA, MOAA
AAP/USPS-T32-5	AAP
AAP/USPS-T32-6	AAP
AAP/USPS-T32-7	AAP
AAP/USPS-T32-9	AAP, MOAA
AAP/USPS-T32-10	AAP, MOAA
AAP/USPS-T32-11	AAP, MOAA
AAP/USPS-T32-12	AAP, MOAA, UPS
AAPS/USPS-T32-1	NAA
AAPS/USPS-T32-4	MOAA, NAA, UPS
AAPS/USPS-T32-5	MOAA
AAPS/USPS-T32-6	MOAA, NAA, UPS
AAPS/USPS-T32-8	NAA
AAPS/USPS-T32-10	NAA
AAPS/USPS-T32-11d	MOAA, NAA
AAPS/USPS-T32-12	DMA
AAPS/USPS-T32-14	NAA
AAPS/USPS-T32-15	NAA
AAPS/USPS-T32-17	MOAA, NAA, UPS
AAPS/USPS-T32-18	NAA
AAPS/USPS-T32-19	MOAA, NAA
ABA&NAPM/USPS-T32-1	ABA&NAPM
ABA&NAPM/USPS-T32-2	ABA&NAPM
ABA&NAPM/USPS-T32-3	ABA&NAPM
ABA&NAPM/USPS-T32-4	ABA&NAPM, NAA
ABA&NAPM/USPS-T32-5	ABA&NAPM
APMU/USPS-T32-1	APMU
APMU/USPS-T32-2	APMU
APMU/USPS-T32-3	APMU
APMU/USPS-T32-4	APMU
APMU/USPS-T32-5	APMU

APMU/USPS-T32-6	APMU
APMU/USPS-T32-7	APMU
APMU/USPS-T32-8	APMU
CRPA/USPS-T32-1	CRPA, DMA
CRPA/USPS-T32-2	CRPA
CRPA/USPS-T32-3	CRPA
CRPA/USPS-T32-4	CRPA
CRPA/USPS-T32-5	CRPA
CRPA/USPS-T32-6	CRPA, DMA
CRPA/USPS-T32-7	CRPA
CRPA/USPS-T32-9	CRPA
CRPA/USPS-T32-10a	CRPA
CRPA/USPS-T32-10b	CRPA
CRPA/USPS-T32-11	CRPA
DFC/USPS-40 redirected to T32	NAA, UPS
GCA/USPS-T32-1	AAP, DMA, GCA, MOAA
GCA/USPS-T32-2	DMA, GCA, MOAA
GCA/USPS-T32-3	GCA, MOAA
GCA/USPS-T32-4	MOAA
GCA/USPS-T32-5	GCA, MOAA, NAA
GCA/USPS-T32-6	MOAA
GCA/USPS-T32-7	GCA, MOAA, NAA
GCA/USPS-T32-8	GCA, MOAA, NAA
GCA/USPS-T32-9	GCA, MOAA, NAA
GCA/USPS-T32-10	DMA, GCA, MOAA, NAA
GCA/USPS-T32-11	GCA
GCA/USPS-T32-12	GCA
GCA/USPS-T32-13	GCA
GCA/USPS-T32-14	GCA
GCA/USPS-T32-15	GCA, NAA
GCA/USPS-T32-16	GCA, NAA
MOAA/USPS-T32-1	MOAA, NAA, UPS
MOAA/USPS-T32-2	AAP, MOAA
MOAA/USPS-T32-4	AAP, MOAA
MOAA/USPS-T32-5	MOAA
MOAA/USPS-T32-6	MOAA, NAA
MOAA/USPS-T32-8	MOAA
MOAA/USPS-T32-9	AAP, MOAA
MOAA/USPS-T32-10	AAP, MOAA
MOAA/USPS-T32-11	NAA

MOAA/USPS-T32-12	MOAA
MOAA/USPS-T32-13	DMA, MOAA, NAA
NAA/USPS-T32-2	DMA, MOAA, NAA, UPS
NAA/USPS-T32-3	MOAA, NAA
NAA/USPS-T32-4	MOAA, NAA
NAA/USPS-T32-5	DMA, MOAA, NAA
NAA/USPS-T32-6	DMA, MOAA, NAA, UPS
NAA/USPS-T32-7	MOAA, NAA
NAA/USPS-T32-8	DMA, MOAA, NAA
NAA/USPS-T32-9	MOAA, NAA
NAA/USPS-T32-10	MOAA, NAA, UPS
NAA/USPS-T32-11	DMA, MOAA, NAA
NAA/USPS-T32-12	DMA, MOAA, NAA
NAA/USPS-T32-13	DMA, MOAA, NAA
NAA/USPS-T32-14	DMA, MOAA, NAA
NAA/USPS-T32-15	MOAA, NAA
NAA/USPS-T32-16	MOAA, NAA
NAA/USPS-T32-17	DMA, MOAA, NAA
NAA/USPS-T32-18	DMA, MOAA, NAA
NAA/USPS-T32-19	DMA, MOAA, NAA
NAA/USPS-T32-20	DMA, MOAA, NAA
NAA/USPS-T32-21	DMA, MOAA, NAA
NAA/USPS-T32-22	MOAA, NAA
NAA/USPS-T32-23	DMA, MOAA, NAA
NAA/USPS-T32-24	DMA, MOAA, NAA
NAA/USPS-T32-25	MOAA
NAA/USPS-T32-26	MOAA, NAA
NAA/USPS-T32-27	DMA, MOAA, NAA
NAA/USPS-T32-28	MOAA, NAA
NAA/USPS-T32-29	DMA, MOAA, NAA
NAA/USPS-T32-30	DMA, MOAA, NAA, UPS
NAA/USPS-T32-31	NAA
NAA/USPS-T32-32	NAA
NAA/USPS-T32-33	NAA, UPS
NAA/USPS-T32-34	DMA, NAA
NAA/USPS-T32-35	NAA
NAA/USPS-T32-36	CRPA, NAA, UPS
OCA/USPS-T32-1	DMA, OCA, UPS
OCA/USPS-T32-2	NAA, UPS
OCA/USPS-T32-3	OCA

OCA/USPS-T32-4	DMA, NAA, OCA, UPS
OCA/USPS-T32-5	NAA, OCA, UPS
OCA/USPS-T32-6	NAA, OCA
OCA/USPS-T32-7	DMA, NAA
OCA/USPS-T32-11	NAA, OCA
OCA/USPS-T32-12	OCA
OCA/USPS-T32-13	NAA, UPS
OCA/USPS-T32-14	NAA, OCA
OCA/USPS-T32-15	NAA, OCA
OCA/USPS-T32-16	DMA, NAA, OCA
OCA/USPS-T32-17	NAA, OCA, UPS
OCA/USPS-T32-18	MOAA, NAA, OCA, UPS
PSA/USPS-T32-1	AAP, DMA, PSA, UPS
PSA/USPS-T32-2	DMA, PSA, UPS
PSA/USPS-T32-3	DMA, PSA, UPS
PSA/USPS-T32-4	DMA, PSA
PSA/USPS-T32-5	PSA
PSA/USPS-T32-7	PSA
PSA/USPS-T32-10	PSA
UPS/USPS-T32-1	NAA, UPS
UPS/USPS-T32-2	NAA
UPS/USPS-T32-3	NAA, UPS
UPS/USPS-T32-4	NAA
UPS/USPS-T32-6	DMA, NAA
VP-CW/USPS-T32-1	DMA, MOAA, NAA, VP-CW
VP-CW/USPS-T32-2	VP-CW
VP-CW/USPS-T32-3	DMA, MOAA, NAA, VP-CW
VP-CW/USPS-T32-4	VP-CW
VP-CW/USPS-T32-6	VP-CW
VP-CW/USPS-T32-7	NAA, VP-CW
VP-CW/USPS-T32-8	VP-CW
VP-CW/USPS-T32-9	NAA, VP-CW
VP-CW/USPS-T32-10	NAA, VP-CW
VP-CW/USPS-T32-12	MOAA, NAA, VP-CW
VP-CW/USPS-T32-13	MOAA, NAA, VP-CW
VP-CW/USPS-T32-14	MOAA, NAA, VP-CW
VP-CW/USPS-T32-15	MOAA, NAA, VP-CW
POIR No. 3, Question 5	NAA

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES**

**AAP/USPS-T32-1.** On page 5 (lines 7-8) or [sic] your testimony, you state that "[t]he lower (in absolute value) the own price elasticity, the higher the value of service." On the basis of the long-run own-price demand elasticities that are shown in Table 2 on page 6 of your testimony, it appears that Bound Printed Matter ("BPM") exhibits lower own-price demand elasticity than any of the following sub-classes: First Class Cards – Stamped, First Class Cards – Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR Mail and Parcel Post. With respect to the own-price demand elasticities shown on Table 2:

(a) Please confirm that the own-price demand elasticities shown in Table 2 for BPM are lower than the own-price elasticities shown for any of the following subclasses: First Class Cards – Stamped, First Class Cards – Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR Mail and Parcel Post.

(b) Please confirm that, on the basis of the own-price demand elasticities shown in Table 2, BPM is a more highly valued service as per criterion 2 of Section 3622(b) of the Postal Reorganization Act than any of the following subclasses: First Class cards – Stamped, First Class Cards – Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR Mail and Parcel Post.

**Response:**

(a) Confirmed.

(b) Confirmed.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-2. On page 8 of your testimony, you discuss criterion 4 of Section 3622(b) of the Postal Reorganization Act. You state that this criterion "provides for consideration of the effect of rate increases on mailers and private-sector competitors of the Postal Service." In view of the rate increase proposed for Bound Printed Matter ("BPM") in this case, please explain fully how you considered the effect of the proposed rate increase on BPM mailers. In particular, please explain if any lower rate increases for BPM were ever considered by the Postal Service.

**Response:**

Please refer to Exhibit USPS-14M at page 20 where the TYAR unit volume-variable cost for Bound Printed Matter is shown as 91.3 cents. Please also refer to the Commission's Opinion and Recommended Decision from Docket No. R97-1 at Schedule 1 of Appendix G where the unit cost for Bound Printed Matter is shown as 67.327 cents. This increase of almost 36 percent from the cost upon which the current rates were developed to the costs upon which the proposed rates were developed in this case reflects some differences in costing methodology. A comparison of the Cost and Revenue Analysis reports for FY 1996 (the base year for Docket No. R97-1) and FY 1998 as calculated using the Commission's costing methodology shows an increase of 45 percent in Bound Printed Matter attributable costs. With regard to either cost comparison, a proposed increase in the rates of 18 percent represents significant mitigation in the rate impact. Had the same markup been applied to Bound Printed Matter in this case as was recommended by the Commission in Docket No. R97-1, the rate increase would have been over 30 percent rather than the 18 percent that

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**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES****Response to AAP/USPS-T32-2, cont'd**

resulted when the markup was cut by half relative to the Commission's R97-1 recommendation. Please also refer to Library Reference LR-I-149 where the comparison of markup indices demonstrates that the markup index for Bound Printed Matter dropped from .644 as recommended by the Commission in R97-1 to the .259 as implied by the proposals in this case.

In developing the proposals for this case, I also considered that in Docket No. R97-1, Bound Printed Matter received a rate increase of 5% and that the volume *growth had been tapering off in recent years, turning to a loss of volume in FY 1998 relative to FY 1997.* I also considered the volume impact of the rate increase, shown as a loss of about 3 percent of Bound Printed Matter from TYBR to TYAR.

In the iterative process of developing rate levels in order to achieve financial breakeven consistent with the pricing criteria, many different percent changes were considered for most subclasses, some of them lower than the ones proposed. In most instances, the lower rate increases from earlier iterations had to be replaced with higher rate increases when it became clear that financial breakeven would not be achieved.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES**

**AAP/USPS-T32-4.** On page 11 of your testimony, you discuss criterion 8 of Section 3622(b) of the Postal Reorganization Act. You state that, in the past, the criterion 8 has been applied by the Commission "in setting rate levels for First Class Letters, Regular Periodicals, Special Standard Mail and, to some degree, Bound Printed Matter." With respect to this statement:

- (a) Please explain why criterion 8 is only applied to BPM "to some degree." To what extent or degree is criterion 8 not applied to BPM?
- (b) Please explain the extent or degree to which criterion 8 has been applied by the Commission in setting rate levels for First Class Letters, Regular Periodicals and Special Standard Mail.
- (c) Please explain the differences, if any, in the extent or degree of application of criterion 8 to Special Standard Mail as compared to BPM.
- (d) Please explain the differences, if any, in the degree of application of criterion 8 to Regular Periodicals as compared to BPM.

**Response:**

Bound Printed Matter contains books and directories, both of which would warrant ECSI value consideration. It also contains catalogs that would not warrant ECSI value consideration.

I am unaware that the Commission ever indicated how many points of cost coverage it was shaving in deference to ECSI value consideration for any subclass of mail. Thus, I cannot specify the degree or extent to which the Commission has applied ECSI value to one subclass more than another. However, please refer to the Commission's Opinion and Recommended Decision in Docket No. R94-1 at V-127 and V-128 where it states:

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES****Response to AAP/USPS-T32-4, cont'd**

In Docket No. R90-1, the Commission allowed the markup for bound printed matter to decline to slightly below the systemwide average in recognition of the migration of books into this subclass. PRC Op. R90-1, para. 6519. By this action, the Commission gave weight to section 3622(b)(8). Nevertheless, the Commission stated that, on balance, there should be a "generally similar markup for third-class regular rate and bound printed matter." *Id.*, para. 6520. (PRC Op. R94-1, para. 5388)

Please also refer to PRC Op. R94-1, para. 5370 where the Commission states that "Special-rate fourth class is normally entitled to a cost coverage below parcel post due to section 3622(b)(8)." Please also refer to the same Recommended Decision where the Commission states:

In the past, the Commission has identified the letter subclass of First-Class Mail as one to which the ECSI considerations of subsection 3622(b)(8) are applicable. The Commission's recommendations for First-Class letters reflect this factor by recognizing the importance of an affordably-priced communications medium for the general public and for businesses and organizations. PRC Op. R94-1, para. 5068.

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**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES**

AAP/USPS-T32-5. On page 43 of your testimony, you state that the "average" rate increase proposed for BPM in this case is 18.1%. You also state that the proposed rate increase for BPM is "the highest rate increase proposed for any subclass in this case." With respect to this statement, please identify and provide all calculations or data that show how the "average" percentage increase for BPM was calculated.

**Response:**

Please refer to the testimony of witness Kiefer, USPS-T-37, Tables 17 and 18.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-6. On page 43 (lines 19-20) of your testimony you state "[i]n common with Parcel Post, the intrinsic value of service for Bound Printed Matter is relatively low (criterion 2)." With respect to this statement, please confirm that the own-price demand elasticity shown for Parcel Post (-1.230) in Table 2 of your testimony is more than three times the own-price demand elasticity shown in the same Table for BPM (-.392).

**Response:**

Confirmed. I would note that the own-price elasticities are usually referred to as measures of "economic value of service" and not "intrinsic value of service," with the latter being more closely associated with the value of service for a particular subclass relative to the service provided for other *postal* services.

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## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-7. On page 43 (lines 20-22) of your testimony, you compare the own-price demand elasticity of BPM with the own-price demand elasticity of Standard Mail A. With respect to this comparison, please confirm that the own price elasticities shown for Standard Mail A Regular (-0.570) and Standard Mail A ECR (-0.808) in Table 2 of your testimony are, respectively, more than 45.4% higher (Standard Mail A Regular) and 106.1% higher (Standard Mail A ECR) than the own-price demand elasticity shown in Table 2 for BPM (-.392).

**Response:**

Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES**

**AAP/USPS-T32-9. On page 45 (lines 1-2) of your testimony, you state that "[o]ver a period of years, a substantial number of books have been mailed as Bound Printed Matter." Please identify and provide all studies, reports, data or other evidence that you relied upon to support this statement.**

**Response:**

The most recent data of which I am aware indicated that in FY 1997 about 52 percent of Bound Printed Matter pieces, including both bulk and single-piece, were classified as "books." The comparable figure for FY 1996 was also 52 percent. In addition, please refer to the Commission's Opinion and Recommended Decision from Docket No. R90-1 at V-373 through V-377 for the discussion of eligibility of books as Bound Printed Matter. In particular, the Commission notes that "Witness Pello, representing Time Warner and AAP-RIAA, testifies that most of the major publishers have already completed their migration to bound printed matter." (PRC Op. R90-1, V-374 at [6503]).



REVENUE, PIECES, AND WEIGHT REPORT ADJUSTMENT SYSTEM  
 GOVERNMENT MAIL  
 GOVERNMENT FISCAL YEAR 1996  
 TOTAL PIECES

DATE: 04/10/97

CLASS	MAL	DOMESTIC PROBABILITY (COL 1)	INTERNATIONAL SRV/O (COL 2)	REGISTERED COD-ADJUSTMENT (COL 3)	SUM OF COLUMNS 1, 2, & 3	TOTAL * BOOK REV ADJ FACTOR	NONCOUNTABLE PIECES	GRAND TOTAL PIECES
9540	4201 4 BFM SP AG	33,064			33,064	41,803	1,145,087	1,188,890
9541	4221 4 BFM BLK BA AG	1,173			1,173	1,101	0	1,101
9542	4251 4 BFM SP BOOKS AG	30,811			30,811	41,780	0	41,780
9543	4271 4 BFM BLK BA BOOKS AG	7,541			7,541	7,541	0	7,541
9550	4231 4 BFM BLK CR AG	0			0	0	0	0
9561	4281 4 BFM BLK CR BOOKS AG	0			0	0	0	0

	B	C	D	E	F
5	Y RPW DATA - SORTED BY MAIL CATEGORY CODE WITHIN TWO-PAGE CATEGORY CODE				
6	YEAR 1997, Quarter 7 (**records should be rows 10-774**)				
7					
8	MAILCAT	REVENUE	PIECES	WEIGHT	LABEL
9					
10	4210	9,415	0	0	STD B BPM COMB ENCL
11	4220	126,572,636	148,650,089	358,224,347	STD B BPM BULK RATE
12	4221	2,957,903	1,195,513	4,239,275	AGN STD B BPM BULK RATE
13	4222	0	0	0	CONGR FRANK STD B BPM BULK RATE
14	4223	0	0	0	OTH FRANK STD B BPM BULK RATE
15	4230	54,784,337	87,994,064	195,999,182	STD B BPM BULK RATE CRT
16	4231	0	0	0	AGN STD B BPM BULK RATE CRT
17	4232	0	0	0	CONGR FRANK STD B BPM BULK RATE CRT
18	4233	0	0	0	OTH FRANK STD B BPM BULK RATE CRT
19	4250	25,259,656	14,489,696	35,636,042	STD B BPM BOOKS
20	4251	63,949	35,663	124,716	AGN STD B BPM BOOKS
21	4252	0	0	0	CONGR FRANK STD B BPM BOOKS
22	4253	0	0	0	OTH FRANK STD B BPM BOOKS
23	4260	275,923	0	0	STD B BPM COMB ENCL BOOKS
24	4270	211,901,808	239,938,649	589,616,050	STD B BPM BULK RATE BOOKS
25	4271	162	191	596	AGN STD B BPM BULK RATE BOOKS
26	4272	0	0	0	CONGR FRANK STD B BPM BULK RATE BOOKS
27	4273	0	0	0	OTH FRANK STD B BPM BULK RATE BOOKS
28	4280	11,480,948	18,536,625	30,066,577	STD B BULK RATE BPM CRT BOOKS
29	4281	0	0	0	AGN STD B BPM BULK RATE CRT BOOKS
30	4282	0	0	0	CONGR FRANK STD B BULK RATE BPM CRT BOOKS
31	4283	0	0	0	OTH FRANK STD B BPM CRT BOOKS

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-10. On page 45 (lines 3-4) of your testimony, with respect to BPM, you assert that the Postal Service "has given the subclass some ECSI consideration in setting rate levels, and the Postal Service proposal in this proceeding does so as well (criterion 8)." With respect to this statement:

- (a) Please explain fully what is meant by "some" ECSI consideration with respect to BPM.
- (b) Please explain the extent to which the number of books sent as BPM is considered in determining the extent or degree of ECSI consideration given to BPM.
- (c) Please confirm that the number of books sent as BPM affects the degree of ECSI consideration given to BPM.

**Response:**

- (a) Please see my response to your AAP/USPS-T32-4.
  - (b) – (c) I would expect that if the share of books overwhelmingly dominated the subclass, ECSI value consideration would become more important in rate design. However, I think that examination of the Commission's treatment of such subclasses as First-Class Letters or Periodicals where the mail consists of both material which would warrant ECSI value consideration (personal correspondence or editorial content, for example) as well as advertising or other matter which would not warrant ECSI value consideration could be instructive.
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## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-11 Please refer to your response to AAP/USPS-T32-2. In your response you state that "a proposed increase in the rates of 18 percent represents significant mitigation in the rate impact." With respect to your response:

- (a) Please confirm that the 18 percent increase referred to by your response is actually 18.1% and represents only an average increase for BPM.
- (b) Please confirm that for Basic Presort BPM the Postal Service is seeking a rate increase of up to 25.9%.
- (c) Please explain what is meant by the phrase "significant mitigation."
- (d) Please state whether an increase of 25.9%, instead of the 18% referred to by your response, also constitutes significant mitigation in the rate impact. If your response is yes, please explain.
- (e) Please provide any documents which address the effect that the proposed BPM rate increases might have on mailers and the future viability of the BPM subclass.
- (f) Please state whether a 25.9% increase constitutes rate shock.
- (g) Please identify the sources and reasons for an increase in BPM attributable costs of 45 percent and explain why the increase in attributable costs for BPM so far exceeded the rate of inflation for the time period cited in your response.
- (h) Please identify the portion of the increase in costs that "reflects some differences in costing methodology," and describe what those differences in costing methodology were.

**Response:**

- (a) Confirmed.
- (b) It is my understanding that there are some rates that will increase up to 25.9%.
- (c) It means that the rate increase was much smaller than would otherwise have been implied by the cost coverage target set by the Commission in Docket No. R97-1. Please refer to my response to AAP/USPS-T32-2 for further details regarding the cost increases since Docket No. R97-1 which underlie the Bound Printed Matter increase.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

## Response to AAP/USPS-T32-11, cont'd

- (d) Yes. Please refer to the response of witness Kiefer to AAP/USPS-T37-24(d). I think that the figure of 25.9% can only be viewed within the context of a full rate design, with consideration of both the target cost coverage and the average rate increase thus implied as well as the proposed changes to the rate structure. With the exception of Docket No. R94-1, most rate proposals for most subclasses have represented ranges of rate increases (or decreases) around the average for that subclass. In other words, not every rate cell received the same change in rates as did the subclass as a whole. In most cases, particularly when there is a change proposed to the rate design for a subclass and some de-averaging is required, the rate design witness and, subsequently, the Commission determine the range within which the rate changes will be constrained. Had the proposed average rate increase for Bound Printed Matter been more than 30 percent, as the costs might have implied had the rate level not been moderated, the maximum of the range of rate changes may very well have been much higher than currently proposed by witness Kiefer. Even given the moderated rate level, the unconstrained rates would have represented much higher rate increases than 25.9%. (See page 38 of USPS-T-37.) Under those circumstances, I think that 25.9% represents "significant mitigation."
- (e) Please refer to the testimony of witness Tolley (USPS-T-6) for the test year after rates volume forecast for Bound Printed Matter.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

Response to AAP/USPS-T32-11, cont'd

- (f) Please refer to the response of witness Kiefer to AAP/USPS-T37-24(e).

Certainly 25.9% is a smaller rate increase than one of more than 30%, but does represent a significant increase in rates.

- (g) Please refer to my response to MOAA/USPS-T32-12.

- (h) Please refer to my response to MOAA/USPS-T32-12a.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-12 Please refer to your response to AAP/USPS-T32-9. In your response you state that the most recent volume data that you are aware shows that in FY 1997 about 52% of Bound Printed Matter pieces constituted books. You state that for FY 1996, the comparable volume figure also was 52%. With respect to your response:

- (a) Please reconcile the 52% volume figures provided in your response, with the 44.3% FY 1997 volume figure and 36.8% FY 1996 volume figure provided by Postal Service witness Tolley in his response to AAP/USPS-T6-6.
- (b) Did you rely upon the 52% volume figure in determining the degree to which Criterion 8 should be applied to BPM?
- (c) Please explain how you derived the 52% volume figure and how it relates to the attachments provided with your response. Please explain the origin of the attachments and whether they were prepared for purposes of your response or are part of another document generated by the Postal Service. If the attachments are part of another document generated by the Postal Service, please provide copies of those documents.
- (e) Please provide any FY 1998 or FY 1999 volume data that pertains to the proportion of BPM volume that represents books.

**Response:**

- (a) It is my understanding that Witness Tolley derived his estimates of the share of books from the Household Diary Study. I relied upon the Revenue, Piece, and Weight (RPW) data for which postal data collectors segregated sampled Bound Printed Matter pieces into "books" and "non-books" categories. There are several possible reasons for the discrepancies in the figures from the two data sources. It is possible that the book share of Bound Printed Matter received by households differs from that received by non-households. It is also possible that there may be some categories of Bound Printed Matter that are included in the Household Diary Study as "Neither Catalogs Nor Books" as shown in

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

## Response to AAP/USPS-T32-12, cont'd

witness Tolley's response to AAP/USPS-T6-6(d) that would have been classified as "books" by postal data collectors. In addition, as the study participants in the Household Diary Study were able to open the packages to ascertain the contents, whereas the postal data collectors could not open the packages, there may be some difference in the ability of each group to define the contents of the Bound Printed Matter pieces.

- (b) Yes, although more in a general sense than with regard to the specific number. My assessment of the appropriate application of criterion 8 took into consideration the Commission's application of the criterion in previous cases, and was somewhat superseded by the need to mitigate the rate increase in deference to criterion 4.
- (c) I added the volume figures from each mail category for which the label indicated "books" to obtain the estimated book volume. Any remaining pieces were then classified as "non-books." The attachments to my response to AAP/USPS-T32-9 were prepared for purposes of answering that question and represent extracts, including all of the lines pertaining to Bound Printed Matter, from the RPW Adjustment System, the underlying data used to develop RPW estimates of revenue, pieces and weight. Library Reference LR-H-43, filed as part of Docket No. R97-1, contains electronic spreadsheets with the full RPW Adjustment System for FY 1996.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

Response to AAP/USPS-T32-12, cont'd

- (e) As I stated in my original response, I am aware of none. It is my understanding that RPW data was no longer measured or reported separately for Bound Printed Matter books and non-books after FY 1997. I believe that the Household Diary Study data cited by Dr. Tolley would be the only source of information for the years after FY 1997.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-1. Your testimony addresses, among other issues, the effect of the proposed rates on Postal Service competitors. Have you read the "SAI Study" of alternate delivery commissioned by the Postal Service that was the subject of significant controversy in recent cases? If so, when. If you have read it, please explain how you relied upon its discussion and conclusions concerning the impact of the proposed rates on alternate delivery companies.**

**Response:**

**No.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-4.** With respect to your testimony at page 8, lines 14-17, please explain to what extent it is relevant whether rates "were designed with the specific goal of harming a competitor or group of competitors" as opposed to whether the rates have that effect, whether intentionally or unintentionally.

**Response:**

Please refer to my responses to NAA/USPS-T32-2 and NAA/USPS-T32-19b. I believe it is relevant whether the rates cause harm intentionally or unintentionally. Given that, unlike the Postal Service, other providers of delivery service are not required to reveal their cost structures, rate application procedures, pricing practices, or other customer service practices, the Postal Service may unknowingly design prices that cause harm to a competitor. An opportunity to prevent unfair harm is made available through the public process through which postal rates and fees are decided. Concerned parties, including competitors of the Postal Service, have an opportunity to present compelling evidence that the proposed rates would cause them specific harm.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-5. Please define "unfair price competition" as you use the term at page 8, line 18. Can there ever be "unfair price competition" if the price of a postal service covers its incremental costs" ? If so, under what circumstances?**

**Response:**

**Please refer to my response to your interrogatory AAPS/USPS-T32-4 and to NAA/USPS-T32-2.**

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES

AAPS/USPS-T32-6. At page 13, you address the Postal Service's decision to depart from its traditional approach toward pricing Nonprofit ECR mail, which would otherwise have suffered an increase in excess of 30%.

(a). Is there private sector competition for the delivery of Nonprofit ECR mail?

(b). If Congress and the Commission permit the rate treatment that you propose for Nonprofit ECR mail, what other mailers will pay the revenues that would have been paid by these Nonprofit ECR mailers had they faced a 30% increase?

**Response:**

- (a) There may be other means by which to provide the same material to the recipient, perhaps by use of other media such as advertisements or flyers left on doorknobs, but I am unaware of private sector competition that would deliver the same material to the recipients' doors in the same manner as does the Postal Service.
- (b) The institutional cost burden that would have been borne by these mailers will be spread, through the application of the pricing criteria, to mailers in all other subclasses. Because the rate levels are determined as part of a cohesive whole, I cannot pinpoint which particular subclass will bear this burden or even the majority of this burden, nor was a conscious decision made to shift the institutional burden from Nonprofit ECR to any particular subclass. In my testimony I point to several subclasses of mail, including Priority Mail, Periodicals, and Bound Printed Matter, which received some mitigation of their cost coverages in deference to criterion 4 (impact on

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES****Response to AAPS/USPS-T32-6, cont'd**

mailers). The treatment of the "lost" contribution from Nonprofit ECR was similar to the treatment of the "lost" contribution from these other subclasses which received some mitigation of their cost coverages.

AAPS/USPS-T32-8. With respect to honoring requested in-home delivery dates, please explain the difference, if any, between the words "may attempt to satisfy" used on page 35, line 19, with respect to Standard (A) Regular and "may be able to accommodate," used on page 38, line 12, with respect to ECR mail.

**Response:**

I did not mean to make any distinction between the two services or phrases.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-10. You state that accommodating in-home delivery dates requires "mailer preparation, coordination and planning." Does it also require Postal Service preparation, coordination and planning? If so, are all of the costs associated with such coordination and planning attributed to ECR mail? If not, what percentage are institutional costs?**

**Response:**

Meeting the service needs of all classes and categories of mail requires Postal Service "preparation, coordination and planning." Anticipating and tracking mail volume and workload fluctuations, arranging for the deployment of staff and other resources to best handle these fluctuations and service requirements is a primary focus of Postal Service management. Some of this work would be done by craft employees, but most would be done by managers and supervisors at the plants, stations, branches, Area offices and national headquarters and by support functions such as In-Plant Support and Operations Program Support at the Area, District and plant levels. I am told that the attribution and distribution of such costs are described in USPS-LR-I-1, for cost segments 1, 2, and 18.1.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-11. At pages 38 and 39 you address ECR mail, competitors and competition.**

**(a). Please confirm that the Postal Service (actually, the Post Office Department) has defined the term "letter" in such a way that an alternate delivery company may not deliver a supermarket advertisement to half of the people living in a given neighborhood without paying the postage.**

**(b). Please confirm that, under the definition of "letter" implemented by the Postal Service, that supermarket brochure (unless it exceeds 32 pages) may be delivered by an alternate delivery company (without paying postage) only if it is delivered to every address.**

**(c). Please confirm that, given the Private Express Statutes and the Postal Service's definitions implementing them, the most relevant rate for determining impact on private delivery companies such as AAPS members is the rate for saturation ECR at weight levels above the break point.**

**(d). If the Postal Service's proposal for rate reductions as high as double digits for saturation ECR mail are approved, do you believe that such rate reductions will adversely affect Postal Service competitors? If so, please explain what steps, if any, the Postal Service took to determine the extent of that adverse affect.**

**Response:**

- (a) Redirected to the Postal Service.**
- (b) Redirected to the Postal Service.**
- (c) Redirected to the Postal Service.**
- (d) In the absence of detailed information regarding the pricing practices of the competitors as well as an understanding of the relative importance of prices in the array of issues which may have a bearing on the choices made by the advertisers, I cannot say. The net effect of the pricing changes in the ECR subclass as a whole was to cause a decline in ECR volume of approximately 2.4 percent from TYBR to TYAR. It is possible**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**Response to AAPS/USPS-T32-11, cont'd**

that some of that volume shifted to other postal services; it is also possible

that some of that volume shifted to private providers of delivery services.

At a finer level of detail, the following volume impacts (please refer to the

testimony of witnesses Thress (USPS-T-7) and Tolley (USPS-T-6)) are

forecasted to result from the proposed changes to rates:

	<b>% Change Volume</b>
<b>Enhanced Carrier-Route</b>	<b>-2.4%</b>
<b>- Automated</b>	<b>-2.1%</b>
<b>- Nonautomated</b>	<b>-2.4%</b>
<b>(Basic Letters)</b>	<b>-3.8%</b>
<b>(Basic Nonletters)</b>	<b>-2.2%</b>
<b>(High-Density Letters)</b>	<b>-4.6%</b>
<b>(High-Density Nonletters)</b>	<b>0.9%</b>
<b>(Saturation Letters)</b>	<b>-4.9%</b>
<b>(Saturation Nonletters)</b>	<b>-1.5%</b>

The only category of ECR mail that is not forecasted to experience a

decrease in volume from TYBR to TYAR is the category of high-density

nonletters, and that category is only forecasted to experience an increase

of less than one percent.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-12. In Docket No. R97-1, AAPS witness Bradstreet quoted (Tr. 11911) with alarm former Postmaster General Runyon's apparent glee at having forced a private, hard-copy delivery firm out of business. Under the leadership of Postmaster General Henderson, has the Postal Service abandoned the views expressed by Mr. Runyon, or is it still considered to be a sign of Postal Service success when private sector competitors are forced to shut down?**

**Response:**

In certain venues, there may be a certain level of rhetoric associated with the Postal Service's posturing itself as a player in competitive markets, but I would not say that such rhetoric indicates a policy of considering the failure of another firm to be necessary for or indicative of postal success. Rather, I would say that it is an organizational desire to meet the needs of postal customers by providing useful services at reasonable prices. Meeting these goals may result in success in the marketplace. Additionally, although such sentiment may be somewhat misplaced, continued success in markets where others have failed may be interpreted as validation of the remaining firms' service and prices. Survival in a competitive market provides some reassurance that the Postal Service is continuing to serve the needs of its customers.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-14. Given the subject matter of your testimony, which addresses among other things the effect of the proposed rates on Postal Service competitors, please explain why you did not review that original SAI report, especially because in response to NAA interrogatory 19(b) you state that "details about competitors costs, prices and volumes...would be helpful in [sic] to guard against creating a harmful impact on competing firms."**

**Response:**

It was my understanding that the anecdotal nature of that report would not make it useful for the purposes you have described. Furthermore, given that my proposed rate level for ECR in this case will *increase* the rates for ECR on average, rather than *decrease* them, I did not believe that it was quite so crucial to examine the SAI report.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-15.** The Postal Service has revealed in its March 6<sup>th</sup> Objections that it possesses both a 1998 revision to the original SAI report and a January 22, 1999 "assessment," again prepared by SAI, that addresses a private sector competitor for the carriage of saturation advertising mail.

(a) Had you been aware of either of these documents at the time you prepared your testimony?

(b) Had you read either of these documents at the time you prepared your testimony?

(c) If you had not read both of them, please explain why you hadn't?

**Response:**

(a) No.

(b) No.

(c) It would have been rather difficult to have read them when I was not aware of them.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-17.** In AAPS/USPS-T32-5, we asked whether there can ever be unfair price competition if the price of a postal service covers its incremental costs and, if so, under what circumstances. Your response merely refers to your responses to AAPS Interrogatory 4 and NAA Interrogatory 32 [sic]. We do not find the answers there, so please answer these questions directly.

**Response:**

The reference was to my response to NAA Interrogatory 2, not to NAA Interrogatory 32. To restate my response, coverage of incremental costs is widely viewed as a measure to help guard against the possibility of unfairly competing by offering products at lower prices by having other products subsidize them. The goal in ratemaking should be to protect competition, not necessarily to maintain the current market situation. While it would not be desirable for the rationale or motivation for ratemaking choices to be to intentionally and unfairly harm competitors or a particular competitor, there may be choices of either rate levels or rate design that may have a harmful impact on competitors or a competitor. If the Postal Service is able to offer a service at a reasonable price resulting from application of an appropriate markup over postal costs, and that resulting price happens to be below that charged by a competitor, I do not believe that the Postal Service should necessarily be required to raise its price so as to prevent harm to the competitor. Preventing consumers from benefiting when the Postal Service is an efficient provider of a service does not strike me as an appropriate approach to protecting "competition" or to setting "fair" prices.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-18.** In response to AAPS/USPS-T32-6(a), you state that there "may be other means" of delivering nonprofit ECR mail, such as flyers left on doorknobs. Isn't it true that, in fact, there are such means and that alternate delivery companies such as the members of AAPS do deliver material for non-profit entities?

**Response:**

I do not find your assertion to be inconsistent with my response to AAPS/USPS-T32-6(a).

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-19. AAPS/USPS-32-7 asked the extent to which you considered unit contribution to institutional costs in connection with your goal of reducing the ECR cost coverage. Your response merely refers to your response to NAA Interrogatory 13. Please confirm that your use of per piece contributions was not associated with cost coverages or contributions of individual classes to institutional costs, but only for purposes of assuring overall breakeven. If you cannot confirm, please explain how you used unit contributions for the purpose of measuring the relative contributions of the various classes and subclasses.**

**Response:**

Obviously the per-piece contributions would be associated with both the cost coverages and the contributions of individual classes in determining financial breakeven, but I confirm that I did not use unit contributions "for the purpose of measuring the relative contributions of the various classes and subclasses."



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&amp;NAPM INTERROGATORIES

ABA&NAPM/USPS-T32-1 Please confirm that ratemaking criterion 6 of the Postal Reorganization Act [(39 U.S.C. section 3622(b)(6)) [sic]:

- a. does not exclude mailer preparation of First Class single piece letters and flats
- b. refers to "reducing costs to the Postal Service", not only volume variable costs or attributable costs
- c. does not specify the technical means by which rates are to reflect criterion 6
- d. does not limit the cost reductions from mailer preparation to attributable costs or volume variable costs

**Response:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES****ABA&NAPM/USPS-T32-2**

- a. Please explain how you calculated the 3.4% and 3.8% numbers found in your testimony on page 20, lines 13 and 16, respectively.
- b. Please confirm that the percentage rate increase for one ounce single piece letters in this case, which you reference in the same sentence as a one cent increase "to 34 cents", is 3.0%, not "3.4 percent".
- c. Please confirm that the unweighted average rate increase for one ounce First Class workshared letters (in all worksharing categories) in this case is 4.2%, not 3.8%.

**Response:**

- a. Please refer to page 2 of the workpapers of witness Fronk (USPS-T-33).  
The percentage changes were calculated as the change from the Test Year Before Rates revenue per piece to the Test Year After Rates revenue per piece in each category.
- b. Confirmed.
- c. I am not convinced that such a calculation has value, but I confirm your arithmetic.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES**

**ABA&NAPM/USPS-T32-3 Regarding your statement on page 10, lines 10-11, that "[w]orksharing removes attributable costs but leaves institutional costs unchanged.":**

- a. please confirm that your statement only applies to costs [sic] changes at the margin, not the incremental costs to the Postal Service of having to process an additional 45 billion pieces of First Class workshared letter mail per year, were such volumes transferred from private sector to USPS for processing.**
- b. Please confirm that the costs to the Postal Service of collecting and preparing an additional 45 billion pieces of letter mail per year would entail an increase in institutional costs.**

**Response:**

**a.& b. I can confirm that at the margin, worksharing removes volume variable costs but leaves non-volume variable costs unchanged. Likewise, I can confirm that under your hypothetical, shifting 45 billion pieces from workshared to non-workshared would likely change costs by something other than the product of the estimated unit volume variable worksharing savings times 45 billion units. I cannot confirm whether the change in costs caused by such a shift would be classified as institutional or volume variable costs.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES**

**ABA&NAPM/USPS-T32-4** On page 17, lines 10-12, you state that "any excess of revenue over incremental cost means that the Postal Service's provision of that subclass benefits other subclasses."

- a. Please explain in full detail what you mean by "benefits".
- b. Please confirm that the larger the revenue contribution over incremental cost by a subclass, the larger the benefit conferred on other subclasses.
- c. In your testimony, did you consider how to quantify these benefits?
- d. If your answer to c. is in the negative, would a quantitative determination of those benefits, if it was made, influence the rates set in this case?
- e. Apart from the purely technical definition relating cross subsidy to [perfectly measured] incremental costs, please confirm that your statement says in essence that "any excess of revenue over incremental cost means that the Postal Service" provision of that subclass subsidizes the provision of other subclasses." If you do not confirm, please explain fully.

**Response:**

- a. The excess of revenue would be available to offset institutional costs, thus meaning that other subclasses would not have to cover that portion of institutional costs.
- b. Confirmed.
- c. No, except as provided in my exhibit USPS-32E, where I show the excess of revenue over incremental costs for each subclass.
- d. No, because a quantitative determination of those benefits would mirror, to a great extent, the quantitative evaluations implicit in my development of rate levels as measured by the ratio of revenue to volume variable costs. Where the reflection would be less applicable, i.e., when there are significant specific fixed costs associated with the subclass, I had already

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES****Response to ABA&NAPM/USPS-T32-4, cont'd**

taken coverage of the specific fixed costs into consideration when setting the cost coverages.

- e. No. Your restatement of the statement makes no sense. If every subclass contributes revenue above and beyond its incremental cost, that would mean that every subclass is subsidizing every other subclass.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO ABA&NAPM INTERROGATORIES**

**ABA&NAPM/USPS-T32-5** You state on page 21, lines 11-12, that "The percentage increase for First Class Letters of 3.5% ranks as one of the lowest increases proposed in this case". Please confirm that the percentage increases as proposed in this case for First Class Workshared Letters first ounce are not 3.5%, but between 3.7% and 4.92%, while the rate increase for First Class single piece letters is 3.0%.

**Response:**

**Confirmed.** As with virtually every subclass, not every rate element received the average increase.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES****APMU/USPS-T32-1.**

At page 26 (1. 2) of your testimony, you state that Priority Mail "enjoys the same priority of delivery as First-Class letters...." Please cite all data and information (including anecdotal information) which you reviewed regarding actual delivery service received by Priority Mail during the Base Year and 1999, prior to recommending an average rate increase of 15 percent and a coverage of 180.9 percent. If you reviewed no such data or information, on what was this portion of your testimony based?

**Response:**

I receive and review quarterly ODIS (Origin/Destination Information System) reports on service performance.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES****APMU/USPS-T32-2.**

Prior to your decision to recommend a 15 percent increase in rates for Priority Mail and a coverage of 180.9 percent, did you review any part of the Inspector General's report on the Priority Mail Processing Center network (September 24, 1999), Report No. DA-AR-99-00? Unless your answer is an unqualified negative, please describe what role the information contained in that report played in your testimony.

**Response:**

No.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES**

**APMU/USPS-T32-3.**

Please refer to your testimony at page 26, lines 18-21, where you discuss "the use of Priority Mail Processing Centers (PMPCs) in an effort to improve Priority's service...." Please provide and discuss all data which you reviewed before submitting your testimony regarding delivery performance of Priority Mail (i) originating and destinating within the PMPC area, (ii) originating inside of and destinating outside of the PMPC area, and (iii) originating outside of and destinating inside of the PMPC area

**Response:**

I did not review any data which showed delivery performance of Priority Mail originating *and* destinating within the PMPC area differentiated from Priority Mail volume originating within *or* destinating within the PMPC service areas.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES****APMU/USPS-T32-4.**

At page 27 (11. 2-3) of your testimony, you note that "some materials shipped as Priority Mail are subject to the Private Express Statutes."

- a. What types of materials shipped by Priority Mail fall within the Private Express Statutes and are not subject to any exemption under which companies such as Federal Express and United Parcel Service operate their expedited services? That is, what types of materials shipped by Priority Mail cannot be competed for by expedited courier companies?
- b. For those types of materials which you describe as not subject to competition by expedited courier companies, what is your best estimate as to the percentage of Priority Mail volume and Priority Mail revenue that is not subject to competition?

**Response:**

- a. It is my understanding that items which meet the definition of "letter" under 39 C.F.R. section 310.1(a) can be shipped via Priority Mail. Whether or not the private carriage of this matter is subject to a Private Express exception or suspension would depend on the circumstances. Subject to the restrictions of the Private Express Statutes, there is no material eligible for Priority Mail shipment which cannot be carried by expedited carrier companies.
- b. It is my understanding that an estimate made in 1998 indicated that approximately one-fourth of Priority Mail volume was protected by the Private Express Statutes. As most of these pieces would be flats, I would suspect that the revenue share associated with these pieces would be less than one-fourth of Priority Mail revenue.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES****APMU/USPS-T32-5.**

At page 26 (11. 13-17) of your testimony, you state that "Priority Mail service does not necessarily include all of the product features, such as guaranteed service commitments, free insurance and free tracking service, offered as part of the service provided by such competitors as United Parcel Service, FedEx and other private service providers."

- a. Please define the term "not necessarily" as you use it here.
- b. Would you agree that Priority Mail does not offer a "guaranteed service commitment" any time, any where, at any price? If you do not agree, please explain fully.
- c. Would you agree that Priority Mail does not offer "free insurance"? If you do not agree, please explain fully.
- d. Would you agree that for Priority Mail, the Postal Service does not offer "free tracking service" of the nature provided by competitors? If you do not agree, please explain fully.
- e. Would you agree that for Priority Mail the Postal Service also does not offer optional tracking service for a fee?

**Response:**

- a. The somewhat misplaced modifier "not necessarily" was meant to convey that the service offerings of Priority Mail do not always match those of competitors. I meant to suggest that there may be some competitors of which I am unaware that have service offerings identical to or inferior to those of Priority Mail.
- b. Yes.
- c. Yes.
- d. Yes.
- e. Yes.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES****APMU/USPS-T32-6.**

At page 30 (11. 2-5) of your testimony, you state that "Unlike many customers of private expedited delivery firms, users of Express Mail are expected to either pay when tendering the mailpiece to the Postal Service, or maintain a balance in their corporate account."

- a. Would you agree that a similar statement is equally true with respect to Priority Mail? If not, please explain why not.
- b. Would you agree what this is another product feature that Priority Mail lacks with respect to competitive private service providers? If not, please explain why not.

**Response:**

- a. Yes
- b. Yes. I used the phrase "many customers of private expedited delivery firms" rather than the phrase "customers of private expedited delivery firms" because I am unaware of the payment practices required by all such firms for all of their customers.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

APMU/USPS-T32-7.

At page 26 (11. 7-11) of your testimony, you note:

[T]he Priority Mail price elasticity (-0.819) is considerably higher (in absolute value) than that of First-Class Letters, indicating a lower economic value of service. This measured own-price elasticity is also somewhat higher (in absolute value) than the Priority Mail own-price elasticity reported in Docket No. R97-1 of (-0.771).

- a. Would you agree that the increase you note in own-price elasticity could be an indication of increased competitiveness in the market in which Priority Mail competes? Please explain any disagreement or reservation you may have regarding this interpretation of the increase in own-price elasticity.
- b. If the rate for Priority Mail increases relative to the rates charged by private service competitors, would you expect a further increase in own-price elasticity? Please discuss why or why not.
- c. At page 27 (11. 11-12) of your testimony, you note that "Priority Mail received a rate increase more than twice the system average in Docket No. R97-1...." Please discuss whether, in your opinion, the rate increase of more than twice the system average in the last rate case is (i) a cause of, or (ii) purely coincidental with, the increase in own-price elasticity.
- d. Please provide copies of all documents that you reviewed, prior to completing your testimony, concerning the extent and nature of competition in that portion of the expedited market in which Priority Mail competes, including, but not limited to, the market positioning and competitiveness of Priority Mail.
- e. Please indicate all discussion or briefings which you had, prior to completing your testimony, with knowledgeable people from the Expedited Service Group concerning the nature and extent of competition facing Priority Mail.

Response:

- a. It could be. As competitors have added non-price service features to their delivery services, such as tracking and tracing, logistics support, free insurance, price has become more of an issue. Because Priority Mail does not match the service features offered by the competitors, Priority

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES

## Response to APMU/USPS-T32-7, cont'd

Mail has had to compete on price, meaning that Priority's price is relatively important to the consumer.

- b. No. It is my understanding that the own-price elasticity measures the *resulting* percentage change in volume to a change in the price of the product.
- c. I have no reason to believe that the rate increase in Docket No. R97-1 *caused* the change in own-price elasticity. Please see my response to subparts a and b above.
- d. I reviewed no such documents in the course of preparing my testimony.
- e. The discussions and briefings that I had with people from Expedited Package Services prior to completing my testimony concerned plans for Priority Mail, not the "nature and extent of competition" facing Priority Mail.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO APMU INTERROGATORIES****APMU/USPS-T32-8.****At page 29 (11. 18-20) of your testimony, you note:**

**Express Mail's price elasticity, at (-1.565), is the highest own-price elasticity of all the subclasses, well above 1.0 in absolute value. This indicates an extremely low economic value of service.**

**Can you foresee the day when rate increases for Priority Mail that are well above the rate of inflation, and well above the system-wide average, will cause Priority Mail to have an own-price elasticity which is close to that of Express Mail? Please discuss, feeling free to cite protection conferred by the Private Express Statutes, or any other factors that you believe will prevent the Postal Service from "killing the goose that lays the golden eggs."**

**Response:**

**Please refer to my response to your interrogatory APMU/USPS-T32-7. I would expect that the price changes relative to the prices charged by competitors may be more relevant than the price changes relative to the rate of inflation or the systemwide average. As the market providing delivery services becomes more competitive, it would not be surprising to see a change in the own-price elasticity for Priority Mail. If the service features of Priority Mail begin to match those offered by competitors' services, price may not be such a critical factor. While it is possible that the price for Priority Mail may rise high enough that some of its current customers will no longer view it as a viable service, the TYBR and TYAR volume estimates for Priority Mail for this case, shown in my response to POIR 1, Question 4 and provided by witness Musgrave (USPS-T-8), indicate a loss of 8 percent of Priority Mail volume in response to the proposed rate increase of 15 percent.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES****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



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES****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 rational 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.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES**

**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).

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES****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.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES**

**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.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES

## 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.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES****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

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES

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.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES****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.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES

## 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 106<sup>th</sup> 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.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES

## 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).

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO DFC INTERROGATORIES  
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DFC/USPS-40. One factor the Commission considers in recommending postal rates is "the available alternative means of sending and receiving letters and other mail matter at reasonable costs." 39 U.S.C. [section] 3622(b)(5). Please explain how this criterion affects the Postal Service's requests for particular rates and cost coverages. For example, if no available alternative means exist to a particular service, does this fact imply a higher cost coverage for this service, or does it imply a lower cost coverage for this service?

**Response:**

Please refer to my testimony, beginning at page 20, where I discuss criterion 5 in the context of the rate level for each subclass. As I noted at page 5 of my testimony, "the lack of reasonable alternatives will reduce the measured price elasticity." The associated low own-price elasticity of demand can be taken to indicate a high value of service which criterion 2 would suggest be associated with a relatively high cost coverage. Because this consequence of available alternatives and the implications for a higher cost coverage are considered under criterion 2, criterion 5 has often been interpreted as providing a basis for deciding when a cost coverage should be mitigated, especially when alternatives are limited for some subset of the postal customers in question. Should there be abundant viable alternatives, suggesting a higher own-price elasticity and a lower cost coverage under consideration of criterion 2, criterion 5 has not generally been used to indicate that a higher cost coverage is necessary. It is my understanding that in the past, the Commission has cited some conflicting views of the implications of criterion 5, indicating that the existence of alternatives could lead to either an increase or decrease in rate level.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-1. Please refer to page 22, lines 20-22, and page 23, lines 1-2, of your prepared testimony (USPS-T-32). Please describe fully your understanding of the educational, cultural, scientific, and informational value (hereinafter, "ECSI" value) to the recipient, of First-Class letters.

**Response:**

It is my understanding that the Commission first recognized the ECSI value of First-Class Mail in the determination of rate levels in Docket No. R87-1 as a result of the testimony of New York State Consumer Protection Board (NYSCPb) witness Bossert. Witness Bossert apparently presented the results of a limited survey in which respondents were asked to indicate the relative values they placed on different types of mail. The Commission stated:

[The survey] indicates that respondents value certain types of First Class most highly (personal correspondence, post cards, and greeting cards) and that magazines and newspapers were valued more than books and records.

This survey provides evidence that certain types of First-Class mail have a high ECSI value, and (b)(8) suggests that this fact supports restraining increases in the rates for First-Class letters and cards. A weakness with this argument is that the types of First-Class found to have a high ECSI value are not a major proportion of the First-Class letter mailstream. The majority of First-Class Mail is sent to or from businesses, and a utility bill, another category in the NYSCPb survey, was considered

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

## Response to GCA/USPS-T32-1, cont'd

to have a relatively low ECSI value. We conclude that the NYSCPB survey should be considered in setting First-Class rates, but that it does not warrant adjusting the coverage target for First-Class. [PRC Op. R87-1, para. 4101-4102]

In the same recommended decision, the Commission further states: "We find that First-Class Mail does have some educational, cultural, scientific, and informational value [criterion (8)], on the basis of the presentation of NYSCPB in this proceeding, and the recommended rates incorporate this finding." Id. at para. 5032.

In the recommended decision for Docket No. R94-1, the Commission states: "In the past, the Commission has identified the letter subclass for First-Class Mail as one to which the ECSI considerations of subsection 3622(b)(8) are applicable. The Commission's recommendations for First-Class letters reflect this factor by recognizing the importance of an affordably-priced communications medium for the general public and for businesses and organizations." [PRC Op. R94-1, para. 5068.]

Please also refer to my response to AAP/USPS-T32-4.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

## GCA/USPS-T32-2.

- a. Please explain which of the four components – educational, cultural, scientific, and informational – of ECSI value you believe are applicable to –
  - i. First-Class letters of a business or transactional nature; and
  - ii. First-Class letters of a non-business or personal-correspondence nature.
- b. Please provide any studies your response relies upon.

**Response:**

Please refer to my responses to GCA/USPS-T32-1 and AAP/USPS-T32-4.

- a.i. In the Commission's recommended decision for Docket No. R87-1, the Commission notes that "[t]he majority of First-Class Mail is sent to or from businesses, and a utility bill, another category in the NYSCP survey, was considered to have a relatively low ECSI value." [PRC Op. R87-1, at para. 4102.] Although I could understand that, in the general sense of the word, letters of a "business or transactional nature" would have value of an "informational" nature, it seems to me that the same argument could be made for virtually any written transmission. Thus, given my understanding that ECSI value consideration was intended to accord special treatment to mail of a particular nature and of special value to society, I do not believe that the broad, general sense of the word "informational" was intended.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

Response to GCA/USPS-T32-2, cont'd

- a.ii. Without knowing the content of the "letters of a non-business or personal-correspondence nature", or knowing the particular value of such a transmission to the individual recipient, I cannot respond to this question.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

## Response to GCA/USPS-T32-2, cont'd

An argument could be made, for instance, that greeting cards or other personal correspondence would have high value to the recipient, but I can think of certain circumstances – such as a greeting card from a local merchant or from a despised relative – that would render this argument invalid.

- b. I did not rely on any studies. However, the testimonies of NYSCPB witness Bossert (Docket No. R87-1) and GCA witness Erickson (Docket No. R97-1) are a matter of record. In addition, the Postal Service has filed copies of the Household Diary Studies with the Commission. Please refer to chapter IV for descriptions of the contents of First-Class Mail.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-3. You testify, at page 23, lines 1-2, that the Postal Service has considered the informational value of First-Class mail.

- a. Please describe fully the manner in which the Postal Service considered the informational value of First-Class Mail.
- b. Did the Postal Service consider the cultural value of First-Class letters to the recipient? If your answer is not an unqualified "no," please describe fully the analyses made and any conclusions reached with respect to such cultural value to recipients.
- c. In the course of its consideration of the ECSI value of First-Class mail, did the Postal Service consider personal (non-transactional) correspondence by First-Class letter mail separately from business correspondence by First-Class letter mail? If your answer is not an unqualified "no." please describe fully the separate analyses made and any separate conclusions reached with respect to these types of mail.

**Response:**

Please see my response to GCA/USPS-T32-3.

- a. The nature of First-Class Mail as a medium for transmitting financial data, invoices, business information, and other material is well-established.  
  
Please refer to chapter IV of the Household Diary Study where the contents of First-Class Mail are detailed.
- b. Yes. Please refer to my response to subpart a of this interrogatory. As a sidenote, the National Postal Museum has displayed personal letters such as from soldiers at war to their families at home, suggesting that personal letters have cultural value to more than just the recipients.
- c. Yes. When determining the cost coverage for First-Class Mail Letters, I was well aware that there were two components to the Letters subclass, one of which was a category for bulk, presorted or otherwise workshared

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

Response to GCA/USPS-T32-3, cont'd

letters and one was for single-piece letters. I was also aware that personal correspondence is a relatively small portion of First-Class Mail.

As noted in my response to GCA/USPS-T32-4, the rate increase was held below the rate of inflation.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

## GCA/USPS-T32-4.

- a. Is it your position that the rates the Postal Service has proposed in this proceeding would promote the use of First-Class mail so as to increase ECSI value to recipients?
- b. If your answer to part a. is other than an unqualified "no," please describe which categories or uses of First-Class mail you believe would be promoted so as to increase ECSI value to recipients.

**Response:**

Although I am not a lawyer, I do not interpret the pricing criteria of the Postal Reorganization Act to direct the Postal Service or the Postal Rate Commission to "*promote* the use of First-Class Mail so as to increase ECSI value to recipients." Rather, I understand the purpose of pricing criterion 8 to be directing that the rate levels should *reflect* the ECSI value. As I stated in my response to OCA/USPS-T32-7, 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.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

## GCA/USPS-T32-5.

- a. Have you compared the markup over attributable costs (or over volume variable costs) sought by the Postal Service for First-Class mail in this proceeding with that recommended by the Commission in prior rate cases?
- b. If your answer to part a. is other than an unqualified "no," please state which prior rate cases you used as vehicles for comparison and describe fully the conclusions you drew from the comparison.
- c. If your answer to part a. is other than an unqualified "no," please state whether the result of the comparison influenced your conclusion as to the appropriate markup for First-Class mail in the present case.

**Response:**

- a. Yes.
- b. I referred to Schedule 3 of Appendix G of the Commission's Opinion and Recommended Decision in Docket No. R97-1 which shows the markups for rate cases going back to R71-1. The Postal Service's proposed cost coverage for First-Class Letters represents a markup higher than any shown in that schedule. The systemwide markup is also higher than any shown in that schedule.
- c. No.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-6. Please refer to your prepared testimony at page 2, line 10, through page 3, line 12. Section 3622(b) of the Postal Reorganization Act directs the Commission to render a recommended decision "in accordance with the policies of this title and the following factors:" – after which phrase, the nine criteria you reproduce at pages 2-3 of your testimony are listed. Please describe fully your understanding of the phrase "in accordance with the policies of this title".

**Response:**

My understanding of the phrase is that the Commission is to issue a recommended decision which comports with *all* of the requirements of the Postal Reorganization Act, with the nine pricing criteria appropriately considered in the determination of the rate levels.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-7. Please refer to your prepared testimony at page 19, lines 7-21.

- a. Please explain fully what is meant by "formal use" (line 17).
- b. Did you make any use other than "formal use" of witness Bernstein's Ramsey prices, or of any other set of prices purporting to be Ramsey prices?
- c. If your answer to part b. is other than an unqualified "no," please identify and provide (i) any set of prices purporting to be Ramsey prices, other than witness Bernstein's, of which you made use, and (ii) any modification you made or caused to be made in witness Bernstein's Ramsey prices before making other-than-formal use of them.

**Response:**

- a. By "formal use" I meant that I did not change any cost coverage determination as a result of seeing the Ramsey prices developed by witness Bernstein's model.
- b. Please refer to my response to OCA/USPS-T32-1(b).
- c. (i) I did not refer to any Ramsey prices other than those produced by witness Bernstein.  
(ii) Not applicable.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-8. Did you use any set of prices, other than a set which would be covered by interrogatory GCA/USPS-T32-7, as either (i) a starting point, or (ii) a vehicle for comparison, for the prices you recommend? If your answer is other than an unqualified "no," please provide or describe such set(s) and explain fully the use you made of such set(s).

**Response:**

Please refer to my response to NAA/USPS-T32-3(b) and 3(e) where I describe some of the steps in the iterative process. In the development of the proposed rate levels, there were many sets of prices used, none of them Ramsey prices and none of them tied to the Commission's markup index from the most recent omnibus rate case, none of them derived from a mechanistic approach to pricing. Rather, various sets of prices were developed which tried to address postal policy concerns while complying with the nine pricing criteria and aiming at financial breakeven. As the process continued, various constraints were applied and rate levels had to be adjusted in order to achieve financial breakeven. Each set of rate levels was used to project volumes, revenues and costs, either using my simplified version or the more-sophisticated full system of volume forecasts and cost rollforward model, and each iteration led to further refinement of the set of rate levels.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

**GCA/USPS-T32-9.** Please refer to page 19, lines 17-19, of your prepared testimony. Do you believe that movement toward Ramsey prices would be beneficial in terms of achieving any objective of the Postal Reorganization Act other than that potentially served by the allocative efficiency effects of Ramsey pricing? If your answer is other than an unqualified "no," please explain fully which objective(s) you believe would be served and how movement toward Ramsey prices would serve such objective(s).

**Response:**

No, however, it is important to note that the potential benefits of the most direct impact of Ramsey pricing, the improved allocative efficiency, are significant (please refer to the testimony of witness Bernstein, USPS-T-41) and are consistent with the objectives of fairness and equity, concern about the impact of rate increases of mailers, and the availability of alternatives.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-10. Please refer to your prepared testimony at page 5, line 3, through page 6, line 21.

- a. Is it your testimony that the prices you have proposed reflect, in a manner consistent with the principles you set out at page 5, lines 7-17, the differing price elasticities set out in tabular form on page 6?
- b. You state at page 19, lines 19-21, that "movement toward or away from Ramsey prices was considered in the development of the rate level proposals in this case but did not significantly affect conclusions." If your answer to part a. was other than an unqualified "no," please explain fully whether your use of price elasticities as described in your testimony at pages 5 and 6 is the reason why movement toward or away from Ramsey prices did not significantly affect your conclusions.
- c.
  - i. Please define "significantly" as used in the passage which is quoted from page 19 of your prepared testimony at the beginning of part b.
  - ii. In particular, does "significantly" mean that no rate in First-Class mail was changed as a result of consideration of movement toward or away from Ramsey prices? If any rate was so changed, please identify it and state the magnitude and direction of the change.

**Response:**

- a. Yes.
- b. I'm not sure I understand the question. As noted in my testimony and in my responses to NAA/USPS-T32-3 and NAA/USPS-T32-8, the own-price elasticities were used to inform me about the economic value of service and provide some guidance regarding the availability of alternatives. Versions of the elasticities were used to approximate the results of alternative sets of rate levels early in the rate development process. The elasticities *could* have been used in a more explicit manner to develop rate levels more consistent

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

## Response to GCA/USPS-T32-10, cont'd

with a Ramsey model, such as presented by witness Bernstein, but I did not do so. Joint consideration of all of the pricing criteria led to a set of proposed rate levels that depart from the set of Ramsey prices presented by witness Bernstein.

- c. i. Please refer to my responses to OCA/USPS-T1b and subpart b above.
- ii. The First-Class rates themselves were developed by witness Fronk, USPS-T-33. I did not make any change to the First-Class rate levels as a result of consideration of movement toward or away from Ramsey prices. Please refer to my response to OCA/USPS-T32-1b.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES**

**GCA/USPS-T32-11. Have you, or anyone under your direction or anyone at the Postal Service, made or undertaken a study of the effect of your recommendations on fixed- and lower-income households? If your answer is not an unqualified "no", please describe fully the study and its results and provide a copy thereof.**

**Response:**

**I have been unable to locate evidence of any such study.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES**

**GCA/USPS-T32-12. Has the Postal Service, in preparing this case, employed any means, other than relying on the response of purchasers of postage to changes in postal rates, of measuring or assessing the value of mail to recipients?**

**Response:**

**I have been unable to locate evidence of any such study.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES**

GCA/USPS-T32-13. Please refer to your response to GCA/USPS-T32-2(a)(ii). Does your statement that you cannot answer this part without knowing the content of the letters referred to or the "particular value of such a transmission to the individual recipient" mean that you did not give consideration to which components of §3622(b)(8) apply to non-business or personal-correspondence letters? Please explain any negative answer.

**Response:**

No. I am not proposing any change to previous Commission evaluation of the ECSI value for First-Class Letters. Please refer to my response to GCA/USPS-T32-14 and GCA/USPS-T32-15a.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CCA INTERROGATORIES

GCA/USPS-T32-14. Please refer to your response to GCA/USPS-T32-3(b). Does your reference there to your answer to subpart (a) mean that any Postal Service consideration of *cultural* value of First-Class letters to the recipient is fully described in chapter IV of the Household Diary Study? If not, please describe any other consideration given to that factor and state the conclusions reached.

**Response:**

No. In my responses to GCA/USPS-T32-1 and AAP/USPS-T32-4 and other interrogatories, I have provided quotes from past Commission Recommended Decisions in which they discussed their understanding of the ECSI value accorded to First-Class Mail and their interpretation of the appropriate application of criterion 8 to First-Class Letters. I see no reason to go beyond what the Commission has said on this subject as the Postal Service's proposal for First-Class in this case does not include or reflect any adjustment to the ECSI value that the Commission has previously recognized. The reference to the Household Diary Study was only intended to provide illustrative support for the existence of some ECSI value, not to support upward or downward adjustments.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-15. Please refer to your response to GCA/USPS-T32-3(c).

- a. In developing your proposed cost coverage for First-Class letters, did you regard business correspondence by First-Class mail as identical or substantially identical with bulk (workshared) First-Class letters, and personal (non-transactional) correspondence by First-Class mail as identical or substantially identical with single-piece First-Class letters? If not, please explain what distinction(s) you recognized and how, if at all, they influenced your conclusions.
- b. Please identify the "rate of inflation" to which you refer in the last sentence of your response.
- c. In applying the ECSI criterion in the process of developing price level recommendations for the classes of mail in general, did you use the relationship between your proposed increase and the above-cited rate of inflation as a uniformity-applicable standard? If not, please explain why.

**Response:**

- a. I did view bulk First-Class letters as being substantially identical with business correspondence, including bills, invoices, and advertising. It is my understanding (from the Household Diary Study) that personal, non-transactional correspondence is a relatively small part of First-Class Letters, and even a relatively small part of First-Class single-piece letters. Therefore, I did not view single-piece First-Class letters as being substantially identical with what is a small portion of its mailstream. However, I was very conscious that single-piece First-Class Letters included personal correspondence and other missives sent from households. I was also aware of the importance of providing an affordably-priced communications medium for the general public.
- b. Please refer to my response to NAA/USPS-T32-6(b) and NAA/USPS-T32-24.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

## Response to GCA/USPS-T32-15, cont'd

- c. No. I considered it appropriate to consider ECSI value in the context of the cost coverages, not the rate of inflation.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO GCA INTERROGATORIES

GCA/USPS-T32-16. Please refer to your response to GCA/USPS-T32-9.

- a. In referring to "fairness and equity," "impact of rate increases on mailers," and "availability of alternatives," are you referring specifically to the requirements of 39 U.S.C. § 3622(b)(1), (4), and (5), respectively? If your answer is not an unqualified "yes," please explain what different or additional meaning you attach to the phrase(s) concerned.
- b. Do you believe that prices determined in material part by Ramsey pricing principles would be consistent with recognition of the unavailability of alternatives for mail matter subject to the Private Express Statutes? Please explain the reasons for an affirmative answer to this part.

**Response:**

- a. Yes. Please refer to my testimony, especially at page 3 where I present the "shorthand" for the nine pricing criteria.
- b. I think it would be possible to take "prices determined in material part by Ramsey pricing principles" such as those presented in the testimony of witness Bernstein (USPS-T-41) and adjust them such that they more fully reflect the consideration of all of the pricing criteria. It is my understanding that the Ramsey pricing model relies heavily on the estimated price elasticities and that, to some extent, those elasticities could be affected by the relative unavailability of alternatives for some categories of mail. Recognition of this, and subsequent adjustment of the resultant Ramsey prices, could probably be performed so as to result in prices in compliance with all of the pricing criteria.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-1. Do you agree that with the exception of criteria 2 and 4 that the rate making criteria found in Section 3622 (b) apply to the rates proposed by the Postal Service; not to the amount of increase that may have been proposed? If your answer is anything other than an unqualified yes, would you please explain

**Response:**

The ratemaking criteria in Section 3622(b) are to apply to rate levels. I would agree that, with the exception of criterion 4, the pricing criteria should apply to rate levels as opposed to rate increases (or decreases).

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-2. On page 45 of your testimony you state that the Postal Service has given criterion 8 ECSI value some consideration in the proposed rates for bound printed matter. Would you please provide a ranking or a more objective statement as to how much consideration was given to criterion 8 in the rate levels proposed for BMP [sic]?

**Response:**

Please refer to my response to AAP/USPS-T32-4. I am not aware of any circumstance in which either the Commission or the Postal Service has indicated the specific "points" or "rankings" by which the various pricing criteria were applied. However, I will point out that, just as the Commission did in its recommended decision for Docket No. R90-1 (PRC Op., R90-1, para. 6519), I have again proposed that the cost coverage for Bound Printed Matter be below the systemwide average.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-4. Is it your position that the presence of a substantial amount of advertising within a particular subclass should result in only a small application of criterion 8?

**Response:**

No. Commission precedent in the application of criterion 8 to mitigate cost coverage seems to have been limited to Periodicals, Special Standard, and to some extent, First-Class Letters and Bound Printed Matter. Arguably, depending on your definition of "substantial," there could be "substantial" advertising in Bound Printed Matter and in Periodicals, or even in First-Class Letters. As I indicate in my response to your interrogatory MOAA/USPS-T32-2, I am unaware of a way to measure "small application of criterion 8." Criterion 8 directs that consideration be given to the "educational, scientific, cultural and informational content" of the mail category. Without consideration of the content of the mail category, I fail to see how criterion 8 could be properly applied.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-5. You state on page 19 of your testimony that the Postal Service "does not advocate a mechanistic applications" of Ramsey pricing. You also state that Ramsey pricing "did not significantly effect [sic]" your pricing recommendations. Do you agree that it would be possible to give significant effect to Ramsey pricing without applying a Ramsey pricing model in a mechanistic fashion? Do you also agree that the failure to give Ramsey pricing "significant effect" inevitably results in an excess burden upon the mailing public?

**Response:**

I believe that it would be possible to set rate levels applying some of the principles of Ramsey pricing, using the Ramsey prices as guides or perhaps more closely tying the rate increases to the own-price elasticities in an inverse manner, for instance. Please refer to the testimony of witness Bernstein, USPS-T-41, for a discussion of the excess burden placed on the mailing public when pricing deviates from Ramsey pricing.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-6. In making your rate recommendations did you examine each subclass individually in comparison to all other classes and subclasses or did you also examine the relationship between all of the subclasses within a particular class?

**Response:**

I examined each subclass in comparison to each and every other subclass and class of mail, not just to other subclasses within the same class, and not just to the system average.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-8. You state on page 44 that the rate increase and cost coverage for BPM "ensure that potential competitors are not unfairly targeted." Would you please identify the potential competitors to whom you refer?

**Response:**

Any other companies who effect delivery of books, catalogs or directories. The purpose of that statement was to address the concern that rate changes might have been targeted so as to cause harm to a competitor or set of competitors.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-9. If you had given criterion 8 full consideration rather than "some" consideration in proposing the rates for Bound Printed Matter, what cost coverage would have been proposed?

**Response:**

As criterion 8 is only one of many pricing criteria to which consideration is given, I cannot say that giving this criterion additional weight in the determination of the Bound Printed Matter rate level would have resulted in any change. As you wish to draw a distinction between "some" and "full" consideration of ECSI value, let me refer you to Exhibit USPS-32D where the proposed rate increases by subclass are shown. "Full" consideration of ECSI value was afforded to Periodicals. Rates for Outside County Periodicals are proposed to increase an average of 12.7 percent. The resulting cost coverages differ hardly at all from those recommended by the Commission in Docket No. R97-1 (see Appendix G, Schedule 1 of the PRC's Opinion). Bound Printed Matter, on the other hand is proposed to receive a rate increase of 18 percent with an associated markup that is half that recommended by the Commission in Docket No. R97-1.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-10. Do you regard that portion of telephone and other directories consisting solely of lists of names, i.e. without advertising messages, to be eligible for the application of criteria 8?

**Response:**

I think an argument could be made that such directories contain material of an informational nature. I am not sure what evidence would be required to differentiate such directories and their informational content from other materials such as might be sent as Standard Mail (A) which would also contain informational matter of a business nature and to which the application of criterion 8 has not applied.

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

**MOAA/USPS-T-32-11** The direct testimony of George S. Tolley shows that total volume of Standard Mail A Enhanced Courier [sic] Route decreased in the year 1999. See USPS-T-6 at 129.

a. Were you aware of 1999 volume figures at the time you prepared your testimony making rate recommendations? If so, did you give any consideration to proposing lower rates for ECR in view of this decrease in volume? Please explain your answer fully.

b. If you were not aware of the decrease in volume does the fact that ECR mail volumes decreased now give you a reason to revisit your rate recommendations? Please explain your answer fully.

**Response:**

- a. Yes. No. It is my understanding that ECR volume declined at least in part as a result of ECR basic letters migrating to Regular Auto 5-digit, responding to new rate relationships that went into effect in January of 1999. It is also my understanding that judgments regarding the degree to which the decline in volume in ECR in FY 1999 would extend into the future fell within the realm of witnesses Tolley (USPS-T-6) and Thress (USPS-T-7). Witness Tolley shows ECR volume further declining in FY 2000 relative to FY 1999 but rebounding in 2001 before rates. The decline in the test year from before to after rates results in a volume that is still higher than the 2000 volume.
- b. Not applicable.

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T-32-12 You recognize on page 43 of your testimony that the rate increase proposed for Bound Printed Matter (BPM) is "the highest rate increase proposed for any subclass in this case." The increase reflects sharply increased costs.

a. Please provide a summary of any explanation that was given to you to account for the increase in BPM costs.

b. In the event that you have not been provided with an explanation for the increase in BPM costs, are you, as an expert in postal matters and volume trends, able to provide any explanation for the cost increases? If so, please provide such an explanation.

c. Please provide a summary of what, if any, steps are being taken by the Postal Service to address the increase in BPM costs, i.e. operational or other steps being taken to bring costs back into line with historical patterns.

**Response:**

- a. I am unaware of any definitive explanation for the increase in Bound Printed Matter. I was aware of summaries that showed that costs had increased in several different cost segments, suggesting that the cost increase was systemic and not isolated to one measurement system or postal function. I was also aware that most of the increase occurred between 96 and 97, not between 97 & 98. In particular, this was before the weight limit increased from 10 to 15 pounds. I was also aware that some changes in costing methodology, such as changes in mail processing volume variabilities, had tended to affect Bound Printed Matter costs. Please refer to the responses of witness Meehan to subparts (b) of the following interrogatories: AAP/USPS-T11-1, AAP/USPS-T11-2 and AAP/USPS-T11-3.
- b. Please refer to my response to subpart a above. I am unable to explain the increase in Bound Printed Matter costs.

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

## Response to MOAA/USPS-T32-12, cont'd

- c. The realignment of Bound Printed Matter rates in order to create incentives for dropshipping and establish a true DDU rates rather than continue the use of the local rate is designed to move in that direction. I am unaware of any further steps specifically aimed at decreasing Bound Printed Matter costs.

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T32-13 In its decision in Docket No. R97-1, the Commission rejected NAA witness Chown's use of "total weighted attributable cost" as a base for the allocation of institutional costs. PRC Rec. Dec., R97-1, at 258. Nevertheless, the Commission found that "witness Chown's point remains valid," in assessing ECR's appropriate contribution to institutional costs. *Id.* at 259. The Commission stated that a subclass that "is a relatively heavy user of one or more functions that engender significant amounts of institutional costs" should result in a unit contribution from the subclass "sufficient to recognize the value of those functions to users of the subclass." *Id.* At. 259.

a. Do you concur in whole or in part with the Commission's analysis of the Chown testimony? Please explain fully.

b. Regardless of whether you do or do not concur in the PRC's conclusions in R97-1, are you satisfied that the rates that you have recommended for Standard Mail ECR satisfy the Commission's concern about "the adequacy of contributions from subclasses that heavily rely on functions which account for a large share of the institutional costs of the Postal Service."? Please explain your answer fully.

**Response:**

- a. I concur in part with the Commission's analysis in that the Commission did not accept witness Chown's methodology as an appropriate substitute for current practices. See paragraph 4069 of the R97-1 Recommended Decision where the Commission states that "the Chown proposal is not a substitute replacement for the current Commission allocation procedure." I further concur with the Commission's decision to "not use total weighted attributable costs instead of attributable costs as the base for the allocation of institutional costs as witness Crowder [sic] suggests." *Id.* at para. 4083.
- b. Yes. The cost coverage for ECR is one of the highest proposed in this case. If costs are attributable, are directly or indirectly caused by a

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

## Response to MOAA/USPS-T32-13, cont'd

subclass of mail, then they ought to be attributed. Although a subclass or category of mail may make use of part of the postal network, I do not believe that to be equivalent to "causing" those costs to exist. Witness Chown's concerns can be and are addressed by use of the incremental cost test to assure that, for example, the combined revenues from all products using the delivery system cover the incremental costs associated with those products as a group. At paragraph 4071 of the R97-1 Recommended Decision, the Commission summarizes Chown's argument as follows: "Witness Chown maintains that using total attributable costs as the markup base implicitly assumes that institutional costs are incurred to provide the different functions of the Postal Service in proportion to the attributable costs of these functions. Tr. 25/3326." I disagree with this assertion. This would be true if every subclass received the same markup. They do not. The pricing criteria provided in the Postal Reorganization Act indicate many reasons for using different markup factors, and in the past, both the Postal Service and the Commission have been able to adequately use the pricing criteria in balance with each other to determine appropriate markups over attributable or volume-variable costs. The Commission points out that "witness Chown reasons that the current system unfairly burdens mailers that use functions that give rise to mostly attributable costs, and unfairly benefits mailers that predominantly use functions that incur few attributable costs." *Id.* at para. 4071. I

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

## Response to MOAA/USPS-T32-13, cont'd

believe that examination of the markups proposed in this case or recommended by the Commission in R97-1 would demonstrate that this statement is not true. According to Table 4-1 at page 254 of the R97-1 Recommended Decision, summarizing witness Chown's work, First-Class Mail, Periodicals, Standard A Regular, ECR, and Bound Printed Matter are relatively heavy users of the delivery system. Library Reference LR-I-149 shows the markups and markup indices from R97-1 as well as the proposals for this case. LR-I-149 shows that the markup indices for the subclasses identified as "heavy" users of the delivery system are, with the exception of that for Periodicals which is mitigated by deference to criterion 8, all among the highest recommended by the Commission. Witness Chown's "new metric" sounds a lot like fully distributed costing to me.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-2. Please refer to page 8, lines 14-21 of your testimony. Is it your position that the comparison of rates to incremental cost is the only measure required to ensure that "unfair price competition" is avoided?

**Response:**

No. However, coverage of incremental costs is widely viewed as a measure that would guard against the possibility of unfairly competing by offering products at lower prices by having other products subsidize them. Pricing criterion 4 requires that the impact on competitors of the rate changes be taken into consideration. The goal in ratemaking should be to protect competition, not necessarily to maintain the current market situation. While it would not be desirable for the rationale or motivation for ratemaking choices to be to unfairly harm competitors or a particular competitor, there may be choices of either rate levels or rate design that may have a harmful impact on competitors or a competitor. In this context, other information, much of which would be known only to those competitors themselves, would be helpful to guard against ratemaking choices that would unfairly harm those competitors. As an example, the Postal Service does not have full information regarding the prices charged by competitors. Some changes to postal rates may cause harm to those competitors, but without knowledge of the cost structure or pricing practices of the competitors, there would not have been opportunity to prevent such harm.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-3.** Please refer to USPS-T-32, p.5, line 18 to p.6, line 21, which identifies the long-run own-price elasticities relied upon in your direct testimony.

- a. Did you use these elasticities to determine your proposed cost coverages and rate levels?
- b. If the answer to (a) is yes, identify each and every way they were relied upon.
- c. Did you rely upon any other parts of the direct testimonies of witnesses Tolley (USPS-T-6), Musgrave (USPS-T-8), or Thress (USPS-T-7)?
- d. If the answer to (c) is yes, identify each and every line of the testimonies and precisely how it was relied upon.
- e. Did you make any use of the cross elasticities or elasticities with respect to other variables reported by witnesses Tolley, Musgrave, and Thress? Explain your answer in detail.

**Response:**

- a. Yes, as one of many factors.
- b. I considered them in the context of pricing criteria 2 (value of service), 4 (effect of rate increases) and 5 (available alternatives). Early in the iterative process, I also used a version of these elasticities with the lags truncated so as to limit the impact to that which would be felt during the test year. The elasticities with truncated lags were used to develop preliminary sets of rate levels that might satisfy the pricing criteria while achieving the goal of financial breakeven.
- c. Yes.
- d. I cannot identify each and every line of the testimonies that I relied upon, nor can I "precisely" state how the testimonies were relied upon. I had read the testimonies of these three witnesses from the most recent omnibus rate case and was generally familiar with their work in both the

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-3, cont'd**

current as well as previous cases. Please also refer to my responses to subparts b and e of this question.

- e. Yes. It is my understanding that, by definition, the only variables that should change between the test year before rates and test year after rates volume forecasts would be the prices. Therefore, I did not make use of any of the elasticities with respect to non-price variables. In developing the target cost coverages early in the iterative rate level process, I used the own-price elasticities with the lags truncated such that only the test year effect on volume would accrue. By doing this, I could simulate volume impacts prior to giving rate design witnesses target cost coverages. In this exercise, I also used some of the cross-elasticities, including the cross-price elasticities for: FCM Single-Piece Letters with respect to FCM Cards, FCM Workshared Letters with respect to FCM Cards and with respect to Standard Mail (A) Regular, FCM Cards with respect to FCM Letters, Standard Mail (A) Regular with respect to FCM Letters, Parcel Post with respect to Priority, Priority with respect to Parcel Post, and Express Mail with respect to Priority. These own- and cross-price elasticities were used to gauge the impact of potential changes on postal volumes, revenues and costs to develop the initial set of target cost coverages. Once the initial set of target cost coverages was set and the rate design witnesses developed sets of rates and fees, the full

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

Response to NAA/USPS-T32-3, cont'd

forecasting models were utilized by the forecasting witnesses and there was no need for me to rely on my simplified version.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-4. At USPS-T-32, p. 7, line 12 to p. 8, line 2, you state: "use of the refined costing approach...affects measured volume-variable costs of different mail classes to differing degrees, necessitating that the rate levels proposed by the Postal Service recognize these changes in relative cost levels."

- a. Did these changes in measurement of costs affect the percentage rate changes and cost coverages of any class or subclass in any quantitative or qualitative way?
- b. If the answer to (a) is yes, identify each and every example of a class or subclass so affected and how it was affected.

**Response:**

- a. Yes.
- b. I cannot. Had the volume-variable costs upon which the proposed cost coverages are based been developed with different assumptions regarding volume variabilities, the result would have been a different set of cost coverages, even if the rates and resulting revenues remained unchanged. It is my understanding that the assumptions regarding the volume variabilities of costs would affect different categories of mail to different degrees, depending, for instance, on the relative importance of mail processing costs in the cost base for that category of mail. Please refer to the testimony of witnesses Bozzo (USPS-T-15) and Degen (USPS-T16).

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-5. At USPS-T-32, p.8, lines 2-3, you state that "coverage or markup indices" were not applied "mechanistically" based on "previous cost information."

- a. Were "coverage" or "markup" indices used in determining specific levels of rates for classes and subclasses in any quantitative or qualitative way?
- b. If the answer to (a) is yes, identify each and every example of a class or subclass so affected and how it was affected. In answering the question, please distinguish between coverage or markup indices if you made any such distinction.
- c. Please refer to the Direct Testimony of Witness O'Hara (USPS-T-30 in Docket No. R97-1) at p. 16, lines 13 to p.20, line 7. Do you agree with his testimony regarding the relative usefulness of markup and cost coverage indices?
- d. If your answer to (c) is not an unqualified yes, identify each and every way in which you disagree with witness O'Hara's testimony.

Response:

- a. No.
- b. Not applicable.
- c. In general, I agree with witness O'Hara's assessment of the relative usefulness of markup and cost coverage under the circumstances for which he has provided his example.
- d. It is my opinion that the usefulness of markup or cost coverage indices is to demonstrate movement of one or more markups or cost coverages from the relative positions held in previous cases. When the base to which the markups or cost coverages are compared – the systemwide average – changes, or the underlying development of the costs (as in the example provided by witness O'Hara) has changed from one case to another, use of a markup or cost coverage index might be useful as a reminder that, for instance, a change from a cost coverage of 145 percent

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-5, cont'd**

in one case to a cost coverage of 160 percent in another case may not actually represent a conscious decision to shift the burden of institutional cost, but rather, reflects only the change in the cost base or the relative proportions of attributable and institutional costs. However, in circumstances such as the current case where, for instance, the volume variable costs for some categories of mail have increased substantially more than the costs for other categories of mail and the cost coverages for the categories with substantial increases in costs must be mitigated, necessitating shifts of the institutional cost burden at the same time as the cost basis and the systemwide average have changed, I think that a markup index or cost coverage index is of less use.

R97-1 Testimony O'Hara (USPS-T-30) pp. 16-20 16

1 variable cost also has unfortunate implications for economic efficiency; although  
2 both products have the same marginal cost, use of one product will be limited to  
3 applications where it is worth at least 33 cents while use of the other product will  
4 be expanded until the last unit is worth only 27 cents.<sup>8</sup> Thus, rate-setting on the  
5 basis of attributable (or incremental) cost has the effect, perhaps unintentional, of  
6 sacrificing applications of the first product that would have been worth 32 or 31  
7 cents in order to allow applications of the second product that are worth only 29  
8 or 28 cents.

9 Thus, except for the cost-floor requirement of criterion three, it is the ratio  
10 of revenue to volume-variable costs that I use in my discussion of rate-levels for  
11 individual subclasses in the remainder of my testimony.

12  
13 E. Mark-ups and Coverages After A Reduction in Measured Costs

14 In this proceeding, the Postal Service has introduced significant  
15 improvements in its costing methods. These improvements are especially  
16 important for cost segment three, as described in the testimonies of witnesses  
17 Bradley (USPS-T-14) and Brehm (USPS-T-21), where the previous assumption of  
18 100 percent volume variability has been replaced by an analysis of actual volume  
19 variability.

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20 <sup>8</sup>This inefficiency will be larger, the larger is the two products' price-elasticity  
21 (the same for both in this example, by the assumed equal evaluation for all non-  
22 cost criteria) and the larger the differences between incremental and volume-  
23 variable cost.



1           As a consequence of replacing 100 percent-variability assumptions with  
2 variability analysis, the percentage of Postal Service costs found to be volume  
3 variable declines. Stated differently, the total amount of "other" cost that for  
4 revenue generation purposes must be assigned to subclasses through the use of  
5 cost-coverage ratios is now larger. This means that the required system-average  
6 coverage rises significantly.

7           A natural question is whether there is some way to utilize previously  
8 developed mark-ups and cost coverages to arrive at a starting point, at least, for  
9 determining rate levels under the new costing method. Table E-1 uses a simple  
10 example to investigate two possible approaches: (1) a mark-up index, and (2) a  
11 coverage index. Panel I of the table describes the situation before the  
12 introduction of the new costing method. The revenue requirement is 100,  
13 Products A and B each have a cost of 33.3, but coverages of 167 percent and  
14 133 percent respectively, and the system-average coverage is 150 percent or a  
15 mark-up of 50 percent.

16           In Panels II and III, a new costing method is introduced which reduces the  
17 measured cost for each product to 25 (leaving total system cost unchanged;  
18 costs formerly thought to be volume-variable are shifted to "other costs"). With  
19 an unchanged revenue requirement of 100, the required system-average coverage  
20 is now 200 percent, or a 100 percent mark-up.

21

**Table E-1. Effect of Holding Mark-up Index or Coverage Index Constant,  
With Changes in Measured Volume-Variable Costs**

**I. Initial Situation, Before Changes in Cost Measurement**

	Volume- Variable Cost	Contri- bution	Revenue	Coverage	Mark-up	Coverage Index	Mark-up Index
Product							
A	33.3	22.2	55.6	167%	67%	1.11	1.33
B	33.3	11.1	44.4	133%	33%	0.89	0.67
Total	66.7	33.3	100.0	150%	50%	1.00	1.00
Revenue Requirement			100.0				

**II. Equal Reduction in Measured Costs, Previous Mark-up Index Applied**

	Volume- Variable Cost	Contri- bution	Revenue	Coverage	Mark-up	Coverage Index	Mark-up Index = Initial
Product							
A	25.0	33.3	58.3	233%	133%	1.17	1.33
B	25.0	16.7	41.7	167%	67%	0.83	0.67
Total	50.0	50.0	100.0	200%	100%	1.00	1.00

**III. Equal Reduction in Measured Costs, Previous Coverage Index Applied**

	Volume- Variable Cost	Contri- bution	Revenue	Coverage	Mark-up	Coverage Index = Initial	Mark-up Index
Product							
A	25.0	30.6	55.6	222%	122%	1.11	1.22
B	25.0	19.4	44.4	178%	78%	0.89	0.78
Total	50.0	50.0	100.0	200%	100%	1.00	1.00

In Panel II, the mark-up index from Panel I is used to calculate new mark-ups for each product. For example, Product A's mark-up index of 1.33 is applied to the new system-average mark-up (100 percent) to get its mark-up of 133 percent. Similarly, Product B's new mark-up is calculated to be 67 percent. With these mark-ups, the revenue generated from Product A is 58.3, compared to 55.6

1 in Panel I, or a rate increase of 4.9 percent. For Product B, on the other hand,  
2 the new mark-up generates less revenue than in Panel I; Product B thus gets a  
3 rate decrease of 6.1 percent ( $= (41.7/44.4) - 1$ ). Thus, even though the  
4 measured costs of Products A and B are equally affected by the change in costing  
5 method, a straightforward application of the Panel I mark-up index produces  
6 distinctly unequal effects on their rates. This hardly seems consistent with  
7 fairness and equity.

8 Panel III presents a parallel calculation using the coverage index from Panel  
9 I. For example, Product A's coverage index of 1.11 is applied to the new system-  
10 average coverage (200 percent) to get its coverage of 222 percent. Similarly,  
11 Product B's new coverage is determined to be 178 percent. With these  
12 coverages, the revenue from each product turns out to be the same as in Panel I;  
13 in effect, both products get an equal rate increase (zero, since the revenue  
14 requirement is unchanged).

15 This suggests to me that, for setting rate levels based on the new cost  
16 information, the cost coverage index provides a better starting point than the  
17 mark-up index. Since applying the cost coverage index results in the same  
18 revenue for each subclass as before, this is equivalent to unchanged rates  
19 (volume does not change). Therefore, there is no need for mechanical  
20 adjustments in response to the higher system-average cost coverage resulting  
21 from the change in costing methods; one can simply use existing rates as the  
22 starting point for developing new rates and rate-levels under an increased revenue

1 requirement.<sup>9</sup>

2 Naturally, the new costing methods did not in fact reduce measured costs  
3 for each subclass by an equal percentage. The differential reductions for different  
4 subclasses have been reflected in the Postal Service's proposals by a tendency,  
5 other things equal, to propose coverages that result in lower-than-average rate  
6 increases for those subclasses that experienced greater-than-average reductions  
7 in their measured volume-variable cost.

8

9 F. Ramsey Prices

10 One issue that generally arises in postal rate proceedings is that of Ramsey  
11 pricing. Although the Postal Service does not advocate a mechanistic application  
12 of this approach to pricing, it does provide a useful framework for demonstrating  
13 the effects of different pricing decisions and provides a sense of direction toward  
14 prices that reduce the excess burden of raising the revenue needed to operate the  
15 Postal Service on a breakeven basis. At the same time, the Postal Service  
16 recognizes that the Act directs that postal ratemaking consider a variety of  
17 factors, not all of which are directed toward economic efficiency.

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18 <sup>9</sup>Of course, existing rates are only the starting point. In the light of the new  
19 costing information, rate levels may need to be considered afresh against the  
20 criteria in the Act. It should be noted, however, that the existing rates, when  
21 evaluated relative to the new costs, do preserve whatever trade-offs between  
22 economic efficiency and other objectives were reflected in their original selection.  
23 For example, if Product A's price was below the Ramsey price derived from the  
24 original costs, it will also be below the Ramsey price derived from the new costs.  
25 This is because the coverage index preserves the relative positions of various  
26 products in terms of their ratios of price to marginal cost.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-6. At USPS-T-32, p.8, lines 10-13, you identify (1) "the overall rate of inflation in the economy," (2) "the rate increases for other classes of mail," and (3) the "overall system-average increase," as indicators to compare to the proposed percentage rate increase for a class of mail in order to measure of [sic] the effect of the proposed rate increases on mailers.

- a. Are these factors also relevant to the effect of the proposed rate changes on competitors? Explain fully the basis for your answer.
- b. Identify precisely the numerical values of the indicators identified at p.8, lines 10-13, how these values were derived, and how they were considered in establishing the cost coverages and proposed rate levels for each of the classes and subclasses of mail.

**Response:**

- a. Yes. If, for example, the rate increase for a competitive service were held significantly lower than those for other categories of mail, I could understand competitors seeking additional rationale for the relatively lower rate increase. Such rationale could include better cost control for the competitive product, for example. Similarly, if the rate increase for a competitive service were lower than the rate of inflation or the systemwide average, I could understand a competitor seeking additional reasons for the relatively smaller rate increase. Given that the pricing criteria cited in the Postal Reorganization Act provide a range of issues for consideration when developing rate levels and their associated rate increases, I would expect that the rationale for the rate changes would be evident. I would expect, for instance, that the satisfaction of criterion 3 (covering incremental costs) and criterion 2 (using the own-price elasticity to measure value of service) might be just as useful in considering the impact on competitors. I would caution against using rate increases as

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-6, cont'd**

the sole measure for comparison because a percent increase relies on a comparison of the current rates with the proposed rates. There may have been mitigating circumstances in the rate case that led to the current set of rates, such as a desire to maintain rate relationships across subclasses or a desire to limit a rate increase.

- b. Please refer to the response of witness Tayman to interrogatory DMA/USPS-T9-16 for the rate of inflation over the rate cycle between R97-1 and R2000-1. Please refer to my Exhibit USPS-32D for the rate increases by classes of mail. Please refer to my response to your interrogatory NAA/USPS-T32-1 for the calculation of the overall system-average increase.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-7. Does USPS-T-32, p.8, lines 14-21, identify all the factors you considered in evaluating the effects on competitors? If the answer is not an unqualified yes, please identify in detail all additional considerations and what proposed rates they affected.

**Response:**

Please refer to my response to your interrogatory NAA/USPS-T32-6(a). I was also aware of reports of rate changes for several private companies which provide delivery services, both general rate changes as well as rate surcharges specifically tied to service for particular areas or, in part, to increases in fuel prices. In addition, I did compare the test year before and test year after rates forecasts of postal volume for each subclass or rate category for which volumes were forecasted.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-8. Does the availability of alternatives as identified at p.9, lines 1-10, affect the specific cost coverages and percentage rate increases proposed by you?

- a. If your answer is yes, identify each and every class or subclass so affected and precisely how it was affected.
- b. Did the "availability, at reasonable cost, of alternative means of sending and receiving mail matter" (USPS-T-32, lines 2-3) lead you to propose higher percentage rate increase and cost coverages for any class or subclass than you otherwise would have proposed?
- c. If your answer is not an unqualified no, identify each such class or subclass and precisely how the recommended class or subclass was affected.

**Response:**

Yes.

- a. Please refer to my response to DFC/USPS-40. Low own-price elasticities of demand can be partially the result of a lack of viable alternatives. The low elasticities may be taken to indicate a high value of service which criterion 2 would suggest be associated with a relatively high cost coverage. Criterion 5 has been interpreted as providing a basis for deciding when a cost coverage should be mitigated, especially when alternatives are limited for some subset of the postal customers in question. I cannot identify "precisely" how this consideration affected each of the proposed cost coverages, but I can point in particular to the relatively low own-price elasticities for First-Class Letters as one instance in which I was aware that the relatively low own-price elasticity is likely partially the result of the restrictions on the private carriage of letters.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-8, cont'd**

- b. In conjunction with consideration of criterion 4, when considering the proposals for services generally considered to be competitive, such as Express Mail, Priority Mail, Parcel Post and for some subclasses such as ECR for which there are known direct substitutes (which is not to exclude from this discussion other subclasses of mail for which there are alternatives available, such as electronic transmission for First-Class Mail, parcel delivery firms for Special and Bound Printed Matter or other means for delivering Periodicals), I did consider that any perceived reduction in or mitigation of the proposed cost coverages or rate increases would undergo scrutiny. While I cannot say that I proposed "higher percentage rate increases or cost coverages" for these subclasses than I otherwise would have proposed, I was sensitive to the possibility of criticism by competitors, should the rate increases or cost coverages not appear to be as high as the other pricing criteria might seem to imply.
- c. Please see my response to subpart (b).

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-9. At USPS-T-32, p.10, lines 11-14, you state that the required system-average cost coverage will increase, all else equal, as the overall level of worksharing increases.

- a. Did this effect influence your proposed rate increases and cost coverages for the classes and subclasses of mail?
- b. If your answer is not an unqualified no, identify all examples and explain in detail how the proposed rate increase and cost coverages were affected.

**Response:**

- a. Yes.
- b. The cost coverage for each and every subclass of mail was influenced by the aggregate level of worksharing in that, in conjunction with the volume-variability assumptions, the amount of worksharing affected the relative proportion of institutional costs overall. In particular, I was aware that the seeming reduction in the unit costs for First-Class Letters was partly the result of mail mix changes shifting volume shares from single-piece to workshared categories.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-10. At USPS-T-32, p.11, lines 7-8, you state that the sixth criterion (degree of preparation) was "most immediately" reflected in rate design. Did degree of preparation affect the rate levels of any class or subclass as well? Explain your answer in detail.

**Response:**

Yes. When developing the cost coverages for subclasses with substantial worksharing participation, I had to remember that a seemingly high cost coverage might have been the result of high levels of worksharing participation which reduced the denominator, rather than a high revenue and institutional cost burden which would have increased the numerator. In particular, this was of concern when determining the cost coverages for First-Class Letters and Cards (see my response to NAA/USPS-T32-9) and ECR.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-11. At USPS-T-32, p.11, lines 7-9, you state that the seventh criterion contains "the logic that understandable and rational relationships exist between various postal rates" and that this factor was "most immediately reflected in the rate design." The examples of this consideration that follow appear to be confined to matters of rate design.

- a. Did the seventh criterion play a role in determining the specific proposed level of rates for any class or subclass of mail?
- b. Unless your answer to (a) is an unqualified no, identify all classes and subclasses where the seventh criterion had an effect on the proposed cost coverage and percentage rate changes for the classes and subclasses of mail and identify the role of the effect.

**Response:**

- a. Yes.
- b. Criterion 7 played an important role in the determination of the treatment of Library Mail and the preferred subclasses in Periodicals. Operating in conjunction with the Revenue Forgone Reform Act, the other pricing criteria might have led to higher cost coverages or percentage rate increases, but for the concern that these categories of mail had been singled out for preferred treatment. The higher cost coverages or rate increases might have led to rates that were not lower than those of the non-preferred categories. In addition, there are some subclasses for which a hierarchy of rates related to service exists. Namely, logic dictates that Express Mail rates exceed Priority Mail rates which should exceed Parcel Post rates. The cost coverages and percentage rate increases were developed with this resulting hierarchy in mind. In addition, as in Docket No. R97-1, there was some attention paid to the possible crossover of mail from the ECR basic rate category to the Automation 5-digit rate in Standard Regular.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-12. At USPS-T-32, p.11, line 18, to p. 12, line 4, you discuss the eighth and ninth criteria of the Act.

- a. Did these criteria have any qualitative or quantitative effect on the proposed cost coverages and rate levels?
- b. Unless your answer is an unqualified no, identify each and every subclass and class of mail and how it was affected.

**Response:**

- a. Yes.
- b. As I noted in my testimony, educational, cultural, scientific and informational (ECSI) value played a role in mitigating cost coverages for First-Class Mail, Periodicals, Special Standard and Bound Printed Matter. With regard to criterion 9, I did consider certain goals and concerns expressed by postal management, particularly with regard to narrowing the range of percentage rate increases, in addition to concerns expressed by the Commission in the past. For example, please refer to my responses to NAA/USPS-T32-11(b) and NAA/USPS-T32-25. While some of these concerns may be addressed by other pricing criteria, the emphasis placed upon them would, in my opinion, relate to criterion 9.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-13. Did you consider the per unit (e.g., cents per piece) contribution of revenues in excess of per unit volume-variable, incremental or attributable costs in your proposals for percentage rate increases and cost coverages? Unless your answer is an unqualified no, identify each and every class and subclass that was affected and how it was affected.

**Response:**

Rate levels have traditionally been discussed in terms of markups or costs coverages, rather than in terms of unit contribution. The purpose of establishing a set of rate levels is to derive a set of proposed percent changes in rates that will permit the forecasted volumes, costs and revenues to obtain a breakeven financial condition in the test year while complying with the pricing criteria specified in the Postal Reorganization Act. As I tested out combinations of rate levels that appeared to meet the pricing criteria of the Postal Reorganization Act, I had to keep in mind the unit contribution figures for each subclass so as to arrive at financial breakeven.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-14. At USPS-T-32, p. 17, lines 1-3, you state: "the ratio of revenue to volume-variable cost is appropriate for assessing the burden of meeting the revenue requirement." You further state at p. 17, lines 6-9, that incremental cost data are relevant "for purposes of testing the adequacy of the Postal Service" proposed rates with regard to criterion 3 [cost]."

- a. Does this cited portion of your direct testimony imply that the ratio of revenue to volume-variable cost is the appropriate measure for applying the remaining criteria (other than criterion 3) in determining how the burden of meeting the total revenue requirement is distributed among the subclasses?
- b. If your answer is yes, explain why the ratio of revenue to volume-variable cost provides the only needed measure. If your answer is no, explain what other measures of revenues and costs are necessary.

**Response:**

- a. Yes.
- b. Please refer to the testimony of witnesses Panzar (Sections I.A. and I.B. in USPS-T-11 of Docket No. R97-1) and O'Hara (USPS-T-30 in Docket No. R97-1, particularly pages 11-16) in Docket No. R97-1.

1 **I. MARGINAL COSTS AND INCREMENTAL COSTS: ESSENTIAL**  
2 **CONCEPTS FOR RATIONAL POSTAL RATE-MAKING.**

3 Economic theory has established that there are two cost concepts which must play  
4 a crucial role in rational rate-making for a regulated enterprise operating under conditions  
5 of economies of scale and economies of scope: the marginal costs and the incremental  
6 costs of a service. These cost concepts are obviously very closely related, as is explained  
7 in more detail below and in the testimony of Witness Takis. However, they have very  
8 different roles to play in the rate-making process. In my view, many of the contentious  
9 issues in postal costing and pricing have their origin in the attempt to have the statutory  
10 notion of attributable costs fulfill both of these roles simultaneously. This attempt is  
11 unnecessary and doomed to failure.

12 The starting point for any pricing analysis is the (vector of) marginal costs of the  
13 enterprise's services. The crucial role of marginal costs in rate-making has long been  
14 emphasized in testimony before this Commission,<sup>1</sup> and I will not repeat those arguments  
15 in detail here. However, the detailed costing procedures of the Postal Service are based  
16 on the concept of *volume variable costs*, not the marginal costs of economic theory. Thus  
17 one important goal of my testimony is to explain the linkage between the service specific  
18 volume variable costs produced by the Postal Service's system of cost accounts and  
19 economic marginal costs.

20 Incremental costs, on the other hand, have not been the focus of postal rate  
21 proceedings, and this is the first time that the Postal Service has presented estimates of  
22 the incremental costs of all of the various mail subclasses. Thus it is important to explain

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<sup>1</sup>See, for example, the Direct Testimony of William J. Baumol in Docket No. R87-1, USPS-T-3,  
pages 25-27.



1 in some detail the appropriate role which incremental costs should play in the rate-making  
2 process, as well as to explain how they may be appropriately calculated using the cost  
3 data of the Postal Service.

4 ***A. Marginal costs are the basis for rational rate-setting.***

5 The efficiency role of marginal cost pricing in the competitive market model is  
6 easy to understand. The market price of a good or service measures the value (in terms of  
7 money available to spend on other goods and services forgone) of the marginal unit  
8 purchased. If the value of said marginal unit were less than its market price, consumers  
9 would spend their money elsewhere. Similarly, if consumers valued the last unit  
10 purchased at more than the market price, they would increase their purchases. Thus, in  
11 general, maximizing behavior on the part of consumers ensures that no unit purchased is  
12 valued at less than the market price and that the marginal unit purchased is valued at the  
13 market price.

14 On the supply side of the market, marginal cost measures the value of the  
15 resources required to produce the marginal unit of the service in question. It clearly  
16 would be economically inefficient for price to be set below marginal cost, for this would  
17 lead to a situation in which consumers valued the goods and services forgone to purchase  
18 the marginal unit at less than the resources used in providing that unit. Society would be  
19 better off if the last unit were not produced. A similar argument demonstrates the  
20 inefficiency associated with pricing above marginal cost. In that case, consumers would  
21 value an additional unit of service more than they do the resources which would be used  
22 to produce it. Society would be better off if an additional unit were provided.

23 Unfortunately, the presence of economies of scale makes it impossible for an  
24 enterprise to set all of its prices equal to the associated marginal costs and still break-  
25 even. That is, when there are economies of scale, the revenues resulting from setting all

1 prices equal to the associated marginal costs are always less than the total costs incurred.<sup>2</sup>  
2 Thus when, as in the case of the Postal Service, the enterprise is required to generate  
3 revenues which cover its costs, the prices of some or all services must be set ("marked-  
4 up") above the corresponding marginal costs. There are typically an infinite variety of  
5 pricing combinations which will generate the revenues required by the enterprise. The  
6 precise pattern of mark-ups chosen will be determined by the objectives of the rate-  
7 making authority as well as by market considerations. However, the marginal costs of the  
8 various services are essential information for the implementation of *any* rational pricing  
9 policy. This is a logical consequence of the break-even requirement. Whatever goals the  
10 rate-maker wishes to pursue via the prices of various subclasses of mail, they can be  
11 pursued effectively only by taking cognizance of the marginal costs of expanding or  
12 contracting the relevant mail volumes.

13 At a minimum, estimates of marginal costs can be used by the rate-making  
14 authority to avoid the first type of economic inefficiency discussed above: providing  
15 services which consumers value less than the resources used to produce them. In  
16 addition, the marginal cost pricing floor plays an important role in allocating output  
17 among firms when there are multiple providers of a service. Competitive rivals of the  
18 Postal Service would maximize their profits by selecting their output levels to equate  
19 their marginal costs to the market price. If that price were below the marginal cost of the  
20 Postal Service, productive efficiency could be improved by shifting output from the  
21 Postal Service to its rival(s).

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<sup>2</sup>This was established for the multi-output firm in J. C. Panzar and R. D. Willig, "Economies of Scale in Multi-Output Production," *Quarterly Journal of Economics*, 91 3, August, 1977, pp. 481-93.

1           **B. Incremental costs should be used to evaluate postal rates for**  
2           **cross-subsidy.**

3           The Postal Reorganization Act stipulates that postal prices should be "fair" and  
4           "reasonable," and imposes

5           the requirement that each class of mail or type of mail service bear the direct  
6           and indirect postal costs attributable to that class or type plus that portion of  
7           all other costs of the Postal Service reasonably assignable to such class or  
8           type.

9           Over the last twenty years, the economics literature has come to interpret such strictures  
10          as requiring that the rate schedule be free from *cross-subsidy*. The test accepted by  
11          economists to determine whether or not any service (or group of services) is receiving a  
12          subsidy is

13          *The Incremental Cost Test.* The revenues collected from any service (or group  
14          of services) must be at least as large as the additional (or *incremental*) cost of  
15          adding that service (or group of services) to the enterprise's other offerings.

16          This test is a very intuitive fairness standard. For if a service's revenues do not  
17          cover the additional costs the enterprise incurs in providing it, the users of that service are  
18          receiving a subsidy from the enterprise's other customers. On the other hand, if the  
19          revenues from all services (or groups of services) are at least as large as their incremental  
20          costs, then no user or group of users is burdened by their provision. Indeed, in that case,  
21          the provision of each service (or group of services) reduces the amount of revenues which  
22          must be collected from the remaining services in order for the enterprise to break even.  
23          And, the rate schedule is free from cross-subsidy.

24          It is important to note that, as a test for cross-subsidization, the incremental cost  
25          test described above is calculated only with respect to changes in the *quantity* produced of

1 a particular service (or group of services). It is certainly possible, in principle, to  
2 calculate the incremental costs of providing certain service quality attributes, such as  
3 daily delivery. While the results may be important for decision-making purposes, they  
4 have nothing directly to say about whether or not a service with *given* quality attributes is  
5 being subsidized.

6 Incremental cost tests may also have an important efficiency role to play. The  
7 incremental costs which the Postal Service incurs in providing a mail service measures  
8 the costs to society of having that particular service provided as part of the larger Postal  
9 Service enterprise. In many cases, alternative supply arrangements may be possible. For  
10 example, it is obviously possible to supply parcel or overnight services through separate,  
11 stand-alone operations. From a social point of view, stand-alone provision would be  
12 desirable whenever the *stand alone costs* of independent provision of a mail service (or  
13 group of mail services) are less than the Postal Service's incremental costs of that service  
14 (or group of services).

15 In a world of completely free entry, it would be impossible for an enterprise to  
16 successfully offer a tariff schedule that involved cross-subsidy.<sup>3</sup> Entrants would appear  
17 to serve those service categories for which revenues were in excess of stand alone costs,  
18 because such entrants could envision cutting the going price while still earning a profit.  
19 Alternatively, if the revenues received from a group of services were not at least as large  
20 as the added costs of providing them, entry would occur by a firm which refused to offer

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<sup>3</sup>See William Baumol, John Panzar, and Robert Willig, *Contestable Markets and the Theory of Industry Structure*, Harcourt, Brace, Jovanovich (1988), for a thorough discussion and demonstration of this result.

1 such services. Relieved of this cross-subsidy burden, the entrant could under price the  
2 established firm in competition for the remaining services.

3 Of course real world markets are rarely, if ever, so contestable that the slightest  
4 divergence between revenues and stand-alone or incremental costs would immediately  
5 result in entry as described above. Also, there may be legal limitations to entry such as  
6 those embodied in the Private Express Statutes. Nevertheless, it must be borne in mind  
7 that the prices of Postal Service and other regulated enterprises are always being  
8 scrutinized for profit opportunities by current and prospective competitors and other  
9 entrepreneurs. Therefore it is important for Postal Service to be "sending the right pricing  
10 signals," both to enhance overall economic efficiency and to retain those markets in  
11 which it enjoys a true competitive advantage.

12 As is well known, one of the functions of marginal cost pricing in competitive  
13 markets is to reveal the value of the social resources used to produce the product or  
14 service in question to potential entrants. If, based on these price signals, an entrepreneur  
15 enters the market, it must be because the productive techniques at his disposal allow him  
16 to produce the product or service at a lower social resource cost, otherwise he could not  
17 profitably provide service. Prices necessarily lose some of this efficiency role in markets  
18 served by a multiproduct monopoly firm operating under conditions of economies of  
19 scale. Such an enterprise could not break even if all services were sold at prices equal to  
20 marginal costs. Thus there is an inevitable wedge created between the signals sent to  
21 potential competitors, which are based on the monopoly's tariffs, and the social  
22 opportunity costs of the resources used in providing the goods or services in question.

23 Yet monopoly tariffs can still play an efficiency enhancing, signalling role by  
24 satisfying the constraints imposed by the incremental cost test. If the monopolist's prices  
25 are set below per unit incremental costs, firms with superior productive techniques would

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1 be inefficiently deterred from entering the market. Their entry would necessarily improve  
2 social efficiency by decreasing the total resource cost of providing industry services. In  
3 addition, the monopoly could be required to lower prices on its remaining services and  
4 still break even.

5 **C. Digression: Are Ramsey prices necessarily free of cross-**  
6 **subsidy?**

7 The previous section has argued that, in addition to their intuitive fairness  
8 properties, there are important efficiency reasons for the Postal Service to attempt to set  
9 rates that are free of cross-subsidy. Indeed, the reasons offered are quite similar to the  
10 rationale for studying efficient pricing in the first place: as part of an attempt for the  
11 Postal Service to enhance its inherent competitive advantages in increasingly competitive  
12 postal markets. Witness Bernstein presents estimates of the Ramsey optimal postal  
13 prices, i.e., those that would maximize the sum of producer plus consumer surplus subject  
14 to the constraint that the Postal Service's revenues cover its costs. However, nothing in  
15 the underlying mathematics ensures that such economically efficient prices will  
16 automatically be free of cross-subsidy. Therefore it is necessary to attempt to determine  
17 whether proposed or established prices satisfy these cross-subsidy tests.

18 It may seem surprising that the question of cross-subsidization remains an issue  
19 even if the Postal Service were to engage in Ramsey optimal pricing. The potential  
20 conflict between Ramsey prices and cross-subsidization springs from the fact that  
21 Ramsey prices are based on marginal costs, while the cross-subsidy tests under discussion  
22 are based on incremental and stand-alone costs. A simple hypothetical example will  
23 illustrate the difficulty. Suppose a monopoly provides its basic service, service 1, by  
24 constructing a facility which has annualized costs of  $B$ , after which the service can be  
25 produced at constant per unit cost of  $b$ . Given that it has incurred the facility costs  
26 necessary to offer the basic service, the monopoly can offer an enhanced service by

1 one-twelfth the corresponding commercial mark-up to one-half the commercial  
2 mark-up.

3 The rates that the Postal Service proposes for Commission  
4 recommendation are the "full" or Step 6 rates, with mark-ups equal to one-half  
5 the commercial mark-ups. However, because the test-year corresponds to Step 5  
6 of the phasing process, the test-year financial analysis utilizes the Step 5 rates  
7 that correspond to the Postal Service's proposed Step 6 rates.

8

9 D. Attributable Cost, Incremental Cost, and Volume-Variable Cost

10 In the past, the Commission has assessed rate levels by comparing revenue  
11 to attributable cost, defined as the sum of volume-variable cost and specific-fixed  
12 cost. For each subclass, the resulting "cost coverage" ratio has been evaluated  
13 against the nine criteria of Section 3622(b). These criteria embody two  
14 somewhat distinct considerations. First, criterion three imposes a definite  
15 requirement that revenues equal or exceed attributable costs, thus preventing any  
16 cross-subsidy between subclasses. Second, the nine criteria jointly provide  
17 guidance in determining how the burden of meeting the total revenue requirement  
18 should be distributed among the subclasses. In the past, the ratio of revenue to  
19 attributable cost has been used for both of these purposes.

20 As Dr. Panzar testifies, these two purposes are actually better served if  
21 two distinct cost measures are used. For purposes of avoiding cross-subsidy, the

1 appropriate test is whether revenue is at least equal to incremental cost.<sup>2</sup> For  
2 assessing the burden of meeting the revenue requirement, the appropriate  
3 comparison is the ratio of revenue to volume-variable cost. See USPS-T-11,  
4 especially Sections I.A and I.B.

5 In evaluating rate levels for individual subclasses, I employ both these cost  
6 measures. I believe this is an improvement over previous practice, but it is clearly  
7 not a major departure. This is because, in the past, volume variable cost and  
8 attributable cost have as a practical matter been quite similar; specific-fixed costs  
9 for most subclasses have been very small (often zero).<sup>3</sup> Thus, the qualitative  
10 judgements required in setting rate levels are likely to have been largely  
11 unaffected by the inclusion or exclusion of specific-fixed costs.

12

### 13 1. The Cost-Floor Requirement

14 For the cost-floor requirement of criterion three, incremental cost is similar  
15 to attributable cost in that it incorporates information on both specific-fixed cost  
16 and volume-variable cost.<sup>4</sup> However, for each subclass, instead of simply adding

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17 <sup>2</sup>Recognizing this, the Commission has specifically recommended that the  
18 Postal Service develop incremental cost estimates to allow it to perform the cross-  
19 subsidy test. See Opinion and Recommended Decision, Docket No. R94-1,  
20 Appendix F at paragraph 170.

21 <sup>3</sup>In FY 1996, Express Mail was the only subclass for which specific-fixed cost  
22 constituted more than a few percentage points of attributable cost; in that case,  
23 specific-fixed cost made up 19% of attributable costs.

24 <sup>4</sup>Due to the introduction of new costing methods, the Postal Service is for the  
25 first time able to provide incremental cost data for all subclasses. In R87-1, the  
26 Postal Service provided incremental cost for certain subclasses, but the



1 to its specific-fixed cost the amount of its volume-variable cost at current volume,  
2 incremental cost incorporates information as to how unit volume-variable cost  
3 would change as volume decreased from its current level to zero. Thus, the  
4 incremental cost of a subclass is the cost that would be eliminated if the subclass  
5 were discontinued (holding the volume of mail in other subclasses constant). See  
6 USPS-T-41 (witness Takis).

7 If revenue from a subclass equals or exceeds its incremental cost, then  
8 there is no cross-subsidy; any excess of revenue over incremental cost means  
9 that the Postal Service's provision of that subclass does not burden other  
10 subclasses but in fact benefits them.

11

## 12 2. Rate Levels

13 I noted above that with the previous costing methods, there was only one  
14 subclass, Express Mail, for which attributable cost differed by more than a few  
15 percentage points from volume-variable cost. With the new costing methods,  
16 differences between volume-variable cost and incremental cost arise for more and  
17 larger subclasses. For example, for First-Class Mail letters, the difference is about  
18 9 percent. Thus, the choice of the cost concept to be used in evaluating rate  
19 levels with respect to the criteria of the Act becomes more important.

20 For the reasons explained in Dr. Panzar's testimony, I believe that the ratio

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21 Commission indicated its belief that, to be useful, such information needed to be  
22 available for all subclasses. Opinion and Recommended Decision, Docket No. R87-  
23 1, at 102-103.

1 of revenue to volume-variable cost is the more appropriate cost concept for this  
2 purpose. This is perhaps more clearly seen by considering an equivalent form of  
3 this ratio, namely the ratio of price to marginal cost.<sup>5</sup> This form of the ratio  
4 highlights the determinants and consequences of an individual mailer's decision  
5 about how much to mail. A mailer will deposit an additional piece of mail only if  
6 its value to him or her is at least equal to its price (or unit revenue); once  
7 deposited, this piece imposes unit volume-variable costs on the system and thus  
8 makes a contribution to other costs equal to the difference between price and  
9 unit volume-variable cost.

10 Therefore, any rate-setting process based on something other than volume-  
11 variable costs, whether it be attributable cost (calculated as the sum of volume-  
12 variable and specific-fixed costs in accordance with previous practice) or  
13 incremental cost, will be constructing its rates on a cost concept that does not  
14 accurately reflect the cost consequences of the decisions that mailers will make  
15 in response to those rates.<sup>6</sup> This will tend to result in both unfairness and  
16 economic inefficiency, as illustrated by the following example.

17 Consider a situation in which there are two postal products, both having  
18 the same evaluation on all the non-cost criteria, and hence deserving the same  
19 cost coverage, assumed for simplicity to be 150 percent. Assume that for one

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20 <sup>5</sup>This is simply the per-piece form of the ratio; price equals unit revenue and  
21 marginal cost equals unit volume-variable cost.

22 <sup>6</sup>Of course, if specific-fixed costs are zero, as has previously been the case for  
23 many subclasses, then attributable costs and volume-variable costs are identical.

1 product the attributable (or incremental) cost is 10 percent above its volume-  
2 variable cost and that for the other this cost is 10 percent below its volume-  
3 variable cost.<sup>7</sup>

4 If both products have a unit volume-variable cost of \$0.20, and rates are  
5 set by applying the 150 percent coverage factor to volume-variable cost, each  
6 will be priced at \$0.30. The users of both products will be equally treated. For  
7 an additional unit of either product, its users will pay \$0.20 to offset the  
8 additional cost they impose on the system and will make a \$0.10 contribution to  
9 other costs.

10 In contrast, if rates are set by applying the coverage factor to attributable  
11 (or incremental) cost, the first product will be priced 10 percent higher, or \$0.33,  
12 and the second product 10 percent lower, or \$0.27. An additional unit of either  
13 product will still impose \$0.20 in additional cost on the system, but users of the  
14 first product will be making a \$0.13 contribution to other costs for each  
15 additional unit while users of the second product contribute only \$0.07, a  
16 contribution ratio of almost 2-to-1. This seems to me unfair, given that the two  
17 products received equal evaluations on the non-cost criteria.

18 Rate-setting based on attributable (or incremental) cost instead of volume-

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19 <sup>7</sup>The discussion that follows would be more complicated, but its conclusions  
20 unchanged, if both products had incremental cost above volume-variable cost but  
21 by different percentages. In fact, for most postal products, incremental cost does  
22 exceed volume-variable cost; for example, for First-Class Mail letters incremental  
23 cost is 9% above volume-variable cost. However, there are several Special  
24 Services for which the reverse is true; for example, the incremental cost for  
25 Certified Mail is 9% below its volume-variable cost.

16

1 variable cost also has unfortunate implications for economic efficiency; although  
2 both products have the same marginal cost, use of one product will be limited to  
3 applications where it is worth at least 33 cents while use of the other product will  
4 be expanded until the last unit is worth only 27 cents.<sup>8</sup> Thus, rate-setting on the  
5 basis of attributable (or incremental) cost has the effect, perhaps unintentional, of  
6 sacrificing applications of the first product that would have been worth 32 or 31  
7 cents in order to allow applications of the second product that are worth only 29  
8 or 28 cents.

9 Thus, except for the cost-floor requirement of criterion three, it is the ratio  
10 of revenue to volume-variable costs that I use in my discussion of rate-levels for  
11 individual subclasses in the remainder of my testimony.

12

#### 13 E. Mark-ups and Coverages After A Reduction in Measured Costs

14 In this proceeding, the Postal Service has introduced significant  
15 improvements in its costing methods. These improvements are especially  
16 important for cost segment three, as described in the testimonies of witnesses  
17 Bradley (USPS-T-14) and Brehm (USPS-T-21), where the previous assumption of  
18 100 percent volume variability has been replaced by an analysis of actual volume  
19 variability.

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20 <sup>8</sup>This inefficiency will be larger, the larger is the two products' price-elasticity  
21 (the same for both in this example, by the assumed equal evaluation for all non-  
22 cost criteria) and the larger the differences between incremental and volume-  
23 variable cost.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-15. Please refer to the Direct Testimony of USPS witness O'Hara in Docket No. R97-1, at pg. 14, line 18 to p. 15, line 9, and assume that the cost coverage is 150 percent and the volume-variable cost of both products is again \$.20. Assume that the first product has \$1 million of specific fixed costs (cost incurred to serve that product alone but not included in its volume-variable cost).

- a. Please confirm that if both products pay a rate determined by the revenue to volume-variable cost, the first product, after netting out the revenues required to recover specific fixed costs, will contribute \$1 million less to the recovery of the remaining costs than the second product (all other factors assumed constant). If you cannot confirm, please explain why not.
- b. Please confirm that this is true in the example despite the fact that both product incur the same volume-variable cost per unit and by assumption have "the same evaluation on all the non-cost criteria" (O'Hara, p. 14, line 19). If you cannot confirm, please explain why not.

**Response:**

- a. Confirmed.
- b. Confirmed.

The questions have been framed in terms of the particular example presented.

However, I would note that, in practice, cost coverages are set with respect to volume-variable costs, so as to reflect concerns about efficiency and fairness, as expressed so well in witness O'Hara's testimony. Cost coverages for subclasses of mail for which incremental costs greatly exceed volume-variable costs are set with consideration to the contribution made to institutional costs after the specific fixed costs for that subclass have been covered.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-16. At USPS-T-32, p.18, lines 5-20, you cite to witness O'Hara's direct testimony in Docket No. R97-1, USPS-T-30, pp. 14-16, which purports to show alleged inefficiencies arising from calculating cost coverages based on attributable costs or incremental costs. You state at lines 16-20 that the example allegedly shows an inefficiency because one product will be limited to applications where its value is equal to the *rate* resulting from the markup, whereas for the other product the last unit will be exactly worth its *volume-variable cost*.

- a. Please confirm that witness O'Hara's example in fact purports to show that both products will be limited to applications where the product is worth to the customer an amount equal to the rate produced by the markup (33 cents and 27 cents respectively in Witness O'Hara's example) and in no case would the last application be worth to the customer an amount equal to volume-variable cost.
- b. If you cannot confirm, please explain why not.

**Response:**

- a. Confirmed.
- b. Not applicable.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-17. At USPS-T-32, p.18, lines 9-16, you discuss an example where two subclasses have identical volume-variable cost and identical evaluation on the pricing criteria of the act, yet one of those subclasses has specific fixed costs.

- a. Please confirm that if the ratio of revenue to volume-variable costs is used to assess the burden of meeting the revenue requirement, both pieces of subclasses of mail will pay the same postage per piece and make an identical cent per piece contribution over and above the volume-variable cost.
- b. If you confirm (a) above, do you believe the resulting rates violate the standards of unfairness and inefficiency referred to at p. 18, line 7? Explain fully your answer.

Response:

- a. Both pieces will pay the same postage per piece and the difference between their postage per piece and volume-variable cost per piece will be the same.
- b. No. Please refer to my testimony at page 18, lines 16 through 20 and to the testimony of witness O'Hara from Docket No. R97-1 (USPS-T-30, pages 14-16). Evaluation of pricing decisions necessitates examination of the resulting changes in costs and revenue. In the examples discussed by witness O'Hara and myself, the emphasis is on the fairness and efficiency of the prices facing the marginal piece, the next additional piece of mail in each subclass. Each additional piece will impose the unit volume-variable cost on the postal system. The specific fixed costs for one of the subclasses was not imposed by the next additional piece, and will not go away should that piece not materialize. Stepping outside of the

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-17, cont'd**

example for a moment, I would note that for subclasses of mail with specific fixed costs, the proposed rate levels were set such that, not only would the incremental costs be covered (criterion 3), but that the excess of revenue over volume-variable costs would be sufficient to not only cover the specific fixed costs but also provide a meaningful contribution to institutional costs as well.



R97-1 Testimony O'Hara (USPS-T-30), pp. 14-16  
14

1 of revenue to volume-variable cost is the more appropriate cost concept for this  
2 purpose. This is perhaps more clearly seen by considering an equivalent form of  
3 this ratio, namely the ratio of price to marginal cost.<sup>5</sup> This form of the ratio  
4 highlights the determinants and consequences of an individual mailer's decision  
5 about how much to mail. A mailer will deposit an additional piece of mail only if  
6 its value to him or her is at least equal to its price (or unit revenue); once  
7 deposited, this piece imposes unit volume-variable costs on the system and thus  
8 makes a contribution to other costs equal to the difference between price and  
9 unit volume-variable cost.

10 Therefore, any rate-setting process based on something other than volume-  
11 variable costs, whether it be attributable cost (calculated as the sum of volume-  
12 variable and specific-fixed costs in accordance with previous practice) or  
13 incremental cost, will be constructing its rates on a cost concept that does not  
14 accurately reflect the cost consequences of the decisions that mailers will make  
15 in response to those rates.<sup>6</sup> This will tend to result in both unfairness and  
16 economic inefficiency, as illustrated by the following example.

17 Consider a situation in which there are two postal products, both having  
18 the same evaluation on all the non-cost criteria, and hence deserving the same  
19 cost coverage, assumed for simplicity to be 150 percent. Assume that for one

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20 <sup>5</sup>This is simply the per-piece form of the ratio; price equals unit revenue and  
21 marginal cost equals unit volume-variable cost.

22 <sup>6</sup>Of course, if specific-fixed costs are zero, as has previously been the case for  
23 many subclasses, then attributable costs and volume-variable costs are identical.

1 product the attributable (or incremental) cost is 10 percent above its volume-  
2 variable cost and that for the other this cost is 10 percent below its volume-  
3 variable cost.<sup>7</sup>

4 If both products have a unit volume-variable cost of \$0.20, and rates are  
5 set by applying the 150 percent coverage factor to volume-variable cost, each  
6 will be priced at \$0.30. The users of both products will be equally treated. For  
7 an additional unit of either product, its users will pay \$0.20 to offset the  
8 additional cost they impose on the system and will make a \$0.10 contribution to  
9 other costs.

10 In contrast, if rates are set by applying the coverage factor to attributable  
11 (or incremental) cost, the first product will be priced 10 percent higher, or \$0.33,  
12 and the second product 10 percent lower, or \$0.27. An additional unit of either  
13 product will still impose \$0.20 in additional cost on the system, but users of the  
14 first product will be making a \$0.13 contribution to other costs for each  
15 additional unit while users of the second product contribute only \$0.07, a  
16 contribution ratio of almost 2-to-1. This seems to me unfair, given that the two  
17 products received equal evaluations on the non-cost criteria.

18 Rate-setting based on attributable (or incremental) cost instead of volume-

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19 <sup>7</sup>The discussion that follows would be more complicated, but its conclusions  
20 unchanged, if both products had incremental cost above volume-variable cost but  
21 by different percentages. In fact, for most postal products, incremental cost does  
22 exceed volume-variable cost; for example, for First-Class Mail letters incremental  
23 cost is 9% above volume-variable cost. However, there are several Special  
24 Services for which the reverse is true; for example, the incremental cost for  
25 Certified Mail is 9% below its volume-variable cost.

16

1 variable cost also has unfortunate implications for economic efficiency; although  
2 both products have the same marginal cost, use of one product will be limited to  
3 applications where it is worth at least 33 cents while use of the other product will  
4 be expanded until the last unit is worth only 27 cents.<sup>8</sup> Thus, rate-setting on the  
5 basis of attributable (or incremental) cost has the effect, perhaps unintentional, of  
6 sacrificing applications of the first product that would have been worth 32 or 31  
7 cents in order to allow applications of the second product that are worth only 29  
8 or 28 cents.

9 Thus, except for the cost-floor requirement of criterion three, it is the ratio  
10 of revenue to volume-variable costs that I use in my discussion of rate-levels for  
11 individual subclasses in the remainder of my testimony.

12

#### 13 E. Mark-ups and Coverages After A Reduction in Measured Costs

14 In this proceeding, the Postal Service has introduced significant  
15 improvements in its costing methods. These improvements are especially  
16 important for cost segment three, as described in the testimonies of witnesses  
17 Bradley (USPS-T-14) and Brehm (USPS-T-21), where the previous assumption of  
18 100 percent volume variability has been replaced by an analysis of actual volume  
19 variability.

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20 <sup>8</sup>This inefficiency will be larger, the larger is the two products' price-elasticity  
21 (the same for both in this example, by the assumed equal evaluation for all non-  
22 cost criteria) and the larger the differences between incremental and volume-  
23 variable cost.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-18. At USPS-T-32, p. 20, lines 10-16, you propose a 196 percent cost average [sic] for First Class Mail, which you note results in a one cent increase in both the first and additional ounce rate for single piece First Class letters.

- a. What role did the one cent increase in the first and additional ounce rates play in your selection of the cost coverage for First Class Mail?
- b. Identify precisely the role that cost coverages, percentage rate increase and unit rate changes (cents per ounce) played in establishing the proposed rate levels and rate design discussed in your direct testimony, p. 20, line 8 to p. 23, line 9.
- c. Did you apply any of the Section 3622(b) ratemaking criteria to the one cent increase for the first and additional ounces of First Class mail as described at p. 20, lines 14-15 of your testimony? Please explain fully.
- d. Did you consider the costs associated with additional ounces in First Class mail in selecting the proposed coverage for First Class Mail? If so, please explain how those costs affected your selection of a proposed cost coverage.

**Response:**

- a. My testimony does not state that the cost coverage "results" in a one-cent increase in the first or additional ounce rates. Because of the prominence of the rate for the first ounce of First-Class letters, both in terms of revenue generation as well as visibility, it merits special attention from postal management as well as in the development of the First-Class cost coverage. In most recent omnibus rate proceedings, the systemwide rate increase has been very closely mirrored by the rate increase for the first ounce of First-Class Mail single-piece letters, due to the prominence of that category of mail in terms of revenue and contribution, and to what had been the patterns of cost incurrence for First-Class Mail and the postal system as a whole. In this case, the change in the first-ounce rate does not mirror so closely the systemwide rate increase. Establishing the

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-18, cont'd**

actual rate design within the subclass in conjunction with the target cost coverage is the responsibility of witness Fronk (USPS-T-33). As the target cost coverages for all subclasses of mail were developed, I was aware of the limited number of rate elements within the First-Class rate structure, and the fact that small changes in many of those rate elements could result in significant shifts in revenue. I would not characterize the direction of causality the way that your question has.

- b. Please see my response to subpart a above. The cost coverage was of concern to me, particularly as it represented an increase relative to the Commission's recommendation in recent cases. The percentage increase was of concern to me, in deference to criterion 4. However, unit rate changes, the development of the actual set of rate elements within the subclass, were the responsibility of witness Fronk.
- c. Not explicitly. Please refer to my responses to subparts a and b above.
- d. No. Please refer to my responses to subparts a and b above.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-19. At USPS-T-32, p. 35, lines 13-15, you state that the proposed average rate increase for Standard Mail (A) Regular is 9.4 percent, resulting in a proposed coverage of 132.9 percent over volume-variable costs.

- a. Identify in detail all considerations which led you to conclude at p. 36, lines 11-14 that the fact that this proposed increase is greater than the system average increase (stated to be 6.4% at p. 36, line 7) "suggests that competitors are not unfairly targeted by this increase."
- b. What evidence would be necessary in your opinion to conclude that competitors had been unfairly targeted by a Postal Service rate proposal?
- c. Identify all factors you considered in concluding that the average rate increase for Standard Mail (A) Regular should be 9.4 percent in order to comply with the statutory ratemaking criteria.

Response:

- a. The percent increase is higher than the system average and higher than the overall rate of inflation since the last rate change. These have been used in the past as benchmarks against which to measure rate changes. Please refer to my responses to your interrogatories NAA/USPS-T32-6 and NAA/USPS-T32-7.
- b. As I noted in my response to your interrogatory NAA/USPS-T32-6, I would expect competitors to question the rationale for rate increases for competitive services which were substantially below the benchmarks listed in subpart a above. Other information, such as details about competitors' costs, prices and volumes, much of which would be known only to those competitors themselves, would be helpful to guard against creating a harmful impact on competing firms.
- c. Please refer to my testimony at pages 35-37. In addition, I was aware of the relationships among the cost coverages and resulting rate increases

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-19, cont'd**

for Regular and Nonprofit. I also recognized the goal of postal management to keep a relatively narrow range of rate increases when possible while appropriately considering the pricing criteria as well as the relative importance of Standard Mail (A) Regular to postal revenue and contribution.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-20. Please refer to the proposed Standard Mail (A) Regular average rate increase of 9.4 percent and the proposed average rate change for the Enhanced Carrier Route (ECR) subclass of 4.9 percent. Please provide any information that you believe represents a change in circumstances and facts between the Commission's decision in Docket No. R97-1 regarding Standard Mail (A) and ECR and the time you prepared your direct testimony.

**Response:**

As I have noted elsewhere, such as in my responses to OCA/USPS-T32-4 and to NAA/USPS-T32-5, percentage increases and cost coverages must be developed for all subclasses such that the set, taken together, provides for financial breakeven, and comports with the pricing criteria. Thus, proposed changes in rates for any one subclass cannot be viewed in isolation. However, I will note by reference to my Table 2 on page 6 of my testimony and to Table B-1 of witness O'Hara's testimony in Docket No. R97-1 (USPS-T-30) that the reported own-price elasticities for both Regular and ECR are higher in this case than in R97-1. Please refer to the Docket No. R2000-1 testimony of witnesses Tolley (USPS-T-6) and Thress (USPS-T-7) for discussion of the elasticities. The higher measured elasticities would result in more substantial reductions in volume for these two subclasses in response to increases in rates than would have been the case in R97-1.



Table B-1. Long-run Own-Price Demand Elasticities

First-Class Letters	-0.232
Single-piece	-0.189
Work-shared	-0.289
First-Class Cards	-0.863
Postal	-0.168
Private	-0.944
Priority	-0.771
Express Mail	-1.534
Regular Periodicals	-0.143
Standard A Regular	-0.382
Standard A ECR	-0.598
Parcel Post	-0.965
Bound Printed Matter	-0.335
Special	-0.362

Source: Priority and Express Mail, USPS-T-8;  
all others, USPS-T-6.

### 3. Cost

This criterion requires that the revenues from each class of mail at least equal the costs attributable to that class. In Section D of this Chapter, I summarize how the provision of additional cost information in this case makes possible an improved application of this "cost-floor" requirement for the revenues from each class of mail.

The improved cost information introduced in this case also affects the measured volume-variable costs of different mail classes to differing degrees. As discussed in Section E of this Chapter, the rate levels proposed by the Postal

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-21. At USPS-T-32, p. 38, lines 4-8, you state that the Postal Service is proposing a cost coverage of 208.8 and a 4.9 percent average rate increase, "...reflecting a desire to lower the very high cost coverage of this subclass."

- a. Please identify all factors taken into account in determining that a reduction in ECR cost coverage would be desirable and how the specific value for the desired reduction was determined.
- b. Did a desire to reduce the pound rate for pound rates ECR pieces or any other rate design criteria affect the determination of the desired cost coverage? Explain your answer in detail.

**Response:**

- a. It is my understanding that ECR was established as a subclass with the intent of more directly reflecting the unique cost and market characteristics of this mail. As a rate category of Standard Mail, the ratio of revenue to cost for this category had been very high. Establishing ECR as its own subclass permits the direct application of the pricing criteria which, when considered all together, may justify a lower ratio of revenue to cost than had been the case when ECR was only a rate category. However, as a look at Library Reference LR-I-149 would demonstrate, the cost coverage for ECR as proposed by the Postal Service does not represent a reduction in the cost coverage relative to what the Commission recommended in Docket No. R97-1. There is a disconnect between the desire to reduce the cost coverage and the conclusion, after considering all of the pricing criteria, that a reduction would not be feasible at this time without shifting the burden for institutional cost recovery to other subclasses and possibly exacerbating the relatively high rate

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-21, cont'd**

increases or cost coverages already being borne by those subclasses.

Please see my response to your interrogatory NAA/USPS-T32-23.

- b. As I stated in my responses to interrogatories NAA/USPS-T32-11, I was aware of the possibility of rates for ECR basic bumping into the rates for Automation 5-digit rate in Standard Regular. Consideration of the possible crossover did not, however, restrict development of the cost coverages for these subclasses such that they could not be developed independently of each other. In general, any issues of rate design within the subclass were left to witness Moeller (USPS-T-35).

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-22. At USPS-T-32, p. 36, lines 6-8, you state that a 9.4 percent increase, higher than the system average of 6.4 percent, for Regular Standard A will have a "...noticeable, but reasonable impact on the users...." Please identify all factors you considered in reaching this conclusion.

**Response:**

Please refer to my response to your interrogatory NAA/USPS-T32-3 where I describe my usage of the elasticities. As various sets of rate levels and associated percentage rate increases were tested in an effort to develop the set of rate level proposals, I did monitor the impact on volume as well as revenue and contribution from Standard Mail (A) Regular. The volume from TYBR to TYAR for Standard Mail (A) Regular fell about 4 percent.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-23. Please refer to p. 39, lines 15-16, of your testimony. Explain in detail how you determined that the ratemaking factors identified by you "...would indicate a cost coverage even lower than that actually proposed" (p. 39, lines 15-16) and how concern over "...shifting the additional burden of covering institutional costs to other subclasses" (p. 39, lines 16-17) offset these factors in your view.

Response:

ECR is a large enough subclass that it represents a substantial contribution to institutional cost recovery (see my Exhibit USPS-32B). As I already had several subclasses for which criterion 4, impact of rate increase on mailers, would necessitate that their share of institutional burden be somewhat mitigated due to large increases in their costs, I was aware that there were not very many sources for this additional contribution. Please refer to my testimony where I discuss the application of the pricing criteria to the development of the cost coverage for ECR. I will note, briefly, that consideration included the relatively low value of service for ECR which would argue for a lower cost coverage (criterion 2) and the fact that costs were more than adequately covered (criterion 3).

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-24.** At USPS-T-32, p. 39, lines 15-16, you state that "The average rate increase for ECR is slightly below the rate of inflation..." (p. 38, line 19) and "...below the system average in this case...." (p. 39, lines 14-15).

- a. Please provide the rate of inflation and system average upon which you base this statement.
- b. Please describe all factors that you used in applying the indicators mentioned at p. 8, lines 10-13, to Standard (A) ECR Mail.
- c. Please explain why you believe that the proposed average rate increase for ECR Mail, which you label a "modest" 4.9%, satisfies the "fairness and equity criterion (criterion 1)" (p. 39, lines 18-20).

**Response:**

- a. Please refer to my response to your interrogatory NAA/USPS-T32-6b.

The rate of inflation shown in witness Tayman's response to DMA/USPS-T9-16 for the rate of inflation over the rate cycle between R97-1 and R2000-1 is 4.8 percent, which is slightly below the rate increase for ECR.

At the time that I prepared my testimony, I was apparently working with an earlier forecast of inflation which was just over 5 percent. I will file a correction to my testimony at page 38, line 19 to reflect that change.

Given the closeness of the two numbers, however, I do not believe that the change is substantive.

- b. As I noted in my responses to your interrogatories NAA/USPS-T32-6 and NAA/USPS-T32-19, these measures are merely useful benchmarks against which to gauge the relative fairness of the resulting percent rate increase and cost coverage. I would not say that they were determinant in setting the percentage increase.
- c. Please refer to my testimony where I discuss the development of the cost coverage for ECR. Please also refer to my responses to your

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

Response to NAA/USPS-T32-24, cont'd

interrogatories NAA/USPS-T32-21 and NAA/USPS-T32-23. Although the rate increase for ECR is below the system average of 6.4 percent, the rate increase is above the rate of inflation. And, as can be seen in my Exhibit USPS-32C, this subclass of mail is bearing a substantial portion of the burden of institutional cost recovery.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-25. Please explain what "need to maintain rate relationships across subclasses" (p.39, lines 18-19) is accomplished by an ECR average rate increase of 4.9% and precisely how that need is satisfied by your proposals regarding ECR rate levels.

**Response:**

Please refer to my response to your interrogatories NAA/USPS-T32-11 and NAA/USPS-T32-21.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-26. At p. 39, lines 2-4, you state that among the range of alternatives available to ECR mailers, "...both alternate delivery firms and newspaper inserts may provide ways of delivering the same advertising message that would be carried in ECR." Did this availability influence the specific rate increases and cost coverages you proposed for ECR?

- a. If your answer is no, explain in detail why not.
- b. If your answer is yes, explain in detail how this availability affected your proposed rate increase and cost coverage.

**Response:**

Yes.

- a. Not applicable.
- b. Please refer to my response to your interrogatory NAA/USPS-T32-8 and to my response to DFC/USPS-40.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-27.** USPS Witness O'Hara in Docket No. R97-1 proposed a percentage rate increase for ECR below that of the system wide increase and a cost coverage of 228 percent (USPS-T-30, p. 34, lines 18-19).

- a. Do you believe that applying Witness O'Hara's proposed cost coverages for ECR Mail in Docket No. R97-1 would violate the ratemaking criteria as applied to ECR in this proceeding as discussed by you at p. 38, line 3 to p. 39, line 20? Explain your answer in full.
- b. Do you agree with Witness O'Hara (USPS-T-30, Docket No. R97-1, at p. 36, lines 4-9):

...a lower coverage for ECR would have made it more difficult to design rates to that the Automation 5-digit rate in Standard Regular was below the ECR basic rate, encouraging the movement of ECR basic letters into the automation mailstream. As has been the case since at least Docket No. MC95-1, this is an important operational goal of Postal Service management.

Explain the basis for your answer.

**Response:**

- a. Yes. The resulting percentage increase would have been large. The cost coverages are not comparable because of the shifting of the systemwide average. In addition, as I noted in my response to NAA/USPS-T32-20, the own-price elasticity for ECR reported in this case by witnesses Thress (USPS-T-7) and Tolley (USPS-T-6) is higher than the elasticity reported in Docket No. R97-1.
- b. Yes. It was my understanding that postal management was still concerned with the possibility of rate crossover in this area. Please refer to my responses to your interrogatories NAA/USPS-T32-11 and NAA/USPS-T32-21. As I noted therein, rate design issues were the primary responsibility of witness Moeller (USPS-T-35).

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-28. Did criteria 8 (educational, cultural, scientific and informational value to the recipient) as mentioned by you at p. 11 lines 17-22, play any part in your proposals for the subclasses of Standard A Mail? Explain fully your answer.

**Response:**

No. In keeping with past practice, I did not consider the ECSI value of Standard A Mail to warrant mitigation of the cost coverages for this material.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-29. According to Exhibits USPS-32A, p. 1 of 2 and USPS 32B, p. 1 of 2, the effect of your proposals is to cause the cost coverage of Standard A (Regular) to increase from 121.4 to 132.8 and of Standard (A) ECR from 199.2 to 208.8. Explain why these proposed changes satisfy the "need to maintain rate relationships across subclasses" and otherwise accomplish desirable ratemaking standards.

**Response:**

Please refer to my responses to NAA/USPS-T32-27, NAA/USPS-T32-11 and NAA/USPS-T32-21. Cost coverages, while useful in understanding the allocation of institutional cost burden, ultimately tie to rate changes. The rates which result from the application of cost coverages and rate design concerns would be of more primary concern in maintaining rate relationships than would be the cost coverages.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-30.** Please refer to the following passage from the Opinion of the Postal Rate Commission, in Docket No. R97-1, [section] 4005:

...the Commission relies on the precedential value of its past evaluations of the evidence as a starting point and then evaluates new evidence presented to determine whether changes from its past allocation decisions are appropriate.

- a. Do you agree or not that this procedure is an appropriate method for "...making reasoned assignments of institutional costs to the subclasses of mail"? Explain your answer.
- b. Did the Commission's recommended cost coverage and percentage rate increase for ECR Mail in Docket No. R97-1 affect your proposed cost coverages and percentage rate increases in this proceeding? Explain your answer in detail.

**Response:**

- a. I agree that there is value in the precedent set by previous cases.  
  
Markups and cost coverages developed in previous cases can be good starting points because they have been found to satisfy the pricing criteria, given the circumstances of that case. I would caution, however, as I did in my response to your interrogatory NAA/USPS-T32-6, that when examining the differences between one case and another, care must be taken to determine the basis for the original starting point. There may have been mitigating circumstances necessitating a shift from what would otherwise have been the result. For instance, in a previous docket, the desire to reduce what had been viewed in an even more distant case as an excessive cost coverage may have been thwarted by the need for that subclass of mail to shoulder some of the institutional cost burden that would otherwise have been borne by another subclass of mail, but for the
- b.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-32-30, cont'd**

desire to mitigate the rate shock on the second subclass caused by its large increase in costs.

- c. Yes. In deference to criterion 4, the effect on mailers, I did look at the rate increase that ECR mail received in Docket No. R97-1. I was also aware that the cost coverage being proposed in this case represented a higher markup but a lower markup index than did the Commission's recommendation in Docket No. R97-1.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-31:** Please refer to your answer to NAA/USPS-T32-21 where you state that Library Reference LR-I-149 demonstrates that "the cost coverage for [Standard Commercial] ECR as proposed by the Postal Service does not represent a reduction in the cost coverage relative to what the Commission recommended in Docket No. R97-1." Please also refer to USPS-LR-I-149, "PRC Version/Table of Markups", specifically to the spreadsheet named "LR-I-149.xls".

- a. What comparisons of cost coverages or indexes did you make make [sic] from the data in LR-I-149 and how were they made in reaching this conclusion.
- b. The 2<sup>nd</sup> column is labeled "Markups, Replic. PRC, R2000-1." Please cite the library reference spreadsheet or document which contains the backup for these calculations. If such backup is not currently available, please provide it. Please also explain the intent of the calculations.
- c. The 5<sup>th</sup> column is labeled "Markup Indices, Replic. PRC R2000-1." Please cite the library reference spreadsheet or document which contains the backup for these calculations. If such backup is not currently available, please provide it. Please also explain the intent of the calculations.
- d. The 6<sup>th</sup> column is labeled "Markup Indices, USPS Proposal R2000-1." Please cite the library reference spreadsheet or document which contains the backup for these calculations. If such backup is not currently available, please provide it. Please also explain the intent of the calculations.

**Response:**

- a. A cost coverage is  $(\text{revenue})/(\text{cost})$ . A markup is  $(\text{revenue} - \text{cost})/(\text{cost})$ .  
  
The markups shown in LR-I-149 are simply cost coverages after subtracting 1 (or 100%). LR-I-149 can therefore be used to compare markups or cost coverages. I did not create a set of cost coverage indices.
- b. The markups may be derived by dividing the Test Year After Rates revenues found in my exhibit USPS-32B by the PRC version costs found in Library Reference LR-I-131, Volume J, Table E, then subtracting 100%.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-31, cont'd**

These calculations were provided in response to the Presiding Officer's Ruling R97-1/8 in which the Commission stated that "the table of relative mark-ups, while not specifically required by the actual language of rule 54(a), would be a very helpful indication of the effect of variations from established attribution methodologies...The Postal Service is strongly urged to include such a table with future rate and classification requests." P.O. Ruling R97-1/8 at page 5.

- c. The markup indices provided in the 5<sup>th</sup> column may be derived by performing the calculations described in my response to subpart b above, then dividing the result for each subclass by the markup shown for "Total Mail & Services". As noted in my response to subpart b above, these calculations were provided in response to Presiding Officer's Ruling R97-1/8.
- d. The markups provided in the 3<sup>rd</sup> column are derived by dividing the Test Year After Rates revenues provided in my exhibit USPS-32B by the Test Year After Rates costs found in witness Kashani's (USPS-T-14) Workpaper WP J, Table E, then subtracting 100% from each ratio. The markup indices shown in column 6 may be derived by dividing the resulting markup for each subclass by the systemwide average, shown as "Total Mail & Services". As noted in my response to subpart b, these calculations were provided in response to Presiding Officer's Ruling R97-1/8.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-32. Please refer to your answer to NAA/USPS-T-32-20 [sic], where you state you believe that the cost coverage for ECR Mail in this case represents a lower mark-up index than the Commission's recommendation in Docket No. R97-1. Please reconcile this with your answer to NAA/USPS-T-32-27(a) where you state that the "cost coverages are not comparable because of the shifting of the system-wide average."**

**Response:**

**I assume that you are referring to my response to NAA/USPS-T32-30c rather than my response to NAA/USPS-T32-20. I see no need for reconciliation. It is my understanding that the Commission has used markup indices in the past for precisely the reason that systemwide averages shift.**

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-33. Please refer to your response to NAA/USPS-T-32-6(a), where you state that "better cost control for the competitive product" could provide a rationale for rate increases for competitive services lower than the rate of inflation and the system-wide average.

- a. By "better cost control," do you mean lower percentage changes in volume variable costs as measured by the Postal Service since Docket No. R97-1?
- b. If not, please explain what you mean.
- c. Would, conversely, "worse cost control for the competitive product" provide a rationale for a rate increase for the competitive service greater than the rate of inflation or the system-wide average?

## Response:

- a. and b. By "better cost control" I meant lower percentage increases, or even decreases in costs -- not necessarily limited to volume variable costs, but also perhaps including specific fixed costs as well -- as measured by the Postal Service since Docket No. R97-1.
- c. It could. There are nine pricing criteria that must be taken into consideration when determining cost coverages; covering costs (criterion 3) is only one of them. I cannot say that "worse cost control" would necessarily translate into a higher rate increase for the competitive service -- or for a non-competitive service, for that matter -- than the rate of inflation or the systemwide average, but it could be one reason for such a higher rate increase.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES

NAA/USPS-T32-34. Please refer to the direct testimony of USPS Witness Bernstein, USPS-T-41, page 106, where he computes the "marginal cost change" from R97-1 to R2000-1 for ECR Mail as 12.5%. In LR-I-156, he identified the test-year "marginal cost" of ECR Mail as 0.75163, which is the same as Witness Moeller's measure of Before-Rates volume variable cost per unit (Moeller WP1, page 8). In Table 14D, Witness Bernstein computes the overall per piece percentage increase in marginal cost as 11.4%.

- a. Did you consider these relative percentage cost changes in proposing your cost coverages and increases in revenue/piece for ECR Mail? If so, how?
- b. Please reconcile (1) your conclusion that "cost control for the competitive product" would be relevant to the relationship between the proposed percentage rate increase for the competitive service and the system-wide percentage average (see your response to NAA/USPS-T32-6), and (2) Witness Bernstein's calculation that ECR marginal (i.e., volume variable) costs have increased faster than the system average, with your conclusion that the proposed cost coverage for ECR does not represent a reduction relative to that recommended by the Commission in Docket No. R97-1.

## Response:

- a. I considered the relative percentage cost changes in proposing cost coverages and rate increases to the extent that such changes in costs were implicit in the test year unit costs and the test year before and after rates cost coverages. Conceivably, changes in revenue per piece could mitigate or compound changes in cost per piece in terms of the effect on cost coverage.
- b. I see no need for reconciliation. In my response to NAA/USPS-T32-6, I provided one set of circumstances in which a competitor might find the rate increase for a competitive service to be lower than the rate of inflation or the systemwide average and seek an explanation for the relatively low rate increase. I did not claim that such a set of circumstances existed or

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

did not exist for any particular service in this case. The response was given in the context of a hypothetical situation. As I noted in my response

Response to NAA/USPS-T32-34, cont'd

to your interrogatory NAA/USPS-T32-33, except to the extent that the change in costs would result in a change in test year before rates cost coverage, the change in costs would be considered under one of the nine pricing criteria (criterion 3). Consideration of all of the nine pricing criteria might not lead to a higher rate increase than the system average.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-35. Please refer to your answer to NAA/USPS-T32-7. Please describe the "reports of rate changes for several private companies which provide delivery services," please indicate:**

- a. The time period covered by the reports**
- b. The number of reports**
- c. The nature of the rate changes described in those reports.**

**Response:**

I was using the word "reports" in the sense of "information made available" or "announcements" or "press releases" rather than in the sense of a formal, prepared document that summarized rate changes.

- a. Generally, it is my recollection that United Parcel Service and FedEx increased rates in February and/or March of 1998, 1999 and 2000. FedEx applied of a 3% fuel surcharge effective February 1 of 2000 and an additional 1% fuel surcharge effective April 1 of 2000. DHL and Airborne announced fuel surcharges effective in early February, 2000.**
- b. I am not certain that I am citing all of the rate changes announced by these firms, but as the statement was made by way of illustration, the announcements listed in my response to subpart a above were the ones I had in mind.**
- c. The announcements usually included statements regarding general percentage changes for broadly defined ranges of rates (such as "ground service" or "domestic shipments"), changes to the application of surcharges such as for residential or customers in certain delivery areas, or changes in response to increases in fuel prices.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-36. Please confirm that the Postal Service does not have data sufficient to compare delivery performance across all classes and subclasses of mail. If you cannot confirm, please provide the comparative delivery performance of the Postal Service across all classes in the Base Year.**

**Response:**

**Confirmed.**

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-1. Please refer to page 19, lines 19-21, of USPS-T-32. There you state, "Movement toward or away from Ramsey prices was considered in the development of the rate level proposals in this case but did not significantly affect conclusions."

- (a) Do your rate levels for First Class letters and Standard (A) Regular reflect movement toward or away from Ramsey prices? Please explain the basis for your answer.
- (b) To what extent did Ramsey prices influence your choice of rate levels for First Class letters and Standard (A) Regular.

**Response:**

- a. By reference to the work presented in the testimony of witness Bernstein, USPS-T-41, at Summary Table 2 where he provides the constrained Ramsey markups and the markups implied by use of the Commission's markup index from Docket No. R97-1, I would say that the rate levels I have proposed for First-Class Letters and Standard (A) Regular reflect movement toward Ramsey prices when compared to the rate levels implied by the Commission's R97-1 markup index. For both First-Class Letters and Standard (A) Regular, my proposed rate levels result in lower markups and lower revenue per piece than would have resulted from application of the constrained Ramsey model.
- b. In the development of rate levels that would meet the statutory criteria, I would not say that there was an attempt to develop rate level proposals that would meet the constraints of any mechanical model, including Ramsey pricing. As with many considerations, the Ramsey prices represented additional useful but not determinate information brought to bear on the decisionmaking process. Given the choice between two sets of rate levels,

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES****Response to OCA/USPS-T32-1, continued**

both of which achieve the goals of meeting the revenue requirement and satisfying the nine pricing criteria for each subclass, all else equal, I would prefer the set of proposed rate levels that moved in the direction of economic efficiency.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES**

**OCA/USPS-T32-2. Please refer to your exhibit USPS-32B and to R97-1 exhibit USPS-30B (rev. 9/19/97).**

- (a) Please confirm that in R97-1, Postal Service witness O'Hara implicitly proposed a markup index of 1.275 for First Class Total Letters ( $100.02/78.42 = 1.275$ ). If you do not confirm, please provide the correct markup index and show its derivation.**
- (b) Please confirm that in R2000-1, you have implicitly proposed a markup index of 1.416 for First Class Total Letters ( $96.3/68.0 = 1.416$ ). If you do not confirm, please provide the correct markup index and show its derivation.**

**Response:**

- (a) Your arithmetic is confirmed.**
- (b) Your arithmetic is confirmed, as shown in Library Reference LR-I-149.**

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-3. Please refer to exhibit USPS-33B and to R97-1 exhibit USPS-32B (rev. 10/1/97).

- (a) Please confirm that in R97-1, the test year unit attributable cost for First Class letters was \$0.1763 ( $\$0.351799/1.9954$ ) under the Postal Service's proposed rates and costing methodology. If you do not confirm, please provide the correct unit attributable cost and show its derivation.
- (b) Please confirm that in R2000-1, the test year unit attributable cost for First Class letters is \$0.1848 ( $\$0.362829/1.963$ ) under the Postal Service's proposed rates and costing methodology. If you do not confirm, please provide the correct unit attributable cost and show its derivation.
- (c) Please confirm that applying witness O'Hara's implicit R97-1 markup index of 1.275 to the R2000-1 unit attributable cost for First Class letters of \$0.1848 yields an average revenue per piece of \$0.345022 ( $\$0.1848 \times ((1.275 \times 0.68) + 1)$ ). If you do not confirm, please provide the correct average revenue per piece and show its derivation.
- (d) Please confirm that \$0.345022 is six mills less than the average revenue per piece for First Class letters proposed by the Postal Service in R97-1. If you do not confirm, please explain.

**Response:**

- (a) With the clarification that the figures to which you have referred were the test year after rates unit volume variable costs, I confirm your calculations.
- (b) With the clarification that the figures to which you have referred are test year after rates unit volume variable costs, I confirm your calculations.
- (c) I confirm that the application of the markup index you have provided to the unit volume variable cost for First Class letters in this case results in the average revenue per piece you have calculated.
- (d) The difference between \$0.345022 and \$0.351799 is nearly 6.8 thousandths of a dollar.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES**

**OCA/USPS-T32-4.** Please refer to pages 20-23 of your testimony and to pages 22-25 of USPS-T-30 in R97-1. Other than the increase in the implicit markup index for First Class letters that you have proposed, the OCA is unable to perceive any material difference between your R2000-1 testimony and witness O'Hara's R97-1 testimony. Please explain why your testimony justifies a markup index for First Class letters of 1.416 instead of 1.275.

**Response:**

In the absence of significant changes in cost behavior (criterion 3), entry or departure from the marketplace of competitors (criterion 5), technological changes (criteria 5 and 6), or changes in the content of a particular mail category (criterion 8), I would not expect to see material differences in the testimony discussing the application of the statutorily mandated pricing criteria from one rate case to the next.

For some subclasses of mail, I have specifically pointed to one or more overriding considerations which caused the proposed markup to be higher or lower than one might have expected from review of previous cases. However, individual markups ultimately must result in a complete set of rate levels and rate and fee proposals that permit the Postal Service to break even in the test year, apportioning the institutional cost burden to the subclasses of mail in a fair and equitable manner. In the current case, in deference to criterion 4, it was necessary to moderate the cost coverages for several subclasses of mail which experienced substantial increases in costs in order to moderate the impact on mailers, as measured by percent increase in rates. The shift of some of this

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES****Response to OCA/USPS-T32-4, continued**

institutional burden to First-Class Mail, particularly in view of the relatively small increase in First-Class Mail rates, was not viewed as unfair.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES**

**OCA/USPS-T32-5.** Please refer to your exhibit USPS-32B and to R97-1 exhibit USPS-308 (rev. 9/19/97).

- (a) Please confirm that in R97-1, Postal Service witness O'Hara proposed that First Class Total Letters bear 62 percent (\$16,809,020/\$27,043,982) of institutional costs. If you do not confirm, please provide the correct proportion and show its derivation.
- (b) Please confirm that in R2000-1, you have proposed that First Class Total Letters bear 64 percent (\$17,774,380/\$27,801,806) of institutional costs. If you do not confirm, please provide the correct proportion and show its derivation.
- (c) Please explain why you have proposed to increase the share of institutional costs borne by First Class letters.

**Response:**

- (a) I confirm that in R97-1, witness O'Hara proposed that First Class Total Letters bear 62 percent of the non-volume variable costs.
- (b) I confirm that I have proposed that First Class Total Letters bear 64 percent of the non-volume variable costs.
- (c) Please refer to my responses to OCA/USPS-T32-4(c) and OCA/USPS-T32-7.

Revised April 25, 2000

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-6. Please confirm the following properties of a markup index. If you do not confirm, please provide a mathematical demonstration of the contrary.

- (a) The markup index for a subclass of mail is directly proportional to the relative portion of institutional costs borne by that subclass.
- (b) The markup index for a subclass of mail is inversely proportional to the relative portion of attributable costs borne by that subclass.
- (c) Simultaneously increasing the institutional share *and* decreasing the attributable share of costs borne by a subclass will unambiguously cause the markup index for that subclass to increase.

**Response:**

(a) I have attached a table based on my Exhibit USPS-32B, as revised 4-21-2000. For illustrative purposes, I have added a column which calculates for the subclasses shown the portion of total non-volume variable costs represented by the difference between each subclass's revenue and its volume variable costs. As shown in the attachment to this response, I cannot derive any meaningful mathematical relationship between the markup index and the relative portion of non-volume variable costs.

(b) As shown in the attachment to this response, I cannot derive any meaningful mathematical relationship between the markup index and the relative portion of volume variable costs borne by a subclass as measured by the percent of total volume variable costs represented by a subclass's volume variable cost.

(c) Although it seems plausible that if a subclass's share of total volume variable costs decreases and the subclass's share of total non-volume variable costs increases, the markup index for that subclass will increase, I have been unable to mathematically confirm this relationship so I am unsure that it would always be true.

Summary of Estimated Test Year After Rates Finances  
 Revenue and Volume Variable Cost  
 (Dollars in Thousands)

Description	Volume Variable Cost (1)	Revenue (2)	Revenue as Percent of Cost (Col. 2/Col. 1) (3)	Revenue minus Vol. Var. Cost (Col. 2 - Col. 1) (4)	Markup Index (Col. 3 - 100%) (5)	Portion of Non-Vol. Variable Cost (6)	Markup Index Divided by Portion of Non-Vol. Var. Cost (7)	Portion of Volume Variable Cost (8)	Markup Index Divided by Portion of Vol. Var. Cost (9)
First-Class Mail	18,345,506	36,185,944	197.1%	17,820,438	1.422	63.7%	2.232	45.0%	3.160
Total Letters	706,877	1,052,689	148.5%	343,812	0.710	1.2%	57.789	1.7%	40.839
Total First-Class Mail	19,054,383	37,218,633	195.3%	18,164,250	1.395	64.9%	2.149	46.7%	2.986
Priority Mail	3,064,092	5,542,259	180.5%	2,478,167	1.194	6.9%	13.365	7.5%	15.756
Express Mail	480,964	1,086,597	222.2%	597,563	1.766	2.1%	85.141	1.2%	151.600
Mailgrams	1,000	1.136	113.6%	136	0.199	0.0%	40,951.394	0.0%	8,095.724
Periodicals									
Within County	61,397	61,647	100.6%	450	0.006	0.0%	503.107	0.2%	4.059
Outside County	2,394,191	2,416,626	101.4%	32,735	0.020	0.1%	17.176	5.6%	0.344
Total Periodicals	2,465,588	2,468,774	101.3%	33,186	0.020	0.1%	16.609	6.0%	0.326
Standard Mail (A)									
Regular	6,823,833	9,070,437	132.8%	2,246,504	0.492	6.0%	6.001	16.7%	2.690
Enhanced Carrier Route	2,471,994	5,162,024	208.8%	2,690,160	1.593	8.6%	16.567	8.1%	26.260
Total Commercial	9,295,797	14,232,461	153.1%	4,936,664	0.777	17.6%	4.405	22.6%	3.410
Nonprofit	1,320,611	1,543,097	116.8%	222,476	0.247	0.6%	31.009	3.2%	7.614
Enhanced Carrier Route	208,577	264,218	126.7%	55,641	0.390	0.2%	196.337	0.5%	76.340
Total Nonprofit	1,529,188	1,807,305	118.2%	278,117	0.266	1.0%	26.780	3.7%	7.099
Total Standard Mail (A)	10,824,985	18,039,766	148.2%	5,214,781	0.705	16.6%	3.763	26.5%	2.656
Standard Mail (B)									
Parcel Post	1,052,156	1,211,453	115.1%	159,295	0.222	0.6%	38.621	2.6%	8.569
Bound Printed Matter	473,204	563,443	117.6%	84,239	0.257	0.3%	65.457	1.2%	21.696
Special Rate	301,195	339,794	112.5%	37,699	0.183	0.1%	135.943	0.7%	24.718
Library Rate	47,444	49,672	104.7%	2,228	0.069	0.0%	863.152	0.1%	59.079
Total Standard Mail (B)	1,860,001	2,163,352	116.1%	293,331	0.221	1.0%	21.763	4.6%	4.765

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES**

OCA/USPS-T32-7. Please refer to page 21, line 18, through page 22, line 4, of your testimony. You state that your "proposed modest increase [in the First Class letter rate] . . . reflects the concern of the Postal Service about emerging alternatives [to First Class letters] . . . ." Please explain how increasing the share of institutional costs borne by First Class letters "reflects the concern of the Postal Service about emerging alternatives."

**Response:**

Mailers pay rates, not institutional cost burdens, not markups. Along with non-price considerations such as ease of use, familiarity with and trust of the technology, mailers will make decisions regarding the substitution of alternatives for First-Class Mail on the basis of the relative prices of the alternatives, not on the basis of the share of institutional costs that the prices imply. The rates that mailers will pay for First-Class letters will be, on average, 3.5 percent higher than the rates they are currently paying. Not to trivialize consideration of cost coverages or the distribution of institutional cost burden, but it is the 3.5 percent increase in rates which will affect users of First-Class Mail. This rate increase is below the rate of inflation and thus, represents a decrease in the real price of First-Class letters. It was with this decrease in the real price of First-Class letters in mind that I stated that the rate proposal reflected the concern about emerging alternatives to First-Class letters.



# RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-11. Please confirm the following statements. If you cannot confirm a statement, please explain why. If you disagree with any definitions, please provide your definition.

- (a) The markup for subclass  $i$  is defined as the difference between total revenue of subclass  $i$  and total attributable costs of subclass  $i$  all divided by total attributable cost of subclass  $i$ .  $MU_i = \frac{TR_i - TAC_i}{TAC_i}$ .

- (b) The difference between total revenue and total attributable cost for subclass  $i$  is defined as the contribution to institutional costs of subclass  $i$ .  $CI_i = TR_i - TAC_i$ .

- (c) The systemwide markup is defined as the sum of all contributions divided by the sum of all attributable costs.  $MU = \frac{\sum_j CI_j}{\sum_j TAC_j}$ .

- (d) The relative portion of institutional costs contributed by subclass  $i$  is defined as the contribution to institutional costs of subclass  $i$  divided by the sum of all contributions.  $POIC_i = \frac{CI_i}{\sum_j CI_j}$ .

- (e) The relative portion of attributable costs attributed to subclass  $i$  is defined as the total attributable costs of subclass  $i$  divided by the sum of all attributable costs.  $POAC_i = \frac{TAC_i}{\sum_j TAC_j}$ .

- (f) A markup index for subclass  $i$  is defined as the markup for subclass  $i$  divided by the systemwide markup.  $X_i = \frac{MU_i}{MU} = \frac{\frac{CI_i}{TAC_i}}{\frac{\sum_j CI_j}{\sum_j TAC_j}} = \frac{CI_i \times \sum_j TAC_j}{TAC_i \times \sum_j CI_j} = \frac{\frac{CI_i}{\sum_j CI_j}}{\frac{TAC_i}{\sum_j TAC_j}} = \frac{POIC_i}{POAC_i}$ .

- (g) Thus, a markup index for subclass  $i$  is equal to the relative portion of institutional costs contributed by subclass  $i$  divided by the relative portion of attributable costs attributed to subclass  $i$ .  $X_i = \frac{POIC_i}{POAC_i}$ .

- (h) By the definition of proportionality, a markup index for subclass  $i$  is directly proportional to the relative portion of institutional costs contributed by subclass  $i$ ,  $X_i \propto POIC_i$ , and inversely proportional to the relative portion of attributable costs attributed to subclass  $i$ ,  $X_i \propto \frac{1}{POAC_i}$ .

- (i) Simultaneously increasing the institutional share and decreasing the attributable share of costs borne by subclass  $i$  will unambiguously cause the markup index for subclass  $i$  to increase.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES****Response to OCA/USPS-T32-11:**

In my responses to your interrogatory OCA/USPS-T32-6, I mistakenly believed that the question was asking me to confirm that there was some constant of proportionality that existed in the equations for calculating the markup index for each and every subclass. I did not understand that you were simply asking me to confirm that each index equaled the ratio of share of contribution to the share of attributable cost for that subclass.

- (a) Confirmed, although in the context of this case, the calculation is made with respect to volume-variable costs.
- (b) Confirmed, although in the context of this case, the calculation is performed with respect to volume-variable costs.
- (c) Confirmed, although in the context of this case, the calculation is performed with respect to volume-variable costs.
- (d) Confirmed.
- (e) Confirmed.
- (f) Confirmed.
- (g) Confirmed.
- (h) Confirmed.
- (i) I am uncomfortable with your question because I find it hard to understand how the *share* of institutional contribution for one subclass can change without the shares for other subclasses also changing. Likewise, I have difficulty envisioning how the one subclass's *share* of attributable costs would change without the shares of other classes changing as well. In other words, I don't see how to perform this shift *keeping all else equal*. However, I will confirm that if one chose

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES****Response to OCA/USPS-T32-11, cont'd**

two subclasses from an array of subclasses and found one with both a higher share of contribution and a lower share of attributable costs than was true for a second subclass of mail, the first one would have a higher markup index than the second.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES**

OCA/USPS-T32-12. Please refer to the attachment to your response to interrogatory OCA/USPS-T32-6. Please confirm that column (6) divided by column (8) equals column (5). If you do not confirm, please explain.

**Response:**

Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES****OCA/USPS-T32-13.**

- (a) Please confirm that the "integer constraint," which requires that the rate for single-piece First-Class letter mail be set in whole cents, limits the flexibility of the Postal Service to consider a different cost coverage for the Letters and Sealed Parcels subclass. If you do not confirm, please explain.
- (b) Please confirm that the "integer constraint" largely determines the cost coverage for First-Class Mail. If you do not confirm, please explain.
- (c) Please confirm that in the absence of the "integer constraint" the Postal Service could select a rate for single-piece First-Class letter mail that is not set in whole cents. If you do not confirm, please explain.

**Response:**

- (a) Not confirmed. There are other rate elements in that subclass, any one of which may be manipulated in order to achieve cost coverage targets. The perceived "limited flexibility" may be just as much a result of the relatively few rate elements, most of which individually command a relatively large amount of revenue, as of the "integer constraint."
- (b) Not confirmed. Please see my response to subpart (a) above.
- (c) Confirmed, by definition.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**OCA/USPS-T32-14.** Please refer to your testimony at pages 20 and 35, lines 10-11, and 13-15, respectively, concerning the cost coverage of First-Class Mail and Standard (A) Regular. Also, please refer to the table and chart below entitled "Comparison of First-Class Letters and Standard (A) Regular Mark-up Indices, 1988-2001." (Note: The electronic version of the table and chart can be found in the Excel file "fc&3c\_cc.xls.")

- (a) Please confirm the "USPS Attributable Costs" for "First," "Std (A)," and "Total" for each year. If you do not confirm, please explain and provide the correct amount(s).
- (b) Please confirm the "USPS Revenues" for "First," "Std (A)," and "Total" for each year. If you do not confirm, please explain and provide the correct amount(s).
- (c) Please confirm the "Mark-Up Index" for "First," "Std (A)," and "Total" for each year. If you do not confirm, please explain and provide the correct figure(s).

**Response:**

- (a) Confirmed for the years through FY 2000, with the clarification that the figures shown for FY 1998 through 2001 are volume-variable and not attributable costs. The figures shown in your table for FY 2001 exclude contingency. The correct figures for FY 2001 TYBR are shown below:

	2001		
	First	Std (A)	Total
USPS Attributable Costs [1]	18,566	9,653	41,755
USPS Revenues [2]	35,143	13,690	66,328
Institutional Cost Contribution [3]	16,577	4,037	24,574
Attributable Cost Share [4]	44.46%	23.12%	100.00%
Institutional Cost Share [5]	67.46%	16.43%	100.00%
Mark-Up Index [6]	1.52	0.71	1.00

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

Response to OCA/USPS-T32-14, cont'd

- (b) Confirmed.
- (c) I confirm that the "Mark-Up Index" is the ratio of revenue to volume-variable cost for each of the subcategories divided by the ratio of revenue to volume-variable cost for the "Total" column.

**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.



## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

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.

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

REVISED APRIL 25, 2000

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 1995 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

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

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

REVISED APRIL 25, 2000

"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

REVISED APRIL 25, 2000

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

**RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES****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.**

Revised April 25, 2000

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

PSA/USPS-T32-1. On pages 42 and 43 of your testimony you point out that in past proceedings Parcel Post revenue was not expected to exceed costs by such a large margin as the 114.1% coverage you are requesting in this proceeding, because of the desire of both the Commission and the Service to mitigate rate increases by reducing cost coverage so as to halt the volume decline.

- (a) Please explain why you have abandoned your low cost coverage proposals that the Postal Service proposed in prior rate proceedings.
- (b) Having reference to your testimony about the reasons for low cost coverage in the past, please explain what has changed that has caused the Service to propose significantly higher cost coverages for Parcel Post in this proceeding.
- (c) Please reconcile your 114.1% cost coverage number with witness Plunkett's 115.1% cost coverage number in his Attachment K to this Testimony (USPS-T-36).
- (d) On page 43 of your testimony you refer to what you describe as "improved...data collection for Parcel Post volume." (i) Please describe corrections made to FY 1997 and 1998 because of the "improved data collection" in your reference. (ii) Please provide the dollar amount of the revenue and the number of Parcel Post pieces that were underreported by the Postal Service for the Base Year and for the Test Year, Before and After Rates, in its filing, in R97-1. (iii) Please provide the percentage amount of the Parcel Post increase or reduction that would have been required in R97-1 to reach the 108% cost coverage level recommended by the Commission, had the Base Year and Test Year Parcel Post volumes and revenues reflected what you now call the "improved data collection."

## Response:

- (a) I would disagree with your characterization that I "have abandoned [the] low cost coverage proposals that the Postal Service proposed in prior rate proceedings." If you refer to my Exhibit USPS-32C, you will see that the cost coverage assigned to Parcel Post is higher only than the cost coverages assigned to the Periodicals subclasses (which are afforded ECSI value consideration and in this case have their cost coverages

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

REVISED APRIL 25, 2000

## Response to PSA/USPS-T32-1(a), cont'd

mitigated somewhat in deference to the significant rate increases required to cover the large increases in their costs), Library Mail (a preferred subclass), and Special Rate (which is afforded ECSI value consideration).

As I described in my testimony at page 8, one of the pricing criteria used to determine an appropriate set of cost coverages is the impact on mailers. While I recognize that some Parcel Post rate cells received larger increases, the overall increase in Parcel Post rates in this case is only 1.3 percent. Given the cumulative rate of inflation between the most recent rate increase and the implementation of the rates proposed in this case, and given that the systemwide rate increase is 6.5 percent, I do not consider an increase of 1.3 percent, associated with a cost coverage of 114 percent, to be out of line.

The cost coverage recommended by the Commission in Docket No. R97-1 was one of the lowest cost coverages recommended for Parcel Post. I would, therefore, hesitate in using the R97-1 cost coverage as the only point of reference. Furthermore, as shown in LR-I-149, the cost coverage implied by reference to the Commission's version of costs in this case is 110.9%, only 3 percentage points higher than the Commission's R97-1 cost coverage.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

REVISED APRIL 25, 2000

## Response to PSA/USPS-T32-1, cont'd

- (b) Please refer to my response to your PSA/USPS-T32-1(a) above.
- (c) Please refer to my response to UPS/USPS-T32-12.
- (d)(i) Please refer to the response of the United States Postal Service to UPS/USPS-T5-13, redirected from witness Hunter.
- (ii) Please refer to the response to subpart (d)(i) above. Although it is my understanding, based on the response cited in subpart (d)(i), that the data for fiscal years prior to FY 1998 have not been restated, there is a time series of simulated volume data which incorporates several adjustments to volume data, including the use of postage statement data for Parcel Post volumes. This data series is provided in witness Thress's Workpaper 1 at page 16 of Table 1-10 in columns headed GVOL25, GVOL25\_ND and GVOL25\_DB. The base year for Docket No. R97-1 was FY 1996. Please refer to the cited workpaper for the revised estimate of FY 1996 volume. The test year before and after rates volumes and revenues used in R97-1 were estimates, not actual FY 1998 figures, and were developed by use of the forecasting models used by witnesses Thress and Tolley in Docket No. R97-1. To my knowledge, the revised Parcel Post volumes have not been run through the forecasting models from that case. Therefore, I do not know what the test year before and after rates volumes or revenues for Parcel Post would have been had the newer data been used.

Revised April 25, 2000

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

## Response to PSA/USPS-T32-1(d), cont'd

- (iii) I do not have sufficient information to answer this question. As noted in my response to subpart (d)(ii) above, I do not have test year before or after rates volume estimates or revenue estimates as would have been developed in Docket No. R97-1. My limited understanding of forecasting also suggests that had the newer data been used to develop the forecasting model in R97-1, the own-price elasticity estimate for Parcel Post may not have been the same as was used in that case. In addition, I do not have the estimated test year before or after rates costs as would have been produced using the cost rollforward model that was used in R97-1. Without that information, I cannot say what the change in Parcel Post rates would have been in order to target a cost coverage of 108 percent. I also note that the 108 percent cost coverage was the Commission's recommended cost coverage, not the Postal Service's proposed cost coverage. Therefore, I would note that the Commission's models for forecasting volumes, revenues and costs would have been the appropriate ones to use to properly respond to this question.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

## PSA/USPS-T32-2

On page 43 of your testimony you state that your proposed Parcel Post rate level is fair and equitable, satisfying Criterion 1.

- (a) Did you arrive at the level of coverage taking into account the fact that the Postal Service had made massive errors in its data reporting for Parcel Post in the recent past, leading to rate increases and rates which were greatly excessive in terms of cost coverage, both the coverage requested by the Postal Service and the higher coverage recommended by the Rate Commission in R97-1?
- (b) Would it not have been "fair and equitable" to remedy the Postal Service's past overcharging of Parcel Post by reason of faulty data collection to have proposed a rate reduction in Parcel Post in this proceeding? Please explain any negative response.

## Response:

- (a) I disagree with your representation that the rate increases and rates were "greatly excessive in terms of cost coverage" in R97-1. One of the pricing criteria to be considered when determining rate levels is the impact of the rate increase on mailers. Thus, I would be very surprised to find that the cost coverage set by the Commission in R97-1 did not already take into consideration the impact on mailers of the associated 12 percent increase in rates. As would any rate level witness when determining the cost coverage for Parcel Post, I relied upon the data available to me at the time. The information available to me at the time included the restated volume and revenue figures for the base year and the associated base year cost coverage, as well as the forecasted test year before rates cost coverage which was developed using the volume forecasts which incorporated the restated volume data.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES****Response to PSA/USPS-T32-2, cont'd**

- (b) No. I disagree with your characterization that the Postal Service overcharged Parcel Post in the past. I do not have sufficient information to determine that, had the data collection been adjusted in time for Docket No. R97-1, the resulting rates would have been significantly different. The pricing criteria do recommend the consideration of the impact of rate changes on mailers. This criterion has been interpreted in the past to include consideration of the cumulative rate increases on mailers from previous rate cases when added to the increase proposed in the current case. I did take into consideration the sizes of the Parcel Post rate increases resulting from recent rate cases when determining the cost coverage for Parcel Post.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES****PSA/USPS-T32-3.**

In your response to PSA/USPS-T32-1 (a) you stated that one pricing criteria [sic] used to determine an appropriate set of cost coverages is the impact and that you did not regard a 1.3% increase, when the system-wide increases are 6.4%, to be out of line.

(a) Did you take into consideration the fact that, due to Postal Service data errors in previous rate cases, Parcel Post was subjected to rate increases that were far in excess of the increases that would have been required in order to meet either the cost coverage targets proposed by the Postal Service in the last rate proceeding, or those recommended by the Postal Rate Commission?

(b) You state in that same response that the cost coverage recommended by the PRC in R97-1 "was one of the lowest cost coverages recommended for Parcel Post. I would, therefore, hesitate in using the R97-1 cost coverage as the only point of reference." Please provide every instance since Postal Reform where the Postal Rate Commission recommended a cost coverage for Parcel Post that is higher than you are requesting in this proceeding, and also provide the system-wide cost coverage recommended by the PRC in each such proceeding.

**Response:**

(a) Under criterion 4, I did take into account the size of the rate increase recommended for Parcel Post in Docket No. R97-1. I cannot agree with the premise of your question, however, as I do not know whether or to what extent the cost coverage targets proposed by the Postal Service or recommended by the Commission would have been different had they not been associated with a rate increase of that size. Proposed cost coverages are not developed independent of associated rate increases both in deference to consideration of criterion 4 as well as consideration of the impact on financial breakeven.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES**

**Response to PSA/USPS-T32-3, cont'd**

- (b) The following markups were derived from the chart in Appendix G, Schedule 3 in the Commission's Opinion and Recommended Decision for Docket No. R97-1.

Docket	97-1	94-1	90-1	87-1	84-1	80-1	77-1	76-1	74-1	71-1
Parcel Post	8.0	7.4	11.5	12	16	6	3	21	41	56
System Avg.	55.3	56.9	50.0	48	52	27	24	52	69	85

As can be seen in the table above, the markups for Parcel Post as recommended by the Commission in every docket except for R94-1, R80-1 and R77-1 were higher than the markup recommended in R97-1. Schedule 3 also contains a chart showing the markup indices, the markups by subclass divided by the systemwide average markup. Only in Dockets R94-1 and R77-1 were the markup indices for Parcel Post lower than in Docket No. R97-1.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES****PSA/USPS-T32-4.**

In response to PSA/USPS-T32-1 (c) you say you are unable to reconcile the 114.1% cost coverage that you say you are recommending for Parcel Post with witness Plunkett's statement that the rates proposed would provide a 115.1% cost coverage. If witness Plunkett's math is correct and yours is wrong, would you then recommend that Parcel Post rates be reduced so that they would be in accord with your coverage recommendation of 114.1%, or would you, rather than change your testimony, say that you are recommending a coverage of 115.1%, because that is the way the recommended rates come out?

**Response:**

In the development of the proposed cost coverages for all subclasses of mail, it was my understanding that the cost coverage of 114 percent was associated with a rate increase of 1.3%. I considered the cost coverage and the associated rate increase to be fair and equitable, and my expectations regarding the effects on volume, revenue and cost impacts of this rate increase were incorporated into the analysis of financial breakeven for the Postal Service in the test year. Given the system average increase and the increases proposed for other subclasses, I do not believe that I would have recommended a rate decrease for Parcel Post under the circumstances, and would have considered a modest one percentage point increase in the cost coverage appropriate.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES****PSA/USPS-T32-5.**

In your response to PSA/USPS-T32-2 you say that you disagree with the representation contained in the question that rate increases and rates were "greatly excessive in terms of cost coverage" in R97-1.

(a) If the correct revenue and volume numbers for Parcel Post had been known by the Postal Service and by the Commission during the R97-1 proceeding, would a 12% increase in rates have been required in order to meet the PRC recommended coverage of 108%? Please explain any affirmative answer.

(b) Would any increase at all have been necessary in order to meet 108% cost coverage? Please explain any affirmative answer.

**Response:**

(a) No. Nor do I believe that the Postal Service would have proposed or the Commission recommended a cost coverage as low as 108 percent.

(b) I do not know. I am unaware of an estimate of the Test Year Before Rates (1998) volume or cost for Parcel Post. Exhibit 11C of witness Meehan's (USPS-T-11) testimony shows a base year 1998 cost coverage for Parcel Post of 109.9 percent. However, I do not know what would have been forecasted as the TYBR 1998 cost coverage in Docket No. R97-1 had the revised Parcel Post volume and revenue data been available at that time.



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES****PSA/USPS-T32-7.**

In response to PSA/USPS-T32-2 (b) you state that the pricing criterion "has been interpreted in the past to include consideration of the cumulative rate increases on mailers from previous rate cases when added to the increase proposed in the current case."

(a) If you are unable to determine whether the 12% rate increase recommended in R97-1 was excessive in order to meet the recommended cost coverage of 108%, then how have you been able to determine whether or not that fact, if true, would be taken into consideration, as you testify it should be, when determining the prices to be recommended in the current proceeding?

(b) Since you refuse to concede that the R97-1 increases were excessive, was it possible for you to take into account an excessive rate increase in R97-1 in determining your prices in the current case?

**Response:**

(a) Regardless of whether the rate increase was excessive, it was 12 percent. I took into account the actual increase, not what it would have or could have been.

(b) I took into consideration that Parcel Post received a rate increase of 12 percent in the most recent rate case.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES**

**PSA/USPS-T32-10.**

Please refer to Appendix G, Schedule 1 of the Docket No. R97-1 Opinion and Recommended Decision and the FY 1998 PRC Revised RPW Data Version Cost and Revenue Analysis report.

(a) Please confirm that the Postal Rate Commission recommended a 108 percent TYAR cost coverage for Standard (B) Parcel Post in Docket No. R97-1. If not confirmed, please explain.

(b) Please confirm that the Postal Rate Commission recommended a 12.3 percent rate increase for Standard (B) Parcel Post in Docket No. R97-1. If not confirmed, please explain.

(c) Please confirm that (using PRC costing methods) the actual FY 1998 cost coverage for Standard (B) parcel post was 112.4 percent. If not confirmed, please explain.

(d) Please confirm that the 112.4 percent cost coverage for Standard (B) parcel post in FY 1998 was based on pre-R97-1 rates. If not confirmed, please explain.

(e) Please confirm that increasing FY 1998 Standard (B) parcel post average revenue per piece (while holding unit cost and volume constant) by 12.3 percent would have increased the cost coverage on Standard (B) parcel post from 112.4 percent to 126.2 percent. If not confirmed, please explain.

(f) Please confirm that FY 1998 revenue for Standard (B) parcel post was \$947.9 million. If not confirmed, please explain.

(g) What was the cost coverage for Standard (B) parcel post in FY 1999?

**Response:**

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed.

(g) The FY 1999 CRA has not yet been produced. As part of the periodical reporting requirements for the International CRA, the Postal Service provided to the Commission on March 15, 2000 a preliminary PRC version

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES**

**Response to PSA/USPS-T32-10, cont'd**

**of a 1999 CRA. Using the PRC's costing methodology, the cost coverage reported for Parcel Post in that document is 108.9 percent.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**UPS/USPS-T32-1. Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for FY 1998.**

**Response:**

All data used in the preparation of my exhibits and discussed in my testimony were derived from the work of other witnesses in this docket. For instance, incremental cost figures were obtained from witness Kay (USPS-T-23); volume variable cost figures were obtained from witness Kashani (USPS-T-14); volume forecasts were obtained from witnesses Tolley (USPS-T-6) and Musgrave (USPS-T-8); revenue calculations were obtained from the pricing witnesses (USPS-T-33 through USPS-T-39). To the extent that any of these witnesses may have incorporated data from FY 1999 into the preparation of the figures in their testimony upon which my work relied, there would be, by extension, some FY 1999 data forming the basis of my work. In order to accurately assess the extent to which FY 1999 data was used in the work of the witnesses listed above, please refer to their responses to this identical interrogatory.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**UPS/USPS-T32-2. Refer to your testimony on pages 3-4, where you state that "[t]he Postal Service's proposals in this case have fairness and equity as their most fundamental objectives." Define "fairness" and "equity" as you have employed them to determine the proposed rates**

**Response:**

**I meant that all of the pricing criteria were properly considered in the determination of the proposed rate levels, achieving a balance of conflicting interests and not favoring any one of the pricing criteria in particular.**

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**UPS/USPS-T32-3.** Refer to your testimony on page 5, where you (1) discuss "the degree to which usage of the service declines in response to price increases," and (2) state that this concept "has been referred to as the economic value of service." Provide detailed citations to the economic literature that makes such references.

**Response:**

In making this reference, I did not mean to imply that such terminology was applied to the own-price elasticity in economic literature. Rather, I was referring to usage of this concept in previous postal rate proceedings. See, for example page 19, line 7 of witness Foster's (USPS-T-11) testimony in Docket No. R94-1 or page 4, line 11 of witness O'Hara's (USPS-T-30) testimony in Docket No. R97-1. As with regard to this example, the language of postal ratemaking is sometimes unique.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**UPS/USPS-T32-4.** Refer to your testimony on page 8, where you state that "the Postal Service has also considered the effect of its proposed rate increases on competitors, in order to ensure that no particular set of proposed rates or fees was designed with the specific goal of harming a competitor or group of competitors." If, in fact, the rates were not designed with the specific goal of harming competition or competitors, would they necessarily satisfy the fourth criteria [sic] in Section 3622(b) of the Postal Reorganization Act.

**Response:**

No. As I noted in my testimony, criterion 4 covers other concerns as well, such as the effect of the rate increases on customers. Please also see my responses to NAA/USPS-T32-2, NAA/USPS-T32-19b and AAPS/USPS-T32-4.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**UPS/USPS-T32-6.** You generally propose modest rate increases on those services with relatively low economic value (defined as a relatively high price elasticity of demand) and more significant increases on services with relatively high economic value (defined as relatively low price elasticities of demand). Refer to your testimony on page 19, where you state: "no formal use is made of ...Ramsey prices," and that "movement toward or away from Ramsey prices...did not significantly affect conclusions."

(a) Explain the difference between setting rates based on Ramsey principles and setting rates based on the concept of economic value.

(b) Define precisely the term "significant" as you are using it in this context.

**Response:**

- (a) Both Ramsey pricing and the consideration of economic value of service would point toward giving <sup>lower</sup> higher increases to the categories of mail that have the lowest economic value of service. However, Criterion 2 is only one of the nine pricing criteria and must be considered in the balance with the other criteria. Criterion 5 requires that consideration be given to those categories of mail with few alternatives. In many respects, I think that criterion 2 and criterion 5 counteract each other. On the one hand, those categories with few alternatives may effectively have no alternative source of service, and would demonstrate low own-price elasticities which criterion 2 and Ramsey principles would translate into higher rate increases. On the other hand, criterion 5 requires that consideration be given to the availability of alternatives and has been interpreted as a request for mercy with regard to setting cost coverages for mail services with no or few alternatives. In addition, I hesitate to grant the premise of



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES****Response to UPS/USPS-T32-6, cont'd**

your question. An examination of my Exhibit USPS-32D in conjunction with Table 2 of my testimony would show that, for instance, two subclasses which received among the highest rate increases, Nonprofit ECR and Priority Mail, also exhibit relatively high elasticities of demand. In contrast, First-Class Letters, which exhibits a relatively low elasticity of demand, received one of the lowest rate increases. I believe that a more accurate generalization would be that, in general, those categories of mail which received the highest rate increases were also those categories of mail that experienced the highest increase in costs since Docket No. R97-1.

- (b) Please refer to my response to OCA/USPS-T32-1 and GCA/USPS-T32-10.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO  
VP-CW INTERROGATORIES**

**VP-CW/USPS-T32-1.** Please refer to your testimony at page 10, lines 1-8, which states:

The more highly-prepared the mail, the lower the postal cost attributed to that category of mail. The lower the costs attributed to that category of mail, the lower the cost base to which the rate level is applied. If the same cost coverage is assigned to two categories of mail differing only in the degree to which the mailer has prepared the mail, the more highly-prepared mail would have a reduced unit contribution. Thus, as the degree of preparation increases over time, all else equal, *the coverage required to obtain the same contribution also increases.* [Emphasis added.]

- a. Do you agree that if the same unit contribution is to be derived from two categories of mail, one of which has a lower unit cost than the other, then it is a mathematical truism that the category of mail with a lower unit cost will have a higher percentage markup, as your statement implies? Please explain any disagreement.
- b. Would you agree that for any given markup on the higher-cost category of mail, then from a strictly mathematical perspective essentially only one percentage markup on the lower-cost mail will result in the same unit contribution which you posit in your above-quoted testimony? (Ignore issues of rounding.) Please explain any disagreement.
- c. Before finalizing your testimony, did you use your proposed percentage markups to compute and compare the unit contribution from commercial ECR and Regular Standard A Mail to ascertain whether those unit contributions were essentially the same, in conformance with your above-quoted testimony? If you did not make such an effort, then in light of your above-quoted testimony please explain why did you not consider it necessary to do so?

**Response:**

- a. Yes.
- b. Yes.
- c. No. Please refer to my response to NAA/USPS-T32-13. I did not attempt to equalize the unit contributions for the two subclasses. The section of my testimony that you quoted above was not intended to be interpreted as a directive that the unit contributions from any two subclasses must bear a given

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO  
VP-CW INTERROGATORIES

Response to VP-CW-T32-1, cont'd

relationship to each other. It was intended to point out that, given that the *institutional costs must be recovered*, should the intention be to recover the same amount of contribution from any subclass in which mail has adopted more worksharing over time, the cost coverage would tend to increase.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO  
VP-CW INTERROGATORIES**

**VP-CW/USPS-T32-2.**

**Please refer to Attachment A to VP-CW/USPS-T32-2, "STANDARD A  
COMMERCIAL: TEST YEAR AFTER RATES FINANCES."**

- a. Please confirm that the data shown in rows 1-3 agree with the data in the corresponding rows under Standard Mail (A) in Exhibit USPS-32B, page 1.
- b. Please confirm [sic] that entries in rows 7-9 of Attachment A represent unit values corresponding to rows 1-3, derived through division by the appropriate volumes shown in rows 4-6, the latter being after rates volume forecasts taken from USPS-LR-I-166, WP1, page 3, for the Regular and ECR Subclasses.
- c. If you cannot confirm (a) and (b) above in whole or in part, please explain.

**Response:**

- a. Confirmed.
- b. Confirmed.
- c. Not applicable.

## ATTACHMENT A TO VP-CW/USPS-T32-2

## STANDARD A COMMERCIAL: TEST YEAR AFTER RATES FINANCES

DESCRIPTION	(1) VOL VBL COST	(2) REVENUE	(3) REVENUE/ COST (%)	(4) CONTRI- BUTION
A. TOTAL VALUES (\$, 000) (Note a)				
1 Regular	6,823,933	9,070,437	132.9	2,246,504
2 ECR	2,471,864	5,162,024	208.8	2,690,160
3 Total Commercial	9,295,797	14,232,461	153.1	4,936,664
B. VOLUMES (000) (Note b)				
4 Regular	40,998,656			
5 ECR	32,828,211			
6 Total Commercial	73,826,867			
C. UNIT VALUES, cents/unit (Note c)				
7 Regular	16.64	22.12	132.9	5.48
8 ECR	7.53	15.72	208.8	8.19
9 Total Commercial	12.59	19.28	153.1	6.69

Notes: a From Mayes, USPS-T-32, Exhibit USPS-32B, page 1.  
b From USPS-LR-I-166, WP1, page 3.  
c Costs and revenues in Part A divided by corresponding volumes in Part B.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO  
VP-CW INTERROGATORIES**

**VP-CW/USPS-T32-3.**

Attachment A to VP-CW/USPS-T32-2, part C, column 4, indicates that the proposed unit contributions from less highly-prepared commercial Standard A Regular Mail is 5.48 cents, while the proposed markup on more highly-prepared commercial ECR mail is 8.19 cents.

- a. Would you agree that you propose a unit contribution from commercial ECR mail that is 2.71 cents, or 49 percent, more than the unit contribution from Regular? If you do not agree, please explain fully.
- b. Would you agree that your testimony quoted in VP-CW/USPS-T32-1 contains nothing which justifies a percentage markup on commercial ECR that goes beyond the same unit contribution from Regular Standard A Mail? Unless your answer is an unqualified negative, please explain (i) how your testimony justifies a substantially higher unit contribution, and (ii) what limit (if any) your testimony implies for the unit contribution (and the corresponding percentage markup) for more highly workshared ECR mail.

**Response:**

- a. I agree that the unit contribution figures associated with the cost coverages and percentage increases that I have proposed are as stated in your question.
- b. As I stated in my response to NAA/USPS-T32-13 and VP-CW/USPS-T32-1, I am not proposing unit contributions; I am proposing cost coverages and percentage increases. Criterion 4 directs that the effect of the rate increase on mailers be considered. The percentage increase proposed for Standard Mail (A) Regular is 9.4% whereas the percentage increase for Standard Mail (A) ECR is 4.9%. Compared to the PRC's costing in the recommended decision from Docket No. R97-1, the Postal Service's systemwide markup is higher in this case, indicating that markups are, in general, higher than those recommended by the Commission in the most recent omnibus case. Although I did not rely upon a markup index when determining the cost coverages for this case, I will note that

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO  
VP-CW INTERROGATORIES

Response to VP-CW-T32-3, cont'd

Library Reference, LR-I-149 shows the markup index for ECR has dropped from 1.863 in the Commission's recommendation for R97-1 to 1.601 in the current proposal.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES****VP-CW/USPS-T32-4.**

Your testimony at page 38 (11. 11-12) states that delivery of ECR mail may be deferred.

- a. Under Postal Service standards, regulations or other guidelines what is the maximum length of time that ECR Mail can be deferred (i) at a DDU, (ii) at a DSCF, (iii) at a DBMC, (iv) at a OBMC, and (v) at a OSCF?
- b. Assume that Standard A ECR Mail is entered at an OBMC and deferred the maximum allowable time at each successive facility through which it passes. What is the maximum deferral possible (within established standards) from time entered until delivered?
- c. Does the Postal Service keep any kind of records on either (i) the number of occasions that ECR Mail is actually deferred, or (ii) the length of deferral when ECR Mail is deferred? Please explain any answer that is not an unqualified negative, identify the type of records kept, and provide available data on deferral.

**Response:**

- (a) Please refer to the Postal Operations Manual (POM 8) at sections 458.1 through 458.345, attached for your convenience.
- (b) Please see my response to subpart (a) above. In addition, this question cannot be answered without knowledge of the distance and/or transit time between the origin BMC and the destination.
- (c) I am informed that no records are kept on the number of occasions that ECR mail is deferred or on the length of such deferral. It is my understanding that mail condition reports are prepared daily to identify mail inventory but these reports do not track specific shipments and do not compare delayed mail with specific shipments in inventory the previous day.



workloads and total piece handlings are reduced because of expanded mechanized mail processing at ADCs. Greater use of mail sorting equipment is reflected in improved productivity and makeup of directs.

## 457 Scheme Distribution

### 457.1 General

Scheme distribution is a systematic plan to move all classes of mail from originating office to destination office. ZIP Code, ZIP+4 code, Delivery Point Sequence (DPS) code, and general schemes are used to distribute mail to proper separations.

### 457.2 City Schemes

A city scheme is an official published list of elements of address for the distribution of incoming mail.

## 458 Color Code Policy for Bulk Business Mail (BBM)

### 458.1 Objectives

The objective and intent of this policy is to ensure the timely processing, dispatch, and delivery of bulk business mail (BBM), which is bulk Standard Mail (A), within established service commitments.

- a. All outgoing, ADC, or SCF BBM, regardless of where received must be coded with a color representing the day on which the mail is scheduled to be *cleared*.
- b. All other destinating BBM must be coded with a delivery color representing the scheduled day of *delivery*. Once applied, the color code must remain on the mail until it is taken out for delivery. The delivery color code must be applied as outlined in the specific facility portions of this policy.

### 458.2 General Principles

The following principles apply to distribution, dispatch, and delivery of BBM:

- a. All BBM must be distributed within the framework of the approved operating plan. The application of color codes to BBM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property.
- b. If BBM is commingled with a higher class of mail in such a manner as it loses its identity, the BBM will be considered upgraded and will be treated as the higher class of mail.
- c. If a holiday falls upon a scheduled delivery day, the application of the normal color code will be maintained to allow for proper sequencing in any downstream operation.

## Mail Processing Procedures

Attachment to VP-CW/USPS-T32-4a, page 2 of 9458.312

- d. Color coding will not be the sole indicator used in evaluating what mail constitutes a plan failure (as related to mail condition reporting), but compliance with approved operating plan parameters will be the determining factor.
- e. There are no prohibitions against management agreements being made below the national level that accelerate the color coding and/or delivery expectations for any BBM versus this policy.
- f. Color code tags used to identify *Clearance Day* targets in outgoing, ADC, and SCF operations are to be removed prior to dispatch to downstream operations, but *Delivery Day* color codes are to remain with the mail until it is taken out for delivery, unless otherwise specifically noted in these instructions.
- g. Anytime BBM is sent back upstream (backflowed) for DPS, automated, or other processing, the mail must retain the original color coding and delivery schedule as if it had remained in the downstream unit.
- h. Offices should make every effort to adhere to mailer-requested in-home delivery dates and such mail should not be delivered earlier than requested by the mailer.

**458.3 Color Coding Procedures by Facility****458.31 Bulk Mail Centers****458.311 Application of Color Codes**

The application of color codes to BBM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. BMCs must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises, until it is dumped, and will also ensure that volume in the system is expedited as much as possible.

**458.312 Standard Mail (A)**

All outgoing Standard Mail (A) will be coded with a 1-day color code representing the day on which the mail is scheduled to be cleared. After processing is completed, the clearance day tags used in outgoing operations are to be removed prior to dispatch to downstream operations/facilities. (See Exhibit 458.312 for the applicable color coding procedures.)

**Exhibit 458.312**  
**One-Day Clearance Matrix**

Receipt Day	Color Code	Clearance Day
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

**458.313 Area Distribution Center or Sectional Center Facility Function**

If a BMC either shares responsibility for completing an ADC or an SCF function (sometimes identified as the 115/185 operation) with another processing facility, or is itself a designated ADC or SCF, the mail processed in such an operation must be coded with a 1-day color code indicating the day the operation should be cleared. *Such color code tagging must be consistent with the arrival of the mail on postal premises, and not when it is extracted or identified from a mechanized operation.* After processing is completed, remove the clearance day tags used in the ADC/SCF operation prior to dispatch to downstream operations. If any further distribution is performed below the ADC/SCF level in the BMC, then the portion of these instructions applicable to a P&DC, ADC, delivery unit, etc., are to be applied, as appropriate. (See Exhibit 458.312 for the applicable color coding procedures.)

**458.314 Incorrectly Coded and Non-Color-Coded BBM**

When BBM is discovered in a facility after its initial receipt without color codes or incorrectly identified with multiple color codes, and it cannot be reasonably determined what the color code should be, follow these procedures:

- a. If the mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- b. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- c. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were delayed.

**458.32 Processing and Distribution Centers, Processing and Distribution Facilities, Mail Processing Facilities and Centers, and Customer Service Mail Processing Facilities****458.321 Application of Color Codes**

The application of color codes to BBM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. All the above listed facilities must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises, even when such mail is entered into mechanized sack sorting systems.

**458.322 Outgoing BBM**

All outgoing mail, ADC, and SCF/incoming primary mail and carrier route mail will be color coded to indicate scheduled clearance 1 day after receipt at the facility. After processing is completed, the clearance day tags used in outgoing, ADC, SCF/incoming primary, and carrier route operations are to be removed prior to dispatch to downstream operations/facilities. The SCF/incoming primary BBM must be totally finalized and processed by the identified clearance day.

## Mail Processing Procedures

458.324

**458.323 Secondary Distribution of BBM**

- a. Facilities that process three-digit (SCF) BBM only to the five-digit level will color code that three-digit BBM for clearance 1 day after receipt at that facility, as listed in Exhibit 458.323a. This mail will then be dispatched without color codes, and the proper delivery color code will be applied upon receipt at the facility that performs the secondary distribution.
- b. All BBM that will subsequently receive incoming secondary distribution at the facility performing the ADC or SCF operation will receive a 2-day color code based upon its arrival or upon its extraction and identification from its initial distribution operation (either the ADC or SCF operation) (see Exhibit 458.323b).

Exhibit 458.323a

**One-Day Clearance Matrix**

Receipt Day	Color Code	Clearance Day
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

Exhibit 458.323b

**Two-Day Delivery Matrix**

Arrival/Extraction Day	Color Code	Delivery Day
Saturday	orange	Tuesday
Sunday	orange	Tuesday
Monday	green	Wednesday
Tuesday	violet	Thursday
Wednesday	yellow	Friday
Thursday	pink	Saturday
Friday	blue	Monday

**458.324 Commingled, Incorrectly Coded, and Non-Color-Coded BMM**

When BBM is discovered in a facility after its initial receipt, without color codes or incorrectly identified with multiple color codes, and it cannot be reasonably determined what the color code should be, follow these procedures:

- a. In situations wherein ADC and SCF mails are, for operational reasons, commingled in the same processing operation, all such mail extracted for the local SCF will be color coded for a scheduled delivery day, also using the 2-day delivery matrix.

458.33

Postal Operations Manual

- b. If mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- c. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- d. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were delayed.

**458.33 Delivery Distribution Centers/Units (DDCs/DDUs)****458.331 Application of Color Codes**

The application of color codes to BBM mail is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. All facilities must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises. Whenever a delivery day color code is applied, it must remain on the mail until it is taken out by the carrier at the delivery unit.

**458.332 Outgoing BMM**

- a. All outgoing mail received from a mailer and destinating carrier route mail must be color coded to indicate scheduled clearance 1 day after receipt at the facility (see Exhibit 458.332a). After processing is completed, the clearance day tags are removed prior to dispatch.
- b. All other destinating BBM received at delivery distribution centers/units, including drop shipment mailings, must be color coded for 2-day delivery according to Exhibit 458.332b.

**Exhibit 458.332a****One-Day Clearance Matrix**

Receipt Day	Color Code	Clearance Day
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

## Mail Processing Procedures

458.341

**Exhibit 458.332b  
Two-Day Delivery Matrix**

Receipt Day	Color Code	Delivery Day
Saturday	orange	Tuesday
Sunday	orange	Tuesday
Monday	green	Wednesday
Tuesday	violet	Thursday
Wednesday	yellow	Friday
Thursday	pink	Saturday
Friday	blue	Monday

**458.333 Secondary Distribution of BMM**

DDCs and DDUs that perform secondary distribution for delivery units must also apply a 2-day delivery color code to that mail upon its arrival from upstream facilities.

**458.334 Incorrectly Coded and Non-Color-Coded BMM**

When BMM is discovered in a facility, after its initial receipt, without color codes or incorrectly identified with multiple color codes, and it cannot be reasonably determined what the color code should be, follow these procedures:

- a. If mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- b. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- c. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were delayed.

**458.34 Delivery Units, Including Post Offices, Stations, and Branches****458.341 Application of Color Codes**

The application of color codes to BMM is based upon the arrival of the mail being used with the facility critical entry time. Arrival at the facility is defined as the day and time the mail arrives on Postal Service property. All facilities must develop local procedures to ensure that they maintain the correct color code for all mail, based on its arrival on the premises. Whenever a delivery day color code is applied, it must remain on the mail until it is taken out by the carrier at the delivery unit.

**458.342 Outgoing BMM**

- a. All outgoing mail received from a mailer must be color coded to indicate scheduled clearance 1 day after receipt at the facility (see Exhibit 458.342). After processing is completed, the clearance day tags used in outgoing operations are to be removed prior to dispatch. Delivery units not performing secondary distribution will receive BBM from the distribution facility with a color code attached. This color code must remain on the mail until taken out for delivery.
- b. If a holiday falls on a scheduled delivery day, the delivery color code must remain unchanged, and must be used to properly sequence the mail on the next delivery day. On the day following the holiday, the mail color coded for the holiday is not considered delayed but is worked prior to the mail with the current day's color.
- c. Delivery units may receive BBM with a mailer-requested delivery date later than the scheduled color-coded day. This mail is to be color coded or re-color coded at the delivery unit to match the last requested in-home delivery date, to comply with the mailer's request.
- d. Delivery units may receive BBM with a mailer-requested delivery date earlier than the color-coded delivery day. Although this mail will remain color coded for delivery as outlined in these procedures, all reasonable efforts should be made to deliver this mail within the mailer's requested delivery window.
- e. Delivery units may receive BBM with a mailer-requested delivery date that has already passed. Although this mail will remain color coded as outlined in these procedures, the decision regarding the delivery or disposition of this mail will be consistent with the current national policy on this subject.

**Exhibit 458.342****One-Day Clearance Matrix**

Receipt Day	Color Code	Clearance Day
Saturday	white	Sunday
Sunday	blue	Monday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday

Attachment to VP-CW/USPS-T32-4a, page 8 of 9  
Mail Processing Procedures

458.344

**458.343 Secondary Distribution**

Delivery units receiving BBM requiring secondary distribution (including drop shipment mailings and mail received directly from mailers) must apply 2-day delivery color codes upon receipt of the mail as outlined in Exhibit 458.343. This color code must remain on the mail until taken out for delivery.

**Exhibit 458.343****Two-Day Delivery Matrix**

Receipt Day	Color Code	Delivery Day
Saturday	orange	Tuesday
Sunday	orange	Tuesday
Monday	green	Wednesday
Tuesday	violet	Thursday
Wednesday	yellow	Friday
Thursday	pink	Saturday
Friday	blue	Monday

**458.344 Procedures for Mailer-Prepared Carrier Route Mail Received in Delivery Units**

- a. When mailer-prepared carrier route mail is received in delivery units from upstream postal facilities (BMCs, P&DCs, DDU, etc.), such mail has an advanced service commitment and must be color coded with a 1-day delivery color code, according to Exhibit 458.344.
- b. When mailer-prepared carrier route mail is received in delivery units directly from mailers and has never been handled in a prior postal facility, use the 2-day color code matrix.

**Exhibit 458.344****One-Day Delivery Matrix**

Receipt Day	Color Code	Delivery Day
Saturday	blue	Monday
Sunday	orange	Tuesday
Monday	orange	Tuesday
Tuesday	green	Wednesday
Wednesday	violet	Thursday
Thursday	yellow	Friday
Friday	pink	Saturday



**458.345 Incorrectly Coded and Non-Color-Coded BMM**

When BMM is discovered in a facility after its initial receipt, without color codes or incorrectly identified with multiple color codes, and it cannot be reasonably determined what the color code should be, follow these procedures:

- a. If the mail is identified with multiple color codes, then the oldest color code is assumed to be correct, even if the clearance/delivery date has passed.
- b. If mail is observed without any color code at all, then it is to be color coded with the same clearance/delivery color code as the oldest mail in the unit at the time of its discovery.
- c. If mail is observed without any color code at all, and there is no other mail in the unit at the time of its discovery, then it is to be color coded with today's clearance/delivery color code and treated as if it were *delayed*.

## 46 Dispatch and Routing Concepts

Distribution Networks is required to provide a minimum of two dispatches for each destination made:

- a. An advance dispatch is used to send a volume of mail to the destination office as an accommodation to allow advance distribution and prevent an excessive volume of mail from being received at the critical entry time.
- b. A dispatch of value, or a "last chance" routing, reflects the latest time at which mail can be dispatched from the originating facility and arrive at the destinating facility prior to the appropriate critical entry time.
- c. Additional dispatches will be provided when justified by volume or other operational considerations. NASS produces a variety of reference and operation reports. NASS products used by a facility depend on type, size, and function. The supervisor, Networks at DN, with the manager of In-Plant Support Operations Support at the mail processing facility, will determine the type of NASS reports to be used. The manager of Distribution Networks at the area, together with the plant manager of the P&DC, is responsible for resolving all disagreements between transportation, distribution networks, and mail processing facilities.
- d. Further information is available in USPS, Handbook M-22, *Dispatch and Routing Policies*.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

VP-CW/USPS-T32-6.

At page 38 (11. 12-13) of your testimony, you refer to the Postal Service accommodating mailer requests for delivery within a specific time frame.

- a. With respect to the Postal Service's efforts to accommodate such requests, can ECR mailers request day-certain delivery? If so, under what conditions?
- b. If a request for day-certain delivery is not an option, what is the minimum time frame that ECR mailers can request? (E.g., two days? three days?)
- c. With respect to ECR mail for which delivery has been requested within a specific time frame, does the Postal Service keep any kind of records, or have any data that would show the percentage of ECR mail that is in fact delivered within the time frame requested by mailers? If so, please provide such data for Base Year 1998.
- d. How many P&DCs are able to retain large volumes of Standard A Mail where delivery is requested within a specific time frame?

**Response:**

- a. I am informed that a mailer may request day-certain delivery for ECR mail, but there is no assurance that delivery will be effected on the requested day. A more appropriate, and more common, request is for a range of dates over which delivery may be effected. Mailers requesting that delivery be made within a range of days work with local postal representatives to determine the required entry date to accommodate the requested delivery dates.
- b. Not applicable.
- c. Please refer to my response to AAPS/USPS-T32-9.
- d. Please refer to the sections of the Postal Operations Manual attached to my response to your interrogatory VP-CW/USPS-T32-4 for processing

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

Response to VP-CW/USPS-T32-6, cont'd

guidelines. It is my understanding that the P&DCs are directed to process mail in compliance with the Postal Operations Manual. It is possible that, under some local circumstances, mail may be held through agreement with the DDU in order to smooth workloads.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

## VP-CW/USPS-T32-7.

- a. Your testimony at pages 2-3 lists the nine criteria of 39 U.S.C. section 3622(b). In your opinion, under which of the nine criteria should the actual performance in delivery be reflected? If you do not consider actual service performance to be relevant to the establishment of pricing levels, please explain why.
- b. (i) Please indicate those subclasses for which have you endeavored to take account of actual performance in delivery provided by the Postal Service, and (ii) please indicate how such performance in delivery affected your recommendation to increase or reduce the cost coverage.

**Response:**

- a. Service actually provided is considered under criterion 2, value of service.
- b. (i) I receive and review the quarterly Origin-Destination Information System (ODIS) reports which provide days to delivery measures for the following categories: First-Class Letters, First-Class Postcards, First-Class IPPS, First-Class Flats, Priority Mail, "All Standard A", Parcel Post and Other Standard B. In addition, I receive and review the service performance reports for Express Mail.  
  
(ii) Because the Postal Service does not have nationally representative performance data for most subclasses of mail, my consideration of the actual service performance relied mainly upon the relative service standards for the subclasses. In the absence of additional information, I assumed that the relative levels of service actually provided corresponded to their relative service standards, while acknowledging that within each subclass, some portion of the volume would not be delivered within its service standard.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

VP-CW/USPS-T32-8.

Is it your testimony that application of criterion 6 requires imposition of a higher cost coverage wherever a greater degree of preparation by the mailer is found? Please explain your answer fully.

**Response:**

No. My testimony refers to changes in the degree of worksharing over time, not to differences in the level of worksharing, and notes that, should maintenance of a subclass's contribution to institutional costs be of concern, an increase in coverage is required as a consequence of increased worksharing.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

## VP-CW/USPS-T32-9.

In your testimony at page 10 (11. 6-8), you state that "as the degree of preparation increases over time, all else equal, the coverage required to obtain the same contribution also increases."

- a. Did you establish a target contribution (either an aggregate contribution or a per-piece contribution) for the Standard A ECR mail subclass? If so, how was it calculated?
- b. Please define "same contribution."
- c. Did the reduction in Standard A ECR's cost coverage – in the rates implemented following Docket No. R97-1 – result in a reduction in Standard A ECR's contribution to the Postal Service's institutional costs?

**Response:**

- a. No.
- b. By "same contribution" I meant the same difference between revenue and volume-variable cost.
- c. As there is no Cost and Revenue Report (CRA) available for the time frame following the implementation of the R97-1 rates, I cannot answer this question based on actual experience. However, witness Meehan (USPS-T11) provides base year contribution figures and witness Kashani (USPS-T-14) provides forecasts of revenue, cost and contribution for fiscal years 1999, 2000 and 2001 both before and after rates. A comparison of the base year 1998 contribution (provided in Exhibit 11C of witness Meehan's testimony) during which the R97-1 rates were not in effect to the FY 1999 contribution (provided in Exhibit 14D of witness Kashani's testimony) during which the R97-1 rates were in effect for part of a year shows a decline in the contribution for ECR. Examination of

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

Response to VP-CW/USPS-T32-9, cont'd

Exhibits 14D, 14G and 14J shows the contribution from ECR to be dropping each year from 1999 through TYBR. However, some of this effect appears to be the result of cost inflation and some of this decline is the result of lower volume (from 1999 to 2000).

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

REVISED APRIL 25, 2000

VP-CW/USPS-T32-10.

Please refer to page 39 (11. 15-17) of your testimony where you state that application of several of the statutory criteria to Standard A ECR "would indicate a cost coverage even lower than that actually proposed," however, "this would mean shifting the additional burden of covering institutional costs to other subclasses."

- a. Do any of the statutory criteria indicate a cost coverage higher than that actually proposed?
- b. Please confirm that the system-wide proposed rate increases average 6.4 percent. If you do not confirm, please provide the correct figure.
- c. Does the fact that certain other subclasses have a lower than system-wide average proposed rate increase (i.e., less than 6.4 percent) have any relevance to your decision not to shift the "additional burden of covering institutional costs" to these subclasses?

**Response:**

- a. No.
- b. Not confirmed. The system-wide average increase is 6.5%.
- c. The cost coverages for each and every subclass were considered individually in the context of the pricing criteria as well as in combination with all others as necessary to achieve financial breakeven.



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

VP-CW/USPS-T32-12. The price elasticity of Standard A ECR Mail has risen from  $-0.60$  in Docket No. R97-1 (*Op. & Rec. Dec.*, Docket No. R97-1, para. 5534) to  $-0.808$  in this docket (Table 2 of your testimony, p. 6).

- a. Did you consider this increase in price elasticity (of more than 25 percent) in setting your cost coverage for Standard A ECR?
- b. The Commission stated that it "relies on the precedential value of its past evaluations of the evidence as a starting point and then evaluates new evidence presented to determine whether changes from its past allocation decisions are appropriate." (*Op. & Rec. Dec.*, Docket No. R97-1, para. 4005). Is Standard A ECR's increase in price elasticity (since the most recent omnibus rate docket) evidence that a change from the allocation decision in that docket would be appropriate? Please explain your answer.
- c. Does the increase in elasticity reflect an increase or a decrease in the Value of Service? Please explain your answer.

**Response:**

- a. Yes, although the price elasticity as measured in this docket was more relevant to my determinations than was the change from the most recent case.
- b. Consideration of the measured price elasticity in determination of the cost coverage is appropriate. If witnesses Thress and Tolley indicated that the increase in the price elasticity measured in this case relative to the elasticity measured in the most recent case were statistically significant, *and if nothing else had changed since the last case*, then it would be appropriate to consider a change in allocation of institutional burden. However, the price elasticity for ECR is not the only thing that has changed since the last docket. Nor is it the only thing considered when setting cost coverages. As the goal of setting rate levels is to achieve financial breakeven, ECR and changes in its price elasticity cannot be considered in isolation.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

## Response to VP-CW/USPS-T32-12, cont'd

- c. Under criterion 2, an increase in the own-price elasticity would indicate a *decrease in the value of service.*

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

## VP-CW/USPS-T32-13.

- a. Please refer to page 4 of your testimony. In your discussion of 39 U.S.C. sec. 3622(b)(2), you mention the level of privacy afforded by the mail class, the reliability and image associated with the mail class, and the availability of ancillary services. Do these considerations support a higher or lower cost coverage for Standard A ECR Mail? Please explain your answer.
- b. Please refer to page 6 of your testimony. In your discussion of 39 U.S.C. sec. 3622(b)(2), you mention the availability of alternative services which have features valued by customers, but which are not available in the comparable postal services. (i) Is this consideration applicable to Standard A ECR Mail? (ii) If so, does this consideration support a higher or lower cost coverage for Standard A ECR Mail?

**Response:**

- a. As I stated on page 38 of my testimony, isolated consideration of criterion 2 would suggest that Standard Mail (A) ECR receive a relatively lower cost coverage on the basis of the level of privacy afforded the mail, the reliability of the mail and the availability of ancillary services.
- b.
  - (i) Yes. Alternative delivery firms may be able to better meet a specific delivery day or even delivery time of day. Also, some alternative means of delivery would not require the piece to bear an address.
  - (ii) The presence of viable alternatives providing services not available to postal customers could translate into a higher own-price elasticity which, under criterion 2, would argue for a lower cost coverage. As I noted in my response to DFC/USPS-40, redirected from the United States Postal Service, criterion 5 has often been interpreted as providing a basis for mitigating a cost coverage when a low own-price elasticity is the result of few available alternatives. While criterion 5 has not generally been

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

## Response to VP-CW/USPS-T32-13, cont'd

used to suggest a higher cost coverage was necessary when alternatives are abundant and the price elasticity is high, the Commission has cited some conflicting views of the implications of criterion 5.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

VP-CW/USPS-T32-14.

Which index provides the superior method for analyzing and comparing institutional contribution by subclass between dockets – a markup index or a coverage index? Please explain why you prefer one index over another.

**Response:**

I do not advocate the use of any mechanistic approach to setting rate levels. However, in his testimony in Docket No. R97-1, witness O'Hara (USPS-T-30) provided an explanation, including numerical examples, of why the use of a cost coverage index might be more useful in analyzing changes from case to case, especially when measured costs and the systemwide average change. As witness O'Hara demonstrated, when measured costs of two products were equally affected by a change in costing methodology, application of a markup index resulted in very unequal effects on their rates, whereas application of a cost coverage index resulted in the same rates as before. In addition, the cost coverage index preserves the relative positions of various products in terms of their ratios of price to marginal cost.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

## VP-CW/USPS-T32-15.

Please refer to page 39 (ll. 14-17) of your testimony, where you state that although the percentage rate increase for the Standard A ECR subclass "is below the system average in this case, many of the factors considered above would indicate a cost coverage even lower than that actually proposed. However, this would mean shifting the additional burden of covering institutional costs to other subclasses."

- a. Is it your testimony that the avoidance of shifting institutional costs to other subclasses takes priority over the application of the statutory noncost criteria in the setting of coverage factors? Please explain your answer fully.
- b. If the cost coverage for Standard A ECR Mail were to be reduced, to what other subclasses would the additional burden most likely be shifted?

**Response:**

- a. No. In addition to satisfying criterion 3, as you have noted in your question, the cost coverage satisfies criterion 4, the impact on mailers, by resulting in a relatively low rate increase. Furthermore, in my testimony I have addressed the other statutory criteria. The pricing criteria are to be used to apportion the institutional burden to achieve financial breakeven, and are applied to all subclasses. The proposed rate level may appear to be the result of the application of only one criterion, but is the result of balancing all of the criteria in the effort to achieve financial breakeven. As noted in your question VP-CW/USPS-T32-12, the Commission has, in the past, used the cost coverage recommended in previous rate proceedings as the starting point, given that the cost coverage from the previous rate case is presumed to have embodied an appropriate consideration and balancing of the pricing criteria.
- b. Please refer to my response to AAPS/USPS-T32-6b. As I noted there, any shifted revenue burden would be apportioned to other subclasses in accordance

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

Response to VP-CW/USPS-T32-15, cont'd

with the pricing criteria. However, there were several subclasses for which consideration of criterion 4 would not permit larger increases in rates.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PRESIDING OFFICER'S  
INFORMATION REQUEST NO. 3, QUESTION 5

5. In USPS-T-32, Table 32 D, witness Mayes provides the percent increase of proposed rates over current rates for mail subclasses. At USPS-T-32, page 36, line 7, the system average increase is identified as 6.4%. Please provide the calculations witness Mayes uses to develop these figures and identify the sources of data used in the calculations.

**Response:**

The system average rate increase was calculated by weighting the percent increases provided by each of the pricing witnesses (USPS-T-33 through USPS-T-39) for their subcategories by the TYBR revenue for each subcategory as provided by each of those witnesses. Please see the attached worksheet for the calculation. Note that the total revenue differs from the total TYBR revenue from mail and services as reported in my Exhibit 32A by the amount of \$19.970 million. This amount represents the fees assigned to First-Class workshared letters (\$18.875 million) and workshared cards (\$1.095 million). These fees were not broken out by the subcategories (Automated and Carrier Route, and Non-automated Presort) for which the percent change figures were provided. Adding the fees to the calculation (by adding total workshared letters fees to either subcategory of workshared letters, for example) does not change the calculated system average percent change.



Response of USPS-T-32 to  
POIR 3, Question 5  
Revised 4-21-2000

# Calculation of Overall Percent Increase

	Test Year Before Rates <u>Postage &amp; Fees</u>	Percent <u>Change</u>	TYBR Revenue <u>Weighted by % Change</u>
First-Class Mail			
Letters - Single	22,306,818	3.4%	764,241
Automated and Carrier Route Letters	11,765,013	3.9%	462,871
Non-Automated Presort Letters	999,609	4.9%	48,996
Stamped Cards	89,346	5.0%	4,486
Post Cards - Single	503,163	4.8%	24,200
Automated and Carrier Route Post Card	363,556	5.2%	18,771
Non-Automated Presort Cards	72,087	5.6%	4,005
Priority Mail	5,229,846	15.0%	786,766
Express Mail	1,019,497	3.8%	38,741
Mailgrams	1,136	0.0%	-
Periodicals			
In-County	76,286	8.5%	6,484
Outside County			
Nonprofit	319,556	11.6%	37,069
Classroom	12,986	13.8%	1,788
Regular-Rate	1,833,845	13.5%	247,231
Standard Mail A			
Commercial			
Regular	8,653,220	9.4%	812,152
Enhanced Carrier Route	5,036,496	4.9%	246,788
Nonprofit			
Nonprofit	1,458,641	5.6%	81,684
Enhanced Carrier Route	232,440	14.8%	34,401
Standard Mail B			
Parcel Post	1,197,801	1.3%	15,843
Bound Printed Matter	492,554	18.1%	89,393
Special Rate	327,631	4.9%	15,904
Library Rate	48,517	4.5%	2,164
International	1,741,131	3.8%	66,244
Special Services			
Registry	81,435	23.0%	18,730
Certified Mail	414,039	50.0%	207,019
Insurance	89,575	20.9%	18,704
COD	18,373	9.7%	1,776
Delivery Confirmation	20,034	13.7%	2,749
Money Orders *	288,465	9.9%	28,558
Return Receipts	317,371	20.3%	64,458
Stamped Cards	4,458	100.0%	4,458
Stamped Envelopes	12,515	28.2%	3,526
Box/Caller Service	746,817	10.9%	81,254
Address changes	241	35.3%	85
BPRS	2,245	-5.7%	(128)
Correction of Mailing Lists	318	25.0%	79
Merchandise Return	2,038	-100.0%	(2,038)
On-site Meter Setting	8,984	4.5%	408
Permits	6,304	25.0%	1,576
Restricted Delivery	11,832	16.4%	1,936
Signature Confirmation	27,566	12.4%	3,415
Zip Coding Lists	25	0.0%	-
	65,833,810		4,246,785

$$6.5\% = 4,246,785/65,833,810$$

1 CHAIRMAN GLEIMAN: Is there any additional written  
2 cross examination for Witness Mayes?

3 Mr. Suendiman?

4 MR. SUENDIMAN: Thank you, Mr. Chairman, Alan  
5 Suendiman, appearing on behalf of the Greeting Card  
6 Association. Good morning, Ms. Mayes. I have a series of  
7 further designations of the Greeting Card Association in  
8 terms of written cross examination.

9 Mr. Chairman, just for the record, I would note  
10 that copies went out to all parties on Thursday.  
11 Unfortunately, in the difficulty of traffic late Thursday  
12 afternoon, my paralegal couldn't get transportation and then  
13 got lost. So by the time she got down here, the Docket Room  
14 was closed.

15 Folks there suggested we present them this  
16 morning. I'd like to hand the witness a copy of our further  
17 designation of written cross examination.

18 CROSS EXAMINATION

19 BY MR. SUENDIMAN:

20 Q I ask her to identify it.

21 [Pause.]

22 Ms. Mayes, if those questions were asked of you  
23 today, would your answers be the same?

24 A Yes, they would.

25 CHAIRMAN GLEIMAN: Mr. Suendiman, could you just

1 tell us, so that we'll all know, what additional  
2 interrogatories you wish to include in the record at this  
3 point?

4 MR. SUENDIMAN: Yes, Mr. Chairman. It's  
5 AAP/USPS-T-32-4 and 10; AAPS/USPS-T-32-19;  
6 Carlson/USPS-T-32-40; CRPA/USPS-T-32-3; MOAA/USPS-T-32-11;  
7 NAA/USPS-T-32-8 and 36; OCA/USPS-T-32-1, 5, 14, 17;  
8 PSA/USPS-T-32-2; UPS/USPS-T-32-3 and 6; and  
9 VPCW/USPS-T-32-12(b).

10 CHAIRMAN GLEIMAN: Thank you.

11 MR. SUENDIMAN: Mr. Chairman, I would move these  
12 answers to these written interrogatories into the record.

13 CHAIRMAN GLEIMAN: If you would provide two copies  
14 to the Reporter, I'll direct that the Additional Designated  
15 Written Cross Examination be received into evidence and  
16 transcribed into the record.

17 [Additional Designated Written  
18 Cross Examination of Virginia J.  
19 Mayes, AAP/USPS-T-32-4 and 10;  
20 AAPS/USPS-T-32-19;  
21 Carlson/USPS-T-32-40;  
22 CRPA/USPS-T-32-3;  
23 MOAA/USPS-T-32-11; NAA/USPS-T-32-8  
24 and 36; OCA/USPS-T-32-1, 5, 14, 17;  
25 PSA/USPS-T-32-2; UPS/USPS-T-32-3

1 and 6; and VPCW/USPS-T-32-12(b) was  
2 received into evidence and  
3 transcribed into the record.]  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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Postal Rate and Fee Changes, 2000

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DOCKET NO. R2000-1

**GREETING CARD ASSOCIATION  
FURTHER DESIGNATION OF WRITTEN CROSS-EXAMINATION OF  
UNITED STATES POSTAL SERVICE WITNESS  
MAYES (GCA/USPS-T32)**

April 20, 2000

Greeting Card Association ("GCA") hereby designates the following further  
interrogatory responses as its written cross-examination of United States Postal Service  
witness Mayes:

AAP/USPS-T32: 4, 10

AAPS/USPS-T32: 19

Carlson/USPS-T32: 40

CRPA/USPS-T32: 3

MOAA/USPS-T32: 11

NAA/USPS-T32: 8, 36

OCA/USPS-T32: 1, 5, 14, 17

PSA/USPS-T32: 2

UPS/USPS-T32: 3, 6

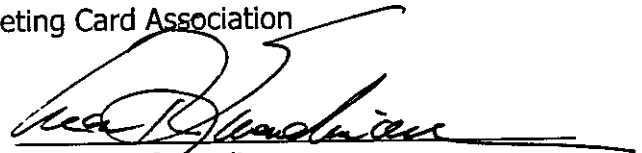
VP-CW/USPS-T32: 12(b)

Two copies of the above documents, are submitted herewith to the Secretary of  
the Commission.

Respectfully submitted,

Greeting Card Association

By:




Alan R. Swendiman  
Jackson & Campbell, P.C.  
1120 20th Street, N.W.  
Suite 300, South  
Washington, D.C. 20036-3437  
(202) 457-1646  
(202) 457-1617 (fax)  
e-mail: aswendiman@jackscamp.com  
Attorney for Greeting Card Association

**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record of this proceeding in accordance with section 12 of the Rules of Practice.

April 20, 2000

  
Alan R. Swendiman

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-4. On page 11 of your testimony, you discuss criterion 8 of Section 3622(b) of the Postal Reorganization Act. You state that, in the past, the criterion 8 has been applied by the Commission "in setting rate levels for First Class Letters, Regular Periodicals, Special Standard Mail and, to some degree, Bound Printed Matter." With respect to this statement:

- (a) Please explain why criterion 8 is only applied to BPM "to some degree." To what extent or degree is criterion 8 not applied to BPM?
- (b) Please explain the extent or degree to which criterion 8 has been applied by the Commission in setting rate levels for First Class Letters, Regular Periodicals and Special Standard Mail.
- (c) Please explain the differences, if any, in the extent or degree of application of criterion 8 to Special Standard Mail as compared to BPM.
- (d) Please explain the differences, if any, in the degree of application of criterion 8 to Regular Periodicals as compared to BPM.

**Response:**

Bound Printed Matter contains books and directories, both of which would warrant ECSI value consideration. It also contains catalogs that would not warrant ECSI value consideration.

I am unaware that the Commission ever indicated how many points of cost coverage it was shaving in deference to ECSI value consideration for any subclass of mail. Thus, I cannot specify the degree or extent to which the Commission has applied ECSI value to one subclass more than another. However, please refer to the Commission's Opinion and Recommended Decision in Docket No. R94-1 at V-127 and V-128 where it states:



## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

## Response to AAP/USPS-T32-4, cont'd

In Docket No. R90-1, the Commission allowed the markup for bound printed matter to decline to slightly below the systemwide average in recognition of the migration of books into this subclass. PRC Op. R90-1, para. 6519. By this action, the Commission gave weight to section 3622(b)(8). Nevertheless, the Commission stated that, on balance, there should be a "generally similar markup for third-class regular rate and bound printed matter." Id., para. 6520. (PRC Op. R94-1, para. 5388)

Please also refer to PRC Op. R94-1, para. 5370 where the Commission states that "Special-rate fourth class is normally entitled to a cost coverage below parcel post due to section 3622(b)(8)." Please also refer to the same

Recommended Decision where the Commission states:

In the past, the Commission has identified the letter subclass of First-Class Mail as one to which the ECSI considerations of subsection 3622(b)(8) are applicable. The Commission's recommendations for First-Class letters reflect this factor by recognizing the importance of an affordably-priced communications medium for the general public and for businesses and organizations. PRC Op. R94-1, para. 5068.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

**AAP/USPS-T32-10.** On page 45 (lines 3-4) of your testimony, with respect to BPM, you assert that the Postal Service "has given the subclass some ECSI consideration in setting rate levels, and the Postal Service proposal in this proceeding does so as well (criterion 8)." With respect to this statement:

- (a) Please explain fully what is meant by "some" ECSI consideration with respect to BPM.
- (b) Please explain the extent to which the number of books sent as BPM is considered in determining the extent or degree of ECSI consideration given to BPM.
- (c) Please confirm that the number of books sent as BPM affects the degree of ECSI consideration given to BPM.

**Response:**

- (a) Please see my response to your AAP/USPS-T32-4.
- (b) – (c) I would expect that if the share of books overwhelmingly dominated the subclass, ECSI value consideration would become more important in rate design. However, I think that examination of the Commission's treatment of such subclasses as First-Class Letters or Periodicals where the mail consists of both material which would warrant ECSI value consideration (personal correspondence or editorial content, for example) as well as advertising or other matter which would not warrant ECSI value consideration could be instructive.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAPS INTERROGATORIES**

**AAPS/USPS-T32-19. AAPS/USPS-32-7 asked the extent to which you considered unit contribution to institutional costs in connection with your goal of reducing the ECR cost coverage. Your response merely refers to your response to NAA interrogatory 13. Please confirm that your use of per piece contributions was not associated with cost coverages or contributions of individual classes to institutional costs, but only for purposes of assuring overall breakeven. If you cannot confirm, please explain how you used unit contributions for the purpose of measuring the relative contributions of the various classes and subclasses.**

**Response:**

Obviously the per-piece contributions would be associated with both the cost coverages and the contributions of individual classes in determining financial breakeven, but I confirm that I did not use unit contributions "for the purpose of measuring the relative contributions of the various classes and subclasses."

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO DFC INTERROGATORIES  
REDIRECTED FROM UNITED STATES POSTAL SERVICE

DFC/USPS-40. One factor the Commission considers in recommending postal rates is "the available alternative means of sending and receiving letters and other mail matter at reasonable costs." 39 U.S.C. [section] 3622(b)(5). Please explain how this criterion affects the Postal Service's requests for particular rates and cost coverages. For example, if no available alternative means exist to a particular service, does this fact imply a higher cost coverage for this service, or does it imply a lower cost coverage for this service?

**Response:**

Please refer to my testimony, beginning at page 20, where I discuss criterion 5 in the context of the rate level for each subclass. As I noted at page 5 of my testimony, "the lack of reasonable alternatives will reduce the measured price elasticity." The associated low own-price elasticity of demand can be taken to indicate a high value of service which criterion 2 would suggest be associated with a relatively high cost coverage. Because this consequence of available alternatives and the implications for a higher cost coverage are considered under criterion 2, criterion 5 has often been interpreted as providing a basis for deciding when a cost coverage should be mitigated, especially when alternatives are limited for some subset of the postal customers in question. Should there be abundant viable alternatives, suggesting a higher own-price elasticity and a lower cost coverage under consideration of criterion 2, criterion 5 has not generally been used to indicate that a higher cost coverage is necessary. It is my understanding that in the past, the Commission has cited some conflicting views of the implications of criterion 5, indicating that the existence of alternatives could lead to either an increase or decrease in rate level.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO CRPA INTERROGATORIES

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).

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO MOAA INTERROGATORIES

MOAA/USPS-T-32-11 The direct testimony of George S. Tolley shows that total volume of Standard Mail A Enhanced Courier [sic] Route decreased in the year 1999. See USPS-T-6 at 129.

a. Were you aware of 1999 volume figures at the time you prepared your testimony making rate recommendations? If so, did you give any consideration to proposing lower rates for ECR in view of this decrease in volume? Please explain your answer fully.

b. If you were not aware of the decrease in volume does the fact that ECR mail volumes decreased now give you a reason to revisit your rate recommendations? Please explain your answer fully.

**Response:**

- a. Yes. No. It is my understanding that ECR volume declined at least in part as a result of ECR basic letters migrating to Regular Auto 5-digit, responding to new rate relationships that went into effect in January of 1999. It is also my understanding that judgments regarding the degree to which the decline in volume in ECR in FY 1999 would extend into the future fell within the realm of witnesses Tolley (USPS-T-6) and Thress (USPS-T-7). Witness Tolley shows ECR volume further declining in FY 2000 relative to FY 1999 but rebounding in 2001 before rates. The decline in the test year from before to after rates results in a volume that is still higher than the 2000 volume.
- b. Not applicable.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

NAA/USPS-T32-8. Does the availability of alternatives as identified at p.9, lines 1-10, affect the specific cost coverages and percentage rate increases proposed by you?

- a. If your answer is yes, identify each and every class or subclass so affected and precisely how it was affected.
- b. Did the "availability, at reasonable cost, of alternative means of sending and receiving mail matter" (USPS-T-32, lines 2-3) lead you to propose higher percentage rate increase and cost coverages for any class or subclass than you otherwise would have proposed?
- c. If your answer is not an unqualified no, identify each such class or subclass and precisely how the recommended class or subclass was affected.

**Response:**

Yes.

- a. Please refer to my response to DFC/USPS-40. Low own-price elasticities of demand can be partially the result of a lack of viable alternatives. The low elasticities may be taken to indicate a high value of service which criterion 2 would suggest be associated with a relatively high cost coverage. Criterion 5 has been interpreted as providing a basis for deciding when a cost coverage should be mitigated, especially when alternatives are limited for some subset of the postal customers in question. I cannot identify "precisely" how this consideration affected each of the proposed cost coverages, but I can point in particular to the relatively low own-price elasticities for First-Class Letters as one instance in which I was aware that the relatively low own-price elasticity is likely partially the result of the restrictions on the private carriage of letters.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES****Response to NAA/USPS-T32-8, cont'd**

- b. In conjunction with consideration of criterion 4, when considering the proposals for services generally considered to be competitive, such as Express Mail, Priority Mail, Parcel Post and for some subclasses such as ECR for which there are known direct substitutes (which is not to exclude from this discussion other subclasses of mail for which there are alternatives available, such as electronic transmission for First-Class Mail, parcel delivery firms for Special and Bound Printed Matter or other means for delivering Periodicals), I did consider that any perceived reduction in or mitigation of the proposed cost coverages or rate increases would undergo scrutiny. While I cannot say that I proposed "higher percentage rate increases or cost coverages" for these subclasses than I otherwise would have proposed, I was sensitive to the possibility of criticism by competitors, should the rate increases or cost coverages not appear to be as high as the other pricing criteria might seem to imply.
- c. Please see my response to subpart (b).



**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO NAA INTERROGATORIES**

**NAA/USPS-T32-36. Please confirm that the Postal Service does not have data sufficient to compare delivery performance across all classes and subclasses of mail. If you cannot confirm, please provide the comparative delivery performance of the Postal Service across all classes in the Base Year.**

**Response:**

**Confirmed.**

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

OCA/USPS-T32-1. Please refer to page 19, lines 19-21, of USPS-T-32. There you state, "Movement toward or away from Ramsey prices was considered in the development of the rate level proposals in this case but did not significantly affect conclusions."

- (a) Do your rate levels for First Class letters and Standard (A) Regular reflect movement toward or away from Ramsey prices? Please explain the basis for your answer.
- (b) To what extent did Ramsey prices influence your choice of rate levels for First Class letters and Standard (A) Regular.

**Response:**

- a. By reference to the work presented in the testimony of witness Bernstein, USPS-T-41, at Summary Table 2 where he provides the constrained Ramsey markups and the markups implied by use of the Commission's markup index from Docket No. R97-1, I would say that the rate levels I have proposed for First-Class Letters and Standard (A) Regular reflect movement toward Ramsey prices when compared to the rate levels implied by the Commission's R97-1 markup index. For both First-Class Letters and Standard (A) Regular, my proposed rate levels result in lower markups and lower revenue per piece than would have resulted from application of the constrained Ramsey model.
- b. In the development of rate levels that would meet the statutory criteria, I would not say that there was an attempt to develop rate level proposals that would meet the constraints of any mechanical model, including Ramsey pricing. As with many considerations, the Ramsey prices represented additional useful but not determinate information brought to bear on the decisionmaking process. Given the choice between two sets of rate levels,

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES****Response to OCA/USPS-T32-1, continued**

both of which achieve the goals of meeting the revenue requirement and satisfying the nine pricing criteria for each subclass, all else equal, I would prefer the set of proposed rate levels that moved in the direction of economic efficiency.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES**

OCA/USPS-T32-5. Please refer to your exhibit USPS-32B and to R97-1 exhibit USPS-30B (rev. 9/19/97).

- (a) Please confirm that in R97-1, Postal Service witness O'Hara proposed that First Class Total Letters bear 62 percent (\$16,809,020/\$27,043,982) of institutional costs. If you do not confirm, please provide the correct proportion and show its derivation.
- (b) Please confirm that in R2000-1, you have proposed that First Class Total Letters bear 64 percent (\$17,774,380/\$27,801,806) of institutional costs. If you do not confirm, please provide the correct proportion and show its derivation.
- (c) Please explain why you have proposed to increase the share of institutional costs borne by First Class letters.

**Response:**

- (a) I confirm that in R97-1, witness O'Hara proposed that First Class Total Letters bear 62 percent of the non-volume variable costs.
- (b) I confirm that I have proposed that First Class Total Letters bear 64 percent of the non-volume variable costs.
- (c) Please refer to my responses to OCA/USPS-T32-4(c) and OCA/USPS-T32-7.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**OCA/USPS-T32-14.** Please refer to your testimony at pages 20 and 35, lines 10-11, and 13-15, respectively, concerning the cost coverage of First-Class Mail and Standard (A) Regular. Also, please refer to the table and chart below entitled "Comparison of First-Class Letters and Standard (A) Regular Mark-up Indices, 1988-2001." (Note: The electronic version of the table and chart can be found in the Excel file "fc&3c\_cc.xls.")

- (a) Please confirm the "USPS Attributable Costs" for "First," "Std (A)," and "Total" for each year. If you do not confirm, please explain and provide the correct amount(s).
- (b) Please confirm the "USPS Revenues" for "First," "Std (A)," and "Total" for each year. If you do not confirm, please explain and provide the correct amount(s).
- (c) Please confirm the "Mark-Up Index" for "First," "Std (A)," and "Total" for each year. If you do not confirm, please explain and provide the correct figure(s).

**Response:**

- (a) Confirmed for the years through FY 2000, with the clarification that the figures shown for FY 1998 through 2001 are volume-variable and not attributable costs. The figures shown in your table for FY 2001 exclude contingency. The correct figures for FY 2001 TYBR are shown below:

	2001		
	First	Std (A)	Total
USPS Attributable Costs [1]	18,566	9,653	41,755
USPS Revenues [2]	35,143	13,690	66,328
Institutional Cost Contribution [3]	16,577	4,037	24,574
Attributable Cost Share [4]	44.46%	23.12%	100.00%
Institutional Cost Share [5]	67.46%	16.43%	100.00%
Mark-Up Index [6]	1.52	0.71	1.00

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

Response to OCA/USPS-T32-14, cont'd

- (b) Confirmed.
- (c) I confirm that the "Mark-Up Index" is the ratio of revenue to volume-variable cost for each of the subcategories divided by the ratio of revenue to volume-variable cost for the "Total" column.

**RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES**

**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

## RESPONSES OF POSTAL SERVICE WITNESS MAYES TO OCA INTERROGATORIES

## 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.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

## PSA/USPS-T32-2

On page 43 of your testimony you state that your proposed Parcel Post rate level is fair and equitable, satisfying Criterion 1.

- (a) Did you arrive at the level of coverage taking into account the fact that the Postal Service had made massive errors in its data reporting for Parcel Post in the recent past, leading to rate increases and rates which were greatly excessive in terms of cost coverage, both the coverage requested by the Postal Service and the higher coverage recommended by the Rate Commission in R97-1?
- (b) Would it not have been "fair and equitable" to remedy the Postal Service's past overcharging of Parcel Post by reason of faulty data collection to have proposed a rate reduction in Parcel Post in this proceeding? Please explain any negative response.

## Response:

- (a) I disagree with your representation that the rate increases and rates were "greatly excessive in terms of cost coverage" in R97-1. One of the pricing criteria to be considered when determining rate levels is the impact of the rate increase on mailers. Thus, I would be very surprised to find that the cost coverage set by the Commission in R97-1 did not already take into consideration the impact on mailers of the associated 12 percent increase in rates. As would any rate level witness when determining the cost coverage for Parcel Post, I relied upon the data available to me at the time. The information available to me at the time included the restated volume and revenue figures for the base year and the associated base year cost coverage, as well as the forecasted test year before rates cost coverage which was developed using the volume forecasts which incorporated the restated volume data.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO PSA INTERROGATORIES

## Response to PSA/USPS-T32-2, cont'd

- (b) No. I disagree with your characterization that the Postal Service overcharged Parcel Post in the past. I do not have sufficient information to determine that, had the data collection been adjusted in time for Docket No. R97-1, the resulting rates would have been significantly different. The pricing criteria do recommend the consideration of the impact of rate changes on mailers. This criterion has been interpreted in the past to include consideration of the cumulative rate increases on mailers from previous rate cases when added to the increase proposed in the current case. I did take into consideration the sizes of the Parcel Post rate increases resulting from recent rate cases when determining the cost coverage for Parcel Post.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**UPS/USPS-T32-3.** Refer to your testimony on page 5, where you (1) discuss "the degree to which usage of the service declines in response to price increases," and (2) state that this concept "has been referred to as the economic value of service." Provide detailed citations to the economic literature that makes such references.

**Response:**

In making this reference, I did not mean to imply that such terminology was applied to the own-price elasticity in economic literature. Rather, I was referring to usage of this concept in previous postal rate proceedings. See, for example page 19, line 7 of witness Foster's (USPS-T-11) testimony in Docket No. R94-1 or page 4, line 11 of witness O'Hara's (USPS-T-30) testimony in Docket No. R97-1. As with regard to this example, the language of postal ratemaking is sometimes unique.

**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

**UPS/USPS-T32-6.** You generally propose modest rate increases on those services with relatively low economic value (defined as a relatively high price elasticity of demand) and more significant increases on services with relatively high economic value (defined as relatively low price elasticities of demand). Refer to your testimony on page 19, where you state: "no formal use is made of ...Ramsey prices," and that "movement toward or away from Ramsey prices...did not significantly affect conclusions."

(a) Explain the difference between setting rates based on Ramsey principles and setting rates based on the concept of economic value.

(b) Define precisely the term "significant" as you are using it in this context.

**Response:**

- (a) Both Ramsey pricing and the consideration of economic value of service would point toward giving higher increases to the categories of mail that have the lowest economic value of service. However, Criterion 2 is only one of the nine pricing criteria and must be considered in the balance with the other criteria. Criterion 5 requires that consideration be given to those categories of mail with few alternatives. In many respects, I think that criterion 2 and criterion 5 counteract each other. On the one hand, those categories with few alternatives may effectively have no alternative source of service, and would demonstrate low own-price elasticities which criterion 2 and Ramsey principles would translate into higher rate increases. On the other hand, criterion 5 requires that consideration be given to the availability of alternatives and has been interpreted as a request for mercy with regard to setting cost coverages for mail services with no or few alternatives. In addition, I hesitate to grant the premise of

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

## Response to UPS/USPS-T32-6, cont'd

your question. An examination of my Exhibit USPS-32D in conjunction with Table 2 of my testimony would show that, for instance, two subclasses which received among the highest rate increases, Nonprofit ECR and Priority Mail, also exhibit relatively high elasticities of demand. In contrast, First-Class Letters, which exhibits a relatively low elasticity of demand, received one of the lowest rate increases. I believe that a more accurate generalization would be that, in general, those categories of mail which received the highest rate increases were also those categories of mail that experienced the highest increase in costs since Docket No. R97-1.

- (b) Please refer to my response to OCA/USPS-T32-1 and GCA/USPS-T32-10.

## RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

VP-CW/USPS-T32-12. The price elasticity of Standard A ECR Mail has risen from  $-0.60$  in Docket No. R97-1 (*Op. & Rec. Dec.*, Docket No. R97-1, para. 5534) to  $-0.808$  in this docket (Table 2 of your testimony, p. 6).

- a. Did you consider this increase in price elasticity (of more than 25 percent) in setting your cost coverage for Standard A ECR?
- b. The Commission stated that it "relies on the precedential value of its past evaluations of the evidence as a starting point and then evaluates new evidence presented to determine whether changes from its past allocation decisions are appropriate." (*Op. & Rec. Dec.*, Docket No. R97-1, para. 4005). Is Standard A ECR's increase in price elasticity (since the most recent omnibus rate docket) evidence that a change from the allocation decision in that docket would be appropriate? Please explain your answer.
- c. Does the increase in elasticity reflect an increase or a decrease in the Value of Service? Please explain your answer.

## Response:

- b. Consideration of the measured price elasticity in determination of the cost coverage is appropriate. If witnesses Thress and Tolley indicated that the increase in the price elasticity measured in this case relative to the elasticity measured in the most recent case were statistically significant, *and if nothing else had changed since the last case*, then it would be appropriate to consider a change in allocation of institutional burden. However, the price elasticity for ECR is not the only thing that has changed since the last docket. Nor is it the only thing considered when setting cost coverages. As the goal of setting rate levels is to achieve financial breakeven, ECR and changes in its price elasticity cannot be considered in isolation.

1 MR. SUENDIMAN: Mr. Chairman, I'm handing two  
2 copies to the Reporter.

3 CHAIRMAN GLEIMAN: Anyone else? Mr. McKeever?

4 MR. McKEEVER: Thank you, Mr. Chairman, John  
5 McKeever for United Parcel Service.

6 CROSS EXAMINATION

7 BY MR. McKEEVER:

8 Q Ms. Mayes, I have just handed you a copy of your  
9 responses to Interrogatories UPS/USPS-T-32-12 and 13. If  
10 those questions were asked of you today, would your answers  
11 be the same?

12 A Yes, they would.

13 MR. McKEEVER: Mr. Chairman, I move that Ms.  
14 Mayes's answers to Interrogatories UPS/USPS-T-320-12 and 13  
15 be admitted into evidence and transcribed into the record.

16 CHAIRMAN GLEIMAN: If you'd please provide two  
17 copies to the Court Reporter, I will direct that that  
18 material be included in the record as evidence and  
19 transcribed.

20 MR. McKEEVER: We will do so, thank you, Mr.  
21 Chairman.

22 [Additional Designated Written  
23 Cross Examination of Virginia J.  
24 Mayes, UPS/USPS-T-32-12 and 13 was  
25 received into evidence and



transcribed into the record.]

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RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T32-12. Refer to USPS-32B, Page 1, as revised 2-18-00. Explain in detail the relationship between the Test Year After Rates Revenue shown for Parcel Post of \$1,200,362 thousand to the Test Year After Rates Revenue for Parcel Post of \$1,211,452,068 shown in Exhibit K of USPS-T-36 (Plunkett).

**Response:**

The two numbers should be the same, and should both be \$1,211,453,431, as shown in witness Plunkett's revised Attachment K, filed April 17, 2000.

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**RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES**

UPS/USPS-T32-13. Refer to USPS-32A, Page 1, as revised 2-18-00. Explain in detail the relationship between the Test Year Before Rates Revenue shown for Parcel Post of \$1,196,441 thousand to the Test Year Before Rates Revenue for Parcel Post of \$1,197,799,658 shown in Exhibit K of USPS-T-36 (Plunkett).

**Response:**

The two numbers should be the same, and should both be \$1,197,800,832, as shown in witness Plunkett's revised Attachment K, filed April 17, 2000.

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1 CHAIRMAN GLEIMAN: Anyone else? Mr. Ackerly?

2 MR. ACKERLY: Good morning, Mr. Chairman, Todd  
3 Ackerly on behalf of the Direct Marketing Association. We  
4 filed, along with our designations of written cross  
5 examination, a motion that certain referenced testimony from  
6 R97-1 be admitted into evidence in this case and transcribed  
7 into this volume of the record.

8 Has there been a determination on this motion?

9 CHAIRMAN GLEIMAN: We approve, and the material  
10 will be included in the record.

11 MR. ACKERLY: Thank you, sir. We'll have to make  
12 a copy available to the Court Reporter. I don't know  
13 whether you have a copy that you can make available, but if  
14 not, we'll make the material available.

15 MR. TIDWELL: Mr. Chairman, it might already be in  
16 the package.

17 MR. ACKERLY: We submitted the necessary pages,  
18 along with the designation, and I suggest, Mr. Chairman,  
19 that we check during the break to be sure that the pages  
20 actually go in there.

21 CHAIRMAN GLEIMAN: It's not clear to me that it  
22 was in the package, and we will check to make sure. I mean,  
23 not that I doubt Mr. Tidwell's word on this. He's usually  
24 right, except when he disagrees with me.

25 [Laughter.]

1 MR. TIDWELL: When was the last time I was right?

2 [Laughter.]

3 CHAIRMAN GLEIMAN: Is there anyone else?

4 [No response.]

5 CHAIRMAN GLEIMAN: If not that, brings us to oral  
6 cross examination. Twelve parties have requested oral cross  
7 examination: American Bankers Association; The National  
8 Association of Presort Mailers, jointly; the Association of  
9 American Publishers; the Association of Priority Mail Users;  
10 the Coalition of Religious Press, Direct Marketing  
11 Association; Greeting Card Association; Mail Order  
12 Association of America; Newspaper Association of America;  
13 Office of the Consumer Advocate; Parcel Shippers  
14 Association; United Parcel Service; ValPak Direct Marketing,  
15 ValPak Dealers Association; Carole-Wright.

16 Is there any other party that wishes to cross this  
17 witness? If not, then we will begin with Mr. Warden.

18 MR. WARDEN: Good morning, Mr. Chairman, I am  
19 Irving Warden representing the American Bankers Association,  
20 conducting cross-examination on behalf of the American  
21 Bankers Association and the National Association of Presort  
22 Mailers.

23 CROSS-EXAMINATION

24 BY MR. WARDEN:

25 Q Ms. Mayes, calling your attention to your response

1 to the Interrogatory Number 3 from the American Bankers  
2 Association, National Association of Presort Mailers.

3 A Yes.

4 Q Okay. I am sorry, I had a little trouble hearing  
5 you. You respond that work sharing removes variable costs  
6 and leaves non-volume variable costs unchanged and it  
7 discussed the affect of shifting work shared mail,  
8 approximately 45 billion pieces, to non-work shared mail,  
9 and that it would likely change costs. Would that change in  
10 cost likely be an increase in cost for the Postal Service?

11 A Excuse me. Are we talking about costs above and  
12 beyond the change in volume variable costs?

13 Q Well, first, just total cost, if all the work  
14 shared mail became -- all the First Class work shared mail  
15 became non-work shared mail, do you expect that to increase  
16 the total cost to the Postal Service?

17 A Yes, I would.

18 Q Now, you say you can't -- as I understand your  
19 answer, is it correct that you can't estimate the amount of  
20 such a change in cost, is that correct?

21 A That's correct.

22 Q Would you expect that such a shift would, though,  
23 increase the Postal Service's costs significantly?

24 A I have no judgment on that.

25 Q Moving on to your response to Interrogatory Number

1 4, in this response to the five parts of this interrogatory,  
2 you discuss, there is a line from your testimony where you  
3 mention that -- the quotation is, "Any excess of revenue  
4 over incremental costs means the Postal Service provision of  
5 that subclass benefits other subclasses." Now, in subpart  
6 (a), you discuss the revenue available to offset  
7 institutional cost. And when you are talking about this, is  
8 this as simple as saying that one subclass may end up paying  
9 institutional costs that benefit another subclass?

10 A What I meant was if one subclass is providing  
11 sufficient revenue to cover some portion of institutional  
12 cost, that portion of institutional cost does not have to be  
13 covered by the revenues of other subclasses.

14 Q Now, is it correct that a significant part,  
15 approaching 50 percent, of the Postal Service's delivery  
16 costs are institutional?

17 A I have a recollection of that showing up in an  
18 interrogatory provided to me, but I don't know at this  
19 point.

20 Q Well, any --

21 A If you could point me to a reference.

22 Q Okay. Well, let me maybe make it a little more  
23 general. Any cost which is an institutional cost then  
24 would, any type of cost which is an institutional cost would  
25 then be covered by the response to the interrogatory and the

1 statement you just made about revenue from one subclass  
2 benefitting over subclasses, right, is that correct?

3 A Perhaps you could restate the question. I think I  
4 lost you midway.

5 Q Okay. Okay. Well, that's possible. The  
6 statement you just made in your response to the  
7 interrogatory that we just discussed would cover, would  
8 apply to any costs which were determined to be institutional  
9 costs?

10 A Right.

11 Q Now, in general, does First Class mail pay a  
12 higher percentage of institutional costs than some other  
13 classes or subclasses?

14 A Yes, it does.

15 MR. WARDEN: Thank you. I have no further  
16 questions.

17 CHAIRMAN GLEIMAN: The Association of American  
18 Publishers.

19 MR. PELESH: Good morning, Mr. Chairman and  
20 members of the Commission and Witness Mayes. My name is  
21 Mark Pelesh. I represent the Association of American  
22 Publishers in this proceeding.

23 CROSS-EXAMINATION

24 BY MR. PELESH:

25 Q I would like to begin by asking you to refer to



1 page 43 of your testimony. And this is where you discuss  
2 the proposed rates for bound printed matter. You state that  
3 the proposed rate increase for bound printed matter is the  
4 highest rate increases proposed for any subclass in this  
5 case, correct?

6 A That's correct.

7 Q And you also state that, on average, the rate  
8 increase for bound printed matter is 18.1 percent, correct?

9 A That's correct.

10 Q In fact, for some bound printed matter mail, basic  
11 presort in particular, the increase is as high a 25.9  
12 percent, correct?

13 A I believe I confirmed that in one of your  
14 interrogatories.

15 Q Let me ask you to refer to one of our  
16 interrogatories, AAP Interrogatory 32-11(g), where we ask  
17 you to identify the sources and reasons for an increase in  
18 bound printed matter costs of 45 percent, and why they so  
19 far exceed the rate of inflation. And in response to that  
20 interrogatory, you refer us to your response to the Mail  
21 Order Association of America Interrogatory T-32-12, correct?

22 A That's right.

23 Q But in response to MOAA's interrogatory, you  
24 state, "I am unable to explain the increase in bound printed  
25 matter costs.", correct?

1 A That's correct.

2 Q Let's talk about how the Postal Service proposes  
3 to deal with this extraordinary increase in costs.

4 You state in your testimony and in response to  
5 interrogatories that increases up to 25.9 percent represent  
6 significant mitigation. Is that not correct?

7 A Yes, that's correct.

8 Q Let me refer you now to your responses to AAP's  
9 Interrogatory 32-11(d). Do you have that?

10 A 11(d) --

11 Q Yes.

12 A Oh, I'm sorry, I'm looking at MOAA. Yes.

13 Q And there you state that, "In most cases,  
14 particularly when there is a change proposed to the rate  
15 design for a subclass, and some deaveraging is required, the  
16 rate design witness and subsequently the Commission  
17 determine the range within which the rate changes will be  
18 constrained" -- correct?

19 A Yes. That is correct.

20 Q Aren't you stating there that a change in rate  
21 design deaveraging was decided upon first and that your job  
22 was to figure out how to constrain the rate increases that  
23 it produced?

24 A No, not at all.

25 Q Well, who required deaveraging? What does the

1 reference to "required" mean there?

2 A Could you point me to the location of the word  
3 "required"?

4 Q Sure. It is about in the middle of the page --

5 A Oh, I see, I see.

6 In the context of making a change to the rate  
7 design --

8 Q Right.

9 A Right, the idea being that if one wants to  
10 introduce, as the Postal Service has over the last 10 years,  
11 introduce worksharing discounts, for instance, for  
12 categories of mail that some portion of the mail is already  
13 participating in worksharing but receiving no discount, one  
14 could not simply introduce those discounts without some  
15 recognition that in order to achieve revenue goals the mail  
16 that is not currently performing those worksharing  
17 activities without a discount will probably have to receive  
18 some rate increase in order to make up for the revenue that  
19 is lost when the discounts are now given to mailers who are  
20 already performing that worksharing activity and therefore  
21 are already saving the Postal Service the costs associated  
22 with that activity.

23 Q I understand the Postal Service's theory of the  
24 discounts but I am simply asking you what the word  
25 "required" means there. Who is requiring a change in rate

1 design?

2 A I think you are misinterpreting the meaning of the  
3 word "required" in that context.

4 When I used the word "required" in the sentence, I  
5 was referring to the deaveraging that would be required in  
6 the context of making the proposed rate design changes.

7 Now if you are asking me who required that we make  
8 those rate design changes, I think that is a little bit  
9 different question and that would point back to postal  
10 management in conjunction with industry representatives.

11 Q And -- well, a couple of questions then. When was  
12 that decision made to pursue deaveraging?

13 A To pursue deaveraging or to introduce the rate  
14 design changes?

15 Q To pursue the rate design changes.

16 A I don't know.

17 Q Who were the industry representatives that were  
18 involved in those discussions?

19 A I wasn't involved in the meetings. I don't know.

20 Q How do you know that there were industry  
21 representatives involved?

22 A Because it was represented to me that we were  
23 making the changes in order to satisfy some concerns that  
24 mailers wanted drop ship opportunities, wanted reward for  
25 drop ship opportunities such as existed in Standard A and

1 Parcel Post.

2 Q Who represented that to you?

3 A I am not sure who it would have been. I had  
4 meetings with many postal managers.

5 Q Let me ask you now to refer to your response to  
6 MOAA's Interrogatory T32-12(c). Do you have that?

7 A Yes, I do.

8 Q In that question you were asked to provide a  
9 summary of what, if any, steps are being taken by the Postal  
10 Service to address the increase in BPM costs, i.e.,  
11 operational or other steps being take to bring costs back  
12 into line with historical patterns?

13 In response you mention the, quote, "realignment  
14 of bound printed matter rates in order to create incentives  
15 for drop shipping." Correct?

16 A That's right.

17 Q Would I be correct in understanding that your  
18 response there says that the Postal Service recognized that  
19 costs had gone up and therefore rates would too, and  
20 therefore develop the drop ship discounts to deal with those  
21 increases?

22 A I don't think I would make such a clean causal  
23 connection.

24 Q Well, what sort of causal connection would you  
25 make?

1           A     My response to your question was suggesting that  
2     one of the ways that we can address part of the cost  
3     increase is through more closely aligning the rates to the  
4     drop ship -- to the cost structure related to drop ship, but  
5     as long as I have been at the Postal Service I have heard  
6     operations people complaining about, for instance, the local  
7     rate in bound printed matter and some of the drop ship  
8     patterns that mailers have used in conjunction with that  
9     rate and some of the operational concerns related to that,  
10    so I don't think that creating the DDU rate was simply a  
11    response to, for instance, an examination of the most  
12    current CRA and a realization that bound printed matter  
13    rates had gone up.

14          Q     Isn't true that for a mailer who is unable to use  
15    the discounts due to, say, a lack of volume, that the  
16    deaveraging of the subclass that results from the  
17    introduction of the discounts will actually result in even  
18    higher rates than if the discounts were not instituted?

19          A     That's correct and that is why Witness Kiefer has  
20    instituted ranges within which he has constrained the rate  
21    changes.

22          Q     Was the effect of the proposed increase on mailers  
23    who could not use the discounts considered by the Postal  
24    Service in proposing this change in rate design?

25          A     Yes, it was.

1 Q How so?

2 A Again in the context of the constraints imposed by  
3 Witness Kiefer.

4 Q Did you consider it?

5 A Yes, I did.

6 Q Where does that appear in your testimony?

7 A I don't know that it does appear explicitly in my  
8 testimony.

9 Q I looked for it and couldn't find it. If you can  
10 point it to me, I would appreciate it.

11 A I could say Criterion 9 -- line 5 on page 44 --

12 Q That's the line that says, "However many mailers  
13 will be receiving substantial increases in their rates."

14 A That's right, and also it is subsumed in lines 10  
15 through 14.

16 Q Well, those lines talk about mitigation, don't  
17 they? We are not talking about higher rates for mailers who  
18 can't feasibly make use of the discounts, are we?

19 A They are some of the mailers who are included in  
20 the group that are receiving an average of 18 percent, yes.

21 Q Did the Postal Service study the feasibility of  
22 these discounts to mailers, bound printed matter mailers?

23 A I don't know.

24 Q I would like to focus on your application of the  
25 ratemaking criteria now. And I would like you to refer to

1 your responses to AAP's Interrogatory T32-9.

2 A Yes, sir.

3 Q And there you state that the most recent data of  
4 which you are aware indicates that about 52 percent of bound  
5 printed matter consists of books, correct?

6 A That's right.

7 Q And that was based on revenue, price and piece and  
8 weight data, correct?

9 A That's right.

10 Q Which I will refer to as RPW. And RPW data were  
11 no longer measured or reported separately for bound printed  
12 matter, books and non-books after fiscal year 1997, correct?

13 A That is my understanding, yes.

14 Q The Household Diary study data is, in fact, the  
15 most source of that information after fiscal year 1997,  
16 correct?

17 A The Household Diary study only measures the  
18 portion of the mailstream that originates and destines  
19 with households. But if you were looking for any source of  
20 data regarding books and bound printed matter, that would, I  
21 believe, have one or two more years worth of information,  
22 yes.

23 Q Let's talk about the seventh ratemaking criterion,  
24 simplicity for short. In your testimony, you state that  
25 this criterion provides the, quote, "logic or basis that



1 understandable and rational relationships exist between  
2 various rates." Correct?

3 A That's right.

4 Q So, shouldn't there be, therefore, consistency in  
5 the application of ratemaking principles? In other words,  
6 if a ratemaking principle points to a result for a given  
7 subclass based on a certain set of facts, then shouldn't it  
8 point to a similar result if the same facts apply to another  
9 subclass?

10 A Are you referring to the pricing criteria, the  
11 application of the pricing criteria?

12 Q I am referring to the principles you used in  
13 deciding what the proposed rates ought to be in your  
14 testimony. I am simply asking, based on the seventh  
15 criterion, the one that says there ought to be  
16 understandable and rational relationships between various  
17 rates, that if a ratemaking principle points to a result for  
18 a particular subclass, based on a certain set of facts, and  
19 the same set of facts apply to another subclass, shouldn't  
20 that same ratemaking principle point to the same result?  
21 Shouldn't there be consistency?

22 A I would say not necessarily, no.

23 Q Well, --

24 A Because virtually none -- particularly in terms of  
25 the pricing criteria, and even within rate design itself,

1 there is an interplay of a lot of different variables. What  
2 may seem logical for one category of mail, in the context of  
3 the full rate design, and the cost increases, and the  
4 proposed rate increases, and so forth, might not have the *Same*  
5 result for another class of mail, no.

6 Q Well, let's talk about a particular ratemaking  
7 principle then, one that is near and dear to our hearts,  
8 criterion 8, the educational, cultural, scientific and  
9 informational value of the mail matter, ECSI, I am going to  
10 call it ECSI for short, because that is an awfully long  
11 phrase to keep saying. If the balance of ECSI and non-ECSI  
12 content is about the same in different subclasses, then the  
13 subclasses ought to get the same degree of criterion 8  
14 consideration, shouldn't they?

15 A In the absence of any --

16 Q I am just looking at criterion 8 now.

17 A If criterion 8 were the only criterion to be  
18 applied, then, yes, I would expect that they would -- I  
19 would say, isolated by itself, yes.

20 Q Now, focusing still now on criterion 8, wouldn't  
21 you also agree that the higher the percentage of mail matter  
22 with ECSI, the greater the application should be of criterion  
23 8?

24 A Yes.

25 Q And the presence of some mail matter in a subclass

1 that consists of advertising or non-ECSI matter doesn't  
2 necessarily detract from a high degree of application of  
3 criterion 8, isn't that right?

4 A I'm sorry. Could you repeat the question?

5 Q I am asking, the presence of some mail matter in a  
6 subclass that consists of, say, advertising or non-ECSI  
7 matter, doesn't necessarily detract from a high degree of  
8 application of criterion 8, correct?

9 A If we applied the principle that you were applying  
10 in a previous question, then I think the proportion of  
11 advertising might be relevant.

12 Q Well, let's take First Class letters and  
13 periodicals, wouldn't they be examples of subclasses that  
14 have non-ECSI matter, advertising, but yet they get a strong  
15 application of criterion 8, do they not?

16 A Periodicals receives a strong application of ECSI  
17 value. I believe the Commission has extended some  
18 consideration to First Class for ECSI value.

19 Q Taking periodicals, although in a moment I am  
20 going to refer to an interrogatory response that refers to  
21 First Class as well, this notion that the presence of some  
22 advertising doesn't necessarily detract from a high degree  
23 of application of criterion 8, isn't that what you meant by  
24 your response to our interrogatory T32-10(b) and (c)?

25 Let me, as you are getting it, let me just read

1 the portion that I am focusing on here. You say, "I think  
2 that examination of the Commission's treatment of such  
3 subclasses as First Class letters or periodicals, where the  
4 mail consists of both material which would warrant ECSI  
5 consideration, personal correspondence or editorial content,  
6 for example, as well as advertising or other matter which  
7 would not warrant ECSI value consideration, could be  
8 instructive."

9 So, the presence of some advertising or some  
10 non-ECSI material, nonetheless, in a subclass could result  
11 in a strong application of criterion 8 and periodicals, at  
12 least, perhaps also First Class letters are an example of  
13 that, isn't that right?

14 A Certainly periodicals are, yes.

15 Q If bound printed matter contained non-ECSI matter,  
16 percentage-wise, that was less than or equal to periodicals,  
17 wouldn't that be instructive, to use the term you used in  
18 your response to that interrogatory, that bound printed  
19 matter should get criterion 8 treatment at least as much as  
20 that subclass?

21 A It could be, I don't know that it would result in  
22 any change in the proposed rate level, though.

23 Q I am asking about the application of criterion 8  
24 now, though. If its non-ECSI matter and bound printed  
25 matter is no greater than periodicals, wouldn't that be

1 instructive, as you put it, that it ought to get at least as  
2 strong an application of criterion 8?

3 [Pause.]

4 It seems logical; doesn't it?

5 A If bound printed matter were so dominated by ECSI  
6 value material, then, yes, I think -- I would hesitate to  
7 say that it would be equivalent to the treatment in  
8 periodicals.

9 Q Is that because books are less valuable than  
10 periodicals in someone's eyes, like the Postal Service?

11 A I'm not quite sure how I would weigh out the  
12 advertising that travels in conjunction with editorial  
13 matter in periodicals, as compared to books which happen to  
14 share subclass with catalogs or other material that would  
15 have, I believe, in the Commission's eyes, very little, if  
16 any ECSI value.

17 Arguably, the advertising that travels in  
18 periodicals is a component of the publication itself.

19 With bound printed matter, the two pieces, the  
20 ECSI value material and the non-ECSI value material need not  
21 travel together as one piece.

22 Q But Criterion 8 is applied to the subclass; is it  
23 not? It's not applied piece-by-piece?

24 A Right, Criterion 8 is applied to the subclass.

25 Q Let's talk about another Criterion, Number 5,

1 Available Alternatives.

2 A Yes?

3 Q I saw something kind of interesting that sort of  
4 frames the questions that I'd like to ask you. Just in this  
5 morning's newspaper --

6 A Today's paper, yes.

7 Q There is a series in the Post called the Last  
8 Book, and it's about the future of books, and the  
9 possibility of the development of electronic alternatives to  
10 books as we currently know them.

11 The caption this morning says "How Would You Like  
12 to Curl Up in Bed With a Nice Screen?"

13 And it begins, "Do we really need books? They can  
14 be so clunky. They fall apart. You can't find them." I'm  
15 going to delete and expletive here.

16 "You can't find the things when you need them.  
17 They weigh a ton. The cost a fortune to mail."

18 Has the Postal Service considered the effect of  
19 its proposed rates on the development of alternatives to  
20 Postal distribution of books by the mail?

21 A In that context I would say that, yes, we are  
22 aware through the forecasts of Witnesses Tolley and Thress,  
23 what the impact on bound printed matter volume of our rate  
24 increases would be.

25 Q And so we would find in Witnesses Tolley -- and is

1 it Thress?

2 A Thress, right.

3 Q In their testimony, discussion of the effect of  
4 the development or potential development of e-books on  
5 future volumes of the Postal Service?

6 A I don't know. I would have to look and see if  
7 that was explicitly discussed.

8 Q As an economist, the higher the price, the more  
9 likely it is that a customer is going to search for a lower  
10 priced alternative, right?

11 A That would make sense. I'm not sure if it  
12 comports exactly with the forecasting equations, but, yes.

13 Q And it might not just be existing alternatives?  
14 The marketplace would be more likely to create new  
15 alternatives, the higher the price of existing services;  
16 isn't that right?

17 A That would make sense, yes.

18 Q And so wouldn't the development of e-books be an  
19 alternatively, an increasingly viable alternative in the  
20 face of rate increases of 18 to 25.9 percent?

21 A Arguably, it would be a more viable alternative,  
22 perhaps. I don't know that the development of e-books would  
23 be driven by Postal rate increases, or whether the  
24 development of e-books would have happened independent of  
25 any rate changes that result from this docket.

1           Q     But you didn't consider that possibility when you  
2 proposed the rate design for bound printed matter; did you?

3           A     I believe I answered an interrogatory to either  
4 AAP or MOAA in which I did refer to -- at the time I was  
5 specifically thinking of another article in the Washington  
6 Post describing Stephen King's latest novel or novella not  
7 coming out in hard copy at all, but rather being only  
8 available on the Internet.

9                     I was aware that such things as e-books did exist,  
10 yes.

11          Q     But there's no discussion of that possibility in  
12 your testimony or studies that you refer to in your  
13 testimony that considers that possibility, correct?

14          A     Again, I would refer back to the testimony of  
15 Witnesses Tolley and Thress, to the extent that they have  
16 developed their price elasticities and their forecasting  
17 models for bound printed matter, with consideration to  
18 whatever alternatives might be available to that material.

19          Q     Thank you.

20          A     Thank you.

21                     CHAIRMAN GLEIMAN: The Association of Priority  
22 Mail Users?

23                     MR. OLSON: Mr. Chairman, insofar as I have to be  
24 here until the V's, I'd be willing to put my APMU cross over  
25 until the witness is more tired later in the day.



1 [Laughter.]

2 CHAIRMAN GLEIMAN: Was that tired or retired?

3 [Laughter.]

4 COMMISSIONER LeBLANC: Honesty is an amazing  
5 thing.

6 CHAIRMAN GLEIMAN: That brings us to the Coalition  
7 of Religious Press.

8 MR. FELDMAN: Mr. Chairman, I requested the  
9 counsel to United Parcel Service to consider swapping places  
10 with me, and he graciously said he would so, so I would ask  
11 your leave, if we might change that order so that UPS goes  
12 now and I go in their place.

13 CHAIRMAN GLEIMAN: Oh, I'm going to have a sloppy  
14 scorecard before the day is out.

15 MR. MCKEEVER: Mr. Chairman, I think I  
16 misunderstood counsel's request. I thought he wanted to go  
17 after us, rather than switch places. We would stay in our  
18 designated spot, which is before Mr. Olson.

19 [Laughter.]

20 CHAIRMAN GLEIMAN: That's a three, to five, to one  
21 and no outs.

22 MR. FELDMAN: I would have no problem in going  
23 immediately after the United Parcel Service.

24 CHAIRMAN GLEIMAN: I understand. I think I've got  
25 it right now. Mr. Olson will do his Association of Priority

1 Mail Users at the same time he does ValPak or either before  
2 or after, and that will come after United Parcel Service.

3 And the Coalition for Religious Press wants to be  
4 moved where in the scorecard, to the very end?

5 MR. FELDMAN: Mr. Chairman, wherever UPS is in the  
6 schedule at this point.

7 CHAIRMAN GLEIMAN: You want to follow them?

8 MR. FELDMAN: We would want to follow them, yes.

9 CHAIRMAN GLEIMAN: And they have agreed to that?

10 MR. FELDMAN: Yes, they have.

11 CHAIRMAN GLEIMAN: And that brings us to -- thank  
12 you. Don't say anything more. I'm confused enough as it  
13 is.

14 I think that brings us to the Direct Marketing  
15 Association.

16 MR. ACKERLY: Mr. Chairman, I will try not to make  
17 your life any more complicated this morning. We will have  
18 no questions on initial cross examination. We would like to  
19 reserve our right for follow-up.

20 CHAIRMAN GLEIMAN: And where you want to move your  
21 "no questions" --

22 [Laughter.]

23 CHAIRMAN GLEIMAN: -- in the lineup.

24 MR. ACKERLY: Into some little hole someplace.

25 CHAIRMAN GLEIMAN: Your rights for follow-up are

1 noted and reserved.

2 That brings us to the Greeting Card Association.  
3 Mr. Swendiman?

4 MR. SWENDIMAN: Mr. Chairman, we are going to  
5 continue the trend toward simplicity. The Greeting Card  
6 Association has no direct cross. Again, like Mr. Ackerly,  
7 we reserve our right in terms of follow-up.

8 THE WITNESS: So we will get out by lunch, right?

9 CHAIRMAN GLEIMAN: I don't know. Why don't we  
10 wait until we see what it is like when we get to questions  
11 from the bench.

12 [Laughter.]

13 THE WITNESS: Lunch tomorrow?

14 CHAIRMAN GLEIMAN: That brings us to the Mail  
15 Order Association of America. I want to thank you, Mr.  
16 Todd, for doing some cross examination, even if it is only  
17 one question.

18 MR. TODD: Good morning. I am David Todd,  
19 appearing on behalf of the Mail Order Association of  
20 America.

21 CROSS EXAMINATION

22 BY MR. TODD:

23 Q I would first like to follow up a little bit on  
24 some questions that were asked of you by counsel for AAP  
25 this morning.

1           First, in applying ECSI value there is no  
2 hierarchy of values, is there? In other words, you don't  
3 try to determine whether it is educational, informational,  
4 scientific, or cultural and say that we are going to give a  
5 higher value to cultural than we would information?

6           It either has an ECSI value or it doesn't, is that  
7 correct?

8           A     Well, I would tend to agree with you and in fact I  
9 believe I answered an interrogatory response in which I  
10 confirmed that basically any written information transmitted  
11 would contain informational value, but that in isolation  
12 that informational value would not warrant ECSI value  
13 consideration, and to the extent that -- I would agree that  
14 I did not go through each subclass and determine does it  
15 have cultural value, in which case it would receive a  
16 certain consideration under Criterion 8, does it have  
17 informational value? Then that would be something else.  
18 That's right.

19          Q     So that I have heard your answers and I have seen  
20 your responses to interrogatories, but I am not trying to  
21 determine whether you have accorded a little, a lot, or  
22 hardly any ECSI value but that the determination is not  
23 based upon separating out those four enumerated values in  
24 Criterion 8?

25          A     That's right.

1           Q     Right -- and you don't try to determine whether  
2 something is really good or not so good? You wouldn't  
3 distinguish between Shakespeare and Nancy Drew in  
4 determining whether a book should get ECSI value, I'm sure,  
5 is that correct?

6           A     That's correct.

7           Q     Do you know what Nancy Drew is?

8           A     I'm old enough, yes.

9                     [Laughter.]

10                    BY MR. TODD:

11           Q     You have proposed a markup for periodicals of 101  
12 percent, is that correct?

13           A     That's correct -- or cost coverage.

14           Q     Cost coverage, correct. This is premised upon --  
15 what are the most important factors that led you to this, I  
16 assume you would agree, very low markup or very low cost  
17 coverage?

18           A     Yes, it is a very low cost coverage. I would  
19 refer you back to my testimony where I enumerate the  
20 application of the criteria in determining that markup, I  
21 believe between pages 31 and 35 of my testimony.

22           Q     Well, is it fair that part of the reason is the  
23 level of cost increases for periodicals?

24           A     Absolutely.

25           Q     That level of cost increases is however

1 considerably less than the cost increases for bound printed  
2 matter, is it not?

3 A The cost increase is lower. Yes, it is.

4 Q Yes. So obviously that factor by itself was given  
5 far less application to bound printed matter than to  
6 periodicals, is that correct?

7 A That's correct. I would also note that  
8 periodicals to start with had a very low cost coverage, so I  
9 didn't have much room, I didn't have a whole lot of markup  
10 to begin with that I could use to absorb some of that cost  
11 increase.

12 Bound printed matter the markup did drop compared  
13 to what came out of R97. The periodicals markup resulting  
14 from R97 was already very low.

15 Q So you didn't start with a fresh slate. You  
16 didn't look at the factors and independently decide what the  
17 cost coverage should be based upon your evaluation of the  
18 pricing factors of the Act?

19 A No, I wouldn't say that at all. One of the  
20 pricing criteria is the impact on mailers in Criterion 4, I  
21 believe, and one of the other criteria is that the subclass  
22 must cover its costs, and simply bumping up periodicals  
23 rates such that they would cover their costs and satisfy  
24 Criterion 3 resulted in a substantial rate increase which  
25 under Criterion 4 necessitated be minimized.

1           In bound printed matter I think in interrogatory  
2 responses provided by both myself and by Witness Kiefer, we  
3 have indicated that the cost increase was rather dramatic  
4 and we -- I subsequently mitigated the cost coverage for  
5 bound printed matter substantially.

6           Q     But again, just sticking to that criterion, impact  
7 on mailers, nonetheless the cost increase for bound printed  
8 matter is much higher than the cost increase or let's say  
9 the price increase that you are proposing for periodicals,  
10 is it not?

11          A     The rate increase for bound --

12          Q     Yes.

13          A     -- printed matter is higher than that for  
14 periodicals.

15          Q     So presumably at least just looking at that factor  
16 standing alone you decided that impact upon bound printed  
17 matter mailers would simply not be given as much  
18 consideration as it was given for periodicals mailers?

19          A     No, I don't think I would say that. When I have a  
20 cost increase of the magnitude that I have in bound printed  
21 matter, I think it would be somewhat irresponsible to have  
22 dropped their cost coverage much more than I did.

23          Q     Well, why would it have been irresponsible?  
24 Surely if your cost coverage for BPM had been 101 percent,  
25 it would have had far less impact upon the mailers using

1 that subclass, would it not?

2 A That's true, but the Postal Rate Commission in its  
3 recommended decision from R97 did not recommend a cost  
4 coverage as low for bound printed matter as it did for  
5 periodicals. That was not my starting point. The 101 for  
6 bound printed matter was not my starting point.

7 Q So again then you didn't write from a blank slate.  
8 I think I asked this question before. You didn't look at  
9 the factors of the act and determine independent of prior  
10 decisions how those factors should lead to a particular  
11 recommended cost coverage?

12 Is that what you are saying today?

13 A No. Again, I am looking at the impact of the rate  
14 increase, the shift in the volume, the shift in the revenue,  
15 the relationship to the other classes and subclasses of  
16 mail, the ability of the Postal Service to cover its revenue  
17 requirement.

18 Q Did you give -- well, you have testified that you  
19 gave less ECSI consideration to BPM than to periodicals, is  
20 that correct?

21 A That is correct, in keeping with Commission  
22 precedent.

23 Q Are you aware of what percentage of the material  
24 entered as periodicals consists of advertising?

25 A I am sure I could pull it from the billing



1 determinants, but, no, I don't know.

2 Q Would you agree that it is at least 50 percent?

3 A I don't know. Again, as I said in my conversation  
4 with Mr. Pelesh, I don't know that I would view advertising  
5 in periodicals the same way that I would in bound printed  
6 matter, to the extent that the advertising is an integral  
7 part of the mail piece in periodicals.

8 Q That is not completely true, is it? Doesn't a  
9 telephone directory, for example, contain both just lists  
10 and advertising in the same bound publication?

11 A It does. I am not sure whether ECSI value would  
12 extent to the list part of that directory, whether that  
13 would be accorded ECSI value any more than an invoice or a  
14 list of materials sent as Standard A material, which does  
15 not receive ECSI consideration.

16 Q Well, would you agree that ECSI value ought to be  
17 accorded to any material that would be deemed editorial, as  
18 opposed to advertising matter in applying the classification  
19 regulations to periodicals?

20 A I'm sorry. Could you restate the question?

21 Q Would you agree that ECSI value should be accorded  
22 to any material which, if entered into a periodical -- into  
23 the periodical subclass, would be deemed editorial rather  
24 than advertising in nature?

25 A I don't think I could extend that far, because,

1     arguably, most of the material, most of the written words,  
2     if you would, that are mailed in virtually every other class  
3     of mail which contains paper, First Class, Priority Mail,  
4     Express Mail, arguably Special Standard, periodicals,  
5     Standard A, any of -- I would hesitate to say that any of  
6     the material, the written word in those subclasses could not  
7     also appear as editorial matter in periodicals. And the  
8     Commission has not deemed to extend ECSI value to most of  
9     those categories in the past.

10           Q     Are you aware that, in fact, that lists that are  
11     only lists are, in fact, mailed as periodicals?

12           A     I don't know.

13           Q     Ultimately then, I gather that you premise your  
14     decision not to give BPM as much editorial, as much ECSI  
15     consideration as periodicals is premised primarily upon the  
16     fact that magazines, or periodicals, have editorial and  
17     advertising material in a single publication and that that  
18     is less characteristic of BPM, is that a correct summation  
19     of your testimony?

20           A     I did not intend in my testimony to shift the ECSI  
21     value consideration, or change the application of criterion  
22     -- the criterion related to ECSI value beyond what the  
23     Commission has done in the past.

24           Q     So you have accepted the Commission's approach to  
25     ECSI value for BPM?

1 A Yes.

2 Q I would now like to invite your attention to MOAA  
3 Interrogatory Number 5.

4 A Yes, sir.

5 Q Do you agree that part of applying Ramsey pricing  
6 principles is simply to measure the volume response of price  
7 increases of particular subclasses of mail to increases in  
8 prices?

9 A That's right.

10 Q Therefore, you agree that, to the extent that the  
11 prices you have recommended for Standard mail A ECR, to the  
12 extent that they deviate from Ramsey prices, effectively  
13 reduces the volume which the Postal Service would otherwise  
14 receive of Standard mail A ECR? Let me --

15 A I think you are touching on Witness Bernstein's  
16 testimony, and I don't have the numbers in front of me.

17 Q Well, would you agree that if, in fact, the Ramsey  
18 price for Standard mail A ECR is lower than the rate you  
19 have recommended, and that Ramsey rate were substituted,  
20 there would be a greater volume of Standard mail ECR  
21 resulting?

22 A That's right.

23 Q Are you aware of concerns that have been expressed  
24 recently by the Postal Service about a loss of volume and  
25 the implications of such volume losses to the Postal

1 Service, given its high degree of fixed or institutional  
2 costs?

3 A Of ECR mail?

4 Q Of any mail. Are you aware of any such  
5 expressions of concern, perhaps to the legislative branch?

6 A Are we discussing history or future?

7 Q I am discussing the possible loss in the future.

8 A Possible loss. Yes, I am aware of that.

9 Q Would you agree that a Ramsey price for Standard  
10 mail ECR would result in a greater gain of volume than  
11 virtually any other subclass of mail?

12 A I would have to look at Witness Bernstein's  
13 testimony again. I know ECR does have a fairly high own  
14 price elasticity, along with a couple of other categories of  
15 mail.

16 Q Well, would you agree, as a general proposition,  
17 that if the sole objective were to retain maximum volume in  
18 the Postal Service, the establishment of Ramsey prices would  
19 most nearly, or would most fully carry out that objective?

20 A I am not sure that's true. The Ramsey model  
21 operates within a constraint that -- it is my understanding  
22 that the model operates within a constraint regarding the  
23 targeted net revenue. The constraints might -- it might be  
24 possible to adjust the constraints such that you are  
25 targeting a particular net revenue and attempting to

1 maximize volume, but I am not sure.

2 Q Well, within the constraint that the Ramsey pieces  
3 are built upon someone's decision that we need to raise  
4 X-dollars, however, within that constraint, Ramsey prices  
5 would, in fact, also serve to maximize total Postal Service  
6 volume?

7 A I would have to check that. I don't know. I  
8 don't believe that to be true.

9 Q You don't believe that to be true?

10 A I would have to check it.

11 MR. TODD: Could I ask counsel for the Postal  
12 Service if he could check and provide that response for the  
13 record?

14 CHAIRMAN GLEIMAN: You can even ask Ms. Mayes if  
15 she will provide it, and if she says she will, then we'll  
16 assign her a reply date.

17 MR. TIDWELL: Mr. Chairman, I'm informed that  
18 Witness Bernstein has an interrogatory response which  
19 addresses this issue, and it's in the record.

20 CHAIRMAN GLEIMAN: I'm sorry, I could not hear you  
21 at the end.

22 MR. TIDWELL: I'm informed that Witness Bernstein  
23 has provided an interrogatory response that's in the record  
24 that addresses this very issue.

25 CHAIRMAN GLEIMAN: Could you tell us which

1 interrogatory response that is, so that we don't have to  
2 search around for it, and then perhaps we won't have to ask  
3 Ms. Mayes to tell us.

4 MR. TIDWELL: As much as I know, it's an MOAA  
5 response. Perhaps during a break today, we might be able to  
6 identify which particular one.

7 MR. TODD: Well, let's do so. Let me say,  
8 however, my reasons for asking this, I believe, was a  
9 response interrogatory -- response, because he said, no, no,  
10 I have -- don't worry about volume, I am maximizing consumer  
11 surplus.

12 And unless there's any mystery to my line of  
13 questioning this morning, I was trying to get back to a  
14 world that is a little more readily understood by some of  
15 us, anyhow, that it's the same thing as maximizing volume  
16 with lots of caveats.

17 And that's why I was asking these questions of  
18 Witness Mayes this morning.

19 CHAIRMAN GLEIMAN: Well, we can ask Witness Mayes  
20 to respond, notwithstanding the existence of a response by  
21 Witness Bernstein to an earlier interrogatory, but I'm not  
22 sure now what type of response you're like to get.

23 But I certainly have no problem with directing her  
24 to respond to your question if she doesn't know the answer  
25 to it now.

1 MR. TIDWELL: I would appreciate that, Mr.  
2 Chairman.

3 CHAIRMAN GLEIMAN: Ms. Mayes, I think the  
4 outstanding question had to do with whether establishing  
5 Ramsey prices wouldn't, indeed, maximize volume. But you  
6 can look at the transcript tomorrow, just to make sure  
7 that's what Mr. Todd asked.

8 If you could please provide a response to that  
9 question, to the best of your ability, we sure would  
10 appreciate it, and we'll give you a week to do so.

11 MR. TODD: Thank you, Mr. Chairman, that's all I  
12 have.

13 CHAIRMAN GLEIMAN: Next up is the Newspaper  
14 Association of America, but I think we're going to take our  
15 mid-morning break and come back at five of the hour, unless  
16 Mr. Baker wants to come up and tell us right now that he  
17 either wants to switch places or doesn't have any cross  
18 examination. Where is Neil Dent and the scorecard when I  
19 need him?

20 [Recess.]

21 CHAIRMAN GLEIMAN: Mr. Baker, whenever you're  
22 ready, you may begin.

23 MR. BAKER: Thank you, Mr. Chairman.

24 CROSS EXAMINATION

25 BY MR. BAKER:

1           Q     Good morning, Ms. Mayes. For the record, I am  
2 Bill Baker, representing the Newspaper Association of  
3 America.

4                     And I'd like to begin by expressing on behalf of  
5 my client, appreciation for recognizing the importance of  
6 newspapers as a source of useful information as discussed in  
7 the cross examination earlier this morning.

8                     And then I would like for you to turn your  
9 attention to your answer to NAA-13 to you.

10                    [Pause.]

11                    Do you have it?

12           A     Yes, I do.

13           Q     There are a couple parts of this response that I  
14 would like to ask you about this morning.

15                    The first is the second sentence there where you  
16 state that the purpose of establishing a set of rate levels  
17 is to derive a set of proposed percent changes in rates and  
18 so on, that will obtain break-even.

19                    There must have been a point in time when you or  
20 the Postal Service on your behalf, went to the rate design  
21 witnesses and said you now need to -- the time has come for  
22 you to -- those people to design rates.

23                    And was that you who would have gone to them and  
24 said you need to design rates to recover, you know -- to  
25 design rates for a particular subclass?



1 A Yes.

2 Q Okay. And when you went to the rate design  
3 witnesses, what did you tell them?

4 A What I provided to each of the witnesses was a  
5 target cost coverage, and a -- my a priori expectation of  
6 what that cost coverage would result in in terms of a  
7 percent rate increase.

8 I also had ball park estimates of the amount of  
9 revenue and cost that I expected would fall out of that  
10 process.

11 Q So, if I understand correctly, you had done a fair  
12 amount of preliminary work yourself to get an idea of what  
13 the underlying costs for the subclasses were likely to be,  
14 and you also had an expectation of the percentage rate  
15 increase desired for each of the subclasses and the cost  
16 coverage to get there?

17 A Right.

18 Q Okay. And would you give them a range, or would  
19 you give them a specific figure?

20 A I think I've described in interrogatory responses,  
21 that it is an iterative process. I would begin with  
22 specific figures, and as the process evolved,

23 Sometimes the rate design witnesses were able to  
24 achieve those specific figures, sometimes after the volume  
25 forecasts and revenue forecasts and costs forecasts

1 associated with that particular iteration of rates came  
2 back, the numbers weren't quite what we expected and we had  
3 to start over again.

4 Q Well, returning your attention to the  
5 interrogatory response, I was struck in the second sentence  
6 there when you refer to the purpose of establishing rate  
7 levels is to derive a set of proposed percent changes in  
8 rates.

9 And I was struck by the use of the concept of  
10 proposed percent changes in rates, rather than derive total  
11 revenues or something, and I wondered if the percentage  
12 increase was the paramount figure or the cost coverage  
13 figure was the paramount figure when you went to the rate  
14 design witnesses?

15 A I don't think they can be separated, because  
16 associated with that cost coverage target would be a percent  
17 increase. And the percent increase would drive the volume  
18 forecasts and the cost changes.

19 Q You had both in mind?

20 A Yes, yes.

21 Q And if you would direct your attention to the last  
22 sentence of your answer there where we had asked you what  
23 consideration you gave to the per-unit contribution of  
24 pieces?

25 And your answer here was that you had to keep in

1 mind the unit contribution figures for each subclass so as  
2 to arrive at financial break-even.

3 And my first question is, was arriving at  
4 financial break-even the only purpose for which you looked  
5 at unit contributions?

6 A I believe I confirmed that in a subsequent  
7 interrogatory response to you.

8 Q And did you have any occasion to review the unit  
9 contributions of subclasses that have low attributable  
10 costs, to see if you thought that made sense?

11 A I focused on the rate levels.

12 Q Now, you report at Exhibit 32(b) and at (e) of  
13 your testimony in your summaries, the test year after rates,  
14 revenue and volume variable for Exhibit 32(b) and revenue  
15 over incremental in Exhibit (e), correct?

16 A That's correct.

17 Q Okay. Let's just look at 32(e) for convenience.  
18 And you will -- these are aggregate figures; are they not?

19 A What you mean --

20 Q This is the total revenue and the total  
21 incremental costs for the subclasses listed on Exhibit  
22 32(e).

23 A Yes, although I would caution that since I made  
24 this mistake myself, that you cannot simply add the  
25 incremental costs, row-by-row.

1           For instance, the total First Class incremental  
2 costs will not be the sum of the total cards and total  
3 letters incremental costs.

4           Q     That's because there might be some costs common to  
5 more than one subclass?

6           A     Right.

7           Q     But if you go across the line, across the row,  
8 sideways, the incremental costs and the revenues, say, on  
9 the first line, single-piece letters and sealed parcels,  
10 those would give you the total contribution to institutional  
11 costs, and those appear in Column 3; is that correct?

12          A     That will give you the total revenue, the total  
13 difference between revenue and incremental costs.

14          Q     Between revenue and incremental costs. And I  
15 suppose we may leave for briefing and ultimate decision for  
16 the Commission, what that means. But that is the revenue  
17 minus the incremental costs in column 3?

18          A     Right. Right.

19          Q     And these are expressed dollars in thousands, so  
20 the first line is \$8,825,477,000? That's correct?

21          A     Right. Right.

22          Q     And we could just look down the column and look at  
23 the contributions, or at least the revenue minus incremental  
24 costs for all the subclasses right there. But you did not  
25 provide us an additional row that would have divided the

1 revenue figure in 32(e) or in 32(b) by volume to give us the  
2 unit contribution, the contribution on a per unit basis, did  
3 you?

4 A Not in my testimony, but I did provide a unit  
5 calculation in response to a Presiding Officer's Information  
6 Request. It was either Presiding Officer's Information  
7 Request 3 or 1. It was POIR Number 1, question -- well,  
8 that is revenue per piece. No, I guess you are right.

9 Q I hate to do this, but I am going to direct your  
10 attention now to your response to MOAA-13, where you were  
11 asked a question about testimony by NAA Witness Chown in  
12 Docket Number R97-1, where she proposed the use of a metric  
13 called total weighted attributable costs as a base for  
14 allocating institutional costs. Do you have that response?

15 A Yes, I do.

16 Q I understand that you would not support the use of  
17 that metric in this case and did not propose so in your  
18 testimony, and you disagree with it for the reasons stated  
19 in the answer. But I wanted to ask you, do you -- it is  
20 true, isn't it, that the different mail subclasses use  
21 Postal Service functions to different degrees, isn't that  
22 true? There are some that make heavy use of transportation,  
23 other subclasses hardly use it at all?

24 A Yes, I would agree with that.

25 Q Okay. And do you believe, to the extent that that

1 is relevant in pricing, that that can be addressed through  
2 the assignment of institutional costs?

3 A No.

4 Q No. Well, then, if you could look at the part (b)  
5 of your answer to MOAA-13, second page, there is a long -- I  
6 guess it is the second page of the answer, about halfway  
7 down, you begin a sentence with, "The pricing criteria  
8 provided in the Postal Reorganization Act indicate many  
9 reasons for using different markup factors." Do you see  
10 that sentence?

11 A Yes, I do.

12 Q Okay. And you continue there to say that, "Both  
13 the Service and the Commission have been able to adequately  
14 use the pricing criteria in balance with each other to  
15 determine appropriate markups over attributable or volume  
16 variable costs." And when I read that, I thought you were  
17 suggesting there, and in the following sentences, that the  
18 use of the pricing criteria, through assigning institutional  
19 costs, was a means by which the Commission and the Postal  
20 Service can take in relevant factors, including the usage of  
21 postage functions. Was I correct in reading your answer  
22 that way?

23 A Yes, you were incorrect. I stated in that  
24 interrogatory response that the pricing criteria, criterion  
25 3, I believe, addresses the attribution of costs caused

1 directly or indirectly by subclasses of mail. Beyond that,  
2 I don't see anything in the pricing criteria that would  
3 indicate that rate levels should be set with consideration  
4 to the extent to which that category of mail uses costs that  
5 have been determined to not be caused by that class of mail.

6 Q So that you are disagreeing with Witness Chown's  
7 testimony in two respects at least then. One is the  
8 specific recommendation that she made about weighted  
9 attributable costs.

10 CHAIRMAN GLEIMAN: Mr. Baker, could you please  
11 speak up, or pull the mike closer, or both?

12 MR. BAKER: Yes.

13 BY MR. BAKER:

14 Q I thought, I had read your answer, and I thought  
15 that you were, at the least, disagreeing with the use of  
16 weighted attributable costs as a metric, and that is what  
17 you clearly are doing, is that correct?

18 A That's right.

19 Q Okay. And beyond that you are also, I think,  
20 taking issue with the other, the larger point, if you will,  
21 that she was making, that the way the different subclasses  
22 use the functions of the Postal Service might be a relevant  
23 factor in assigning institutional costs?

24 A In part (a) of my response, or in my response to  
25 part (a), rather, I do pull a quote from the Commission's

1 recommended decision in R97 that says, "The Chown proposal  
2 is not a substitute replacement for the current Commission  
3 allocation procedure." And to answer your question, yes, I  
4 would disagree with Witness Chown's position that the degree  
5 to which various subclasses of mail use the institutional  
6 portion of the Postal Service, the infrastructure, should be  
7 used in allocating their rate levels.

8 Q All right. Further in your response to (b), at  
9 the bottom of the second page, you quoted the Commission for  
10 stating that "Witness Chown reasons that the current system  
11 unfairly burdens mailers that use functions that give rise  
12 to mostly attributable costs, and unfairly benefits mailers  
13 that predominantly use functions that incur few attributable  
14 costs."

15 And you go on to say that, if you look at the  
16 markups that have been proposed in this case, or recommended  
17 in the last case, to say that is -- the statement, the  
18 quoted statement is just not true. And when I read it -- so  
19 what I thought you meant by that is, in fact, you are saying  
20 that the institutional cost assignments for the classes you  
21 go on to mention there are sufficiently high, or that any  
22 concern that the Chown testimony might have raised is  
23 addressed through the markups. Is that what you meant to  
24 say?

25 A The response to part (b) was addressing the



1 Commission's concern about again -- it's a quote -- "the  
2 adequacy of contributions from subclasses that heavily rely  
3 on functions which account for a large share of the  
4 institutional costs of the Postal Service."

5 I was stating that, yes, the categories of mail  
6 that seem to rely on the delivery system with the exception  
7 of periodicals had rather high cost coverages.

8 Q Are you stating that as an observation or fact or  
9 are you stating that approvingly?

10 A I'm stating that as fact which to the extent that  
11 the Commission might have been concerned with the issues  
12 raised by Witness Chown, they might have some degree of  
13 comfort that the rate levels that had been recommended  
14 adequately addressed that concern.

15 Q Was Witness Chown's concern, as you understand it,  
16 a factor at all in your proposals in this case?

17 A No.

18 Q All right. Earlier this morning you were cross  
19 examined by counsel for MOAA and at one point there was a  
20 line of questions where you were asked with respect to  
21 Ramsey pricing, "If the sole objective of the Postal Service  
22 were to maximize volume, would Ramsey prices achieve that?"  
23 Do you remember that line of questions?

24 A Yes, I do.

25 Q Is it the objective of the Postal Service to

1 maximize volumes?

2 A It's not my understanding that that is the goal of  
3 the Postal Service now.

4 MR. BAKER: Okay. No more questions, Mr.  
5 Chairman.

6 CHAIRMAN GLEIMAN: Mr. Costich.

7 MR. COSTICH: Thank you, Mr. Chairman.

8 CROSS EXAMINATION

9 BY MR. COSTICH:

10 Q Good morning, Ms. Mayes.

11 A Good morning.

12 Q Could you turn to your response to OCA  
13 Interrogatory Number 1 to you.

14 A Yes, sir.

15 Q Now in parts (a) and (b) you were presented with  
16 average cost per piece for First Class letters in the Postal  
17 Service's proposals in both R97 and R2000, is that correct?

18 A I'm sorry, I may have the wrong interrogatory.

19 Q I am looking at OCA/USPS-T32-1. I am asking you  
20 questions about Number 3.

21 Let's do 1 first.

22 A Okay. You referred me to 1 and I don't see a  
23 reference to unit cost there --

24 Q Yes -- I made a mistake.

25 A Oh, okay. Okay. We are together now.

1 Q Okay. In your response to part (a) in  
2 Interrogatory Number 1 you said, "I would say that the rate  
3 levels I have proposed for First Class letters and Standard  
4 A Regular reflect movement toward Ramsey prices when  
5 compared to the rate levels implied by the Commission's  
6 R97-1 markup index."

7 A That's right.

8 Q Do you see that?

9 A Yes, I do.

10 Q When you say "reflects movement toward Ramsey  
11 pricing" that means that more institutional cost burden goes  
12 to First Class letters and less goes to Standard A Regular?

13 A That's true for First Class. I would have to look  
14 at the Ramsey implication for Standard A. I don't recall at  
15 the moment.

16 Q Well, when you answered the question you said  
17 Standard A Regular reflects movement toward Ramsey prices,  
18 correct?

19 A Yes.

20 Q Wouldn't that imply that the markup or whatever  
21 measure you want to use of institutional cost burden is  
22 being reduced for Standard A relative to what the  
23 Commission --

24 A Is being reduced -- I believe when you originally  
25 asked the question you had both of them going up, which is

1     why I was hesitating but, no, you're right. First Class  
2     would be going up and Standard A would be going down.

3           Q     Now would you look at your answer to Number 3.

4           A     Yes, sir.

5           Q     Now try this again. In parts (a) and (b) you are  
6     presented with average cost per piece for First Class  
7     letters from the Postal Service's proposals in R97 and  
8     R2000. Is that correct?

9           A     Yes.

10          Q     And those numbers are correct?

11          A     I confirm the calculations, yes.

12          Q     Okay. The number for R97 was 17.63 cents per  
13     piece. Correct?

14          A     That's right.

15          Q     And for R2000 it is 18.48 cents per piece?

16          A     Yes.

17          Q     Now in part (c) the OCA applied Witness O'Hara's  
18     markup index from R97 to the Postal Service's test year unit  
19     attributable cost in this docket to produce a possible  
20     average revenue per piece of 34.5 cents, is that correct?

21          A     Yes.

22          Q     And you confirmed that using Witness O'Hara's  
23     markup and applying it to --

24          A     -- to the average revenue per piece that you had  
25     calculated, that's right, or the average -- the unit cost

1 that you had calculated, that's right.

2 Q And in your answer to part (d) you said that "That  
3 calculated average revenue per piece was 6.8 mils less than  
4 the average revenue per piece sought by the Postal Service  
5 in R97" -- is that correct?

6 A Yes.

7 Q So could you explain why you have proposed a rate  
8 increase for First Class letters when Witness O'Hara's  
9 markup from the last case applied to the costs in this case  
10 would suggest a rate decrease for First Class letters?

11 A In other words, why does my proposal differ than  
12 the proposal that I would have filed had I used Witness  
13 O'Hara's markup index?

14 Q Well, yes -- or why didn't you use Witness  
15 O'Hara's markup index?

16 A Because Witness O'Hara's markup index was  
17 applicable to the rate case that Witness O'Hara was the  
18 witness in. Circumstances have changed. The allocation of  
19 costs have changed. The degree to which certain categories  
20 of mail had to receive mitigation of their cost, their rate  
21 levels as a result of cost increases -- in other words,  
22 Criterion 4 consideration, the revenue burden in general had  
23 changed.

24 Q In terms of the changes in costs, attributable  
25 costs, volume variable costs, I will try to stick to --

1 shall we try to stick to volume variable costs?

2 A Okay.

3 Q First Class volume variable costs have increased,  
4 at least in the base year, from the base year of the  
5 previous case, correct?

6 A First Class total costs?

7 Q I'm sorry. Unit volume variable costs, First  
8 Class letters.

9 COMMISSIONER LeBLANC: Mr. Costich, you are  
10 tailing off. Can you either bring the mike closer or  
11 something? I'm sorry.

12 MR. COSTICH: No, I am sorry.

13 THE WITNESS: Unit volume variable costs for First  
14 Class letters have --

15 BY MR. COSTICH:

16 Q Gone up.

17 A Gone up from when to when?

18 Q From the '96 base year to the '98 base year.

19 A It seems to me I have an interrogatory response  
20 about that.

21 Q Yes, I think it is the one we are still on,  
22 actually. In parts (a) and (b). No, I am sorry. Those  
23 were test year costs, aren't they?

24 A Yes, they are test year costs. I think the base  
25 year costs show up in -- I think it is another OCA question.

1 If you will bear with me for just a moment. 17 maybe.

2 Q That does have some unit attributable costs in it.  
3 I am not sure if you can call them base year.

4 A Right. Well, I believe the '98 number that I have  
5 got there is the base year number. So --

6 Q And the '96 number?

7 A And the '96 number would be the CRA number, as  
8 opposed to the base year number used in the case. Although,  
9 I don't know that the base year and the CRA differed in R97.  
10 The number that I am showing in 17 is from the CRA.

11 Q And I misspoke, correct?

12 A I am not sure.

13 Q Attributable costs did not, for First Class  
14 letters, did not go up between those two years, '96 and '98,  
15 is that correct?

16 A That's right. Well, for that aggregated category  
17 of First Class letters.

18 Q Which is officially known as?

19 A Well, First Class letters, but what I am getting  
20 at is that for the aggregate category, the unit cost  
21 dropped, but if you separated out single piece letters from  
22 work shared letters, both of those categories,  
23 subcategories, experienced an increase in unit~~s~~ costs and  
24 the unit cost decline that you are seeing in First Class  
25 letters is actually the result of a shift in mail mix, as

1     opposed to a decrease in the unit costs.

2           Q     You went through a list of reasons why you have a  
3     different markup in this case than Witness O'Hara had in the  
4     last case. I think you started out with circumstances  
5     change and then listed changes in costs. What else?

6           A     Basically, in this case, I have several categories  
7     of mail for which the costs increased rather dramatically,  
8     and rather than recommend -- or propose rate levels which  
9     would cause large increases, even larger increases in rates  
10    for those categories of mail, I shifted some of the  
11    institutional cost burden from those categories of mail to  
12    other categories of mail. Those circumstances differ from  
13    the ones facing Witness O'Hara.

14          Q     So the share of institutional costs borne by First  
15    Class went up in this case?

16          A     Yes, it did.

17          Q     And that is at least part of the reason that your  
18    markup index would be higher than Witness O'Hara's?

19          A     I think by definition it would be, yes.

20          Q     Well, couldn't the costs have gone up for First  
21    Class faster than the average and, therefore, wiped out that  
22    increase in markup index that you get from increasing the  
23    institutional cost burden?

24          A     I am not sure I understand the question. If the  
25    costs for First Class had gone up, is that what you are



1 asking me?

2 Q Gone up relatively more than the average for the  
3 entire Postal Service.

4 A Right. Then I am not sure where the rate level or  
5 the markup index would have ended up. Part of the reason  
6 that the First Class rate level is as it has been proposed  
7 is because it is also associated with a fairly small  
8 increase in First Class rates. If the costs had gone up  
9 significantly more, and that would have indicated the  
10 necessity for a larger rate increase, I don't know where  
11 your rate level would have ended up.

12 Q Well, if First Class' costs had gone up relatively  
13 more than the average, wouldn't you have to start thinking  
14 about mitigating the First Class rate increase?

15 A Well, yes. To the extent that any and every  
16 class' costs went up, the implications for the rate increase  
17 were considered, yes.

18 Q Well, if every subclass had costs that went up  
19 steeply, obviously, they all can't go up more than average,  
20 but they all go up significantly, you can't mitigate any of  
21 them, can you?

22 A Well, yes, I could. But if you are suggesting  
23 that had costs gone up, I don't know, double digit for every  
24 category of mail, for instance, I think we would be back in  
25 the environment in which we litigated cases such as R87 and

1 R90. And even in the context of those cases where you had  
2 larger increases in costs, and more disparity in the changes  
3 in costs, you did experience -- some classes of mail did  
4 experience some mitigation of the rate levels.

5 Q In this case the mitigation is pretty easy, isn't  
6 it?

7 A I had a few outliers. I wouldn't say it was easy,  
8 but there were readily identifiable outliers, yes.

9 Q Well, just by raising the rate for First Class,  
10 you picked up a huge chunk of money that you could use to  
11 mitigate the rate increases for other subclasses, right?

12 A I wouldn't choose to use that phrasing, but,  
13 certainly, First Class, along with Standard A, are the most  
14 immediate sources for large chunks of revenue, yes.

15 Q Are you increasing the institutional cost burden  
16 on Standard A?

17 A I don't believe so. On Standard A Regular, I  
18 don't believe so. But I believe ECR's burden has gone up.  
19 ECR's burden has gone up.

20 Q Even though their cost coverage has gone down?

21 A For ECR? No, their cost coverage has gone up  
22 relative to what the Commission recommended in R97.

23 Q Ah, but relative to what the Postal Service  
24 proposed.

25 A Oh, relative to what the Postal Service proposed?

1 I don't know. I don't have Witness O'Hara's testimony with  
2 me.

3 Q But the cost coverage for ECR is going up in this  
4 case from what it currently is?

5 A Relative to what the Commission recommended in  
6 R97, yes.

7 Q And that's the category with the highest  
8 elasticity of demand?

9 A It's not the highest elasticity. I think it's one  
10 of the highest. I think express mail and parcel post have  
11 higher elasticities. And priority mail.

12 Q So let me see if I can understand at least some of  
13 the process you've gone through to come up with your  
14 recommended -- what's the word? Rate levels?

15 A Rate levels. Cost coverages.

16 Q Some categories of mail have experienced large  
17 increases in volume variable cost.

18 A It's tough to let go of attributable, isn't it?

19 Q Twenty years of that.

20 Those categories of mail need to have their rate  
21 increases mitigated. In order to do that, you raise rates  
22 in first class and in ECR more than would have happened if  
23 the Commission's recommended markups or markup indexes had  
24 been used; is that correct?

25 A No, I wouldn't -- I wouldn't make the causality

1 that clean. For instance, had I not needed to mitigate the  
2 rate increase, for instance, in bound printed matter, would  
3 that mean that first class rates would go down or that ECR  
4 rates would go down? Not necessarily because it's a shared  
5 burden and the whole purpose of the set of rate levels or  
6 cost coverages is to share that burden.

7 It's easy to point to first class and to ECR  
8 because they are such large contributors, both in terms of  
9 revenue and in terms of net revenue, and claim that they are  
10 solely bearing that burden, but I would not characterize it  
11 that way, no.

12 Q The burden borne by first class, if we talk about  
13 burden in terms of the share of institutional costs borne by  
14 first class letters, has been increasing every year for the  
15 last five years, has it not?

16 A I believe there is an interrogatory regarding  
17 that. Was that also another OCA? Five maybe?

18 Q Well, I thought there was a table in a later  
19 interrogatory showing --

20 A Oh, you're right.

21 MR. TIDWELL: Are we thinking of 17?

22 MR. COSTICH: I think it's 14, but 17 may have it  
23 as well.

24 THE WITNESS: Actually, I think you may be  
25 referring to 13 or 14 and the table was attached to your

1 original question and I revised the table somewhat. It's in  
2 14.

3 MR. COSTICH: Fourteen, yes.

4 BY MR. COSTICH:

5 Q Do you have the attachment that came with the  
6 original question?

7 A Yes, I do.

8 Q If you look at page 4, or at least it's numbered 4  
9 on the copy I have -- is that the same with yours?

10 A I have a page 4. I'm not sure if it's the same.

11 Q Does that cover the years 1996 to 2001?

12 A Yes, it does.

13 Q Does that show the share of institutional costs  
14 borne by first class going up every single year?

15 A Yes, it does.

16 Q And how about the share of institutional costs  
17 borne by standard A?

18 A With a blip upward in 2000 relative to 1999, it  
19 does decline.

20 Q Is standard A regular one of the subclasses that  
21 you believed needed mitigation of rate increases?

22 A On the basis of criterion 4 consideration, no.

23 Q Can you explain why the contribution from standard  
24 A regular is going down in the period 1996 to 2001?

25 A No. There would be an interplay of cost

1 increases, rates recommended by the Postal Rate Commission  
2 as a result of R97 and implemented by the Postal Service,  
3 and mail mix changes that would change the revenue per  
4 piece. But no, I haven't studied it.

5 Q Could you turn to your response to OCA  
6 interrogatory number 4.

7 A Yes, sir.

8 Q This interrogatory pointed out that your testimony  
9 concerning the first class letter rate level looked a lot  
10 like the testimony of Witness O'Hara in the last case on  
11 that topic; is that correct?

12 A In terms of the verbiage, yes.

13 Q Yes. And you were asked why that is when the  
14 Postal Service claims or you claim to be taking account of  
15 -- I'm getting ahead of myself again on a different  
16 question. Okay.

17 A I was hoping you would give me an answer, too, but  
18 that's --

19 Q The point of the question is the implicit markup  
20 in your proposal for first class letters is 1.416, and using  
21 -- or Witness O'Hara's implicit markup in the last docket  
22 was 1.275.

23 A That's right.

24 Q And the question is, if you've got markups that  
25 different or markup indexes that are that different, how is

1 it that the verbiage stayed the same?

2 A I believe in my response I indicated that the  
3 verbiage would essentially stay the same from any case to  
4 any other case in the absence of a change in cost behavior  
5 which would speak to criterion 3, changes in the marketplace  
6 in terms of the competitors, criterion 5, technological  
7 changes in 5 and 6, or changes in the content of a  
8 particular mail category, which would speak to criterion 8.  
9 But other than that, I would not expect to see much  
10 difference in terms of the verbiage except to the extent  
11 that I point out exceptional circumstances.

12 And you're correct that there are not exceptional  
13 circumstances related to first class mail in this case;  
14 however, there are for other categories of mail, and I  
15 believe I list them -- bound printed matter, periodicals,  
16 and so forth, priority mail -- as being categories of mail  
17 that required some mitigation in their rate levels as a  
18 result of criterion 4 consideration.

19 Again, the goal of setting all of the rate levels  
20 is to achieve a set of rate levels that allows for break  
21 even, and the circumstances for any one particular subclass  
22 may not have changed dramatically, but if the circumstances  
23 for other subclasses did, again, the whole system has to  
24 achieve break even.

25 Q Well, this gets back to what we were discussing

1 earlier when you said circumstances change, one of the  
2 things you mentioned is cost. One of the costs phenomena,  
3 if we could use that term, seems to be that first class  
4 volume variable cost have actually decreased in recent  
5 years, or have stayed relatively flat, and are not  
6 increasing nearly as rapidly as other costs. Would you  
7 agree?

8 A I would agree that they are not increasing nearly  
9 as rapidly as other costs, yes.

10 Q And that a few years ago, they were actually  
11 declining?

12 A First class total costs?

13 Q Unit volume variable costs, first class letters  
14 and sealed parcels.

15 A For first class letters, again, for the aggregate  
16 category of first class letters and sealed parcels, the unit  
17 cost is declining.

18 Q But that's not a change in circumstances that  
19 would justify reducing --

20 A That's why you see first class with a rate  
21 increase in the neighborhood of 3-1/2 percent as opposed to  
22 6-1/2 percent, which is the system average.

23 Q Yes, but zero would be smaller than the system  
24 average as well. What justifies any rate increase at all  
25 when the costs of first class seem to be behaving so well?



1           A     It seems to me I've answered an interrogatory on  
2 this, and at the moment, I cannot find it.

3           I think the short answer is that in the absence of  
4 the revenue that would have -- the net revenue that would be  
5 derived from first class mail, there would be a tremendous  
6 burden placed on basically all of the other classes of mail.

7           Q     The one-cent increase or the 3-1/2 percent  
8 increase that you propose for first class produces close to  
9 a billion dollars; is that correct?

10          A     Well, that's the quick translation of the penny,  
11 but I'm not sure, I've got a number someplace.

12          Q     I believe your after-rates volume is somewhat in  
13 excess of 98 billion --

14          A     Well, I'm looking at my Exhibits 32-A and 32-B,  
15 pages 1 of both, and the revenue minus the volume variable  
16 cost for first class total letters goes up about 1.2  
17 billion.

18          Q     And that's what you mean by a relatively small  
19 increase in your response to interrogatory 4?

20          A     I believe there I was speaking to the 3-1/2  
21 percent increase.

22          Q     Okay. That's relatively small, sounds small,  
23 right?

24          A     Compared to 18 percent, yes. Compared to 6  
25 percent, yes.

1 Q But it produces \$1.2 billion, correct?

2 A That's right.

3 Q Now, in the response to OCA 3, we had the unit  
4 volume variable cost for the test years in R97 and R2000,  
5 correct?

6 A That's right.

7 Q And the difference in those two numbers was  
8 eight-tenths of a cent; is that correct?

9 A Right.

10 Q But the average revenue per piece is going to go  
11 up by 1.1 cents?

12 A Approximately.

13 Q So the contribution per piece is going to go up by  
14 three-tenths of a cent?

15 A I believe that's what the subtraction yields.

16 Q But under your proposal, it's going up even  
17 further, correct?

18 A I am trying to find my revenue per piece  
19 calculations. We are talking about which category of mail  
20 again? First Class total letters?

21 Q First Class letters and sealed parcels.

22 A Yes, it is going up about 1.3 cents per piece.

23 Q And again, this increase is basically due to the  
24 need to mitigate rate increases in other subclasses?

25 A It is to achieve the revenue, the net revenue

1 goals of break even in the test year and again I point back  
2 to, for the aggregate category of mail, there is a unit cost  
3 decrease but within that aggregate category of mail you do  
4 have increases, so it is not simply a 3 percent increase  
5 when the costs went down. The costs of the subcategories  
6 did go up and First Class mail is a tremendous source of  
7 both volume and revenue.

8 Q You keep -- well, I shouldn't say keep but this is  
9 the second or third time you have mentioned that. When you  
10 look deeper into First Class letters and sealed parcels you  
11 see unit cost increases all going up, is that what I have  
12 been hearing you say?

13 A I see single piece costs and also workshare costs  
14 going up, yes.

15 Q But the average for the groups combined is going  
16 down?

17 A That's right, because of your volume, single piece  
18 volume is decreasing and your workshare volume is  
19 increasing.

20 Q Is this something that is within your purview or  
21 Witness Fronk's?

22 A Is what within our purview?

23 Q The looking deeper into a subclass to see what the  
24 cost behavior is.

25 A Well, the rate design below the subclass level is

1 the responsibility of Witness Fronk but Witness Fronk and I  
2 both, we conferred with each other as the rate case was  
3 developing.

4 Q So just to be sure I understand, you are saying  
5 that unit volume variable cost for nonworkshared First Class  
6 letters is going up?

7 A That's right.

8 Q And unit volume variable cost for workshared  
9 letters is going up?

10 A That's right.

11 Q But when you combine those together the unit  
12 attributable cost is coming down?

13 A That's right.

14 Q And if the unit attributable cost is coming down  
15 for the subclass as a whole, then simply holding the rate  
16 constant should produce an increase in cost coverage,  
17 correct?

18 A If the costs are going down and the revenue per  
19 piece is staying the same, then your contribution would go  
20 up.

21 Q And the cost coverage would go up?

22 A Right.

23 Q And the markup index would go up?

24 A I don't know about the markup index because that  
25 depends on other categories of mail as well.

1 Q But the absolute contribution would go up?

2 A If the rates stayed the same and the costs are  
3 going down, and I assume that because the rates stayed the  
4 same the volume stayed the same, yes.

5 Q Could you look at your response to OCA  
6 Interrogatory 16?

7 A Yes, sir.

8 Q Here you were asked whether you had compared the  
9 Commission's recommended markups, contribution targets, or  
10 contribution shares with actual results, is that correct?

11 A Actually, I think I was asked to compare the  
12 Commission's recommended relative contributions with actual  
13 relative contributions.

14 Q Yes, and you said you didn't recognize the term --

15 A Right, I wasn't familiar with the term "relative  
16 contributions."

17 Q My apologies -- I meant contribution share.

18 Does that seem plausible to you?

19 A I think I addressed that in my response, yes.

20 Q Let's look at your response rather than my  
21 poorly-worded question.

22 A Okay.

23 Q Did you say that you had not compared the  
24 Commission's recommended markups or contribution targets or  
25 contributions shares with actual results?

1           A     That's right.

2           Q     And what was your reason for that?

3           A     Well, the degree to which the Commission's  
4     recommendations differ from subsequent reality would in my  
5     mind suggest divergence between the Commission's forecasting  
6     models and what subsequently took place.

7                     I am not using the Commission's forecasting models  
8     in this case. It would have been more instructive for me to  
9     look at Postal Service forecasting models' outputs relative  
10    to actuality in terms of assessing whether our forecasts  
11    were off, since I am relying on our forecasts for purposes  
12    of rate design or for setting the rate levels.

13          Q     Would it be of any interest to you to look back to  
14    see if there was a pattern of deviation from what the  
15    Commission recommended, in particular, that a subclass might  
16    be consistently contributing more than the Commission was  
17    expecting and another subclass was consistently contributing  
18    less than what the Commission expected?

19          A     It might not be so instructive to me, but for  
20    purposes of cost forecasting, for instance, I would imagine  
21    it would inform the costing witnesses that costs are  
22    increasing at a faster rate than they might have expected or  
23    decreasing at a faster rate than they might have expected,  
24    and for revenue and volume forecasting, if a mail mix change  
25    were taking place faster or slower than we had predicted,

1 that would be instructive if there were something unusual  
2 which occurred, however.

3 For instance, if economic conditions were not as  
4 had been forecasted or if there were a UPS strike or if  
5 there were a dramatic increase in fuel prices, for instance,  
6 that we would not and could not have taken into account in  
7 our forecasts, it would be instructive to look and see that  
8 this blip was caused by this unforeseen circumstance, but to  
9 the degree that the model otherwise diverged from reality in  
10 those circumstances I don't think that would be particularly  
11 useful.

12 Q So if one subclass of mail had consistently over a  
13 10-year period, say, made a bigger contribution to  
14 institutional costs than the Commission had forecast, you  
15 know, case after case, year after year, that would not be  
16 information that would suggest mitigation of rate increases  
17 for that class?

18 A Well, case after case, year after year I would  
19 think that the Rate Commission would have had an opportunity  
20 in those intervening cases to have taken that into  
21 consideration.

22 To the extent that there is a pattern and that  
23 pattern is discernible and can be quantified into the  
24 forecasting models, the test year before rates, volumes,  
25 revenues, costs and contribution forecasts that I relied

1 upon, and then subsequently the test year after rates  
2 forecasts of those same variables would have already been  
3 incorporated into our proposal.

4 In other words, I am suggesting that no, I would  
5 not take the forecast derived from -- the test year after  
6 rates forecast derived from our cost and revenue and volume  
7 forecasting models, look at it and say, ah, but I know that  
8 First Class is always higher than we forecast, or I know for  
9 instance that periodicals always comes in with a lower  
10 rate -- cost coverage or rate level than we forecast. I  
11 believe that would be the responsibility of the individuals  
12 doing the forecasts of costs and volume and revenue.

13 Q So -- well, let's assume that the forecasts for  
14 this case are perfect.

15 A We do.

16 [Laughter.]

17 BY MR. COSTICH:

18 Q But let's assume that for whatever reason the cost  
19 coverages recommended by the Commission for a particular  
20 class were consistently being overrun year after year after  
21 year, that would not suggest to you that just out of  
22 fairness that subclass should experience mitigation in this  
23 case?

24 A No. No. For instance, we will take the specific  
25 example of First Class letters. If First Class letters



1 consistently demonstrate a higher cost coverage than the  
2 Commission recommended in the most recent case I would  
3 suggest that the Commission either should look at their  
4 forecasts of costs or revenues or mail mix changes, that  
5 there may be some discrepancy there.

6 Now there is also the possibility that postal  
7 operations can become more or less efficient in certain mail  
8 categories than the Commission would have had reason to  
9 believe when they did their forecasting and that might or  
10 might not be beyond their range of understanding, but no, in  
11 general I would suggest that the Commission has the best  
12 information, makes the best forecast it can at the time.

13 I would not expect the Commission to then adjust  
14 their best forecast on the assumption that they always  
15 undershot it or overshot it in the past, no.

16 Q I'm not suggesting that they should adjust a  
17 forecast based upon an expectation of some consistent trend  
18 that's hidden somewhere in the forecasts.

19 I'm asking you whether the fact that these  
20 overruns in terms of contribution had occurred in the past,  
21 should not justify mitigating a rate increase for a subclass  
22 that had had that experience?

23 A No. I think that the Commission, just as the  
24 Postal Service, should be looking at the best forecast of  
25 the test year before rates cost coverage, and using the nine

1 pricing criteria, and the relationship with other classes  
2 and subclasses of mail, and deriving their best targets that  
3 way.

4 I don't think that, except to the extent that your  
5 before rates cost coverage may be higher than -- for  
6 instance, may be higher than you might have otherwise  
7 expected, I don't think that you should be giving  
8 consideration in this case to errors that you might have  
9 incurred in previous cases, if you will.

10 Q So it's all forward-looking, in your mind?

11 A Yes. Well, forward-looking --

12 Q The past does not matter?

13 A Except to the extent that the past informs your  
14 forecast of the future in this case, yes.

15 Q You mentioned the possibility that the Postal  
16 Service was becoming more efficient in certain areas as a  
17 cause of a consistent overrun of contribution; do you recall  
18 that?

19 A That could be one factor.

20 Q the Postal Service tries to supply the Commission  
21 with the best information it has on cost reduction programs  
22 over -- in the future, correct?

23 A I believe that's in the testimony of Witness  
24 Tayman, and perhaps touched upon by Witness Kingsley.

25 Q The Commission wouldn't have anything else to rely

1 on in terms of making its forecasts; would it?

2 A Except to the extent that other parties might  
3 introduce other information.

4 Q On Postal Service cost reduction programs?

5 A On Postal Service -- right.

6 Q Could you look at your response to OCA-7?

7 [Pause.]

8 A I have it.

9 Q Here you were asked how it is possible to  
10 simultaneously increase the share of institutional costs  
11 borne by First Class letters, and take account of emerging  
12 electronic alternatives; is that correct?

13 A Yes.

14 Q And your response was that mailers pay rates, not  
15 institutional cost burdens; is that correct?

16 A That's correct.

17 Q I don't know if this was within your purview or,  
18 again, Witness Fronk's. But one of the electronic  
19 alternatives that has been mentioned, specifically by  
20 Witness Tolley, is electronic bill payment and presentment.  
21 Are you aware of that?

22 A I'm aware that he's mentioned it, yes.

23 Q Were you aware of it when you were preparing your  
24 testimony?

25 A Was I aware that this was a possibility? Yes.

1 Q Well, not just a possibility; it's happening,  
2 correct?

3 A Well, I understand, but it's a possibility for the  
4 First Class volume that is not gone, is what I meant.

5 Q In preparing your testimony, did you give any  
6 thought to a way of setting First Class rates such that that  
7 kind of mail, bill payment and presentment mail, could be  
8 induced to stay with the Postal Service, rather than convert  
9 to electronic form?

10 A I believe Witnesses Bernstein, Tolley, and Thress  
11 have already addressed this issue.

12 And their comments, if I can summarize, seem to  
13 suggest that it may not be a price issue regarding the shift  
14 of First Class mail volume to electronic alternatives.

15 And additionally that many of these electronic  
16 alternatives are not new, and to the extent that First Class  
17 volume has already shifted to those alternatives, those  
18 would be incorporated into the base volumes used in the  
19 volume forecasts.

20 And I relied upon their volume forecasts. And  
21 related to that would be their calculations of the price  
22 elasticity for those subcategories of First Class mail, so  
23 that to the extent that Witness Fronk and I develop a set of  
24 rate proposals that are run through the volume forecasting  
25 model, we would have access to estimates of what the shift

1 in volume would be as a result of our pricing changes.

2 Q Did you actually read Witness Tolley's description  
3 of electronic diversion?

4 A I did, but it's been awhile.

5 Q Do you recall him discussing fax as a substitute  
6 for First Class mail?

7 A I don't recall it specifically, but I would not be  
8 surprised if it were in there.

9 Q Fax has been around awhile.

10 A Yes, it has.

11 Q Would you expect that's perhaps one of the  
12 electronic substitutes that has run its course in terms of  
13 what would be diverted from First Class?

14 A I don't know. I don't know what the market  
15 penetration of fax machines would be. I don't know if it's  
16 max'd out or not.

17 Q Well, let's get back to bills and bill payment,  
18 electronic transactions in that area.

19 Do you understand Witnesses Bernstein, Thress, and  
20 Tolley to be saying that there is no possible way for the  
21 Postal Service to adjust its First Class rates so as to  
22 retain volume of bills or bill payments that might otherwise  
23 convert to electronic form?

24 A I don't know that I would stretch it quite that  
25 far, that there is no change that we could affect.

1           The volume response to a price change in First  
2   Class is not zero. So to that extent, there is something  
3   that can be done.

4           But I believe they are suggesting that price may  
5   not be the primary consideration.

6           Q     If you wanted to try to do something in terms of  
7   rates to retain bills and bill payments, you'd first have to  
8   create a separate rate category for that kind of mail; would  
9   you not?

10          A     Not necessarily.

11          Q     Well, you could offer everybody a 15-cent rate  
12   reduction and you might keep some of that mail, but it  
13   wouldn't do you any good; would it?

14          A     Well, to the extent that keeping any First Class  
15   mail does keep me a significant, as you point out, unit  
16   contribution, then it would be in my interest to keep it.

17          Q     Giving everybody in First Class mail a 15-cent  
18   rate reduction, just to keep the bills and bill payments?

19          A     I don't -- in the absence of a separate  
20   calculation for the own price elasticity for bills and  
21   similar documents, I don't know that -- I don't think there  
22   would be something we could do there.

23          Q     Do bill payments make a significant contribution  
24   to institutional costs when they are returned in the mail?

25          A     I don't know that I've seen separate statistics

1 for bill payments.

2 Q Have you ever looked at Library Reference I-191?

3 A I would doubt it since I am not sure what it is.

4 Q Your counsel has not shown you an interrogatory  
5 response from the Postal Service related to that Library  
6 Reference?

7 A I don't recall it specifically. If there is a  
8 particularly interrogatory response you are referring to,  
9 perhaps I have seen it, I don't know.

10 Q It is interesting OCA/USPS-121.

11 A I don't recall that one specifically, no.

12 Q In the response to that interrogatory, the Postal  
13 Service demonstrates a calculation showing that bill payment  
14 mail, reply mail, in general, contributes 29 cents per piece  
15 to institutional costs.

16 MR. TIDWELL: Does the Postal Service demonstrate  
17 that or does the Postal Service indicate in that response  
18 that it doesn't -- that it, in fact, does not endorse the  
19 estimate reflected in Library Reference 191?

20 MR. COSTICH: Was the Chairman able to hear  
21 counsel on that?

22 CHAIRMAN GLEIMAN: I heard the front end of it,  
23 but not the tail end of it. It was something to the effect  
24 of whether the Postal Service was just presenting the number  
25 or whether it was endorsing the number in the Library

1 Reference in question.

2 MR. COSTICH: My understanding is that the Postal  
3 Service is not necessarily endorsing the calculation. If my  
4 understanding is incorrect, then I am sure counsel can  
5 correct me.

6 MR. TIDWELL: I just wanted it to be clear for  
7 purposes of the discussion here.

8 MR. COSTICH: So as I understand it, the Postal  
9 Service neither denies nor admits the calculation, is that  
10 correct?

11 CHAIRMAN GLEIMAN: I am assume you are asking  
12 Postal Service counsel that question since the witness  
13 hasn't seen the interrogatory question.

14 MR. COSTICH: Yes.

15 MR. TIDWELL: The answer speaks for itself. I  
16 mean I think you can paraphrase or quote the answer.

17 BY MR. COSTICH:

18 Q Let me represent to you, Witness Mayes, that the  
19 Postal Service has supplied the record, or at least not the  
20 record yet, but supplied an interrogatory response  
21 containing a calculation showing that courtesy reply mail  
22 and other reply mail contributes 29 cents per piece to  
23 institutional costs. Would that suggest to you that that  
24 type of mail is mail that the Postal Service would be  
25 interested in retaining?



1           A     I find that number remarkable. But to the extent  
2     that it is that remarkable, if it is that remarkable, I  
3     would suggest that it would probably be in our interest to  
4     maintain that volume of mail.

5           Q     Do you have any knowledge of whether the Postal  
6     Service is actively considering ways to retain that kind of  
7     mail?

8           A     To specifically target and retain that type of  
9     mail? I am unaware of anything that would specifically  
10    target that type of mail. I mean we have discussed earlier  
11    the fairly low cost increases in First Class, and to the  
12    extent that the Postal Service may be improving service  
13    performance and/or increasing its efficiency in the handling  
14    of First Class mail, it would not accrue solely to that type  
15    of mail.

16          Q     Well, in terms of targeting that kind of mail,  
17    let's think of targeting in a different way, are you aware  
18    that the Postal Service has begun accepting electronic bill  
19    payments?

20          A     That we have begun accepting them for our own  
21    financial transaction purposes?

22          Q     No. For --

23          A     Or are you speaking to eBillPay?

24          Q     eBillPay.

25          A     I am just barely aware of eBillPay, yes.

1           Q     Well, do you have any sense of what contribution  
2     to institutional costs the Postal Service expects to get per  
3     piece from eBillPay transactions?

4           A     No, I don't.

5           Q     So you wouldn't know whether it is in the  
6     neighborhood of 29 cents?

7           A     I have no knowledge of the eBillpay financials.

8           MR. COSTICH: Mr. Chairman, would it be possible  
9     to get someone more knowledgeable about eBillPay to provide  
10    the record with an estimate of the unit contribution  
11    expected from eBillPay?

12          CHAIRMAN GLEIMAN: It may be possible. Are you  
13    asking me whether we are willing to invite the Postal  
14    Service to supply another witness or just some information?

15          MR. COSTICH: Well, I would be satisfied with the  
16    information, specifically, the expected unit contribution.  
17    I mean I have seen press reports of supposed profit expected  
18    on these transactions, but, certainly, nothing that I would  
19    rely on for the record.

20          CHAIRMAN GLEIMAN: Mr. Tidwell, do you think that  
21    we could --

22          MR. TIDWELL: For what period? The test year?

23          MR. COSTICH: I think for whatever period the  
24    Postal Service has planning figures for.

25          MR. TIDWELL: Well, why not confine it to a period

1 relevant to the case?

2 CHAIRMAN GLEIMAN: I would be inclined to ask the  
3 Postal Service to provide the information for the test year,  
4 inasmuch as that is what is on the table in this rate case.  
5 If that is -- it is not clear to me the relevance of  
6 expected contributions in the out years beyond the period of  
7 the rate case. If the Postal Service is willing to provide  
8 that information, that would appear to satisfy the needs of  
9 the record. If you want to present a written motion arguing  
10 in favor of some longer term submission, I would entertain  
11 it, consider it. But if we want to get a commitment today,  
12 I would ask the Postal Service to provide the information  
13 relative to the test year in this case.

14 MR. TIDWELL: The Postal Service will investigate  
15 to determine if there are any impediments to its disclosure  
16 of that information.

17 CHAIRMAN GLEIMAN: Well, it would seem to me that  
18 we have rules for protecting sensitive business information.  
19 They have been used with reckless abandon in this case  
20 almost, and I would suggest that perhaps the Postal Service,  
21 if it is concerned, consider the rules that are on the table  
22 for this case. Could we hear back from you in a week?

23 MR. TIDWELL: You certainly will.

24 CHAIRMAN GLEIMAN: Thank you, sir.

25 MR. COSTICH: Thank you, Mr. Chairman.

1 BY MR. COSTICH:

2 Q Ms. Mayes, if the Postal Service did want to make  
3 an aggressive attempt to retain mail that makes a  
4 contribution of 29 cents per piece, wouldn't the Postal  
5 Service want to segregate that mail from other mail for  
6 ratemaking purposes?

7 MR. TIDWELL: Do you mean establish a different  
8 subclass or rate category?

9 MR. COSTICH: Any kind of new classification, I  
10 think is what we're talking about.

11 MR. TIDWELL: So we're talking rate design?

12 MR. COSTICH: I believe I prefaced my questions  
13 with is it Witness Mayes's purview or Witness Fronk's? I'm  
14 sure the witness can tell us.

15 MR. TIDWELL: Now, we've stepped into Witness  
16 Fronk's.

17 CHAIRMAN GLEIMAN: Are you objecting, or are you  
18 just trying to seek a clarification so that you understand  
19 the question?

20 MR. TIDWELL: Seeking clarification so that I can  
21 perhaps assist OCA in determining who the best witness to  
22 ask rate design questions about might be.

23 CHAIRMAN GLEIMAN: If you would restate our  
24 question, and if the witness can answer it, she'll answer  
25 it, and if she says there's another witness that's a better

1 witness, she'll advise us of that.

2 BY MR. COSTICH:

3 Q I believe my question was, if the Postal Service  
4 were desirous of aggressively pursuing and retaining mail  
5 that contributes 29 cents per piece, wouldn't the first step  
6 be to segregate that mail from other types of mail for  
7 ratemaking purposes?

8 A I would step back even one step further, and say  
9 that, first, I would suggest that that mail should be  
10 segregated for purposes of study.

11 Because, if, as a result of study of the  
12 characteristics of that mail in terms of the demand  
13 characteristics, it was determined that price was not an  
14 issue, I would see no value in segregating that mail for  
15 ratemaking purposes.

16 Q Well, let's suppose the Postal Service has two  
17 ways of going after this mail. One way is to cannibalize it  
18 by starting eBillPay.

19 And let's just suppose, for the sake of argument,  
20 that the Postal Service expects to make 10 cents apiece on  
21 eBillPay; got that?

22 A I think I'm following you, yes.

23 Q Okay. The other alternative is to attempt to  
24 establish a mail classification that sets rates for bill  
25 payments, such that more than ten cents per piece can be

1 contributed to institutional costs.

2 Now, does this all sound plausible to you so far?

3 A I don't know. Again, I don't know that the mail  
4 volume -- I don't know that the volume that will show up as  
5 eBillPayments or eBillPay payments, however, transactions,  
6 are currently First Class mail pieces, or whether, in fact,  
7 they are derived from electronic transactions that are  
8 taking place elsewhere, or, for that matter, in person  
9 transactions.

10 So I don't know that eBillPay necessarily is  
11 cannibalizing First Class mail volume. To the extent that  
12 it might be, I don't know that the issue, again, is price.

13 It may simply be technological advancements.  
14 There may be issues of convenience or safety or security or  
15 some other reason other than price, so, no, I don't know  
16 that changing the price for that mail would result in any  
17 change.

18 So, would I like to keep pieces that keep -- that  
19 give me a contribution of 29 cents per piece as opposed to  
20 pieces that give me 10 cents per piece, on the face of it,  
21 yes, but I don't know that these are the same pieces to  
22 begin with, or these are the same transactions, shall we  
23 say, since in the latter case, they're not pieces, per se.

24 But would changing the price on the  
25 29-cent-per-piece contribution pieces cause them to not

1 shift into the ten-cent contribution-per-piece electronic  
2 transaction, I don't know that.

3 Q Well, let's look at the possible sources for  
4 eBillPay customers that you mentioned: One of them was  
5 walk-in transactions. How likely is that, that people who  
6 are paying their bills by walking to the phone company now,  
7 are going to switch to eBillPay?

8 A Is the phone company in the basement of my  
9 building? I don't know. Again, this becomes a matter of  
10 study, not a matter of speculation.

11 Q Your knowledge of the way people pay bills would  
12 not help you in determining where the volume for eBillPay is  
13 coming from?

14 A No. And I think we've had several witnesses  
15 before me come over and say the same thing.

16 Q Yes, several witnesses have said this.

17 A Oh, good, we're consistent, at least.

18 Q I'm not sure that any of those witnesses were  
19 presented with the possibility that we're discussing now.  
20 But I don't know if you've been reading various press  
21 releases and other stories about eBillPay.

22 A Just the initial batch.

23 Q You're not familiar with a quotation from a Postal  
24 Service employee working with eBillPay to the effect that  
25 sometimes you have to cannibalize your own product?

1           A     No, I'm not familiar with that.

2           Q     So, are you objecting to even studying the  
3 possibility, or are you just saying that you need some sort  
4 of study of volume before you would consider reclassifying  
5 or creating a classification for bill payments in First  
6 Class mail?

7           A     I would want to -- well, let's step back a second.  
8 It's my understanding that when the Commission creates a  
9 subclass, it requires two pieces of information:  
10 Demonstration that the market demand characteristics for  
11 that category of mail are different than those of the  
12 remainder of the category in which it is currently residing;  
13 and that there are cost differences that distinguish it from  
14 the rest of the category of mail in which it is currently  
15 residing.

16                     And we don't have a very long track record of  
17 creating separate subclasses.

18          Q     So you would rule that out right off the bat?

19          A     I wouldn't rule it out; I would rule out  
20 discussion of it until we've gathered the information  
21 regarding -- and I've spoken to the market demand  
22 characteristics, the price elasticity issues, several times  
23 already.

24                     I would want to assure myself that there was some  
25 reason to segregate that mail so that I could treat it



1 differently, with the expectation that by treating it  
2 differently, I would effect some change in the volume and  
3 revenue and contribution behavior of that mail.

4 Q And as far as you're aware, such a study is not  
5 being done?

6 A On what?

7 Q This mail that contributes 29 cents per piece?

8 A I don't know that we have mail that's contributing  
9 29 cents, but if you're talking about bill payments, I'm  
10 unaware of any -- of studies that would provide me the  
11 nature and rigor of information that we've been discussing.

12 Q You have been referring to Witnesses Bernstein,  
13 Tolley, and Thress. Is it your understanding that their  
14 testimony provides sufficient reason to simply look away  
15 from the possibility of creating a separate subclass or rate  
16 category for bill payments and bills?

17 A I don't think I would characterize it as their  
18 testimony providing sufficient reason to look away. But I  
19 would suggest that in the absence of other evidence provided  
20 so far on the record regarding the market demand  
21 characteristics and the unique costing characteristics of  
22 this mail, I don't have anything to work with.

23 Q Has anyone ever suggested in a prior case that it  
24 might be a good idea to create a separate category for this  
25 kind of mail?

1 A I'm aware of rate design proposals, yes.

2 Q Have such proposals been made in more than one  
3 prior docket?

4 A Probably, although in prior dockets I worked on  
5 Parcel Post issues so I didn't follow First Class.

6 Q And I take it you are not familiar with the  
7 Christensen Associates document that contains the 29 cent  
8 calculation?

9 A This is Library Reference 191?

10 Q Yes.

11 A No, I have not read it.

12 Q Could you look at your response to OCA  
13 Interrogatory 17?

14 CHAIRMAN GLEIMAN: Mr. Costich, before you ask  
15 that question, before you pull the trigger, are you  
16 embarking on a new line now?

17 MR. COSTICH: It is a new line, a very short line  
18 and the last line.

19 CHAIRMAN GLEIMAN: Well, in that case we will take  
20 you at your word and continue.

21 BY MR. COSTICH:

22 Q This interrogatory asked you to provide unit  
23 attributable costs for First Class letters in both nominal  
24 and real terms, is that correct?

25 A That's right.

1 Q And you did provide those numbers?

2 A Yes, I did.

3 Q And do they show that in both nominal and real  
4 terms First Class letter unit costs are declining?

5 A The nominal cost does not decline as smoothly and  
6 in fact the real unit cost also demonstrates an increase in  
7 1999 relative to 1998.

8 Q But over the period 1995 to 1998, the real unit  
9 cost declines with no blips?

10 A The real unit cost does, yes.

11 Q But then it pops back up in 1999?

12 A That's right.

13 Q In response to part (d) of that interrogatory you  
14 indicate that over the period of time that we have been  
15 discussing here, the share of volume variable costs  
16 associated with First Class mail has been declining, is that  
17 correct?

18 A I indicate that it declined in 1999 relative to  
19 1995, yes.

20 Q And that decline was from 53.3 percent of -- now  
21 do we want to say "volume variable" or "attributable" --

22 A Let's say volume -- well, we'll say "volume  
23 variable".

24 Q Okay. The decline was from 53.3 percent of volume  
25 variable costs to 46 percent in 1999?

## A F T E R N O O N   S E S S I O N

[1:31 p.m.]

CHAIRMAN GLEIMAN: Mr. May, whenever you, and the witness and Postal Service counsel are ready, you can proceed.

MR. MAY: Thank you, Mr. Chairman.  
Whereupon,

VIRGINIA J. MAYES,  
the witness on the stand at the time of the recess, having been previously duly sworn, was further examined and testified as follows:

## CROSS-EXAMINATION

BY MR. MAY:

Q Ms. Mayes, I am going to ask you some questions about your proposed parcel post rates and proposed coverage for those rates and it would be helpful, I think, to the understanding of those of us here to understand the context of the questions. The context is framed by the data change that the Postal Service made after the last rate case, and the manner in which they collected the data pieces and revenue for parcels. And without getting into the specific numbers, because they will appear elsewhere with precision in the transcript, is it your understanding that the result of that data change was to rather dramatically increase the number of parcels that were Standard B parcel post, as well

1 as a very steep increase in the amount of revenues earned by  
2 those parcels, is that correct?

3 A It is my understanding that the change in RPW data  
4 reflects somewhere in the neighborhood of a 20 percent  
5 increase in volume and a slightly smaller increase in  
6 revenue.

7 Q But the costs did not change, the costs had been  
8 reported correctly, I take it?

9 A That's right.

10 Q Now, the net effect just generally of such a thing  
11 would be to suddenly get a much larger average per piece  
12 revenue, would it not?

13 A No, not --

14 Q Excuse me. But an average -- strike that. The  
15 effect of that would be rather substantially decrease the  
16 average unit cost of a parcel, would it not?

17 A It reduces the unit cost, yes.

18 Q And, therefore, and with the additional revenues,  
19 it would certainly increase the amount of contribution per  
20 piece than previously, would it not?

21 A The revenue per piece for the -- the average  
22 revenue per piece for the additional volume was lower than  
23 the revenue per piece for the original volume, but because  
24 of the spreading of the costs over a larger volume, your  
25 contribution did go up, yes.

1 Q Yes. Thank you. Now, if you refer to your  
2 response to PSA-T-32-2, in your response you state that you  
3 disagree with the representation that was in the question to  
4 you, a representation that R97 parcel post rate increases  
5 were, quote, "greatly excessive in terms of cost coverage."  
6 And you said you disagreed with that. Is it not the case  
7 that you testified in 1997 in favor of a 103 to 104 percent  
8 cost coverage for parcel post?

9 A How quickly we forget. I don't remember what the  
10 target cost coverage for that case was. It is a matter of  
11 record, I don't know.

12 Q Well, if that was the target, you supported it, I  
13 take it?

14 A Right. Right. And that would have been based on  
15 Postal Service costing.

16 Q Right. Now, and is it not the case that the  
17 Postal Rate Commission recommendation was for a 108 percent  
18 cost coverage?

19 A That I remember, yes.

20 Q Now, is it not the case that the Postal Rate  
21 Commission increased the rates for parcel post that you had  
22 proposed in order to meet the Commission's recommended 108  
23 percent cost coverage?

24 A I believe I took over a 10 percent increase in  
25 rates and the Commission came back with 12. Again, that is

1 a matter of record, but that is my recollection.

2 Q Now, if you direct your attention to your response  
3 to PSA-T-32-10, in your response you there confirmed that  
4 using PRC costing methods, not the Post Office's, but the  
5 PRC's costing methods, the actual fiscal year 1998 cost  
6 coverage for Standard A parcel post was 112.4 percent,  
7 correct?

8 A Yes. Part (c), yes.

9 Q Please confirm also that the cost coverage, that  
10 cost coverage of 112.4 percent was reached with no increases  
11 for parcel post at all effective in the fiscal year, which  
12 was the test year for the R97 case.

13 A That's right. I would caution, however, that the  
14 actual 1998 costs and cost coverage would not have been a  
15 matter of record during the R97 case. And I am not sure  
16 what the forecast -- had the revised data for parcel post  
17 volume and revenues been available during the case, I don't  
18 know what that forecast would have been.

19 MR. MAY: Mr. Chairman, that is a purely  
20 gratuitous answer that is not responsive to my question. I  
21 will let it stand but I will ask that the witness be cut off  
22 if she continues to volunteer nonresponsive information for  
23 the record. Relevant information but not responsive to my  
24 questions.

25 BY MR. MAY:

1           Q     Now, to continue, Ms. Mayes, is it not the case  
2     then that with no increases at all, whatsoever, no increases  
3     as it turns out, no increase at all, not the one you  
4     proposed and not the one the Commission proposed, would have  
5     been necessary in order to meet either your recommended cost  
6     coverage for parcel post or the Commission's cost coverage?

7           A     If the proposed and recommended cost coverages,  
8     with the additional RPW volume and revenue data available,  
9     had been the same in R97, which I deny, then, yes, no  
10    increase would have been necessitated.

11               MR. MAY: I move to strike the answer as not  
12    responsive.

13               BY MR. MAY:

14           Q     What I asked you to do is to look at 1998, what in  
15    fact happens. You have already confirmed that you  
16    recommended, or your recollection is that a 103 to 104  
17    percent target coverage of the Postal Service, that is a  
18    fact. The Commission, as a fact, recommended 108 percent  
19    cost coverage. I simply asked you, is it not the case that,  
20    in fact, in 1998, which was the fiscal '98, which was the  
21    test year, isn't it a fact that with no increase whatsoever,  
22    the coverage for parcel post in that year was, in fact,  
23    greater than both the cost coverage you proposed and both  
24    the cost coverage the Commission recommended? That is a  
25    simple question. Isn't that the fact?



1           A     The fact is that the actual fiscal year 1998 data,  
2     which was not available during R97, shows a cost coverage  
3     that is higher than the cost coverage either recommended by  
4     the Commission or proposed by the Postal Service in the  
5     absence of the additional information during R97~~7~~.

6           MR. MAY: Thank you. Now, again, it wasn't  
7     necessary for you to add, Mr. Chairman, to add the  
8     information about 1997, because I did not ask anything about  
9     1997. But, again, we will let that stand because she  
10    actually did answer the question.

11           CHAIRMAN GLEIMAN: Ms. Mayes, would you please  
12    attempt to confine your responses to Mr. May's specific  
13    questions. I would appreciate it. I am sure he would.

14           MR. MAY: Now, --

15           CHAIRMAN GLEIMAN: He probably would appreciate it  
16    more.

17           BY MR. MAY:

18           Q     Now, Ms. Mayes, if you will refer to your response  
19    to PSA Question 10(e), do you not in that response confirm  
20    that applying the PRC's recommended 12.3 percent rate  
21    increase, if that had been applied in 1998, that that would  
22    have increased the cost coverage of parcel post from the  
23    112.4 percent that in fact occurred in FY '98 to a coverage  
24    of 126.2 percent? Do you not confirm that to be the case in  
25    your answer to part (e)?

1           A     I confirm with the condition that is in your  
2 original question.

3           Q     Yes.

4           A     That while holding unit cost and volume constant,  
5 yes.

6           Q     Thank you. Now, will you please direct your  
7 response to PSA-T-32-2(b)? In that response you state that  
8 you disagree that the Postal Service overcharged parcel post  
9 in the past, saying that you don't have sufficient  
10 information to determine that, had the data collection been  
11 adjusted in time for the last rate case, the resulting rates  
12 would have been significantly different. Are you there  
13 saying that either you or the Postal Rate Commission would  
14 have recommended a cost coverage for parcel post for 1998 of  
15 126.2 percent, which is what the Commission's recommendation  
16 would have produced had those rates been in effect? Do you  
17 think you would have recommended that much?

18          A     To answer this question, Mr. May, I think I have  
19 to go back to something that I have been warned against  
20 using in previous responses to you, and that is at the time  
21 I cannot say what the Commission would have had available to  
22 it. If the Commission had had available to it, during R97,  
23 the additional volume and revenue, in other words, they  
24 would understand that parcel post volume and revenue were  
25 higher, I still don't know what they would have forecasted

1 for the cost or contribution in fiscal year '98.

2 Again, the information that we were relying on in  
3 our previous discussion is actual data which was not  
4 available during the R97 case.

5 Q Okay. Now, in your response to that part 2(b) of  
6 that question, you state that the pricing criterion, quote,  
7 "has been interpreted in the past to include consideration  
8 of the cumulative rate increases on mailers from previous  
9 rate cases when added to the increase proposed in the  
10 current case." Do you see that?

11 A Yes, I do.

12 Q And in response to Parcel Shippers Question 7 to  
13 you, you state that you did not take into account whether  
14 the R97 rate increase of over 12 percent was excessive, but,  
15 rather, that you took into account that that, in fact, was  
16 the rate increase, not what it would have, or could have, or  
17 should have been, is that correct?

18 A That's right.

19 Q Now are you there saying that is irrelevant  
20 whether a particular subclass of mail was greatly  
21 undercharged or greatly overcharged in a previous case?

22 A In an earlier discussion with Mr. Costich we  
23 pursued a similar line of questions and in response to his  
24 questions I said that to the extent that previous over or  
25 undercharging in the past would have resulted in a test year

1 before rates cost coverage it is considered but whether it  
2 was with hindsight viewed to be an overcharge or an  
3 undercharge is not particularly relevant to me.

4 Q Not to you -- and that indeed is your  
5 interpretation of Criterion 4, that it means nothing under  
6 Criterion 4?

7 A Oh, no. I am saying that the increase was what  
8 the increase was, and the cumulative increase was what the  
9 cumulative increase was, but not that I am today trying to  
10 remedy what may be perceived to be past inequities except to  
11 the extent that those inequities show up in the test year  
12 before rates cost coverage and reapplication of the pricing  
13 criteria results in a change in the system of rate levels in  
14 the Postal Service's proposal.

15 Q Well, isn't it the case here that the test year  
16 before rates cost coverage is greater than the Postal Rate  
17 Commission recommended in '97?

18 A Yes. It is higher than the Commission  
19 recommended.

20 Q Well, isn't that the predicate you posited with  
21 Mr. Costich for saying that that would then affect your  
22 decision about rates? That is what you said, isn't it?

23 A It's -- the test year before rates cost coverage  
24 is the starting point, yes.

25 Q But what is the meaning -- you mentioned to him

1 that you would not take it into account in terms of trying  
2 to remedy a past mistake unless the coverage itself in the  
3 test year before rates showed that it was greater than what  
4 had been recommended.

5 A That statement would suggest that the  
6 circumstances in this case and in the last case were similar  
7 or the same, and I would disagree with that.

8 In this case, yes, I am starting with a higher  
9 cost coverage than the Commission recommended but in R97 the  
10 Commission recommended a 108 with the understanding that  
11 associated with that 108 was a 12 percent increase which,  
12 unless I am mistaken, was the largest or one of the largest  
13 rate increases in that case.

14 Q We will get to that, but I take it it is your  
15 conclusion that basically the past is irrelevant because  
16 even the condition that you mentioned appears to be  
17 irrelevant in terms of you making any adjustment to correct  
18 for the past.

19 A Again, it is not irrelevant to the degree that it  
20 does inform the test year before rates cost coverage, and it  
21 does inform the cumulative rate increases, but if the  
22 Commission in past dockets has reduced cost coverages in  
23 deference to Criterion 4 and in this current case the impact  
24 on the mailers in this current case is not such that it  
25 merits consideration under Criterion 4 I would not expect to

1 see them with the same result.

2 Q Would you turn to your answer to PSA Question  
3 32-3(b).

4 A I'm sorry, 3(b)?

5 Q 32-3(b). In that response you reproduce markups  
6 for Parcel Posts which were derived from Appendix G of the  
7 Commission's decision in R97, and as you answer points out,  
8 those markups show historically that the markups for Parcel  
9 Post beginning with the R71 case through the R90 case with  
10 the exception of the '77 case were consistently and  
11 sometimes sharply higher markups than have been the markups  
12 since 1990. Is that not what it shows?

13 The table shows that the highest markup is in 71,  
14 the second highest in '74, the third highest in '76, the  
15 fourth highest in '84 and the fifth highest in '87, is that  
16 what that shows?

17 A Your second statement is what it shows.

18 Q Yes.

19 A Yes.

20 Q Is it not the case that the significantly higher  
21 cost coverages for Parcel Post from 1971 through 1987  
22 coincided with the dramatic loss of Parcel Post volume from  
23 1971 through 1987, a period during which Parcel Post volume  
24 declined by over two-thirds?

25 A I would have to look at a copy of the volume

1 history, which I don't have with me.

2 Q You are not familiar with Witness Plunkett's  
3 testimony in this case -- which will be put into the record  
4 on Thursday, but on pages 11 and 12 of his testimony he  
5 recites the Parcel Post history.

6 I would have thought since you are recommending  
7 coverages for Parcel Post that you would have familiarized  
8 yourself with that volume history.

9 A I was familiar with the volume history. I am not  
10 sure about the coincidence of years and I would also note  
11 that the low cost coverages that you are citing were  
12 explicitly identified by the Commission as being set low for  
13 the purpose of preventing the demise, as it were, of Parcel  
14 Post.

15 Q And is it also the case that since you have had  
16 these lower cost coverages beginning with '90 which you  
17 allude to in your answer that since that has happened Parcel  
18 Post has almost doubled in volume?

19 A I don't know about the double in volume.

20 Q Well, Ms. Mayes, are you telling me that you have  
21 proposed coverage for a class of mail and you are not  
22 familiar with what the prices, various prices and coverages  
23 have done to that piece of mail, that subclass of mail  
24 historically?

25 A Mr. May, my understanding is that in 1990 we

1 introduced DBMC discounts, which coincided with the  
2 development of a consolidator company which switched from  
3 UPS to Parcel Post.

4 Was it solely the result of rate changes? I don't  
5 know.

6 Q But it is the case -- are you saying you do or  
7 don't know whether Parcel Post volume has more than doubled  
8 since 1990?

9 A I don't have a copy of the volume history with me.  
10 If you would like to provide one, I can verify that it was  
11 doubled.

12 If you like I can stipulate that it did double  
13 subject to check.

14 Q Well, it's in Witness Plunkett's testimony.

15 A Well, subject to check I'll say it did double.

16 Q Your testimony points out that Parcel Post is  
17 second only to Express Mail the most price elastic category  
18 of mail. That is your testimony on page 40.

19 A That is based on Witness Thress and Tolley's  
20 testimonies, yes.

21 Q Is it not the case that the 12.3 percent Parcel  
22 Post increase in R97 was almost double the average rate  
23 increase for other major subclasses of mail?

24 Excuse me -- I'm sorry -- that the Parcel Post  
25 increase in R97 was four and a half times. Excuse me.



1           A     Okay. I was thinking the system average was 3  
2 percent --

3           Q     Four and a half times the average increase, which  
4 according to, if you will accept it, according to the  
5 Commission's Schedule G in its opinion in R97 was a  
6 systemwide average of 2.8 percent.

7                     Does that sound familiar?

8           A     That sounds familiar, sure.

9           Q     And so Parcel Post, the second most  
10 price-sensitive class of mail, received a 12.3 percent  
11 increase from the Postal Rate Commission, which was 4.5  
12 times bigger than any -- than the systemwide average, even  
13 though it was the second most price-sensitive, are you  
14 testifying that you believe that had the Commission known  
15 that it did not have to have a 12.5 percent increase in  
16 order to get to its cost coverage target of 108 percent?

17                    You are saying you don't know whether the  
18 Commission would have recommended a smaller increase than  
19 12.3 percent?

20           A     First of all, without a copy of either Witness  
21 O'Hara's or Witness Tolley or Thress's testimony from R97 I  
22 cannot confirm that Parcel Post was in that docket the  
23 most -- the second most price elastic.

24                    Secondly, had the Commission known that the Parcel  
25 Post unit cost was different than was on the record at the

1 time in R97, I do not believe they would have recommended a  
2 12 percent increase, but I also do not know what the cost  
3 coverage target would have been.

4 Q And it is safe to say that if you had known what  
5 the correct numbers were that you would not have recommended  
6 an increase for Parcel Post that was 4.5 times or 3.5 times  
7 what the average price increase was, would you?

8 A Well, in that docket it was Dr. O'Hara who  
9 recommended rate levels or proposed rate levels --

10 Q I know and I --

11 A -- but I agree. I don't believe he would have  
12 recommended that high of a rate increase for Parcel Post.

13 Q I can remember asking you whether you agreed with  
14 Dr. O'Hara in 1997 and you said absolutely.

15 A Well, absolutely I did at the time. Absolutely I  
16 didn't have this data.

17 CHAIRMAN GLEIMAN: Mr. May, can I -- I apologize  
18 for interrupting but I get confused sometimes about this  
19 stuff and I need to just make sure I understand.

20 Do you know whether in the R71 case the Rate  
21 Commission set any Parcel Post rates or whether in fact  
22 Congress has set some rates in the Postal Reorganization  
23 Act?

24 THE WITNESS: No, I don't.

25 CHAIRMAN GLEIMAN: Do you know whether the first

1 time the Postal Rate Commission recommended rates for Parcel  
2 Post was in the R74 case?

3 THE WITNESS: I wasn't working with the Parcel  
4 Post then. No, I don't know.

5 CHAIRMAN GLEIMAN: Well, I won't ask you any more  
6 history questions about the precipitous decline in Parcel  
7 Post from over a billion pieces to 400 million pieces before  
8 the Rate Commission ever issued its first decision.

9 I wasn't here and I don't take credit or claim for  
10 what may have transpired way back when but I think the  
11 record ought to show where the decline was. There was a  
12 continued decline after then. I don't know the extent to  
13 which the Commission may have been responsible with respect  
14 to how it set rates in markups but there's a long history of  
15 Parcel Post that precedes the Postal Reorganization, and  
16 certainly the Commission's first foray into setting rates  
17 for Parcel Post.

18 Mr. May, I apologize, but I think history is  
19 important.

20 MR. MAY: Yes, sir. And if you'd like, I can  
21 inform the record very precisely on the point you raise.

22 CHAIRMAN GLEIMAN: If you'd like to, you may.

23 MR. MAY: But I'm not a witness, so it may not be

24 --

25 CHAIRMAN GLEIMAN: I think I know the answer to

1 the question, so other people can check the history books if  
2 they want to find that out, and that way we won't have  
3 anybody testifying who's not under oath.

4 BY MR. MAY:

5 Q Now, Ms. Mayes, would you direct your attention to  
6 your response to PSA's Question 32-1(c)?

7 [Pause.]

8 You were asked there to reconcile your cost  
9 coverage recommendation for Parcel Post for 114.1 percent,  
10 with the cost coverage estimated provided by Witness  
11 Plunkett of 115.1 percent, and you replied that you were,  
12 quote, "unable to reconcile the two numbers at this time."

13 Now, if you will refer to your response to United  
14 Parcel Service's Question 32-12, you will see that in that  
15 response you state that the correct test year after rates  
16 revenue estimates for Parcel Post are, indeed, those that  
17 are shown in Witness Plunkett's corrected Exhibit K,  
18 correct?

19 A In his corrected Exhibit K, yes.

20 Q It would then seem to be the case, would it not,  
21 that Mr. Plunkett's Parcel Post coverage estimate of 115.1  
22 percent is the fact, and not your proposed coverage of 114  
23 percent, correct?

24 A Yes.

25 Q Now, if I can direct your attention back to your

1 response to PSA's Question 32-4, you there say that when you  
2 developed your proposed cost coverages, it was your  
3 understanding that the cost coverage of 114 percent was  
4 associated with a rate increase of 1.3 percent, and that you  
5 consider that to be fair and equitable.

6 Now that you know that the rates that Mr. Plunkett  
7 has devised, exceed the cost coverage you recommended, does  
8 that cause you to change your recommendation of cost  
9 coverage, or do you continue to believe that 114 percent is  
10 the appropriate coverage?

11 A I believe I stated in my response to your  
12 interrogatories that it was my understanding that a 1.3  
13 percent increase was associated with the cost coverage of  
14 114, and that under the circumstances and given the revised  
15 numbers, I would stand by the one-percent increase in Parcel  
16 Post, in that I believe it's fair and equitable for Parcel  
17 Post to bear some of the burden of institutional costs in  
18 this docket.

19 Q Let me say it again: Are you now recommending 115  
20 percent?

21 A Yes, sir.

22 Q Do you recanted on your 114, and now it's 115?

23 A Yes, sir. I don't consider it to be a substantive  
24 change.

25 Q Well, that's because you don't have to pay the one

1 percent.

2 A I understand.

3 Q Now, I ask you to consider this, and that is the  
4 order in which these things are done at the Postal Service.  
5 Is it the case that the people who devise the rates come up  
6 with the rates and inform you of what the rates are so that  
7 you can compute what coverage those rates are, and then  
8 recommend that coverage?

9 Or, rather, do you tell the rate designers what  
10 you believe the appropriate coverage is for a subclass, and  
11 then it is their task to devise the rates that fit that  
12 coverage?

13 In other words, do we have a chicken and an egg  
14 problem here?

15 A No, we have an iterative process which is known as  
16 the same thing. But if I could clarify -- and I think this  
17 is already on the record in other contexts.

18 I develop cost coverage targets associated with  
19 the percent increases that I believe to be associated with  
20 those cost coverage targets. The rate design witnesses  
21 develop rates.

22 We run them through the forecasting models, both  
23 for volume, revenue, and for costs, and we look at the  
24 results. If the results are not as we expected, we go  
25 back.

1           And there is some shifting of cost coverage  
2 targets as the rate design process proceeds, both because of  
3 perhaps difficulties on the part of the rate design  
4 witnesses to achieve the target, and because my initial  
5 estimates may not have been borne out by the actual models,  
6 once we run the whole system.

7           But, no, we do not, in general, take a set of  
8 rates, say this is what the cost coverage is, and ~~then I~~ <sup>then I</sup> sign  
9 on to that cost coverage.

10           The intent was for Witness Plunkett to derive a  
11 114, with my understanding that it would be a one-percent  
12 increase in rates.

13           Q     So you had constant contact back and forth with  
14 Witness Plunkett during this time, then, this iterative  
15 process?

16           A     During the iterative process, yes.

17           Q     I see. Now, in his testimony, which isn't in the  
18 record yet, he talks about Parcel Post from pages 9 to 15.

19           And since you have worked closely with him, I  
20 would assume that your working with him influenced what his  
21 testimony was.

22           Are you familiar with what his testimony is?

23           A     I'm familiar with his testimony. I would not say  
24 that I had influenced it substantively.

25           Q     Well, but would you be interested to know that

1     Witness Plunkett makes no reference about you anywhere in  
2     his discussion of Parcel Post, whereas when he testifies  
3     about -- whereas Witness Fronk specifically says that you  
4     gave him the cost coverage target and then he had to work  
5     out the rates.

6             Now, that didn't happen with Mr. Plunkett; did it?

7             A     I'm hurt.

8             [Laughter.]

9             THE WITNESS:  No, I am not aware -- I don't know  
10     that it's necessary for it to be part of their direct  
11     testimony that I gave them the cost coverages.

12             I think that the process through which rates are  
13     designed and proposed has not changed substantively for many  
14     cases.

15             Q     But, of course, if it turns out that he had  
16     adhered to your recommended coverage, we would, for all  
17     practical purposes, have no rate increase for Parcel Post;  
18     isn't that the case?

19             A     No, sir.  Because if, during the iterative  
20     process, we would have found that Parcel Post would have  
21     received no increase, given the constraints of this case, I  
22     don't believe that Parcel Post would have come to this  
23     Commission with no rate increase.

24             Q     You were not going to let that happen; were you?  
25     You were not going to let Parcel Post get away without an



1 increase, no matter how much they had gotten stuck with in  
2 the last rate case; is that your testimony?

3 A In the context of this case, Parcel Post would not  
4 have received a zero rate increase.

5 Q Can you conceive of a circumstance under which you  
6 would recommend a cost coverage that would cause a rate  
7 reduction for Parcel Post?

8 Hypothetically, if you'll just assume for the  
9 purposes of the question, suppose that the before rates  
10 coverage for Parcel Post was estimated to be 130 percent,  
11 would that possibly cause you to believe that such coverage  
12 was so excessive that Parcel Post rates should be reduced?

13 A I don't know how to answer that question, because  
14 I'm not sure what else would have changed or stayed the  
15 same.

16 A 130, in and of itself, in the context of the  
17 rest of this rate case, I don't know.

18 Q Well, isn't it the case that the estimated Parcel  
19 Post before rates coverage for the test year is  
20 approximately nine percent greater than the after rates  
21 coverage you've proposed in R97, and is greater than the PRC  
22 recommended in R97?

23 A That's right.

24 Q But that doesn't cause you to believe that there  
25 should be some mitigation of the impact on Parcel Post?

1           A     The mitigation of the impact on Parcel Post took  
2 place in R97 and in previous cases.

3                     I think I stated in my testimony that in this  
4 case, one percent is a very small rate increase, probably  
5 one of the smallest that we've got in this case.

6                     And simply because in the past, the rate -- the  
7 cost coverages were mitigated with deference to Criterion 4,  
8 does not necessarily mean that that same mitigation is  
9 necessary.

10           Q     Well, it turns out that they weren't mitigated in  
11 R97, and that's not the Commission's fault. You, the Postal  
12 Service, gave them the wrong information, which is what  
13 caused them, is it not the case, caused them to make a rate  
14 recommendation for a rate increase four and a half times the  
15 average increase they recommended in R97 for the second most  
16 price-sensitive class of mail?

17           A     Well, for the second most price sensitive class of  
18 mail in this case, I don't know what the elasticity in that  
19 case would have been. And, again, I point you back to the  
20 interrogatory which I have lost. I believe it was a UPS  
21 interrogatory, showing the cost coverages from all the  
22 previous documents.

23           Q     We have just been through that.

24           A     Yes, we have.

25           Q     And you conceded that, whether it was a cause and

1 effect or not, conceded that with high cost coverages, the  
2 volume declined precipitately, and with low cost coverage,  
3 the volume picked up. We have been through that, haven't  
4 we?

5 A It was your PSA-3(b). Yes, we have been through  
6 that.

7 MR. MAY: That is all I have, Mr. Chairman.

8 CHAIRMAN GLEIMAN: Thank you, Mr. May.

9 That brings us up, if I have the scorecard  
10 correct, to the Coalition for Religious Press.

11 CROSS-EXAMINATION

12 BY MR. FELDMAN:

13 Q Good afternoon, Ms. Mayes. I am Stephen Feldman,  
14 attorney for the Coalition of Religious Press Associations.

15 A Good afternoon.

16 Q If you would please turn, just as a starter, to  
17 your direct testimony. If you would turn to page 33,  
18 please? On lines 13 through 17, you make the statement  
19 that, despite the objectives of both the Postal Service and  
20 the Commission in the previous cases to move the cost  
21 coverages periodicals upward to provide a more meaningful  
22 contribution to other costs, the recent increase in costs  
23 precludes doing so at this time.

24 In preparing the various cost coverages, were you  
25 informed that the recent increase in costs for the

1 periodicals class had been the subject of some controversy  
2 in at least the last rate case and perhaps cases prior to  
3 that?

4 A I was aware that there was some questioning of the  
5 costs in the last case, yes.

6 Q And were you aware that upon the conclusion of the  
7 last rate case, a study was commenced by the Postal Service  
8 with the cooperation of several periodicals associations to  
9 try to ascertain the causes of these cost increases?

10 A I was aware that there was a joint Postal Service  
11 industry task force, if you will. I am not sure that I knew  
12 their mandate.

13 Q But, in any event, your job was to work with the  
14 costs as they were given to you by the people in the cost  
15 analysis division, or whatever the appropriate title of that  
16 office is?

17 A That's right. That's right. I take the cost  
18 forecasts as given.

19 Q There weren't alternative models that said, if  
20 these costs aren't found to be volume variable prior to the  
21 filing of the case, we will do something else?

22 A If there were those kind of discussions, they  
23 would have been made amongst, primarily amongst the costing  
24 people before I received the cost forecasts.

25 Q So, to sum it up, you worked with what was there?

1 A Right.

2 Q Okay. If you would just take a look at one of  
3 your exhibits, I believe, if you will just give me a moment,  
4 it is -- yes, Exhibit USPS-32(d) -- D as in David. And that  
5 is entitled "Summary of Changes in Rates Proposed Over  
6 Current Rates." Do you have that exhibit?

7 A Yes, I do.

8 Q Okay. And what is the percentage change for  
9 periodicals outside county that that exhibit shows?

10 A I don't have them merged in that exhibit.

11 Q No. Well, let me -- on Exhibit USPS-32(d), there  
12 is a line that says periodicals and then it has two  
13 categories.

14 A Oh, I am sorry. I was -- yes, you are right. You  
15 are right.

16 Q Within county and --

17 A No, I was looking at the wrong spot. No, you are  
18 right, it is 12.7 percent. Sorry.

19 Q And that 12.7 percent represents the product of  
20 Regular rate rate changes as proposed and Nonprofit Second  
21 Class, or Periodical Nonprofit rate changes in this case,  
22 correct?

23 A I believe it is Regular, Nonprofit and Classroom.

24 Q Yes. Classroom is included also, isn't it?

25 A Right.

1 Q Yes. So it is three, I will use the word "types"  
2 of periodical mail are combined into one subclass, outside  
3 county.

4 A That's right.

5 Q And outside county is a -- or would be a subclass  
6 assuming that it is recommended by the Commission, correct?

7 A I believe it says recommended by the Commission.

8 Q Well, --

9 A I am somewhat fuzzy on whether it would be the  
10 Commission or a legislative change that would result in the  
11 creation of that subclass. But at the conclusion of this  
12 docket, the intention is to arrive at a merged subclass,  
13 yes.

14 Q That is your -- I mean your recommendation as a  
15 witness for the Postal Service?

16 A Right. Right.

17 Q Okay. If the three elements of the outside county  
18 proposed subclass were to be disaggregated and you did  
19 calculations based on the volumes, costs and revenues of  
20 each one of those three components, would, to your  
21 knowledge, the Periodical Nonprofit subclass have a  
22 percentage increase greater or less -- lesser -- is that a  
23 word? -- lesser than 12.7 percent?

24 A I know there has been an interrogatory response  
25 filed on this, and ~~I~~<sup>it</sup> would have come from Witness Taufique.

1 I don't remember whether I have answered anything on this  
2 myself.

3 Q Do you want to just take -- if you haven't, we can  
4 move on, or you may take a moment, if you would like, to see  
5 if you have answered the question. Would you like to take a  
6 moment and check?

7 A If I could have just a second, please.

8 MR. FELDMAN: Of course.

9 [Pause.]

10 THE WITNESS: I ~~have~~<sup>haven't</sup> calculated the percent  
11 changes, but you can calculate the percent changes by  
12 referring to my responses to Presiding Officer's Information  
13 Request Number 1, Question 4. There I provide revenue per  
14 piece estimates for the three outside country subclasses,  
15 such as they exist now, both on a before and after rates  
16 basis.

17 BY MR. FELDMAN:

18 Q And on page 1 of that exhibit, I will refer to it  
19 as an exhibit, Summary of Revenues, Test Year Before Rates,  
20 2001, if I can read this, it is a bit small for my eyes, but  
21 it is 16.3502 cents per piece for Nonprofit, is that  
22 correct?

23 A That's right. That's right.

24 Q I guess I can put the visit to the optometrist off  
25 for another week or so. And then for the after rates per

1 piece calculation, for Nonprofit it is 18.2 -- is it 880?

2 A Six-eight, I believe.

3 Q Six-eight. Well, I will reinstate that  
4 appointment, 68 cents. So there is an increase of  
5 approximately, with a rounding, of about .9 cents per piece,  
6 correct, from before rates to after rates? Excuse me.  
7 Excuse me, 1.9 cents.

8 A It is just shy of 2 cents, yes.

9 Q Just shy of 2 cents. Okay. And for Regular rate,  
10 we don't need to go through all of the numbers again, but if  
11 we went to the lines just below the Nonprofit lines in your  
12 exhibit attached to your Response Number 4 to the Presiding  
13 Officer, we would likewise see an increase for Regular rate  
14 periodicals, correct?

15 A The immediate line below Nonprofit is Classroom.

16 Q Correct.

17 A But you do have Nonprofit, Classroom and Regular  
18 rates specified individually, yes.

19 Q So it would be possible then, using this  
20 disaggregated data, to come up with different percentages  
21 for the Nonprofit, Classroom and Regular rate categories,  
22 which together make up the proposed new outside county  
23 subclass, correct?

24 A That's correct. That's correct.

25 Q Is there any reason that, in preparing your



1 exhibits for your direct testimony, that you did not provide  
2 the disaggregated information either in percentage terms or  
3 in cents per piece terms that you later provided to the  
4 Presiding Officer upon his request?

5 A Yes, because the classification in test year after  
6 rates is different from the classification in the test year  
7 before rates.

8 I had to decide whether to show the before or the  
9 after rates version and I chose to use the after rates  
10 version of the merged subclass.

11 The Presiding Officer's Information Request  
12 specifically referred me to a document from, I believe from  
13 R97 and asked me to reproduce that document.

14 Q That is correct. However, in calculating the  
15 impact of rate changes on users of the mail, which is one of  
16 the standards that you do evaluate in your testimony,  
17 wouldn't it be difficult to evaluate the impact on now  
18 existing subclasses if when presenting after rate scenarios  
19 those subclasses have been merged in there, and you don't  
20 present any numbers to show the impact under the scenario  
21 that they may not be merged?

22 A Could you please repeat the question?

23 Q Yes, I will. How would you know the impact on  
24 nonprofit, classroom, and respectively, Regular rate  
25 subclasses unless you showed percentage or cents per piece

1 increases for each, whether or not it is a before rate or an  
2 after rate scenario?

3 A I did have access to disaggregated percentage  
4 increases for those three existing subclasses at the time  
5 that I developed the cost coverage target.

6 However, under either the existing legislative  
7 circumstances or those posited by the Postal Service in this  
8 case, the rate increases and cost coverages for nonprofit  
9 and classroom are a result of the rate increase and markup  
10 associated with the Regular rate.

11 In other words, they are not independently  
12 developed under either circumstance.

13 Q The markup may be arithmetically tied to the  
14 Regular rate subclass for the preferred rate subclasses, but  
15 isn't it true as long as the preferred rate mail in question  
16 are categorized as separate subclasses that you have  
17 different attributable costs for them as well as obviously  
18 different volumes, but you have different attributable costs  
19 for each subclass within the periodical class.

20 A If they are treated a separate subclasses there  
21 are attributable costs or volume variable costs associated  
22 with each of those subclasses. I am hesitating slightly  
23 because I seem to recall in the past that we have used some  
24 costs from one or another category as a proxy for costs for  
25 another category, so I don't know that they would have had

1 independent estimates of costs for all three subclasses, but  
2 I would have had access to cost estimates derived from  
3 whatever means for each of those three lines, yes.

4 Q Do you usually review, at least as long as you  
5 have been an employee of the Postal Service, the annual  
6 revenue cost analyses reports that come out annually?

7 A Yes, I do.

8 Q And to your recollection, whether in connection  
9 with this case or prior to this case, do you recall that  
10 Second Class or Periodical, Nonprofit Periodicals have a  
11 substantially different cost per piece than regular rate  
12 periodicals?

13 A I don't recall.

14 Q Do you know whether that cost is higher or lower  
15 than Regular rate?

16 A I don't know. I don't recall.

17 Q Was the reason that you proceeded to show only  
18 percentage increases for periodicals under a scenario where  
19 all the current subclasses except for in-county are merged  
20 is because you assumed that the legislation that you refer  
21 to in your testimony would pass and therefore there was no  
22 need to show the impact of proposed rates on the subclasses  
23 in a disaggregated fashion?

24 A Yes, I think that is the premise that the Postal  
25 Service's case is based upon in this circumstance, yes.

1           Q     You are absolutely certain this legislation is  
2 going to pass?

3           A     I didn't say that, sir. I said that was the  
4 premise upon which we based this case.

5           Q     You are so certain that they didn't present the  
6 kind of rate-cost-volume data and impact data that they  
7 would have had there been no legislation?

8           A     I would disagree with that characterization. It  
9 is my understanding that in response to both Presiding  
10 Officer Information Requests and other interrogatories we  
11 have provided -- and my response to the Question 4,  
12 Presiding Officer's Information Request Number 1 amply  
13 indicates that we have provided this additional information.

14          Q     Yes, the information was ample and it is very  
15 helpful, but it wasn't provided until the Presiding Officer  
16 asked the question, correct?

17          A     For this particular piece of information, yes,  
18 that's correct.

19          Q     And any other information about the disparate,  
20 separate impact of the rate proposal upon nonprofit as  
21 opposed to the combined subclass, nothing was demonstrated  
22 in your direct testimony standing alone, isn't that correct?

23          A     I believe that is correct, yes.

24          Q     And the reason for that was?

25          A     The reason for that was, as we discussed several

1 questions ago, that because the classification changed from  
2 one to the other I had to make a choice as to which way to  
3 represent it. I chose to use the test year after rates  
4 characterization.

5 Q Would it be fair to say -- and if it is not fair I  
6 know you will say it is not fair -- that the passage of the  
7 legislation was considered to be such a sure thing that  
8 going to the extra 15 minutes, hour, two hours to do the  
9 other calculations would have been a waste of time?

10 A No, I would not say that.

11 What I would say is that it did not seem  
12 reasonable to present several alternative proposals since my  
13 understanding is the Postal Service is supposed to bring  
14 over one proposal.

15 The Commission and the other parties have an  
16 opportunity to request additional information, make other  
17 proposals and the Commission weighs all of the evidence and  
18 information and comes up with the recommended decision.

19 Q But the Postal Service's position was a kind of  
20 "don't ask, don't tell" -- wasn't it? In other words, if  
21 nobody asks, nobody was going to tell?

22 A No, I think had anyone been particularly  
23 interested, the billing determinants for all of the  
24 subclasses as they exist now for periodicals exist on the  
25 record. Billing determinants can be crossed with the

1 existing rates and with the rates that are proposed by  
2 Witness Taufique and an interested party could very well and  
3 easily have calculated their own revenue per piece changes  
4 for each of those three subclasses in isolation.

5 I think any of the information that you are  
6 discussing is already on the record if one were interested.

7 Q I mean these aren't subclasses that just were  
8 created in the last couple of years. They have been around  
9 for a few decades, haven't they?

10 A They have been around for awhile. I don't know  
11 for how long, sir.

12 Q Well, just accepting subject to check that for  
13 example the nonprofit Second Class subclass has been around  
14 since 1917, it would be reasonable for users of that  
15 subclass to expect to see a discussion in the pricing  
16 section of the Postal Service testimony of their kind of  
17 mail of what cost coverage they would be expected to pay and  
18 why, wouldn't it?

19 A I believe that -- I would have to check to see  
20 whether our cost rollforward model for test year after rates  
21 includes the subclasses in three lines, which would provide  
22 you with your cost coverage, your unit costs, your revenue,  
23 your change in revenue.

24 That would be in Witness Kashani's exhibits.

25 Q Ms. Mayes, I won't belabor this line anymore. I

1 will just ask one last question on this line of questioning,  
2 just simply to say that the disaggregated information,  
3 however, does not appear as a simple presentation on the  
4 pages of your direct testimony, correct?

5 A No, because that is not our proposal in this case.

6 Q I understand. Thank you. If you would turn to  
7 Interrogatory CRPA-32-3(b) directed to you, I would  
8 appreciate it.

9 That question asked you if the value of service  
10 criterion must also be judged by the requirements of Section  
11 101(a) of the Postal Reorganization, which states the basic  
12 function of the Postal Service is to bind the nation  
13 together, and it goes on to quote the balance of that  
14 reasonably well-known section.

15 You qualify your statement in your answer by  
16 saying "As I am not a lawyer I cannot respond fully to this  
17 question."

18 You did, did you not, make various analyses of the  
19 fairness of the proposed increases in your pricing decisions  
20 for each subclass on the basis of each of the Section  
21 3622(b) criteria, correct?

22 A Yes, that's correct.

23 Q You didn't think you needed a law degree to do  
24 that, did you?

25 A No.

1 Q So can you respond fully to other questions about  
2 those other statutory criteria?

3 A I'm sorry?

4 Q Well, you say that "As I am not a lawyer, I cannot  
5 respond fully to this question."

6 The question was to ask you about value of service  
7 in terms of Section 101(a) --

8 A Yes, but you're not -- you're not quoting the  
9 second part of my answer where I do say that Section 3622(a)  
10 requires that rate and classification changes be made in  
11 accordance with all of the policies of the Postal  
12 Reorganization Act including those of 101.

13 Q With all due respect, Ms. Mayes, that didn't  
14 answer the question, because the question was, do you agree  
15 the value of service must also be judged by the requirements  
16 of Section 101(a).

17 So I will ask you: Do you, yes; or don't  
18 you, no? Or, C, I don't know? That's also an acceptable  
19 answer.

20 A I would say, no, that it would not necessarily  
21 fall into the value of service issues.

22 Q Okay. We're doing this a little bit in reverse,  
23 but I don't think it will matter. In Paragraph A of your  
24 response to the same interrogatory, T-32-3(a), you state  
25 that --



1           A     I'm sorry, which one, sir?

2           Q     It is the same interrogatory we were just  
3     discussing, but simply (a) instead of (b).

4           A     Okay.

5           Q     Normally (a) precedes (b), but in this case it  
6     doesn't. In Paragraph (a) you state that in the context of  
7     Criterion 2, which is value of service, I am aware of no  
8     measurable differences in the intrinsic value of service.

9                     And there, the differences I asked you about were  
10    between regular rate and nonprofit periodicals. Just to  
11    clear things up, since you, yourself, presented Witness  
12    Tolley's own price elasticities for nonprofit periodicals  
13    and for regular rate periodicals, what do you mean by  
14    intrinsic value of service, since you say in that case that  
15    you don't perceive any differences, but the elasticities  
16    nevertheless are different?

17          A     Right. Excuse me just a moment.

18                     THE WITNESS: Chairman Gleiman, would you mind  
19    terribly if I moved this microphone?

20                     CHAIRMAN GLEIMAN: I think we can probably get  
21    somebody else to.

22                     THE WITNESS: Thank you. That's much better.

23                     Intrinsic value of service is generally  
24    interpreted to be the relative ranking, if you will, of  
25    Postal subclasses, quality of service, and hierarchy of

1 delivery and dispatch, if you will, relative to each other.

2 The economic value of service, which is often  
3 measured by the own price elasticity of demand, is a way of  
4 measuring the value of service of that subclass relative to  
5 non-Postal services and products.

6 And when I said that I'm aware of no measurable  
7 differences in the intrinsic value of service, that is to  
8 say that as far as regular and nonprofit periodicals are  
9 concerned in the hierarchy of Postal products and services,  
10 I discern no difference.

11 BY MR. FELDMAN:

12 Q Now, elsewhere in your testimony, you do discuss  
13 value of service for periodicals. And for this purpose,  
14 let's just talk about periodicals as nonprofit and regular,  
15 as having both the same intrinsic value, just for this  
16 question.

17 I'm correct, aren't I, that in one or two places  
18 in your testimony you state that periodicals have a higher  
19 value of service than other subclasses of mail, if we're  
20 talking about the intrinsic value of service?

21 A Do you have a reference that you could cite for  
22 me? Oh, I see. On page 32, line 21, I said that it is  
23 moderately high in terms of intrinsic service, but it is not  
24 as high as First Class or as high as Priority Mail or  
25 Express Mail.

1 Q And you say it has a higher priority of delivery  
2 than standard mail and so forth.

3 A Right.

4 Q Can I ask you, are you aware of any actual service  
5 monitoring studies which show the actual achievement by the  
6 Postal Service of service targets for periodicals?

7 A I don't believe so.

8 Q Do you know whether they exist, whether or not  
9 you've actually seen them?

10 A I'm just checking my ODIS. I don't believe it's  
11 in ODIS, though.

12 [Pause.]

13 No, I'm not aware of any.

14 Q Well, you're not aware of any, and are you aware  
15 that they exist one way or the other? Whether you've seen  
16 them or not, we accept that you haven't seen them, but are  
17 you aware that they exist?

18 A I don't know.

19 Q Okay.

20 A I did not have access to any, and I don't know  
21 that there are any.

22 Q So your statement about this kind of value of  
23 service for periodicals is not based on actual performance  
24 by the Postal Service, but rather upon service targets  
25 created by the Postal Service?

1 A That's right.

2 Q Okay.

3 A And the Postal Operations Manual that dictates the  
4 hierarchy of treatment for mail.

5 Q Earlier this afternoon -- and I apologize that I  
6 can't remember whether it was attorney May or one of the  
7 other counsel, but you discussed briefly but concisely, the  
8 criteria for the creation or the maintenance of a subclass.

9 And I believe, if I followed you correctly, that  
10 you said that there were cost differentials and demonstrated  
11 differences in demand or -- I don't know if you used the  
12 word, market, but there were demand differentials.

13 Do you recall saying something like that?

14 A Yes, I did.

15 Q Do you agree that these kinds of differences exist  
16 between regular rate periodicals and nonprofit periodicals?

17 A I don't know.

18 Q Well, according to your response to  
19 CRPA/USPS-T-32-3, you present Witness Tolley's own price  
20 elasticities, and they are different for regular rate and  
21 for nonprofit; are they not?

22 A They are, but I don't know if they're  
23 statistically different. I haven't calculated that.

24 Q I believe you stated earlier that you were not  
25 aware of the cost differences between the two types of

1 periodical mail, but would you reaffirm that; that you do  
2 not know or you do know?

3 A I have seen the reports. I don't remember what  
4 the numbers were.

5 Q Okay. But in preparing your pricing  
6 recommendations and your unified outside county subclass,  
7 did you make a determination that the types of mail being  
8 merged had similar costs and similar demand differences, so  
9 that, in effect, it was logical to create one subclass out  
10 of three?

11 A I think one of the reasons that we're creating  
12 this merged subclass is because the costs are no longer as  
13 disparate as they might once have been measured to be.

14 Q Well, that would be just a matter of arithmetic,  
15 wouldn't it, because the regular rate category is  
16 significantly larger than the nonprofit and the classroom  
17 category?

18 A I can't speak to that; that would be something the  
19 cost analysts could address.

20 To the extent that there have been separate  
21 subclasses up until this point, we have attempted to measure  
22 the costs, individually, for those subclasses.

23 We have been more or less successful, and we have  
24 attempted to independently forecast those three subclasses.

25 Q So that from a data point of view, these

1 subclasses are viable, are they not? The data exists to  
2 maintain each one as a subclass?

3 A Data does exist to maintain each one as a  
4 subclass.

5 Q Okay. If you would please turn to your answer to  
6 CRPA/USPS-T-32-5(e)?

7 A Yes.

8 Q With due respect, I don't think you answered the  
9 question. The question was, did the Tolley or other data,  
10 information or history about Nonprofit Periodical mail cause  
11 you to analyze the impact, fairness or other aspects of  
12 proposed rate increases on this subclass alone, separate  
13 from Regular rate periodical mail?

14 A And my answer was yes.

15 Q Your answer was yes. But then we asked you to  
16 produce all documents and data relevant to that analysis if  
17 it was yes, and you referred to Presiding Officer's  
18 Information Request Number 1, Question 4. How would that  
19 information enable you to analyze the impact, fairness or  
20 other aspects of proposed rate increases on this subclass  
21 alone?

22 A In exactly the manner that you and I discussed  
23 earlier, in that I can calculate, from the two pages of that  
24 response, I can calculate the change in the volume and the  
25 change in the revenue per piece for each of those subclasses

1 individually.

2 Q But you were unaware of the percentage increase  
3 that the Nonprofit Periodical would have to absorb if the  
4 Nonprofit Periodical data was treated separately, correct?

5 A If we proposed rates differently than we did in  
6 this case?

7 Q No, just in terms of my answer -- my question,  
8 excuse me, and your response where you referred to charts  
9 which were prepared by you or under your supervision which  
10 show the revenues, costs and volumes of these subclasses  
11 separately. But where do you analyze the impact?

12 A Mr. Feldman, I take charts all the time and  
13 calculate percent increases.

14 Q But you didn't do it in this case?

15 A No, I didn't do it in this case. Well, no, I did  
16 not do it in the Presiding Officer's Information Request. I  
17 was aware of what percentage increases resulted from  
18 comparing those two charts.

19 Q By percentage increases, do you mean the overall  
20 percentage increase for outside county periodicals or  
21 percentage increases for the extant three subclasses?

22 A The three subclasses.

23 Q But you have forgotten what those percentages are?

24 A I don't have them up here with me, no.

25 Q And in analyzing the impact, did you go beyond

1 percentages and look at the impact on, for example,  
2 Nonprofit or Classroom in terms of the percentage increase  
3 in other classes, subclasses of mail?

4 A I am not sure I understand the question.

5 Q Did you compare the percentage increase for  
6 Nonprofit or Classroom mail with other subclass proposed  
7 increases?

8 A Yes. Yes. Yes, I did.

9 Q And what was your conclusion?

10 A It wasn't substantively different from the array  
11 of numbers that show up in my Exhibit D. Admittedly, and we  
12 have been quite upfront about this, the periodicals, in  
13 general, received a higher rate increase than most other  
14 categories of mail in this case.

15 Q But did the Nonprofit and Classroom periodicals  
16 receive a higher increase than the combined average?

17 A I don't remember. I think we have covered this.  
18 I don't remember.

19 Q So you didn't --

20 A Oh, than the system-wide average?

21 Q No, the outside county.

22 A Than the combined, right.

23 Q The 12.7 percent combined average.

24 A Right

25 Q So you did not do a specific analysis of the



1 percentage increase of Nonprofit Periodical mail with other  
2 subclass increases, did you?

3 A Yes, I did.

4 Q But it appears nowhere in your testimony.

5 A The charts that show up in POIR Number 1, Question  
6 4 are used for exactly that purpose.

7 Q There is no analysis, there are just numbers  
8 there, correct?

9 A Most analyses are numbers, but, yes, I don't have  
10 the percent increase array in that chart.

11 Q And it wasn't in your direct testimony either?

12 A No, it is not in my direct testimony.

13 Q If you would move to 32-6, the next interrogatory,  
14 please?

15 A Yes, sir.

16 Q This interrogatory, without, hopefully, having to  
17 read the whole thing, essentially questioned your statement  
18 that cost is the, quote, "most objective," end quote, of the  
19 nine pricing criteria.

20 If the Rate Commission, in the statement that is  
21 quoted in that interrogatory, expressed an opinion that  
22 periodical costs may be based on flawed data, and if, as you  
23 recognized earlier, there has been some controversy about  
24 this, what, may I ask, is objective about the costs as  
25 presented in this case for periodicals?

1 I'll use the phrase, periodicals, for either  
2 regular or nonprofit or both.

3 A My response was in the context of applying  
4 Criterion 3, and by most objective, what I meant was, given  
5 a measure of cost, it is a fairly objective process by which  
6 one may determine whether the revenue exceeds that cost, and  
7 if so, by how much.

8 If there's controversy regarding the measurement  
9 of the cost, and the Commission expressed some concerns in a  
10 previous docket, I can only assume that to the extent that  
11 the Commission's concerns may be addressed by the cost  
12 analysts, that they were.

13 I have no choice in my role, but to accept as  
14 given, the costs as determined by our cost analysts.

15 To that extent, it is quite an objective process  
16 for me to take the forecasted revenue and divide by the  
17 forecast of costs and determine whether one is larger.

18 Q Do you think there is a relationship or  
19 correlation between the word, objective, and the word, true?

20 A In this context, I was using the word, objective,  
21 as opposed to subjective.

22 Q Assuming, hypothetically, that the cost base for  
23 periodicals in this case has flaws insofar as how the costs  
24 are distributed, would you view those costs as objective or  
25 subjective?

1           A     With any estimation procedure, there are judgments  
2 to be made. One might argue that those judgments are to  
3 some degree, subjective.

4           But for my purposes, the cost numbers were the  
5 cost numbers. I don't know how to accommodate a perception  
6 that the costs may be flawed within the context that I must  
7 operate in.

8           Q     In other words, you, yourself, can't verify those  
9 costs?

10          A     That's right.

11          Q     Okay. If you would kindly turn to your response  
12 to CRPA/USPS-10(b), please? This referred to an article in  
13 the Business Mailers Review of March 20th, 2000, where  
14 Chairman McHugh of the House Postal Service Subcommittee  
15 stated that he preferred that the kind of amendment to RFRA,  
16 which you discuss and support, be part of H.R. 22.

17                 And we then go on to ask if H.R. 22 hasn't had a  
18 vote of any -- by either House of Congress, would you want  
19 to link this legislation to the elimination of the current  
20 nonprofit and periodical subclasses?

21                 Your answer was, you weren't able to judge the  
22 accuracy of the article, but did you, upon receipt of this  
23 question, or at any time in developing your outside county  
24 subclass, consult with the Government Relations people at  
25 USPS or the people at USPS who deal with Congress?

1           A     I have spoken with the Government Relations --  
2     with some people from Government Relations in the context of  
3     preparing this case.

4           Q     Prepare, but not in terms of answering this  
5     interrogatory?

6           A     I think my response to that question was with  
7     regard to statements that Chairman McHugh may have preferred  
8     one kind of an amendment to another, and I had no way of  
9     verifying that Chairman McHugh himself had stated that he  
10    preferred one kind of amendment to another.

11          Q     So you didn't attempt to verify it one way or the  
12    other, yourself, the accuracy of the article?

13          A     No.

14          Q     Okay. If you would turn to CRPA/USPS-T-32-11,  
15    please?

16          A     Yes, sir.

17          Q     You tie in your response, I hope it is fair to  
18    say, that the Postal Service supports legislative changes to  
19    the periodical class because of anomalies that have occurred  
20    in recent years whereby, in certain situations, nonprofit  
21    publications might have found it more advantageous to mail  
22    at Regular rates than at Nonprofit rates, would that be a  
23    fair summation of what you have to say there?

24          A     That's right. The mechanism by which Nonprofit  
25    rates were held below Regular rate rates was one of a

1 smaller markup. That only works if there is a sufficient  
2 markup to create a difference between the two and/or if the  
3 costs remain sufficiently far apart. But as neither of  
4 those are currently true, another mechanism for establishing  
5 lower rates for nonprofit categories was pursued.

6 Q So, the problem, or the anomaly, was created by  
7 another problem, wasn't it, which is the cost base for all  
8 of the periodicals subclasses which had reached a certain  
9 level at which it caused crossover from one subclass to  
10 another, correct?

11 A Or, arguably, the problem was caused by having too  
12 low of a cost coverage on periodicals in the past, such that  
13 when you took half of the markup for Regular rate rates, it  
14 was virtually zero for Nonprofits.

15 Q But the reason for that low cost coverage, as I  
16 read the Postal Rate Commission's opinion in the last rate  
17 case, was that there had been a significant increase in  
18 attributable costs for periodicals, and, therefore, to  
19 mitigate the impact of that cost increase, a relatively very  
20 low markup was recommended, is that correct?

21 A My understanding is that is part of the reason  
22 that they held the markup low, yes.

23 Q In fact, that is one of -- perhaps the major  
24 reason that you, yourself, have recommended a fairly low  
25 markup in this case?

1           A     In this case, that's right. That's right.

2           Q     So that if the factual premise upon which the  
3 anomaly is based, that is, that if certain cost segments or  
4 types of costs were found not to be attributable to  
5 periodicals, that could change the dynamics or the  
6 relationships between the subclasses so that the anomaly  
7 would no longer exist, correct?

8           A     That's correct. And, similarly, I would note that  
9 in the past, when there was a measured cost difference  
10 between the subclasses that may or may not have existed,  
11 that the cost data allowed there to be room between the two  
12 rate categories, yes.

13                     So, what I am saying is that, to the extent that  
14 we have difficulty measuring costs, the difficulty of  
15 measuring costs may have been to a benefit in the past.

16           Q     Well, just for clarity, the difficulty of  
17 measuring costs that you are referring to are certain cost  
18 segments or functions the Postal Service provides, not the  
19 annual measurements of costs for each subclass as a whole?  
20 I mean each year the Postal Service publishes cost data for  
21 each subclass.

22           A     They are part and parcel of the same estimates,  
23 sir. I mean your annual CRA number, your bottom line number  
24 for each subclass is the summation of each of the cost  
25 segments and components for that subclass.

1           Q     This is going to be a somewhat repetitive  
2 question, but perhaps in light of our more recent  
3 discussion, it will -- the answer will be more apparent.  
4 You stated something to the effect in the last couple of  
5 minutes that the cost distinctions or differentials were  
6 becoming, I won't use the word nonexistent, but they were  
7 coming very close together and causing these anomalies.  
8 But, in fact, earlier you testified that you didn't know  
9 what the cost differences between Nonprofit and Regular rate  
10 mail were, am I correct?

11          A     I don't have the cost figures in front of me to be  
12 able to tell you what the costs, unit costs are. No, I do  
13 not have those.

14          Q     All right. Accepting just for -- subject to  
15 check, that the CRA shows for the base year that the  
16 Nonprofit periodical costs are approximately 9 cents per  
17 piece less than Regular rate costs, then how is merging the  
18 two subclasses, with the addition of Classroom, going to  
19 solve the anomaly?

20          A     I'm not sure I understand the question.

21          Q     If you have a significant difference, cost  
22 difference, in two types of mail, and the problem you're  
23 trying to solve is that the rates that the two types of mail  
24 pay are becoming practically identical, then the problem is  
25 not in -- if paying identical rates is considered to be a

1 problem, assuming that, but the cost differentials are, let  
2 us say, substantial, where do we find the answer to the  
3 problem?

4 A There are only a limited number of variables  
5 available there. If you were to create separate rate  
6 schedules for the two subclasses, you would have the costs  
7 as measured and estimated for each subclass, separately.

8 You would have the markup for regular rate, and  
9 the associated markup for nonprofit.

10 And you would have the mail mix for each of those  
11 subclasses.

12 Q Could I just interject and ask you a question?  
13 Would weight also be a consideration, weight-per-piece?

14 A That would enter into it. I was including that in  
15 my -- in the mail mix, but, yes, that would be one of the  
16 characteristics of the two subclasses.

17 Q So, assuming my proposition that there is a cost  
18 differential of nine cents per piece, then would the cost  
19 differential be the factor of the limited variable that's  
20 creating this anomaly?

21 A Well, in fact, you touched upon something that had  
22 not crossed my mind, but should have. And that was, if --  
23 the cost differential of nine cents per piece may, just as  
24 in the case with First Class letters, as I was discussing  
25 with Mr. Costich, may be the result of mail mix differences,



1 as opposed to measurable cost differences on each element.

2 In other words, if one category of mail is heavier  
3 than the other, or if one is drop-shipped more than the  
4 other, or presorted more heavily than the others, or  
5 something to that effect, you would see a cost difference  
6 that would not necessarily translate through into a rate  
7 design difference.

8 Q Why would that be?

9 A Because I can give two customers the very same  
10 rate schedule, and the average revenue per piece that I  
11 derive from them, or the average cost per piece that I  
12 derive from them would be different, based on their mail  
13 mix.

14 One of them may have more -- for instance, you  
15 could have two printers, one located on the East Coast, one  
16 located on the West Coast, and they're both shipping to the  
17 East Coast.

18 Their cost structures are going to be very  
19 different, even though they're facing the same exact rate  
20 schedule.

21 Q But as we said earlier, cost differences, as well  
22 as market differences, can also be the rationale for a  
23 separate subclass, correct?

24 A I believe those are the two measurements or the  
25 two areas that the Commission has requested that they be

1 able to see discernable differences.

2 MR. FELDMAN: Thank you. That concludes our cross  
3 examination.

4 CHAIRMAN GLEIMAN: I think I'd like to take a  
5 ten-minute break now. We have three more parties that wish  
6 to cross examine. When we come back, however, I'd like to  
7 depart slightly from the standard procedure.

8 One of my colleagues has an obligation late this  
9 afternoon, and must leave early. And I want to make sure  
10 that that party has an opportunity to ask questions that  
11 they may have.

12 So when we come back, we'll have one of the  
13 Commissioners ask questions and then we'll return to the  
14 usual order.

15 [Recess.]

16 CHAIRMAN GLEIMAN: Before we proceed, I need to  
17 ask a question of Mr. Feldman. It's a procedural matter.

18 On April 19th, the Postal Service filed a response  
19 to CRPA motion to compel responses to Interrogatories 8 and  
20 10(c). The Postal Service contended that as a result of  
21 information provided in its legal pleadings, the motion to  
22 compel was now moot.

23 The Service didn't indicate whether the moving  
24 party agreed with this view or not. So my question to you  
25 is, does CRPA seek further public submission of documents in

1 response to these interrogatories?

2 MR. FELDMAN: Thank you, Mr. Chairman, for  
3 bringing up this matter. At this time, we don't think that  
4 further materials will be needed, although we do think that  
5 our questions were legally appropriate and proper.  
6 Nevertheless, the Postal Service has provided enough  
7 material that we are willing at this time to forego any  
8 further action on the motion.

9 CHAIRMAN GLEIMAN: Some tree somewhere thanks  
10 you.

11 [Laughter.]

12 CHAIRMAN GLEIMAN: I mentioned before the break  
13 that one of my colleagues had a commitment this afternoon,  
14 and had some questions to ask. Commissioner Goldway, if  
15 you're ready, proceed.

16 COMMISSIONER GOLDWAY: Thank you, Chairman. I  
17 appreciate your flexibility and willingness to accommodate  
18 me. Unfortunately I wasn't able to reschedule my  
19 appointment, having realized that this session was going to  
20 go longer than I had thought when I made the appointment.

21 As you know, Ms. Mayes, I have expressed some  
22 interest about Priority Mail and I think you were in the  
23 audience when I was inquiring of some issues with regard to  
24 Witness Robinson.

25 THE WITNESS: That's right.

1           COMMISSIONER GOLDWAY: And I am going to try to  
2 follow up on that as best I can.

3           CHAIRMAN GLEIMAN: I think your mike is on, but  
4 you may have to move it closer. Mr. Tidwell indicates that  
5 what is good for the goose is what's good for us ganders up  
6 here. We need to pull our mikes closer.

7           COMMISSIONER GOLDWAY: Okay. I am going to try  
8 and follow up on some of the concerns that I had with regard  
9 to Priority Mail that I discussed with Witness Robinson.

10          First of all, I would like to ask you about your  
11 testimony on page 26, in your discussion of Priority Mail,  
12 with regard to its value of service.

13          In that discussion you indicate that Priority Mail  
14 is more or less comparable to First Class mail. It ranks at  
15 least high in the relative value of service as it is  
16 measured within the Postal Service, intrinsic value.

17          However, you do mention, lines 9 and 10 of page  
18 26, that the Priority Mail measured own price elasticity is  
19 also somewhat higher than the Priority Mail own price  
20 elasticity reported in Docket Number R97-1. Further on that  
21 page you make a reference, lines 17 through 21, to changes  
22 in Priority Mail service, delivery confirmation and  
23 signature confirmation which perhaps add to the range of  
24 services that are available but you also mention the use of  
25 Priority Mail Processing Centers, and this is what I

1 underlined, in an effort to improve Priority's service.

2 So I am just -- in relationship to these two  
3 comments on your testimony are you aware or have you been  
4 aware of a problem with regard to service in Priority Mail?

5 THE WITNESS: A problem in what context?

6 COMMISSIONER GOLDWAY: A decline of service, a  
7 questioning, a perceived decline in service by the public,  
8 something that would cause a rise in the own price  
9 elasticity or some problem that the Priority Mail Processing  
10 Centers are addressing?

11 THE WITNESS: I don't know that it would  
12 necessarily indicate a problem with Priority Mail so much as  
13 it might indicate a change in Priority Mail's ranking in the  
14 hierarchy of alternatives perhaps.

15 When I say that my understanding as to why the  
16 PMPCs were deployed or created -- I guess we deploy  
17 equipment. I don't know that you deploy a building -- but  
18 that the PMPCs were created was in an effort to improve the  
19 service. It is my understanding that there was some  
20 perception that Priority Mail service relative to the two  
21 and three day services provided by competitors was not quite  
22 as good.

23 I don't know that it indicates that Priority Mail  
24 service performance relative to itself had declined.

25 COMMISSIONER GOLDWAY: So there are two measures

1 that we have to deal with when we are establishing value of  
2 service and one is the relationship within the mailstream  
3 that the Postal Service provides and the other is its  
4 comparison to what would be alternatives?

5 THE WITNESS: Right. Right. What we have called  
6 previously the intrinsic value of service and the  
7 economic --

8 COMMISSIONER GOLDWAY: And at least you can see  
9 that there may be some problem with regard to its relative  
10 value to alternatives in this testimony.

11 THE WITNESS: There could be and I think that is  
12 partly what your own price elasticity suggests, that  
13 Priority Mail is fairly elastic, suggesting that it does  
14 have alternatives.

15 COMMISSIONER GOLDWAY: Now because you were here  
16 when I was questioning Witness Robinson, you are aware that  
17 I have been pursuing some of the measurement standards that  
18 the Postal Service uses to determine time of delivery for  
19 Priority Mail.

20 THE WITNESS: Right.

21 COMMISSIONER GOLDWAY: In your response to  
22 ValPak-Carol Wright, VP-CW/USPS-T32-7, and their questions  
23 about criteria of service, you indicate in Response -- I  
24 guess it would be sub(2) to (b), that "Because the Postal  
25 Service does not have nationally representative performance

1 data for most subclasses, my consideration of the actual  
2 service performance mainly relied upon the relative service  
3 standards for subclasses. In the absence of additional  
4 information, I assumed that the relative levels of service  
5 actually provided correspond with their relative service  
6 standards."

7 So I guess you now know that there are some  
8 measurement standards for Priority Mail.

9 THE WITNESS: I knew that in advance. I probably  
10 should have amended the first sentence such that it stated  
11 that my consideration of the actual service performance for  
12 classes of mail for which I did not have any measure of  
13 actual service performance relied on the service standards.  
14 Obviously, and I think I indicated in subpart (b)(i) that I  
15 do receive and look at the ODIS reports and the EMRS reports  
16 for Express Mail service performance, but what I meant was  
17 that for some of the subclasses I don't have anything for  
18 actual service performance.

19 COMMISSIONER GOLDWAY: So I think again there are  
20 a couple of concerns I want to raise. One is that it  
21 appears now as a result of information that has been  
22 provided by USPS to a variety of Intervenors, in particular  
23 USPS and Carlson and the Commission's own POIRs that we have  
24 some information about Priority Mail service standards.

25 The most recent information was provided on April

1 24th in a response to Douglas Carlson and I don't know if  
2 you have seen this, but I will take this opportunity to  
3 reference the number here, which would be DFC/USPS-53. In  
4 it the Postal Service concedes that there are now only 42  
5 valid pairs where Priority Mail service standard is one day  
6 and First Class mail service is two days, so where we had  
7 thought that there were over 200 pairs of zip codes where  
8 there was better service in Priority Mail than First Class,  
9 there appear to be only 42 as I read this interrogatory and  
10 they do provide the actual zip code pairs.

11 Most of them are in Southeastern Texas, a few of  
12 them are in Western Minnesota, a few in rural Maine, and six  
13 in zip code pairs 006 to 0068, and we can't find where the  
14 "double zeroes" are on the map. It's not Hawaii, it's not  
15 Guam -- you know, maybe it is the satellite circling, but it  
16 appears there are relatively very few places where Priority  
17 Mail is better than First Class mail in terms of one day  
18 service standard, so in terms of value within the Postal  
19 Service, we can say pretty confidently that we are talking  
20 about apples and apples as opposed to any other kind of  
21 ranking.

22 Then if we look at the measurement standards of  
23 what we have, of what is actually provided in that service,  
24 you are aware that I pointed out to Witness Robinson that  
25 ODIS, PETE, EXFC and the delivery confirmation measurement



1 standards, all four of those measurement standards that we  
2 currently have, show lower service performance for Priority  
3 Mail than First Class mail.

4 Will you acknowledge those?

5 THE WITNESS: I will accept that subject to check.  
6 I remember the exchange. I don't remember the conclusions.

7 COMMISSIONER GOLDWAY: In my discussions there I  
8 pointed out all four of those measurement standard series  
9 where that occurs, so my question is in light of all of  
10 these, what kind of decisions can you make about value of  
11 service to rank Priority Mail and the cost coverages that  
12 you assigned to it?

13 THE WITNESS: As I believe was also discussed in  
14 your conversation with Witness Robinson, we look -- we have  
15 to set cost coverages for each subclass on a national basis  
16 and to the extent that I would want to know how well do we  
17 perform one day to one day, two day to two day and so forth,  
18 for purposes of the ranking of value of service I think I  
19 would have no choice but to look at the aggregate, national  
20 performance, and once I would look at Priority Mail -- I  
21 don't know that -- I shouldn't say I don't know, I did it --  
22 I don't consider Priority Mail and First Class mail to be  
23 significantly different in terms of the service performance  
24 for purposes of developing the value of service  
25 consideration in setting the rate levels.

1           COMMISSIONER GOLDWAY: Even though all of these  
2 measurement statistics that we can retrieve from the Postal  
3 Service indicate substantial statistically meaningful  
4 differences in service delivery performance?

5           THE WITNESS: I don't know that I would  
6 characterize the differences as being substantial. When we  
7 are talking in the range of 90 percent, 85-90 percent  
8 on-time, I don't know that I would consider 1 or 2 percent  
9 to<sup>be</sup> substantial.

10          COMMISSIONER GOLDWAY: In relationship to the fact  
11 that one service costs 10 times as much as the other, and  
12 the service provided is 5 to 10 to 15 percent less?

13          THE WITNESS: As an economist, I can only presume  
14 that consumers are rational. And I know we have had  
15 testimony in previous cases where it has been suggested that  
16 those who mail often, regardless of whether we provide the  
17 service performance statistics or not, and regardless of  
18 whether their individual experience with the Postal system  
19 is representative or not, develop their own expectations as  
20 to the performance that the Postal Service will give them.

21          Given the large difference in price between the  
22 Priority and First Class mail, I would expect that the  
23 consumer who is faced with both would have some rational  
24 reason for believing that Priority Mail was worth it.

25          COMMISSIONER GOLDWAY: But the own price

1 elasticity has gone up in the last -- since the last rate  
2 case, so there seems to be change in that respect.

3 THE WITNESS: Well, that would indicate that the  
4 consumer -- well, I don't think that is inconsistent with  
5 your observation, that if the consumer perceives that  
6 Priority Mail is not superior to alternatives, a change in  
7 price would cause them to look at the alternatives.

8 COMMISSIONER GOLDWAY: So there might be some  
9 reason then to look at the cost coverage as it relates to  
10 value of service?

11 THE WITNESS: Certainly, I would look at value of  
12 service in relation to the Priority Mail cost coverage, but  
13 in this case, I think we have already reduced the Priority  
14 Mail cost coverage in deference to criterion 4. And I don't  
15 know that the value of service would necessarily cause it  
16 drop below that which we have already proposed.

17 COMMISSIONER GOLDWAY: I have just a couple of  
18 other questions that I am not sure you can answer, and they  
19 relate to information that I requested of Witness Robinson.  
20 First of all, just to remind the Postal Service about  
21 information with regard to the relative service standards  
22 available for Priority Mail that customers get at the Postal  
23 Service. I had asked for information about displays that  
24 were in the Postal Service or on PostCom the other MAS,  
25 whatever it is, the other computer systems, and that was

1 supposed to come, I think, today, or in the next couple of  
2 days. And that relates to the questions you were asking  
3 about whether a consumer can make a rational choice for  
4 service.

5 And then the second was a question I asked about  
6 how service standards are actually established. Do you know  
7 how they are established?

8 THE WITNESS: I don't know except that, in  
9 response to your request, I did seek some information  
10 related to that issue. It is my understanding that if we  
11 are talking about national or substantially national service  
12 standards, that the Postal Service, particularly for First  
13 Class, the Postal Service is to seek a nonbinding opinion  
14 from the Postal Rate Commission.

15 With regard to individual origin-destination pairs  
16 for a particular subclass of mail, it is my understanding  
17 that requests to change the service standard for any  
18 particular origin-destination is to be substantiated by  
19 operational information related to, for instance, processing  
20 windows, critical entry times, availability of  
21 transportation, changes in the availability of  
22 transportation, and those requests must be approved by the  
23 area vice president and sent forth to headquarters. And now  
24 I am forgetting the name of the manager, service -- service  
25 standards, service performance, I am not sure. But there is

1 a manager at headquarters to whom those requests are to be  
2 forwarded and I think the crucial piece of information is  
3 that such requests are not simply to be made on the basis of  
4 failure to achieve previous, or existing service standards.

5 COMMISSIONER GOLDWAY: Well, what I am looking for  
6 is perhaps something this manager of service standards can  
7 provide. Perhaps we need to request him as a witness. What  
8 did you say his title was, correct title?

9 THE WITNESS: I would have to check, I don't know.  
10 I thought I had it, but it has vanished.

11 COMMISSIONER GOLDWAY: I am not asking for the  
12 specific service for any one area, but it does seem to me  
13 there must be a matrix of distance, route availability,  
14 window service time, that is used across the country to say,  
15 okay, we can do within regions on one day and we can do this  
16 region to that region in one day, but this region to another  
17 region in two days.

18 THE WITNESS: I think that would be somewhat  
19 simplistic, with all due respect, in that, as I know all too  
20 well with regard to Express Mail, distance is not always a  
21 defining characteristic in terms of availability of  
22 transportation, for instance. That sometimes what is more  
23 important is the volume of mail traveling between any origin  
24 and destination, related to, for instance, the population in  
25 those two areas. That you could have a very short distance

1 for which it is difficult to find adequate transportation  
2 simply because there is no mail that travels between, or  
3 even beyond mail, there is very little commerce between  
4 those two areas.

5 COMMISSIONER GOLDWAY: Well, I suppose what I am  
6 trying to get at is, is there something objective that could  
7 some me that, operationally, the Postal Service is making a  
8 distinction Priority Mail service standards, and First Class  
9 mail service standards, so we know that one is more reliable  
10 than the other or faster than the other, in addition to the  
11 actual measurements that we get.

12 THE WITNESS: On an origin-destination basis?

13 COMMISSIONER GOLDWAY: Yes.

14 THE WITNESS: One for one?

15 COMMISSIONER GOLDWAY: Yes.

16 THE WITNESS: I don't know. Again, I would -- I  
17 don't know. It sounds like a rather messy undertaking. It  
18 may very well, exist, though I don't know.

19 COMMISSIONER GOLDWAY: Mr. Chairman, could we do  
20 this? I would like to ask the witness to provide me with,  
21 specifically, the name of the person in the Department  
22 that's in charge, operationally, of these service standards,  
23 and to provide me with whatever the -- and to provide the  
24 hearings and the participants with whatever simple  
25 explanation is available now.

1           And I can then determine whether to ask for  
2 additional information, and to get that report back from you  
3 within seven days?

4           THE WITNESS: Could we clarify the question again?  
5 Are we seeking an understanding of the criteria by which  
6 they would determine if priority for any given  
7 origin/destination pair would receive better -- a different  
8 service standard than First Class for that  
9 origin/destination?

10           COMMISSIONER GOLDWAY: Well, what I'd like to do  
11 is at least get a simple explanation of how those service  
12 standards are established for both First Class and Priority,  
13 and some explanation of the distinction between the two.

14           CHAIRMAN GLEIMAN: If I may, perhaps rather than  
15 asking the witness, let's ask the Postal Service to provide  
16 us with the title and perhaps name of the official who is  
17 responsible for reviewing and establishing service  
18 standards, if there is such an individual.

19           If there is no such individual or individuals who  
20 are responsible, if there no such individual, please let us  
21 know that.

22           If there is some type of an operational manual  
23 that lays out how one goes about establishing service  
24 standards for different classes of mail and subclasses of  
25 mail service, then could you please provide a copy of that

1 manual also?

2 And if there is no such manual, could you please  
3 then perhaps provide us with some narrative that explains  
4 how the Postal Service goes about determining whether  
5 certain types of Priority Mail service or 1- 2-, or 3-day  
6 service, as well as service standards for other types of  
7 mail.

8 MR. TIDWELL: Seven days?

9 CHAIRMAN GLEIMAN: Seven days.

10 MR. TIDWELL: Deal.

11 CHAIRMAN GLEIMAN: And as Commissioner Goldway  
12 reminded the witness when she first started, there's an  
13 outstanding obligation that I think is probably due sometime  
14 later on this week, involving a report on what's available  
15 in the way of information to the public, as well as clerks,  
16 in Post Offices around the country regarding Priority Mail.

17 And I probably got the wording of that one wrong,  
18 but if we look back at the transcript, we can agree on what  
19 it was that was requested earlier.

20 MR. TIDWELL: At the earliest opportunity, I will  
21 remind Mr. Cooper of his homework assignment.

22 COMMISSIONER GOLDWAY: Thank you, and thank you,  
23 Witness Mayes. I appreciate your responses, and the  
24 Commission's indulgence in allowing me to proceed out of  
25 order.



1 CHAIRMAN GLEIMAN: I think we're up to United  
2 Parcel Service.

3 CROSS EXAMINATION

4 BY MR. McKEEVER:

5 Q Ms. Mayes, I have a couple of questions to follow  
6 up on Commissioner Goldway's questions, and then I just want  
7 to follow up on a few questions that Mr. May asked you.

8 First, do we know how much Priority Mail volume is  
9 sent to zip code pairs where the service standard is two  
10 days for Priority Mail, but less -- but -- excuse me, not  
11 two days for First Class mail?

12 Do you know if that information is available? I  
13 don't believe it's in the record anywhere or has been  
14 provided.

15 A I don't know. We've provided -- Witness Robinson  
16 has provided a lot of service performance data in response  
17 to both APMU and DFC interrogatories. I don't know whether  
18 that particular piece of information has been provided.

19 Q Well, my question is, do you know whether it's  
20 available within the Postal Service, whether it's been  
21 provided or not, and do you have it in mind, or do you want  
22 me to ask it again?

23 A Either way, I don't know what the numbers would  
24 be. I would have to check. I don't know.

25 Q I think that would be a helpful piece of

1 information, because the information that we do have  
2 indicates that with respect to two-day service standards,  
3 there is considerably more zip code pairs where the Priority  
4 Mail service standard is two days, but the First Class  
5 service standard is not two days, is not as rigorous as two  
6 days.

7 And the volume that goes -- of Priority Mail that  
8 goes to that area, I think may be helpful information.

9 MR. McKEEVER: Mr. Chairman, may we ask that the  
10 Postal Service check to see if that information is  
11 available?

12 CHAIRMAN GLEIMAN: Mr. Postal Service, could you  
13 check to see if that information is available?

14 MR. TIDWELL: I'll certainly read the transcript  
15 at some point tomorrow and figure out what's been asked, and  
16 see how quickly we can come up with a response.

17 CHAIRMAN GLEIMAN: Well, if we can shoot for seven  
18 days, that would be great. Thank you, sir, I appreciate it.

19 BY MR. McKEEVER:

20 Q Do you know, Ms. Mayes, if Priority Mail tends to  
21 be sent longer distances than First Class mail because  
22 people perceive it is a faster service, and, therefore, use  
23 it for long distance shipments?

24 A I don't know. I'd have to look at the average  
25 haul figures. I don't know offhand.

1 Q Are average haul figures available for Priority  
2 Mail versus First Class mail?

3 A Well, that's a good question, now that I've said I  
4 have to look at them. I don't know if they exist.

5 [Laughter.]

6 THE WITNESS: Well, certainly, I could look -- I  
7 don't know.

8 MR. McKEEVER: I believe, Mr. Chairman, that would  
9 be the last piece of information that --

10 [Laughter.]

11 -- I would ask for today.

12 CHAIRMAN GLEIMAN: But not the last question?

13 MR. McKEEVER: That would be my last Priority Mail  
14 question.

15 CHAIRMAN GLEIMAN: Oh. There's no harm in trying.

16 [Laughter.]

17 CHAIRMAN GLEIMAN: I think the Postal Service will  
18 endeavor to see if the information exists somewhere and  
19 provide it under the same rules.

20 MR. McKEEVER: Thank you, Mr. Chairman.

21 BY MR. McKEEVER:

22 Q Now, Ms. Mayes, I'm going now to ask you just a  
23 few questions to follow up on Mr. May's cross examination of  
24 you.

25 Is it your testimony that if the Commission had

1 known in Docket R97-1, that Parcel Post's Fiscal Year 1998  
2 volume would be 20 percent -- approximately 20 percent  
3 higher than was estimated in Docket Number R97-1, the  
4 Commission may very well have adopted a Parcel Post cost  
5 coverage greater than 108 percent; is that essentially what  
6 you were trying to --

7 A Yes, that's what I was trying to convey, yes.

8 Q Okay. Am I correct that in R97-1, the Commission  
9 increased Parcel Post's attributable costs above the level  
10 that the Postal Service's proposed rate increase in that  
11 case was based on?

12 A I would have to check, but that's my recollection,  
13 because they required a larger increase in Parcel Post rates  
14 for -- I would have to check.

15 We did end up with a higher percent increase in  
16 rates. I would have to check on the costs.

17 Q You're not sure if that higher increase was at  
18 least, in part, due to an increase of attributable costs for  
19 Parcel Post as determined by the Commission?

20 A I would have to check.

21 Q Okay. Am I correct that it's not unusual for the  
22 actual cost coverage for a class of mail to turn out to be  
23 different from the cost coverage that the Commission adopted  
24 for a test year?

25 A That's right. The forecast of cost coverage is

1 based on forecasts of volumes, revenues, and costs, and  
2 those are not always exactly as forecasted.

3 The actual numbers are not.

4 Q Now, there was some discussion about the  
5 difference between 114.1 percent cost coverage and 115  
6 percent cost coverage for Parcel Post, do you remember that?

7 A That's right.

8 Q An approximately 1 percent in cost coverage for  
9 Parcel Post would mean about how much in additional revenue  
10 from that class?

11 A Oh, I don't know.

12 Q Can't we get a pretty good estimate of that from  
13 looking at your exhibits, either 32(a) or (b)? 32(b), I  
14 guess.

15 A No. Not necessarily. If we are changing the cost  
16 coverage -- well, let me back<sup>up</sup> and ask, under what  
17 circumstances are we changing the cost coverage? If it  
18 would necessitate a change in the rates, then Parcel Post  
19 has a fairly high own price elasticity. I don't know what  
20 would happen to the volumes and where we end up.

21 Q Well, I think your answer was that under the  
22 proposal that the Postal Service has now made, the Parcel  
23 Post cost coverage should be about 115 percent.

24 A That's right.

25 Q Okay.

1           A     And that is associated with a rate increase of 1.3  
2 percent.

3           MR. McKEEVER:   Okay.   That is all I have, Mr.  
4 Chairman.

5           CHAIRMAN GLEIMAN:   Are you sure?

6           MR. McKEEVER:   For now.

7           CHAIRMAN GLEIMAN:   That brings us to the  
8 Association of Priority Mail Users and then Val-Pak.   We  
9 don't need a scorecard for this, we just need to change  
10 hats.

11                               CROSS-EXAMINATION

12           BY MR. OLSON:

13           Q     Ms. Mayes, Bill Olson representing APMU, and I  
14 want to begin where Commissioner Goldway left off with  
15 respect to the ODIS data.   We had actually asked you, our  
16 Interrogatory Number 1, you may recall, about citing all  
17 data and information, including anecdotal information which  
18 you reviewed regarding actual delivery service received by  
19 Priority Mail during the base year in '99.   And your  
20 response was you receive and review quarterly ODIS reports  
21 on service performance, correct?

22           A     That's right.

23           Q     Okay.   Do you have anything generally you would  
24 like to share with us about Priority Mail service based on  
25 your review of those ODIS reports?   What are your

1 impressions about Priority Mail service versus First Class  
2 service in the overnight area, let's say, where Commissioner  
3 Goldway was asking you questions?

4 A The numbers don't stick in my head. And I know it  
5 is a matter of record that Witness Robinson has provided  
6 ODIS performance data. If you will bear with me just one  
7 moment, I will find your interrogatory response.

8 Q No, I actually have it.

9 A Oh, okay.

10 Q I will ask -- I was going to ask you regarding the  
11 specifics, but I was just trying to get a feel for whether,  
12 when you were preparing your testimony, you had reviewed  
13 these and understood the matters that -- the comparison of  
14 overnight Priority Mail versus First Class, for example,  
15 service?

16 A At the time that I prepared my testimony, yes, I  
17 did look at the ODIS reports and compare the First Class and  
18 Priority.

19 Q Okay. And think with Commissioner Goldway, you  
20 said that you didn't think that a 1 or 2 percent difference  
21 in performance was substantial, I think was the word you  
22 used.

23 A Right. Right.

24 Q What amount would be substantial, or significant,  
25 or important?

1           A     Partly because the numbers bounce around based on  
2     the time of year, and partly because you do have one-day and  
3     two-day and three-day service performance statistics, and --

4           Q     My question only relates to overnight.

5           A     No, I understand. But what I am suggesting is  
6     that I would say perhaps a 5 to 10 percent difference would  
7     be substantial in any one given measurement, but that that  
8     measurement would be merged, if you will, with the two and  
9     three-day, and national statistics.

10          Q     Okay. I understand. Let me give you the numbers  
11     from APMU/USPS-T-34-52, which was put forward by Witness  
12     Robinson, and this is for '97, '98 and '99. Actually, I  
13     could -- I don't know if you have that in front of you.

14          A     Actually, I do.

15          Q     Do you see what the overnight comparison is  
16     between Priority Mail and First Class, and can you tell us  
17     what the spread is for fiscal '97?

18          A     For fiscal '97, you have got -- are we talking the  
19     one day?

20          Q     One day. This is Priority Mail and First Class  
21     mail with a one day service standard, which arrives in one  
22     day.

23          A     Arrived in one day.

24          Q     Right.

25          A     I have got 86 for Priority and 91 for First Class.



1 Q Okay. And what is the difference there?

2 A I have got five points.

3 Q Okay. That would be substantial? I think you  
4 just said 5 to 10 was substantial.

5 A Well, it would be substantial. I don't know that  
6 it would be alarming. I don't know that it would cause me  
7 to change their relative rankings, certainly, in the array  
8 of all Postal services.

9 Q Okay. Well, let me see if I can alarm you. Take  
10 a look at fiscal '98.

11 A Right. We have an eight point spread.

12 Q And what are the two numbers there?

13 A I have got 84 on Priority and 92 on First Class.

14 Q Okay. So that went up by 3, from '97 to '98,  
15 correct?

16 A Yes, it did. I don't -- and I think perhaps Mr.  
17 McKeever raised this question. I don't know how much volume  
18 we are talking about. If we are talking about a dramatic --  
19 we are into drama here today, I guess. If we are talking  
20 about a lot of First Class mail and little Priority Mail, if  
21 we are talking about little First Class and a lot of  
22 Priority Mail within that service standard.

23 Q Have you ever looked at that as to what the  
24 volumes were, or is that just a question that has dawned on  
25 your today?

1           A     Well, what the ODIS reports give you, the average  
2     daily volumes, the pieces that are delivered within one day,  
3     two days, three days and so forth. So, it is possible to  
4     look at that.

5           Q     Isn't it true that ODIS data really doesn't give  
6     you the number of pieces, percentage of pieces that are  
7     delivered?

8           A     Okay. That is a very good point. It is not  
9     delivered, it is arriving at the destination office.

10          Q     So delivery is never better than the ODIS  
11     percentage, correct? It could be the same as.

12          A     I wouldn't expect it to be better than ODIS,  
13     that's right

14          Q     Well, by definition, it can't be better, can it?  
15     I mean it can't be delivered before it gets to the  
16     destinating office, can it?

17          A     That is our new service. No, you're right.

18          Q     Okay. Could you tell us what is happening in  
19     fiscal '99?

20          A     Fiscal '99, you have got a substantial difference  
21     in the one day service, 93 versus 85, as measured by ODIS.

22          Q     Have we gotten to alarming yet?

23          A     We are into alarming, I think.

24          Q     Okay. Let me ask you to turn to your response to  
25     Interrogatory Number 3 -- excuse me, Number 8, APMU Number

1 8? And it is just one word I want to focus you own in your  
2 response. In the second sentence, and we are talking about  
3 own price elasticity again, and there specifically Express  
4 Mail is compared to Priority Mail. And your second sentence  
5 says, "As the market providing delivery services becomes  
6 more competitive, it would not be surprising to see a change  
7 in the own price elasticity for Priority Mail." First of  
8 all, when you say competitive, you mean competitive in terms  
9 of features and price, perhaps both?

10 A It could be features, price, it could be more  
11 companies entering the market.

12 Q Okay. And then when you say it would not be  
13 surprising to see a change, would that be -- another word  
14 for that would be an increase?

15 A In the context of more competitive, it would be an  
16 increase.

17 Q Right. Let me ask you to -- well, I don't  
18 actually have this with me but I wanted to ask you if you  
19 have given thought to competitors of Priority Mail and the  
20 portion of the Priority Mail market which they focus upon.

21 In other words, are you aware of any large parcel  
22 companies that focus on the business-to-business market?  
23 They compete with Priority Mail?

24 A Exclusively business-to-business?

25 Q No, they sort of focus on it, like target that

1 kind of business, seek that kind of business.

2 A The common wisdom at the Postal Service is that we  
3 handle a lot of what is household-to-household,  
4 household-to-business, and some significant portion of  
5 business-to-household and some business-to-business, but it  
6 is my understanding that, just again common wisdom, that  
7 business-to-business is not our market.

8 Q And that is what I had thought, and then Witness  
9 Musgrave came up with some volumes. Let me ask you if you  
10 have ever seen these where he puts Priority Mail volumes  
11 into a matrix as to columns and rows as to senders being  
12 either residential or business and the recipients either  
13 being residential or business.

14 In other words, it is a four-cell table where you  
15 get to tell what percentage of Priority Mail volume is  
16 residential-to-residential, residential-to-business,  
17 business-to-residential, business-to-business.

18 Do you recall that testimony of his?

19 A I don't recall.

20 Q Okay. Have you ever looked at those numbers to  
21 find out how much of Priority Mail's volume would be in the  
22 business-to-business area?

23 A I did look at Witness Musgrave's testimony. If it  
24 is in there I must have seen it, but I don't recall.

25 Q Frankly, I don't recall if -- it might be an

1       interrogatory response but --

2           A       Okay.  I don't recall.

3           Q       Right.  The percentage that we worked out from the  
4       numbers he gave was I think he said there were 640 million  
5       pieces in the business-to-business, which is 54.5 percent of  
6       Priority Mail volume.  Does that surprise you as being a  
7       high number, as it did me?

8           A       That is somewhat surprising to me, yes.

9           Q       What conclusion can you draw from that about the  
10      vulnerability of Priority Mail to competitive attack -- in  
11      the nicest way possible?

12          A       Well, I would almost turn that on its head in that  
13      if I had been mistakenly believing Priority Mail to  
14      predominantly represent household -- mail either originating  
15      or destinating at a household, and now I find that a more  
16      substantial portion of that is business-to-business, that  
17      would almost indicate to me that Priority Mail is more  
18      successful in handling that mail than I would have expected,  
19      and yes, I do see your point that if business-to-business is  
20      a substantial and/or growing part of Priority Mail then if  
21      there are competitors that target that portion of the mail  
22      stream that would be vulnerable to their services.

23          Q       And if you raise Priority Mail rates by 15 percent  
24      there is at least 54.5 percent of that Priority Mail which  
25      is subject to particular vulnerability, don't you?

1           A     I think that would be subsumed in the testimony of  
2     Witness Musgrave and particularly if he is the one who  
3     provided you with the chart of business-to-business,  
4     business-to-household, et cetera, he would have been well  
5     aware of that when he produced his volume forecasts and to  
6     the extent that we have got a 15 percent increase in  
7     Priority Mail rates, Witness Musgrave is the one who  
8     produces the forecast of the volume response to that.

9           Q     No, I wasn't speaking about the volume estimates  
10    as much as I was what factors you considered when you  
11    established coverage levels for products, but I think you  
12    have answered the question as to the fact that you were  
13    aware of the numbers but were surprised the  
14    business-to-business was that high, isn't that correct?

15          A     Right. I am somewhat surprised that they are that  
16    high.

17          Q     Okay. Let me ask you lastly, I noticed in looking  
18    through your bio that you were the Express Mail rate design  
19    expert in R90-1.

20          A     That's right.

21          Q     Do you recall that there was a day when Express  
22    Mail was the dominant product among competitors in the  
23    overnight arena and then for one reason or another the rates  
24    went very high for Express Mail and it began to lose market  
25    share?

1           A     I do -- well, the postal lore is that we invented  
2     the product and then yielded it, but yes, I recall that  
3     Express Mail volumes or rather our share of the market did  
4     decline, yes.

5           Q     After rates had gone up significantly for the  
6     product?

7           A     I would have to look back at the history to  
8     correlate the two.

9           Q     If you don't recall, that's fine.  
10                Thank you very much.

11           MR. OLSON: I have some questions for you for  
12     ValPak and the first question that I have actually is to  
13     clarify the written cross examination which has been  
14     designated by ValPak and perhaps by other parties, but there  
15     was an interrogatory to you, ValPak-Carol Wright/USPS T32-2,  
16     that had a chart appended to it and there were a couple of  
17     questions asked about it, and it is my belief that the  
18     packet did not include the attachment to the interrogatory,  
19     thereby rendering your responses to the interrogatory  
20     difficult if not impossible to understand, and, Mr.  
21     Chairman, I would like to ask that these additional two  
22     pages, even though they were not a part of the response of  
23     this witness to the interrogatory, since they were part of  
24     the interrogatory they were necessary to clarify the record,  
25     that they be included in the transcript of this docket if I

1 could show them to the witness.

2 MR. TIDWELL: Excuse me, Mr. Chairman. The Postal  
3 Service caught that oversight last night and we ensured that  
4 the designated packages this morning contained the  
5 attachments to the response to ValPak-T32-2.

6 MR. OLSON: Thank you. Excellent.

7 CHAIRMAN GLEIMAN: In that case, you can't show it  
8 to the witness.

9 [Laughter.]

10 MR. OLSON: Okay.

11 Q It's ValPak Number 3 I'm going to begin with, and  
12 Section (b).

13 Now, this interrogatory is where we asked you to  
14 take a look at your recommended coverages and rates in terms  
15 of unit contribution for Standard A regular versus Standard  
16 A ECR, correct?

17 A Correct.

18 Q Okay. And the question points out that test year  
19 after rates under your rates, that Standard A Regular unit  
20 contribution was 5.48 and ECR was 8.19, correct?

21 A That's right, that's what your question says, yes.

22 Q And you confirmed that portion of it, I guess?

23 A Yes.

24 Q Although you didn't actually say that. I guess  
25 you did say that in Part A.



1           And then we asked you if you would agree that the  
2       proposed unit contribution from commercial ECR mail was 2.71  
3       cents, or 49 percent more than the unit contribution from  
4       regular, and there, I don't believe you confirmed that.

5           Can you confirm that for me today?

6           A     That's right.

7           Q     Okay. In your answer to Section (b), you talked  
8       about that how in your testimony, you don't propose unit  
9       contributions, but you propose cost coverages and percentage  
10      increases, correct?

11          A     That's right.

12          Q     Okay. But it's true that your cost coverages and  
13      percentage increases result in calculable unit contributions  
14      by product, correct?

15          A     That's right.

16          Q     Okay. And, therefore, do you think it's useful to  
17      look at unit contribution by product, or is the implication  
18      that it's not useful to look at it?

19          A     I didn't find it particularly useful to look at  
20      them in isolation. I believe I responded to a couple  
21      interrogatories, indicating that I had to look at the unit  
22      contributions in order to assess expected changes in the  
23      Postal Service's net revenue, but that I didn't look -- I  
24      did not create a chart, for instance, of unit contribution  
25      by subclass, and compare them to each other.

1 Q Okay. Well, let's just deal with Standard A  
2 Regular and Standard A ECR, and the fact that -- actually, I  
3 think it's 49.5 percent greater unit contribution for ECR  
4 than for Regular, and ask you if you think that that is a  
5 useful way to look at the relative burden on each of those  
6 subclasses?

7 A I looked at the cost coverages instead of the unit  
8 contributions. I thought the cost coverages were more  
9 instructive.

10 Q Okay, now, I know you did that. And my question  
11 is, I'm about to give you some numbers to look at that are  
12 unit contribution numbers, and I'm wondering if you just  
13 have a general --

14 A Aversion to unit --

15 Q -- that they're of no use whatsoever, they're  
16 misleading, and that sort of thing?

17 Or whether you think it's useful to discuss them?  
18 We'll do it one way or the other.

19 [Laughter.]

20 THE WITNESS: So we'll do it under protest?

21 [Laughter.]

22 THE WITNESS: They're not completely useless.

23 BY MR. OLSON:

24 Q Thank you. I'd like to hand you the Fiscal '98  
25 CRA, if you don't necessarily have a copy.

1 [Pause.]

2 MR. McKEEVER: Mr. Chairman, for clarification,  
3 may I ask counsel to identify which of the Fiscal Year 1998  
4 CRAs he has provided the witness?

5 MR. OLSON: You know, that was exactly what I was  
6 going to do when I sat down. This is the Library Reference  
7 2, the Fiscal '98 CRA.

8 BY MR. OLSON:

9 Q And is that correct, Ms. Mayes?

10 A It's Library Reference 2, yes.

11 Q For Fiscal 1998?

12 A For Fiscal 1998, but to Mr. McKeever's question, I  
13 think this is Postal Service's version, but it looks like  
14 the version before the incorporation of the Parcel Post data  
15 change.

16 MR. McKEEVER: Thank you, Ms. Mayes.

17 BY MR. OLSON:

18 Q Well, the inside of the first page there has a  
19 note that that's the revised one. That's not correct?

20 A It doesn't look right to me. The Parcel Post cost  
21 coverage shown here is 97 percent.

22 Q Well, that's not going to affect our looking at  
23 Standard A Regular and Standard A ECR, is it?

24 A Probably not substantively.

25 Q Well, let's work with what we've got, and I'll

1 tell Dockets about the note being on the wrong file.

2 But that's the only mistake I know they made this  
3 year.

4 Let's take a look at '98, if we could.

5 CHAIRMAN GLEIMAN: I'm kind of curious. You say  
6 there's a note in the front that says it's the revised  
7 version. Is that -- I just want to make clear that that's a  
8 note that was put in by Dockets?

9 MR. OLSON: Not by me.

10 MR. TIDWELL: Is this a smoking gun now?

11 [Laughter.]

12 MR. McKEEVER: Mr. Chairman, if I may, I believe  
13 that even before the RPW data revision, there was a 1998 CRA  
14 and a 1998 CRA-Revised Postal Service version, so I don't  
15 think it's unusual that that's on there.

16 CHAIRMAN GLEIMAN: So if we understand correctly,  
17 it's the revised version, but not the version that  
18 incorporates the change related to Parcel Post?

19 MR. McKEEVER: My understanding, Mr. Chairman, is  
20 that the version that incorporates the change to the revenue  
21 and volume numbers for Parcel Post is marked on the cover,  
22 RPW Version, or RPW Revision.

23 THE WITNESS: And my recollection was that the  
24 revised non-RPW adjusted version said on the front, Revised,  
25 so I'm not sure.

1 This looks like the original to me.

2 [Laughter.]

3 CHAIRMAN GLEIMAN: Well --

4 THE WITNESS: But we can still look at it if you'd  
5 like to.

6 [Laughter.]

7 MR. OLSON: Thank you, Mr. McKeever.

8 [Laughter.]

9 BY MR. OLSON:

10 Q Let's take a look at it, and take a look at  
11 Standard A ECR, and see if you can just quickly give us the  
12 numbers for revenue, volume variable costs, and then I'll  
13 subtract the two instantaneously and tell you the  
14 contribution.

15 A Excuse me, are you looking at it on a unit basis,  
16 or the total numbers?

17 Q Total numbers.

18 A I've got revenue of \$4,952.6 billion, and volume  
19 variable cost of \$1,9987 billion.

20 Q And although for reasons not clear to me, the  
21 aggregate contribution doesn't appear in the CRA reports,  
22 the difference that I get is 2.95, 3.9 -- excuse me, 2,953.9  
23 as the contribution.

24 A Okay.

25 Q That indicates to me that in rough numbers, about

1 revenue about \$5 billion, volume variable costs of \$ 2  
2 billion, contribution of \$3 billion. Rounding off, that's  
3 about right; isn't it?

4 A That's about right, yes.

5 Q So, for ECR mail, it took the Postal Service --  
6 the Postal Service had to spend \$2 billion to make \$3  
7 billion? That's one way of looking at it?

8 A Right.

9 Q Okay. For regular mail, can you give us the  
10 revenue?

11 A Seven billion -- so it's <sup>2222.7</sup>~~7,22.7~~

12 Q Point seven?

13 A Point seven, yes.

14 Q Okay, and the volume variable costs?

15 A Five billion, one-zero-four-zero.

16 Q Okay, and that, by my calculator, shows 2,118.7 as  
17 the contribution from regular, or in other words, the Postal  
18 Service had to spend about \$5 billion to make a little more  
19 than \$2 billion, correct?

20 A If that's how you want to characterize it.

21 Q Well, that is what I am doing, yes.

22 A Okay.

23 Q What I am asking you is whether that causes you to  
24 be able to make any inter-subclass comparison about the two  
25 subclasses of Standard A in terms of whether there should be

1 an effort by the Postal Service to, shall we say, nurture  
2 one product more than the other?

3 A I am not sure that I understand what you mean by  
4 nurture, in terms of provide a different type of service? I  
5 am not <sup>certain</sup> ~~some~~ I understand.

6 Q At the moment I am talking about setting cost  
7 coverages.

8 A Well, obviously, if you change the cost coverage,  
9 the contribution ratio of contribution to cost would not be  
10 the same.

11 Q Right. It is a moving target. But let me put it  
12 this way, do you think that the Postal Service would be  
13 indifferent between getting an extra billion pieces of ECR  
14 versus Regular mail?

15 A No, I think the ECR mail, if we suddenly received  
16 a billion pieces more of ECR mail, we would have a more  
17 substantial impact on the net revenue than we would if we  
18 received a billion pieces of regular.

19 Q Okay. Take a look for just a second at the per  
20 piece contributions over there on the righthand columns.  
21 The ECR, as I wrote them down, was revenue per piece 14.5  
22 and cost of 5.9 and contribution of -- it says there, I  
23 think 8.6, but -- or 8.7, but actually, you have got 8.6, it  
24 must be a rounding issue?

25 A Right. It does say 8.7, but you are right.

1 Q Okay. And for Regular, 20.5 revenues, 14.5  
2 marginal cost and 6 cent contribution, correct?

3 A That's right.

4 Q Okay. And the difference between the Regular  
5 contribution -- per piece contribution and the ECR per piece  
6 contribution there is 2.7, correct?

7 A Right.

8 Q And what is it under your proposal? About the  
9 same?

10 A Magically, 2.7, yes.

11 Q About the same. Okay. You had no intention to  
12 try to preserve any unit contribution numbers, right?

13 A No. No. No, I did not.

14 Q Okay.

15 A And, actually, I guess this would unit  
16 contribution -- difference in unit contributions.

17 Q Difference in unit contribution, correct?

18 A Right.

19 MR. OLSON: Mr. Chairman, that is all I have.  
20 Thank you.

21 CHAIRMAN GLEIMAN: Follow-up?

22 [No response.]

23 CHAIRMAN GLEIMAN: No one? Goodness gracious.

24 Questions from the bench? Commissioner LeBlanc.

25 COMMISSIONER LeBLANC: Ms. Mayes, I guess the good



1 thing about going late in the afternoon like this is you get  
2 a lot of your questions answered. So bear with me, a lot of  
3 mine are just clarifications for my own purpose here.

4 You talked about, with Mr. Todd earlier, and some  
5 of the others, about ECSI. And you seemed to indicated that  
6 you rely on the Commission precedent and at the same time  
7 you rely on your own independent judgment. It is just kind  
8 of a combination. Is that a fair assumption?

9 THE WITNESS: That is a fair assumption, yes.

10 COMMISSIONER LeBLANC: So, do you apply your  
11 judgment independently then, when it comes to that kind of  
12 thing? And by that I mean, I am trying to focus, if I can  
13 on the weight that you give certain things. As an example,  
14 periodicals. How do you look at, say, a Bible versus  
15 Popular Mechanics? I mean do you kind of -- do you go  
16 between the two?

17 THE WITNESS: I try not to. I try to view  
18 periodicals as a whole in terms of precedent and intent to  
19 disseminate information. And I don't distinguish among the  
20 types of information disseminated within periodicals.  
21 Because I am not in a position at this point to establish  
22 separate rates, separate cost coverages for different  
23 categories of mail to make --

24 COMMISSIONER LeBLANC: You mean even though it is  
25 Popular Mechanics, I mean that is a poor example, what I

1 just used, but I am just saying, even though you may have a  
2 periodical that has 50 percent advertising versus the  
3 editorial content?

4 THE WITNESS: Well, the advertising versus  
5 editorial content can be addressed more directly through  
6 rate design within the subclass.

7 COMMISSIONER LeBLANC: I understand. But from a  
8 pricing standpoint, then you don't care about that, is that  
9 what you --

10 THE WITNESS: I wouldn't say that I don't care  
11 about it, but for periodicals, in general, ECSI value  
12 consideration is paramount. I am not distinguishing among  
13 the various types of periodicals, or one that has more  
14 editorial content than another.

15 COMMISSIONER LeBLANC: Well, then bear with me, I  
16 am trying understand, how do you come up with your price  
17 then? If you don't distinguish. Well, it would seem to me  
18 that you almost have to distinguish between them to get your  
19 price. You have got that goal that you are trying to get  
20 to.

21 THE WITNESS: Right. But, again, ECSI value is  
22 only one of the nine criteria.

23 COMMISSIONER LeBLANC: Believe me, I know that. I  
24 definitely understand that.

25 THE WITNESS: I don't think that either the Postal

1 Service or the Rate Commission in the past has indicated how  
2 many points, for instance, ECSI value in any circumstance  
3 was worth. In other words, it would be very difficult for  
4 me to say that, for instance, in Docket Number R86, which  
5 didn't exist, and that is why I am using it, the Rate  
6 Commission said that because periodicals' editorial content  
7 had dropped from an average of 80 percent to 30 percent,  
8 ECSI value now would only be worth 2 points off instead of  
9 10. I don't have a matrix of that nature to use.

10 COMMISSIONER LeBLANC: So let me, if I can, I will  
11 put it another way. I will ask it in the form of a question  
12 then. Can you quantify the relative weight given to ECSI in  
13 terms of its impact on cost coverage, or is weight to be  
14 given to it purely as a matter of judgment, I guess would be  
15 a way of saying it?

16 THE WITNESS: I would say purely as a matter of  
17 judgment, with the obvious understanding that you end up at  
18 a number. You end up at a cost coverage number.

19 COMMISSIONER LeBLANC: Can you clarify your  
20 response to AAP/USPS-T32-12 where you indicate you used the  
21 RPW to estimate book values -- we were talking about that  
22 again this morning -- in BPM, whereas Professor Tolley used  
23 the Household Diary Study.

24 Can you correlate the two for me?

25 THE WITNESS: Right. It is my understanding that

1     Witness Tolley used the Household Diary Study to provide him  
2     with an estimate of the share of bound printed matter that  
3     were books, and I had looked at the RPW data.

4             Now the RPW data was divided into two categories,  
5     books and nonbooks, whereas it is my understanding that the  
6     Household Diary Study looks at -- oh, I thought I had  
7     written it in here -- the Household Diary Study had three  
8     classifications if I recall -- books, catalogs and items  
9     that were neither books nor catalogs. Part of what I was  
10    pointing out in my response was that since there were only  
11    two categories possible in RPW that the RPW data collector  
12    when he or she encountered a piece of mail that under the  
13    Household Diary Study three classification system might have  
14    been dumped into the "neither book nor catalog category,"  
15    the RPW data collector had to make a determination as to  
16    whether this was a book or a nonbook and I remember many  
17    conversations at Headquarters where we tried to decide, for  
18    instance, whether a telephone directory was a book or a  
19    nonbook, and some folks thought it was one, some folks  
20    thought it was another, and partly because of the fuzziness  
21    of some of these classifications it was determined that  
22    collecting the data in that way was not particularly  
23    meaningful.

24             What I am suggesting in the --

25             COMMISSIONER LeBLANC: Collecting it in which way

1 now, to clarify the record?

2 THE WITNESS: Collecting it separately for books  
3 and nonbooks, as opposed to just bound printed matter.

4 COMMISSIONER LeBLANC: Okay.

5 THE WITNESS: And what I am suggesting in my  
6 response is that part of the difference in the figures that  
7 show up in the Household Diary Study as opposed to RPW might  
8 be a result of classification differences and partly might  
9 be the result of when the individual at the household who is  
10 participating the Diary Study receives a package, a bound  
11 printed matter package, that person has the opportunity to  
12 open the package and ascertain what exactly is contained in  
13 that box, whereas the RPW data collector may be confronted  
14 with a cardboard box and not know what is within that box,  
15 whether it is, for instance, a book or a directory of some  
16 nature.

17 Additionally, the Household Diary Study by  
18 definition is only looking at the part of the mail stream  
19 that destines with the household and originates with the  
20 household, whereas RPW is looking at all of the mail.

21 COMMISSIONER LeBLANC: You talked a lot about  
22 mitigating your cost coverages and changing. What do you  
23 look at if you mitigate a cost? In other words, what  
24 standard do you use? Again, is it a judgment call here? I  
25 mean is this a --

1           THE WITNESS: It is a judgment call. It is partly  
2 in terms of mitigating I guess the easiest way would be to  
3 use as a benchmark the Commission's last decision, for  
4 instance. That gives you an array of cost coverages.

5           You look at the cost increase and say if I  
6 translated the increase in cost since the last case into the  
7 same cost coverage or close -- a range, a narrow range  
8 surrounding the cost coverage that the Commission  
9 recommended in their last decision, how big of a rate  
10 increase would this imply and what kind of a change in  
11 volume would this mean, and is this out of range with the  
12 system average and the increases for other subclasses of  
13 mail, and in fact with several of the subclasses for whom I  
14 have indicated that I mitigated their cost coverage in  
15 deference to Criterion 4, in this case I didn't even have to  
16 look at the Commission's last decision. All I had to do was  
17 look at the increase in costs from the base year of the last  
18 case, R97, to the base year of this case, and see, you know,  
19 with bound printed matter I am looking at more than a 30  
20 percent -- now I am forgetting the exact number -- but it  
21 was a rather enormous increase in costs.

22           Periodicals I am looking at a fairly large  
23 increase in costs and so forth.

24           COMMISSIONER LeBLANC: Well, that brings up I  
25 guess my last bit of questioning. In your response to Mr.

1 Olson you were talking about substantial, and I don't want  
2 to get caught up in semantics here too much, except to say  
3 that -- well, maybe I do.

4 What then is excessive to you as far as -- I mean  
5 is it 25 percent? Is it, you know, what becomes an  
6 excessive amount there when you are looking at,  
7 quote/unquote "fair and equitable" as well?

8 THE WITNESS: Sure. That is a very good question,  
9 and I don't think that that falls completely within my  
10 control. In other words, it is not simply my judgment.  
11 With regard to the final rate increase, the percentage  
12 increase by subclass of mail, as we proceeded through the  
13 development of the rate case, interim sets of rates were  
14 floated, if you will, past various levels of management and  
15 I can't say that I know why or at what level they would  
16 determine that a rate increase was unacceptable.

17 COMMISSIONER LeBLANC: Excuse me for interrupting  
18 you.

19 THE WITNESS: Yes.

20 COMMISSIONER LeBLANC: But if it was unacceptable,  
21 was it given back to you and said this is unacceptable,  
22 change it because it is not liked by management, or was it  
23 just given back to you and said, okay, now do whatever you  
24 have to do but this is what we are going to go for?

25 I mean how does that unfold?

1 THE WITNESS: In some circumstances, yes, it is  
2 given back to me, or I am given some guidelines ahead of  
3 time that said, you know, just in general we don't want to  
4 see anything in the 20 percent range.

5 COMMISSIONER LeBLANC: But now is that by class,  
6 subclass, total?

7 THE WITNESS: No, no, that would be by subclass.  
8 By total -- total we have financial models that gave us a  
9 fairly close estimate of what we expected to be the  
10 systemwide average, so we knew ahead of time that we were  
11 looking at a 6 percent, 6.5 percent increase overall.

12 Within that average there's an array of rate  
13 increases by subclass and it is not as tight a range as we  
14 saw for instance in R94 where every subclass that could get  
15 the same rate increase got the same rate increase in the  
16 Postal Service's proposal or even in R97, where we had a  
17 very low rate increase and a very narrow range around the  
18 systemwide average.

19 But even given that this case is not as tightly  
20 constrained as those last two cases, it was my understanding  
21 from various conversations and meetings and so forth as we  
22 developed the case that rate increases beyond certain  
23 ranges, and the ranges would vary by subclass, would not be  
24 acceptable.

25 COMMISSIONER LeBLANC: Well, then in your colloquy



1 with Mr. Baker and I believe possibly somebody else you  
2 talked about in effect meeting your break-even/volume/  
3 revenue goals, and how do you justify what you justify what  
4 you just said and doing that at the same time?

5 THE WITNESS: But that is why we have nine pricing  
6 criteria and Criterion 4 suggests that the impact on mailers  
7 in the form the percentage rate increase be considered and  
8 given that, for instance with some of the subclasses that I  
9 brought up, the Priority Mail, Bound Printed Matter,  
10 Periodicals -- and it seems to me there was one more that I  
11 am forgetting at the moment -- but those subclasses of mail  
12 received such substantial cost increases since the last case  
13 that we knew that their rate increases were going to be  
14 substantial and they were mitigated somewhat.

15 Well, once that is done, you sort of reshuffle the  
16 deck, if you would, and set up a new set of cost coverages.  
17 You adjust all the other cost coverages to try to make up  
18 for lost revenue.

19 COMMISSIONER LeBLANC: So then -- well, let me try  
20 to tie it up with this last question then. Given a lot of  
21 things I have read in the postal press -- I believe PMG  
22 Henderson has talked about it a lot, about getting into the  
23 e-commerce and doing a lot of things like that, you kept  
24 that as well as the nine criteria in the back of your mind,  
25 or did you compare the two, in other words with an ECSI

1 again versus volume revenue?

2 Did that come into play at all, because it is a  
3 difference, at least in my mind. When you price it, you  
4 have to keep all of that in mind -- lost volume --

5 THE WITNESS: I am not sure I understand. Are you  
6 talking about the Postal Service activity in electronic --

7 COMMISSIONER LeBLANC: I am talking about within  
8 the Postal Service and without -- outside the Postal Service  
9 and how that affects what you do on the pricing concept of  
10 it.

11 THE WITNESS: Well, I think that has been covered  
12 in conversations with Dr. Tolley and Mr. Thress and Mr.  
13 Bernstein and various other witnesses in terms of to the  
14 extent that there is a new or an expanded sense of  
15 competition from alternate media, if that would show up in  
16 the form of a difference in the volume forecast, and  
17 obviously as --

18 COMMISSIONER LeBLANC: I thought that might be the  
19 answer, but I just wanted to clarify --

20 THE WITNESS: Right.

21 COMMISSIONER LeBLANC: -- and again that was a  
22 poor clarification question on my part.

23 THE WITNESS: As we go through the iterative  
24 process, I used their volume forecasts to make judgments,  
25 yes.

1 COMMISSIONER LeBLANC: Thank you very much, Ms.  
2 Mayes. Thank you, Mr. Chairman.

3 CHAIRMAN GLEIMAN: Commissioner Covington?

4 COMMISSIONER COVINGTON: Thank you, Mr. Chairman.  
5 Good afternoon, Ms. Mayes.

6 THE WITNESS: Good afternoon.

7 COMMISSIONER COVINGTON: I have I guess you would  
8 probably say some general questions to get some  
9 clarification from you on.

10 I don't know how general you would call Ramsey but  
11 I noticed in reading your testimony and looking at some of  
12 the background from Docket Number R97-1 that Ramsey prices  
13 are prices that maximize consumer and producer surplus, and  
14 I think it is said that they are subject to single  
15 constraints that rates recover all the costs.

16 What I wanted to do or what I wanted to hear from  
17 you was I need you to give me your personal take on Ramsey  
18 since I don't know whether or not you made any formal use of  
19 the process or of the formula when you were looking at the  
20 concept within the perimeters of your testimony.

21 THE WITNESS: I think I have indicated that I  
22 didn't make formal use of the Ramsey model but it is a  
23 useful construct for a benchmark, if you will, to compare  
24 the postal proposed prices, rate levels against, maybe to  
25 assess how far from economic efficiency we are, to establish

1 that -- to put it poorly but to establish that we are not  
2 the "big bad monopolists," in other words, that we have not  
3 maximized the net revenue from First Class mail.

4 COMMISSIONER COVINGTON: Okay. Well, would you  
5 agree that marginal costs are probably the most important  
6 factor you look at when assessing attributable costs?

7 THE WITNESS: I am looking at the volume variable  
8 cost and then, as I think I might have indicated elsewhere,  
9 the cost coverage that I set over the volume variable cost,  
10 particularly for certain subclasses that have substantial  
11 specific fixed costs, the cost coverage over volume variable  
12 cost is set such that those specific fixed costs are more  
13 than adequately covered also.

14 COMMISSIONER COVINGTON: Okay, which means I think  
15 our duty here at the PRC is that we must be able to  
16 demonstrate that recommended rates include an amount above  
17 what is attributable costs so that you as the Postal Service  
18 you would be able to I guess recoup or keep your  
19 institutional costs within --

20 THE WITNESS: Right. We need to cover the  
21 institutional costs in addition to the volume variable  
22 costs, and I think elsewhere on the record we have discussed  
23 the presentation of the Postal Service's incremental costs.

24 I provide a comparison I think in my Exhibit E of  
25 revenues and incremental costs and the idea being there that

1 it is my understanding that the incremental costs are, well,  
2 how shall I say it? -- more generous perhaps than  
3 attributable costs even, such that the Commission can be  
4 reassured that if the revenue is covering the incremental  
5 costs it is more than adequately covering the attributable  
6 costs.

7 COMMISSIONER COVINGTON: Okay, which leads me to a  
8 question I was going to save for last, but with regard to  
9 cross-subsidies, okay --

10 THE WITNESS: Right --

11 COMMISSIONER COVINGTON: -- and I don't think that  
12 anybody on this bench or any of my colleagues have any  
13 desire to recommend that rates would allow for anything of  
14 that nature, and with regard to I think it is Criterion 3,  
15 when you tested for cross-subsidy using the incremental  
16 costs, did you do most of this on your own or I think  
17 somewhere there was a footnote that alluded to the fact that  
18 Mr. Bradley and Mr. Degen and so forth also contributed to  
19 the formulation, so I need to know with regard to  
20 cross-subsidies and with the information that you looked at  
21 as it pertains to incremental costs, can you clarify that a  
22 little bit more?

23 THE WITNESS: Sure. I guess first of all I should  
24 clarify that I just receive numbers from everyone else in  
25 this case. I don't generate anything myself.

1           What I mean is Witness Bradley and Witness Kay  
2     provide testimony on incremental costs and Witness Kay  
3     provides the estimates of the incremental costs by subclass  
4     and then by combinations of subclasses.

5           The pricing witnesses, the individuals who do the  
6     rate design for each of the subclasses, provided me with  
7     revenue estimates, and I compared the revenue estimates from  
8     the pricing witnesses to the incremental costs as developed  
9     by Witness Kay to see if the revenue covered the incremental  
10    costs for each of the subclasses.

11           COMMISSIONER COVINGTON: Okay, so in other words  
12    you receive -- everything was kind of like fed into you and  
13    then you used that as a basis for --

14           THE WITNESS: Right. I did the comparison but  
15    each of the pieces came from other people, yes.

16           COMMISSIONER COVINGTON: And it is safe to assume  
17    that there is no cross subsidy, would not be any cross  
18    subsidy in anything that you came up with?

19           THE WITNESS: Well, we do have a little bit of a  
20    problem with Within County.

21           COMMISSIONER COVINGTON: How large of a problem?

22           THE WITNESS: \$251,000.

23           COMMISSIONER COVINGTON: Well, depending on whose  
24    eyes are looking at it --

25           THE WITNESS: That's right.

1 COMMISSIONER COVINGTON: Now let's go to Criterion  
2 6, Ms. Mayes. You will notice that I am pretty general kind  
3 of guy, you know? I am not too technical. I won't be  
4 asking you about, too much about cost coverage and so forth  
5 and passthroughs. I am still learning how to spell those  
6 words, but under Criterion 6, where you say "degree of  
7 preparation" I am little puzzled as to those mailers that  
8 workshare because we know through worksharing you remove  
9 attributable costs but then quite naturally there are some  
10 institutional costs that's in there that remains unchanged.

11 Now is the implication here that worksharing  
12 really isn't all it is cut out to be or is worksharing a  
13 discount that as far as the Postal Service is concerned you  
14 could either give it or not give it? I just need to know  
15 what would be the benefit or how is worksharing viewed under  
16 Criterion 6 as far as me being a mailer and preparing my  
17 product?

18 THE WITNESS: Right. I think I indicated  
19 somewhere along 9 and 10, where I discuss criterion 6, that  
20 in large part criterion 6 becomes more of a concern at the  
21 rate design level, within each of the subclasses  
22 individually. And there we end up balancing criterion 6  
23 with, I believe it is criterion 7, which is the simplicity  
24 criterion, if I am right. Yes, criterion 7.

25 COMMISSIONER COVINGTON: That's correct.

1 THE WITNESS: Where you want to create enough work  
2 sharing opportunities to send price signals to the mailing  
3 community to allow the mail to be prepared and handled most  
4 efficiently whether it be by the Postal Service or by the  
5 mailers prior to tendering the mail with the Postal Service.

6 But at the same time, you don't want your rate  
7 schedule to get too incredibly complicated. And I say that  
8 knowing how complicated our rate schedules are. But  
9 criterion 6 does more immediately play a role at the rate  
10 design level.

11 COMMISSIONER COVINGTON: Okay. So, in other  
12 words, if I am going to benefit from work sharing, as far as  
13 the discounts are concerned, what area, what problem would  
14 my benefitting from work sharing really impact USPS  
15 functions? Would it be over on the delivery end, or would  
16 it be -- not the delivery end, I mean transportation cost as  
17 opposed to, you know, the fellow walking up and putting it  
18 in my mailbox. Where would you have to deal with that?

19 THE WITNESS: In terms of setting rate levels?

20 COMMISSIONER COVINGTON: In terms of rate levels,  
21 that's correct.

22 THE WITNESS: Well, I bump up against that when --  
23 and this has come up a little bit earlier, when mailers are  
24 performing more and more work sharing, they are removing  
25 attributable costs from the Postal system, and the



1 institutional costs, by and large, stay fairly the same.  
2 What that means is, because the cost coverage is applied to  
3 the attributable costs or the volume variable costs, if the  
4 volume variable cost goes down, but the institutional cost  
5 remains the same, in general, the markup applied to that  
6 attributable cost has to go up, because you have now got a  
7 smaller base to which you would apply the markup, trying to  
8 make sure that you distributed the institutional costs and  
9 could still recover the institutional costs.

10 COMMISSIONER COVINGTON: Well, how difficult do  
11 you find it, when you talk about attributable costs, you  
12 could be talking about mail processing or window service, or  
13 like I told you, delivery or transportation costs, how do  
14 you all break that out and know what is left to go in the  
15 institutional cost kitty?

16 THE WITNESS: Ah, that is a very complex system  
17 that I stay out of. That gets us into the testimony of  
18 Witnesses Meehan and so forth, and issues of volume  
19 variability.

20 COMMISSIONER COVINGTON: But that is all  
21 associated with cost and pricing, isn't it?

22 THE WITNESS: Well, I would say it is associated  
23 with costs. As I indicated before, aside from questioning  
24 some of the costs, basically, I take the costs as given to  
25 me, and we have a whole array of experts who decide how to

1 divide costs into attributable or volume variable and  
2 institutional.

3 COMMISSIONER COVINGTON: What about marginal?

4 THE WITNESS: Marginal is essentially the same as  
5 the volume variable. The marginal cost of an additional  
6 piece is the cost that that piece adds to the system.

7 COMMISSIONER COVINGTON: Well, you know,  
8 theoretically, marginal costs change. We know that that can  
9 be due to volume, it can be due to input. It can be due to  
10 things that you all do by changing your organizational  
11 structure, or whether you say that you don't want so many  
12 casuals out at Merrifield, Virginia, or, you know, the  
13 people back-handling the mail are not going to do as much  
14 overtime. I am saying, how do you tie all of that in to the  
15 overall scheme as it relates to attributable, institutional,  
16 volume variable? I am saying --

17 THE WITNESS: Sure. I don't want to be unhelpful,  
18 but it is a complicated matter, and that is why we have a  
19 large number of costing witnesses who are more prepared to  
20 address those issues than I am.

21 COMMISSIONER COVINGTON: Okay. So, in other  
22 words, your thing is primarily pricing, more so than costs?

23 THE WITNESS: Right. More so than costs, sure.

24 COMMISSIONER COVINGTON: Okay.

25 THE WITNESS: Sure.

1                   COMMISSIONER COVINGTON: All right. That was  
2 pretty much what I had some general thoughts and needed some  
3 clarification on, Ms. Mayes. I appreciate you for providing  
4 me with that information. I didn't know what I was going to  
5 ask until I started looking over at you, so I thank you for  
6 indulging me.

7                   That is all I have, Mr. Chairman.

8                   CHAIRMAN GLEIMAN: My turn. You know, one of the  
9 best parts about coming last is you get to hear all the  
10 questions that everybody else asks and that does away with  
11 most of your questions. But then it makes you think of  
12 other questions you want to ask.

13                  Did I understand you to say that while you are the  
14 costing witness, that you do question some costs  
15 occasionally?

16                  THE WITNESS: Yes.

17                  CHAIRMAN GLEIMAN: Did you question any costs in  
18 the periodicals area?

19                  THE WITNESS: I don't remember questioning the  
20 periodicals costs specifically. I mean when the base year  
21 estimates for 1998 came out, I, along with several others in  
22 pricing, did put together a quick chart showing which ones  
23 had gone up more than others. And we flagged those and  
24 suggested that those might cause some pricing problems and  
25 asked for verification that, in fact, what we saw as being

1 cost changes outside the average range were, in fact, as  
2 represented.

3 CHAIRMAN GLEIMAN: As you probably know, we asked  
4 for some witnesses to explain to us what went on with  
5 periodicals processing costs, flats processing costs,  
6 generally, and periodicals in particular. And one of the  
7 specific questions we had was, what happened during FY '98,  
8 because there appeared to be an increase in the slope of  
9 increasing costs? The slope got steeper. And we got two  
10 pieces of supplemental testimony, which we will find out  
11 later on whether they are particularly helpful or not in the  
12 overall scheme of things.

13 But I am just wondering if this is the kind of  
14 thing that you might have questioned had it been available  
15 to you at the time, reading ST-42 first and ST-42 second.  
16 On page 18 of ST-42 at line 6 there is a sentence that says,  
17 "As explained by Mr. Unger," he is ST-43, "when the actual  
18 volumes experienced in 1998 did not meet expectations, the  
19 Postal Service had difficulty reducing the number of  
20 employees."

21 And then when you go back and you look at what Mr.  
22 Unger said, Mr. Unger said that mailers said that they  
23 thought volumes would begin to rise in July of '98, and I am  
24 looking at page 12, and I won't read the whole thing, but  
25 mailers thought volumes would begin to rise. And,

1 accordingly, the Postal Service staffed up, and,  
2 unfortunately, the volumes didn't materialize.

3           You got asked a whole bunch of questions about  
4 attributable costs, and marginal costs, and incremental  
5 costs. And I am just wondering what kind of costs these  
6 additional employees that were hired to handled volumes that  
7 never materialized are, and that you couldn't get rid of.  
8 Or to use the language of the testimony, you had -- the  
9 Postal Service had difficulty reducing the number of  
10 employees. I mean are these attributable costs, volume  
11 variable -- they are certainly not volume variable because  
12 they didn't vary with the volume. I mean they should have  
13 disappeared if they were volume variable guys. What are  
14 they? Who are they? What kind of costs are these?

15           THE WITNESS: I would hesitate to guess, except to  
16 refer you to some of the costing analysts.

17           CHAIRMAN GLEIMAN: We will check it out them. But  
18 I am just kind of curious, you know, when you said you might  
19 have questioned some costs here and there, whether you ran  
20 across anything like that.

21           THE WITNESS: Oh, did I run across employees who  
22 wouldn't go away?

23           CHAIRMAN GLEIMAN: You may have run across them  
24 employees who didn't go away, but I am talking about mail  
25 processing employees who couldn't be gotten rid of.

1 THE WITNESS: No, I don't try to make those  
2 determinations.

3 CHAIRMAN GLEIMAN: Earlier on, you had an  
4 exchange, well, you had a couple of exchanges, one with my  
5 colleague, Commissioner Goldway, about the service on  
6 Priority Mail and then another related to that with Mr.  
7 Olson who offered up an example of Express Mail and what may  
8 or may not have happened with Express Mail. And you  
9 mentioned that legend has it around L'Enfant Plaza that the  
10 Postal Service invented overnight delivery, but something  
11 happened, they ceded the territory to someone else when the  
12 volume went down.

13 Can volume fall for reasons other than increases  
14 in price?

15 THE WITNESS: Absolutely.

16 CHAIRMAN GLEIMAN: Like poor service, for example?

17 THE WITNESS: Poor service -- you know, I think  
18 the models of Witnesses Tolley and Musgrave provide sets of  
19 variables with which they have been able to correlate volume  
20 changes.

21 CHAIRMAN GLEIMAN: Speaking of that group of  
22 witnesses -- and you didn't go to the third one in the trio,  
23 Witness Thress -- earlier on today, you had an exchange with  
24 Mr. Costich. He asked you some questions about e-billpaying  
25 and volumes that may or may not appear or disappear, where

1 the volumes were going to come from.

2 As it turns out, I had some similar questions of  
3 Witness Thress. I asked him, because he and, I think, also  
4 Dr. Tolley, had indicated that we were dealing with small  
5 amounts of money, and relatively small volumes, on the order  
6 of -- everything is relative here -- \$25 million and 75  
7 million pieces.

8 And I asked the question. I'm wondering whether  
9 the \$25 million or the 75 million pieces is a number that is  
10 above and beyond what you built into the system when you  
11 were looking at diversion to other electronic billpaying?

12 And that's at 3736, line 22 et seq of Volume 9.  
13 Continuing on to the next page, the witness said, yes, it,  
14 that \$25 million and 75 million pieces is above and beyond  
15 the diversion that had been built in for other electronic  
16 diversion.

17 And then I asked, above and beyond? Okay, so  
18 these pieces that theoretically would otherwise stay in the  
19 mails stream, but for the Postal Service entering electronic  
20 billpaying, these particular pieces, these are the  
21 particular pieces that we're talking about? And he said,  
22 yes.

23 Now, you were asked about -- and I don't know  
24 whether there are any pieces that contribute 29 cents or  
25 not, and I have seen some of the same press reports that Mr.

1 Costich has about the Postal Service getting 10 cents apiece  
2 for e-billpaying.

3 I'm just kind of curious here. Is it in the  
4 Postal Service's interest, assuming that Witness Thress was  
5 correct, that there are 75 million pieces? And he did  
6 qualify that and say some of those pieces would not go all  
7 the way electronically, that the Postal Service's eBillPay  
8 partner would have to put them back into the hard copy mail  
9 stream.

10 But 75 million pieces minus X are going to  
11 contribute 10 cents apiece, and apparently in Library  
12 Reference 121, as I recall, it says there are some pieces  
13 out there that contribute 29 cents apiece.

14 Is it in the Postal Service's best interests to  
15 give up a 29-cent contribution in exchange for a 10-cent  
16 contribution? And that's assuming there are no direct costs  
17 to the Postal Service of all this billpaying stuff, which is  
18 another matter.

19 But there is evidence that these are real pieces  
20 that are currently in the hard copy mail stream of the  
21 Postal Service that will be diverted to this new electronic  
22 billpaying system.

23 Good or bad for the Postal Service?

24 THE WITNESS: Well, I wasn't consulted on the  
25 decision.



1 [Laughter.]

2 CHAIRMAN GLEIMAN: I think it was asked to you in  
3 the context of you being a pricing witness, and I'm just  
4 kind of curious. I think the questions went to, isn't it a  
5 good idea to keep this stuff that makes a big contribution  
6 in the system?

7 The point of raising the numbers is that there's  
8 something on the record that shows that there are some real  
9 pieces that, but for e-billpaying would be hard copy in the  
10 system that won't be there, taking the publications that  
11 we've seen, that there were -- you know, the Postal Service  
12 is going to get 10 cents a pop for it.

13 Even if the 29 cents is wrong, I have it fixed in  
14 my mind that those pieces probably contribute in excess of  
15 15 cents, courtesy reply mail.

16 THE WITNESS: Okay, I don't know, but I think the  
17 assessment to be made, and which would have or should have  
18 been made by those making the decision to enter into  
19 eBillPay, is one of competing forecasts, competing visions of  
20 the future.

21 And in the short run, it might make more sense to  
22 try to keep the 29-cent piece, if there's some assessment  
23 that in the long run the 29-cent piece won't be yours  
24 anyway, and 10 cents is better than zero. That kind of an  
25 assessment can be made also.

1 CHAIRMAN GLEIMAN: Yes. I don't disagree with you  
2 on that. Clearly, cannibalization is better than  
3 starvation, so to speak.

4 But I just was trying to get the numbers on the  
5 table that I recall being in the record from the other day.

6 I have no further questions. Is there any  
7 followup to questions from the bench?

8 Yes, Mr. Todd?

9 [Discussion off the record.]

10 FURTHER CROSS EXAMINATION

11 BY MR. TODD:

12 Q You went through some questions with Commissioner  
13 LeBlanc, again, about the whole question of the ECSI value  
14 that you've afforded for bound printed matter.

15 First, are you aware of the fact that bound  
16 printed matter grew out of a subclass of mail that used to  
17 be just called catalogs?

18 A Yes, I am.

19 Q Now, are you aware of the fact that people who  
20 wanted to enlarge the subclass because it had a history of  
21 very low and very stable costs said, well, if we just call a  
22 book a catalog, it will assume exactly the same cost  
23 characteristics or kind of along those lines?

24 A I don't know that I recall it quite that way. My  
25 recollection is that for some period of time, books that

1 contained one page of advertising managed to qualify for  
2 bound printed matter, and that subsequently the requirement  
3 for that one page of advertising was removed.

4 Q Oh, but I'm taking you back to a time when it had  
5 to be all advertising. You couldn't put editorial matter  
6 into it.

7 A Oh, okay, I don't know.

8 Q Well, I'm not -- what is it that you don't know  
9 now?

10 A Well, I don't go all the way back to the old days  
11 when catalogs could have no editorial content.

12 Q Fair enough. I would like to represent to you,  
13 too, that when the catalog subclass was just catalogs, it  
14 never occurred to us to suggest to the Commission that they  
15 should afford it ECSI value.

16 There had been concerns along the way, however,  
17 that this very tidy subclass, as it became less tidy, might  
18 have its costs start going up more than had been its  
19 history.

20 There has been some thought that was generated in  
21 some cases back that, well, maybe we can have some  
22 salvation, because although we don't claim ECSI value,  
23 certainly books do.

24 And I think you agreed this morning that books,  
25 pure books, having only editorial content, are at least 50

1 percent of the subclass. Is my memory correct?

2 A Right, somewhere in that neighborhood, yes.

3 Q And you indicated you didn't know what percentage  
4 of periodicals consisted of advertising, but I think you  
5 agreed that it was probably at least 50 percent, if not  
6 more?

7 A Subject to check. I don't know.

8 Q You don't know?

9 A Or I don't recall it.

10 Q You don't recall, all right. Well, assume with me  
11 that periodicals does contain at least 50 percent  
12 advertising.

13 Am I correct then that, again, the only  
14 distinction you're making between periodicals and bound  
15 printed matter in terms of the deference given to ECSI  
16 value, is that in magazines, it's all mixed up in a single  
17 publication, so that a magazine has advertising and  
18 editorial matter all bound in together, and in bound printed  
19 matter, that tends not to be the case?

20 Is that the distinction you're making?

21 A That was the distinction that I made this morning.  
22 I think you also -- I think you also have issues of  
23 timeliness with periodicals in terms of distributing the  
24 editorial matter within a timeframe in which it can be  
25 viewed as useful.

1           With a book, it may not be quite as critical in  
2 terms of getting that mail piece to the consumer in a short  
3 timeframe, and with periodicals, you've got advertising  
4 matter as a revenue source that permits the -- a revenue  
5 source to the publisher that permits the publisher the  
6 ability to distribute the editorial matter in a timely  
7 manner.

8           Q     Well, you are saying that periodicals have a much  
9 better service than Bound Printed Matter, is that correct?

10          A     No, it is not really an issue of service. Well,  
11 when you get into an issue of, you know, binding the nation  
12 together kind of stuff, much of the editorial content that  
13 would show up in periodicals may not have quite the same  
14 value in terms of binding the nation together if it is, you  
15 know, two or three months late.

16          Q     What I am trying to probe, however, at this point  
17 is, does the fact that it may be more important to get  
18 Newsweek magazine to a consumer in 24 hours and it is not so  
19 important to get Moby Dick to the consumer in 24 hours, does  
20 that make a difference in your assessment of the ECSI value  
21 criterion?

22          A     The book is going to be there for me and,  
23 arguably, be useful for me for a while longer than the  
24 periodicals might be. Again, I go back to I am not  
25 attempting to make any substantive change to the treatment

1 of ECSI value relative to the way that the Commission has  
2 pursued it in the past. Bound Printed Matter received some  
3 limited ECSI value from the Commission in the past and from  
4 the Postal Service in the past because it was partly made up  
5 of books and partly made up of catalogs and other material  
6 that would not in and of itself warrant ECSI value  
7 consideration.

8 Periodicals, obviously, is a mixed subclass which  
9 contains both editorial and advertising material. But my  
10 understanding is that ECSI value consideration started out  
11 just for periodicals and Special Standard, again, with the  
12 intent of distributing this editorial matter, binding the  
13 nation together, sort of providing a way of acknowledging  
14 that one of the goals of the Postal Service, one of the  
15 mandates of the Postal Service was to distribute material of  
16 educational value and cultural value and so forth.

17 The extension of ECSI value to Bound Printed  
18 Matter and to First Class mail, in my understanding, are  
19 fairly recent.

20 Q Well, first, if it hasn't been made obvious, the  
21 purpose of our written and oral cross-examination is to  
22 suggest that the Commission's ECSI consideration of Bound  
23 Printed Matter may stand another look. I gather you either  
24 decided through a deliberate choice, or simply by accepting  
25 what the Commission had done, that you weren't going to give

1 it another look in this case.

2 A I wouldn't characterize it that way, but I would  
3 note that this case may not be the best one to test the  
4 appropriate application of ECSI value in and of itself, in  
5 that Bound Printed Matter has already received significant  
6 mitigation of its cost coverage in deference to criterion 4,  
7 the effect of the rate increase.

8 In, I am forgetting whether it was R97 or one of  
9 the previous cases, it shows up in one of my interrogatory  
10 responses, the Commission indicated that the consideration  
11 that they were offering Bound Printed Matter with reference  
12 to ECSI value was simply to give it a cost coverage below  
13 the system average. Well, if you will bear with me a  
14 second, the Bound Printed Matter cost coverage recommended  
15 in this case of 117.6 is a whole lot lower than the 168 for  
16 the system average. And if that were solely for ECSI value  
17 consideration, that is a heck of a lot of ECSI value  
18 consideration.

19 Q But you haven't testified it was solely for ECSI  
20 value consideration, have you?

21 A No, I did not. I have submitted that ECSI value  
22 might have bumped you below the system average, but mostly  
23 what you are seeing is the result of criterion 4.

24 Q Correct. And we are still a long way from 101  
25 percent cost coverage.

1           A     That is true.

2           Q     And I just wanted to go back, because I do want to  
3 be clear about the question of -- are you testifying that  
4 the need for rapid service for periodicals is a factor that  
5 should lead to a lower cost coverage for periodicals?

6           A     I think the need for rapid service would point to  
7 the value of service, and periodicals do have a very low own  
8 price elasticity, indicating a high value of service.

9           Q     And you are saying, because periodicals must be  
10 delivered on a very stringent schedule, and because they  
11 have a low value of service, you are recommending a very low  
12 markup?

13          A     I don't think I said that they had a low value of  
14 service.

15          Q     I mean a high value of service.

16          A     A high value of service, a low elasticity.

17          Q     And that leads you to recommend a very low markup  
18 for periodicals?

19          A     In this particular docket, the very low markup for  
20 periodicals is, as we discussed with Bound Printed Matter,  
21 largely a result of deference to criterion 4, and somewhat  
22 constrained, largely constrained by the low markup that was  
23 recommended by the Commission in the last case. When I am  
24 starting at 101 and I have the cost increases of the size  
25 that periodicals experienced, there is not a whole lot of



1 room.

2 Q Well, but we agree, obviously, this is in the  
3 record, Bound Printed Matter had much larger cost increases  
4 than periodicals?

5 A Yes, it did. And it received more substantial  
6 mitigation of its rate increase relative to its cost  
7 increase.

8 Q But a substantially larger percentage rate  
9 increase?

10 A I believe about 6 percent on average, somewhere in  
11 that neighborhood. Actually, less than that, 5.3 percent  
12 average.

13 Q Bound Printed Matter?

14 A Yes. Relative, 5.3 percent higher than the -- or  
15 somewhere thereabouts, relative to the 12-1/2 neighborhood  
16 for periodicals.

17 Q That, you would agree, is a substantial  
18 difference, though?

19 A It is a difference, yes. I would argue, though,  
20 that the difference in the costs is much more substantial.

21 MR. TODD: I have no further questions, Mr.  
22 Chairman.

23 CHAIRMAN GLEIMAN: Anyone else?

24 [No response.]

25 CHAIRMAN GLEIMAN: I would like to think that the

1 relationship of time-sensitivity to ECSI value is not a  
2 major consideration, because if I have to start thinking  
3 that way, it is going to confuse me every time I deal with a  
4 rate case and open up a Postal bulletin and see the alert  
5 bulletin in the front of it that talks about important it is  
6 to deliver certain catalogs within a two or three day window  
7 so that they get there in time for people to be bound  
8 together in whatever clothing they are going to buy, or  
9 whatever.

10 If there is no further follow-up, then that brings  
11 us to that magic hour of redirect. Would you like some time  
12 with your witness?

13 MR. TIDWELL: We would like 15 minutes to discuss  
14 how long the magic hour will be.

15 CHAIRMAN GLEIMAN: Fifteen minutes, did you say?  
16 I guess we can do that. Fifteen minutes it is.

17 [Recess.]

18 CHAIRMAN GLEIMAN: Mr. Tidwell, the general rule  
19 is that the redirect has to be shorter than the break. You  
20 had a 15-minute break. Proceed as you wish.

21 [Laughter.]

22 REDIRECT EXAMINATION

23 BY MR. TIDWELL:

24 Q Ms. Mayes, to begin my first hour of redirect --

25 [Laughter.]

1 BY MR. TIDWELL:

2 Q -- I would like to ask you several questions.

3 This morning in your discussions with counsel for  
4 the OCA, there was reference to OCA Interrogatory 17(d). In  
5 reference to that question there was a discussion to a  
6 decline over a particular period of time in First Class mail  
7 share of total volume variable cost. Do you recall that  
8 discussion?

9 A Yes, I do.

10 Q Now were there any other factors that may have  
11 been operating over that same time period that were not  
12 mentioned in your discussion?

13 A Well, when we were talking in terms of the share  
14 of volume variable costs, I should have also noted that the  
15 share of First Class mail volume could have also been  
16 declining. When you are just looking at First Class divided  
17 by total mail in terms of the share of costs, I should have  
18 mentioned that the volume could have been declining also,  
19 that it wasn't simply a function of First Class unit cost  
20 dropping.

21 Q Just to clarify the record, you made several  
22 references during the course of the day to the Household  
23 Diary Study. I believe you characterized it as measuring  
24 household-to-household mail. Could you clarify that for the  
25 record?

1           A     I should have and thought I had characterized it  
2     as mail originating and/or destinating from and to  
3     households -- in other words, mail received by a household  
4     from a household or business, sent by a household to a  
5     household or a business.

6           Q     You also had a discussion with the OCA, OCA  
7     counsel, where you were discussing the effect on cost  
8     coverage of a change in the mail mix that caused aggregate  
9     First Class mail unit costs to fall even though  
10    disaggregated First Class single piece and workshared unit  
11    cost for both were rising.

12                   In that situation does it necessarily follow that  
13    because aggregate unit costs have declined that aggregate  
14    cost coverage has risen?

15          A     I would have to look at the CRAs to see if that in  
16    fact took place, but related to that discussion of First  
17    Class letters in aggregate, if a shift in mail mix is taking  
18    place and mail volume that used to be in single piece were  
19    shifted to workshared categories, the unit revenue would  
20    also be declining.

21          Q     And one last question. Who is on the bill  
22    tonight?

23          A     What?

24          Q     The concert?

25          A     I'm sorry?

1 Q The concert you are headed to?

2 A Oh, no -- no, it's not tonight.

3 Q It's not tonight?

4 A No, we are not in a hurry tonight. Take all the  
5 time you want.

6 MR. TIDWELL: Okay. Well, that's it. No further  
7 questions.

8 CHAIRMAN GLEIMAN: Is there any recross? Is  
9 anybody cross? Not tonight.

10 Since there doesn't appear to be any recross, that  
11 brings us to the end of your testimony this time around, Ms.  
12 Mayes.

13 We appreciate your appearance and your  
14 contributions to your record, and thank you and you are  
15 excused.

16 [Witness excused.]

17 CHAIRMAN GLEIMAN: That concludes today's hearing.  
18 We will reconvene tomorrow morning at 9:30 when we will  
19 receive testimony from Postal Service Witnesses Yezer and  
20 Fronk. Thank you.

21 Have a good evening, you all.

22 [Whereupon, at 5:38 p.m, the hearing was recessed,  
23 to reconvene at 9:30 a.m., Wednesday, April 26, 2000.]

24

25

