

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

RECEIVED

Postal Rate and Fee Changes, 1997

Aug 27 2 51 PM '97  
Docket No. R97-1  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

**NEWSPAPER ASSOCIATION OF AMERICA  
INTERROGATORIES TO  
UNITED STATES POSTAL SERVICE WITNESS  
DONALD J. O'HARA (NAA/USPS-T30-1-20)  
August 27, 1997**

The Newspaper Association of America hereby submits the attached interrogatories to United States Postal Service witness Donald J. O'Hara (USPS-T-30) and respectfully requests a timely and full response under oath.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

August 27, 1997

William B. Baker  
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NAA/USPS-T30-1. Please refer to page 4, lines 5-13 of your testimony.

- a. Please describe how "intrinsic value of service" differs from "economic value of service.
- b. Please describe all the non-economic values not included in the latter term.

NAA/USPS-T30-2. Please refer to page 6, lines 2-3 of your testimony. If the Commission were to find the "improved cost information" flawed, and therefore used the previous cost methods, would you tend to prefer that it use cost coverages that produce the proposed rates, or somewhat lesser rates, for the affected subclasses.

NAA/USPS-T30-3. Please refer to page 7, lines 1-8 of your testimony and your response to OCA/USPS-T30-5(5). Does the availability of more alternatives tend to increase or decrease the cost coverage compared to the coverage where few alternatives exist? That is, if many other firms provide similar services at comparable prices, would you propose a lower cost coverage or a higher cost coverage than you would in the absence of these alternatives? Please explain.

NAA/USPS-T30-4. Please refer to page 23, lines 5-6 of your testimony. If the elasticity of First Class Mail were due in part to the Private Express Statutes, what would be the significance of that fact?

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NAA/USPS-T30-5. Please refer to page 23, lines 11-21 of your testimony. Did the fact that there are limited alternatives to First-Class letter Mail cause you to reduce or increase your proposed cost coverage for this subclass? Please explain.

NAA/USPS-T30-6. Please refer to page 35, lines 14-17 of your testimony. Did the fact that this Standard ECR mail has many alternatives cause you to reduce or increase your proposed cost coverage for this subclass? Please explain.

NAA/USPS-T30-7. Please refer to page 8, lines 4-7 of your testimony. You state that as a consequence of the significant increase in worksharing, the cost coverages for individual subclasses as well as the system as a whole will increase.

- a. Have you estimated what the cost coverages would be in the absence of worksharing? If yes, please provide these adjusted cost coverages.
- b. Please confirm that postal rate schedules, at present and as proposed, contain many more worksharing discounts and shape-based differentials than existed when the Commission and Postal Service first began to make use of markups and cost coverages for setting rates.
- c. Could one address, at least in part, the concern discussed at the cited pages of your testimony by "normalizing" cost coverages by (1) adding back the cost savings from worksharing to the attributable costs of each subclass and (2) then recomputing the

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cost coverages implicit in the proposed rates with these adjusted attributable costs? Please discuss.

NAA/USPS-T30-8. Please refer to page 9, lines 1-12 of your testimony.

- a. Is it your opinion that the total institutional cost contribution of an individual subclass should remain unchanged when new worksharing discounts are introduced? If not, please explain why new discounts should allow a subclass to reduce its institutional cost contribution.
- b. Please confirm that maintaining the same cost coverage for a subclass while introducing new worksharing discounts that reduce attributable costs for the subclass necessarily will result in a lower unit cost contribution for that subclass. If you cannot confirm this statement, please explain why.
- c. Please explain why the reduced contribution from the hypothetical subclass with the greater than average reduced attributable costs presented in lines 11-12 would "unfairly" burden other subclasses. In particular, please explain why you believe that outcome to be "unfair."

NAA/USPS-T30-9. Please refer to your testimony at page 17, lines 7-9. Did you consider the use of unit cost contributions as a starting point, at least, for determining rate levels under the new costing method? Please discuss why or why not, and indicate why your testimony does not address unit contributions.

NAA/USPS-T30-10. Please refer to Exhibit USPS-30B and Exhibit USPS-30G. Please confirm the following unit cost contributions for test year 1998 after rates. If you

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cannot confirm these figures, please provided the correct figures and demonstrate how these figures were calculated.

- a. First-Class letter mail: Unit cost contribution = 17.55 cents
- b. First-Class single letters: Unit cost contribution = 17.17 cents
- c. First-Class worksharing letters: Unit cost contribution = 18.04 cents
- d. Standard Commercial Regular mail: Unit cost contribution = 7.52 cents
- e. Standard Commercial ECR mail: Unit cost contribution = 8.43 cents
- f. Total Standard Commercial mail: Unit cost contribution = 7.91 cents
- g. Please confirm that First-Class letter mail pays a unit cost contribution more than double the contribution of Standard Commercial mail.
- h. Please confirm that the average First-Class letter weighs approximately one-third the weight of the average piece Standard Commercial mail. If you cannot confirm this statement, please provide the average weight of First-Class letter mail and Standard Commercial mail.

NAA/USPS-T30-11. Please refer to page 36, lines 1-9 of your testimony.

- a. Please confirm that the movement of ECR basic letters to the Automation 5-digit rate in Standard Regular mail indicates that these two mail categories are direct substitutes for one another. If you cannot confirm this statement, please explain why.
- b. Please confirm that the desire to have a lower rate for Automation 5-digit letters within Standard Regular mail compared to the basic ECR letter rate significantly restricts your ability to set cost

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coverages for these two subclasses independently of each other. If you cannot confirm this statement, please explain how you can determine the cost coverage for Standard ECR mail independently of the cost coverage for Standard Regular mail.

NAA/USPS-T30-12. In Docket No. R90-1, the Postal Service, through the testimony of witness Mitchell, advocated setting rates and discounts in a manner that would minimize the total combined cost to the Postal Service and mailers. Is the minimization of total combined cost to the Postal Service and mailers still a goal of the Postal Service today in setting rates?

NAA/USPS-T30-13. Please refer to page 14, lines 3-5 of your testimony.

- a. Please confirm that rates for all subclasses are not equal to the marginal costs of the subclass. If you cannot confirm this statement, please indicate where rates equal marginal costs.
- b. Please confirm that the mailer's decision about how much to mail is determined by the rate for the mail, not by the marginal cost of the mail. If you cannot confirm this statement, please explain how the marginal cost of the mail influences the mailer's decision.
- c. Please confirm that using incremental costs in place of volume variable costs as the attributable costs for markup purposes would only alter a mailer's decision about how much to mail if the use of incremental costs resulted in different rates. If you cannot confirm this statement, please explain why.

NAA/USPS-T30-14. Please refer to page 14, lines 10-16 of your testimony. You state that "any rate setting process based on something other than volume-variable costs...will be constructing rates based on a cost concept that does not accurately

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reflect the cost consequences of the decisions that mailers will make in response to those rates." (footnote omitted)

- a. If volume variable costs are used in the rate setting process, please explain how rates that are not equal to volume variable costs "reflect the cost consequences of the decisions that mailers will make in response to those rates."
- b. Please confirm that the cost coverages proposed by the Postal Service in this proceeding are not equal to the cost coverages derived by Witness Bernstein's in his Ramsey pricing analysis. If you cannot confirm this statement, please illustrate how your proposed cost coverages equal Witness Bernstein's coverages.
- c. Please refer to page 14, lines 15-16 of your testimony. Please demonstrate that your proposed cost coverages based upon volume variable costs are "economically efficient." If you cannot do so, please explain why.
- d. Please demonstrate that setting rates based upon incremental costs will be less economically efficient than your proposed cost coverages and the resulting rate levels based upon volume variable costs. If you cannot do so, please explain why.
- e. Please confirm that the use of marginal costs in the rate setting process will result in "economically efficient" rates only if rates are set equal to marginal costs or Ramsey pricing is used.

NAA/USPS-T30-15. Please refer to your example on pages 14-15 of your testimony.

- a. Please confirm that the incremental costs for the one product are 22 cents per piece and the incremental costs for the other product are 18 cents per piece.
- b. Assume that these are the only two products offered by the firm. Please confirm that the costs remaining after subtracting the

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incremental costs of both products are the costs that cannot be avoided by eliminating one of the products and hence, these costs are common to the production of both products; that is, the remaining costs can only be avoided by eliminating both products.

- c. Assume that each product is charged a rate of 30 cents. Please confirm that the first product (with an incremental cost of 22 cents per piece) covers its average incremental costs and makes a contribution of 8 cents per piece to the common costs of the firm. If you cannot confirm this figure, please explain why not.
- d. Please confirm that the second product (with an incremental cost of 18 cents per piece) covers its average incremental costs and makes a contribution of 12 cents per piece to the common costs of the firm. If you cannot confirm this figure, please explain why not.

NAA/USPS-T30-16. Please provide the Postal Service's delivery performance (that is, success in meeting delivery standards) for First Class Mail for Fiscal Years 1995 and 1996. Please state separately the delivery performance for overnight, two-day, and three day service.

NAA/USPS-T30-17. Please provide the Postal Service's delivery performance (that is, success in meeting delivery standards) for Standard (A) Mail (or, as appropriate, third class bulk business regular) for Fiscal Years 1995 and 1996. Please state separately the delivery performance for overnight, two-day, and three day service.

NAA/USPS-T30-18. To your knowledge, does the Postal Service have any information regarding the delivery service provided to First Class and Standard (A) mail



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that is entered at destination offices? If so, please state your understanding of what that information is.

NAA/USPS-T30-19. Please refer to page 36, lines 4 -9 of your testimony. Does the Postal Service's operational goal of encouraging ECR basic letters into the automation mailstream act as a ratemaking constraint by creating a "linkage" between the Standard Regular and ECR subclasses?

NAA/USPS-T30-20. Please refer to page 36, lines 4 -9 of your testimony. Does the Postal Service have an operational or revenue preference as to whether Standard (A) high-density and saturation letters are mailed at Standard Regular automation or Standard ECR rates? Please explain.