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

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MAYO TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T36-37, 38(c-d, f-k), 39, 41-43)

The United States Postal Service hereby provides the responses of witness Mayo to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T36-37, 38(c-d, f-k), 39, and 41-43, filed on October 12, 2001. Interrogatory OCA/USPS-T36-38(a-b, e) has been redirected to witness Abdirahman. An objection to interrogatory OCA/USPS-T36-40 was filed on October 22, 2001.

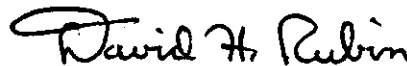
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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October 26, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MAYO TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T36-19-36)**

OCA/USPS-T36-37. The following question refers to page 44 of your testimony. You indicate that “[t]he proposed fee of \$1.30 for unnumbered insurance was developed by increasing the per-piece cost of 94 cents by 40 percent and rounding to the nearest nickel. The fee for numbered insurance up to \$100 was developed by marking up the \$1.80 per piece cost by 22 percent and applying a five-cent rounding constraint.”

(a) Please explain how you determined that a 40-percent markup for unnumbered insurance was appropriate. Please explain how you determined that a 22-percent markup for numbered insurance was appropriate.

(b) Please explain why the markups for numbered and unnumbered insurance differ. Include in your response an explanation of why the unnumbered markup is 18-percentage points higher than the markup for numbered insurance.

RESPONSE:

a. - b. Please see my testimony at pages 44-45 where I discuss the pricing criteria for unnumbered and numbered insurance.

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OCA/USPS-T36-38. Your testimony at page 44 states: "Insurance provides a very high value of service to customers, as these customers can receive reimbursement for lost, stolen, or damaged articles."

- (a) Please confirm that the average indemnity for unnumbered insurance is \$0.10. If you are unable to confirm, please explain.
- (b) Please confirm that the \$0.94 test year cost of unnumbered insurance includes the \$0.10 (rounded) average unnumbered indemnity cost.
- (c) Given your pricing proposal, confirm that the average contribution for unnumbered insurance is \$0.36 (\$1.30-\$0.94). If you are unable to confirm, please explain and provide the correct average contribution for unnumbered insurance.
- (d) Please confirm that the pay-out ratio for the average unnumbered insurance claim is approximately 27 percent ($\$0.10/(\$0.36+\$0.10)$). If you are unable to confirm, please explain and show the correct ratio.
- (e) Please confirm that the average indemnity for numbered insurance valued at \$50.01 to \$100.00 is \$0.19. If you are unable to confirm, please explain.
- (f) Given your pricing proposal, confirm that the average contribution for numbered insurance from \$50.01 to \$100.00 is \$0.40 (\$2.20-\$1.80). If you are unable to confirm, please explain and provide the correct average contribution for numbered insurance valued at \$50.01 to \$100.00.
- (g) Please confirm that the pay-out ratio for the average numbered insurance valued at \$50.01 to \$100.00 is approximately 32 percent ($\$0.19/(\$0.40+\$0.19)$). If you are unable to confirm, please explain and show the correct ratio.
- (h) Given your pricing proposal, confirm that the average contribution for regular numbered insurance from \$100.01 to \$5000.00 is (\$0.40 + \$1.00 for each \$100 or fraction thereof over \$100). If you are unable to confirm, please explain and provide your estimate of the average contribution for regular numbered insurance from \$100.01 to \$5000.00 by \$100 increments.
- (i) Please provide the pay-out ratio (as defined above) for each \$100.00 increment or fraction thereof over 5100 for values 5100.01 to 55000.00.
- (j) Given the low pay-out ratios (less than 1/3), as shown in parts (d) and (g) of this interrogatory, please explain why the fees you propose are not excessive.
- (k) Have you or the Postal Service performed or reviewed any analysis, study or report regarding insurance pay-out ratios? If so, please provide a copy of the analysis, study or report. If not, please explain why no analysis, study or report has been made.

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OCA/USPS-T36-38. (CONTINUED)

RESPONSE:

- a. Redirected to witness Abdirahman.
- b. Redirected to witness Abdirahman.
- c. Confirmed.
- d. Not confirmed. I am not sure what is meant by the term "pay-out ratio", how it is or should be calculated, or its relevance. Regardless, the mathematical calculation of 27 percent is incorrect – it should be 22 percent.
- e. Redirected to witness Abdirahman.
- f. Confirmed.

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OCA/USPS-T36-38. (CONTINUED)

RESPONSE:

g. Not confirmed. I am not sure what is meant by the term "pay-out ratio", how it is or should be calculated, or its relevance. The mathematical result of the equation presented appears to be correct.

h. Not confirmed. There is no uniform per piece contribution for numbered insurance over \$100 up to \$5,000. See Exhibit A of my testimony for the average cost per piece in \$500 increments for numbered insurance over \$100 up to \$5,000.

i. I am not sure what is meant by the term "pay-out ratio", how it is or should be calculated, or its relevance.

j. I cannot confirm the pay-out ratios in parts d and g. The fees I proposed in my testimony are not excessive, based on the discussion in my testimony on pages 44-46.

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OCA/USPS-T36-38. (CONTINUED)

RESPONSE:

k. I am not sure what is meant by the term "pay-out ratio", how it is or should be calculated, or its relevance. I am not familiar with the application of this type of ratio in a setting where traditionally cost coverages are used to evaluate and analyze product pricing. Therefore, I am unaware of whether or not the Postal Service has performed or reviewed any analysis, study or report regarding insurance pay-out ratios.

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OCA/USPS-T36-39. Please explain the process a consumer would use to file a claim. (Explain in plain English in the same manner used by window clerks when assisting a customer in a USPS Post Office.) Please describe in detail how clerks are trained to provide this explanation to consumers.

RESPONSE:

To file a claim, a customer should present evidence of insurance, evidence of value, and proof of missing, lost or damaged articles. The postal clerk would ask the customer to complete the applicable spaces on a Postal Service (PS) Form 1000.

Although the information/instructions on the claim form are self explanatory, window clerks, as part of their basic training, are trained to provide information on completing forms and explaining procedures, such as the claims process.

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(OCA/USPS-T36-19-36)**

OCA/USPS-T36-41. If an insured package mailed from an APO/FPO address is destined for a United States address, and is subsequently lost in transit, please explain the following:

- (a) Who is liable for reimbursing the APO/FPO postal patron?
- (b) What is the extent of the reimbursement liability?
- (c) Please provide the FY 2000 limit on the insurance liability for mailing from each APO/FPO address to the United States.
- (d) At the time of mailing, does the APO/FPO "window clerk" inform a postal patron about the maximum reimbursement liability limitations? If so, please provide a copy of the "script" used to inform the postal patron. If not, please explain why no explanation or "warning" about purchasing excessive insurance is provided to the patron.
- (e) For FY 2000 and FY 2001, please provide the volume and revenue generated by insurance transactions sold in APO/FPO facilities to patrons for mail sent to the United States. Include in your response, the volume and revenue delineated by unnumbered insurance and numbered in increments of \$50.01 - \$100.00 and each \$100.00 increment from \$100.01 to \$5000.00.
- (f) Does the Postal Service sell insurance to APO/FPO patrons in excess of what a subsequent claimant could be paid? (e.g., Selling \$5000.00 worth of insurance when the maximum reimbursement liability limitation is less than \$5000.00.) If so, please provide the FY 2000 and FY 2001 volume of transactions and the revenue arising from such sales.

RESPONSE:

- a. The Postal Service is responsible for the reimbursement of any adjudicated insurance claim for an item mailed from an APO/FPO address to an address in the United States.

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OCA/USPS-T36-41. (CONTINUED)

RESPONSE:

b - c. Mail from an APO/FPO address to a United States address is treated as domestic mail with respect to insurance service. Therefore, the \$5,000 limit that applies to domestic insurance is the same limit that applies to mail from an APO/FPO address to a United States address.

d. Since the APO/FPO window clerks do not work for the Postal Service, I have no knowledge of what these clerks inform their customers.

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OCA/USPS-T36-41. (CONTINUED)

RESPONSE:

e. The data are available in an aggregate number over \$100, and the numbers for 2001 are preliminary:

	<u>FY 2000 Volume</u>	<u>FY 2000 Revenue</u>
\$0 - \$50	653,535	555,505
\$50.01 - \$100	493,473	888,250
\$100.01 - \$5000	419,419	1,698,826

	<u>FY 2001 Volume</u>	<u>FY 2001 Revenue</u>
\$0 - \$50	465,321	475,532
\$50.01 - \$100	326,239	635,258
\$100.01 - \$5000	279,526	1,222,104

f. See my response to subparts b-c above.

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OCAIUSPS-T36-42. Does USPS postal insurance provide the same type of service for military consumers using APO/FPO postal facilities as it does for domestic Post Office? If not, what are the differences and how are they explained to the customer?

RESPONSE:

Yes. See my response to OCA/USPS-T36-41, subparts b-c.

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(OCA/USPS-T36-19-36)**

OCA/USPS-T36-43. The following interrogatory refers to USPS-LR-J-109, WP-5, Page 2 of 2. Please confirm that the header for column (1) "FY 1998" should be "FY 2000". If you are unable to confirm, please provide the "FY 2000" values for column (1) and update columns (2) through (8).

RESPONSE:

Confirmed. A revision to this workpaper will be filed shortly.

DECLARATION


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

Susan W Mayo

Dated: 10/26/01

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


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October 26, 2001