Postal Rate Commission
Submitted 12/17/01

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001–1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/USPS-T29-18 THROUGH 21)

The United States Postal Service hereby provides the responses of witness Robinson to the following interrogatories of Major Mailers Association: MMA/USPS-T29-18 through 21, filed on December 3, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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December 17, 2001

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.

Michael T. Tidwell

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December 17, 2001

MMA/USPS-T29-18 Please refer to your response to Part E of Interrogatory MMA/USPS-T29-16 where you were asked to provide the derivation of the percent increase that you propose for workshare mailers. There you compared the unit revenues at proposed and current rates using just the before-rates volume.

A. Please consider the following simplified situation. There is one subclass with two rate elements: category A and category B. The before and after rate volumes, rates and revenues are shown in the table below. There are also two computations for the proposed rates, one using the before rates volumes and the other using the after rates volumes. The first computation, using your method, indicates a rate increase of 25%. The second computation, that incorporates volumes shifts in response to the rates, indicates a rate increase of just 4%. Which is correct? Please explain your answer and why you chose to use before rates volumes allowing you to not confirm that you were proposing a 9.3% increase for workshare letters.

Before Rates

	Volume	Unit Rate	Total Revenue
Category A	100	$ 0.10	$10.00
Category B	200	$ 0.25	$50.00
Total	300	$0.2000	$60.00

After Rates

	Volume	Unit Rate	Total Revenue
Category A	180	$0.15	$27.00
Category B	115	$0.30	$34.50
Total	295	$0.2085	$61.50

After Rates with Before Rates Volume

	Volume	Unit Rate	Total Revenue
Category A	100	$0.15	$15.00
Category B	200	$0.30	$60.00
Total	300	$0.2500	$75.00

Rate Increase using Before Rates Volumes	.25 / 20 – 1	25%
Rate Increase Using After Rates Volumes	.2085 / .20 – 1	4%

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B. Isn't the difference between the 9.2% increase for First-Class workshared letters that you found in your response and the 9.3% increase you were asked to confirm in the interrogatory caused by the fact that your 9.2% computation does not reflect market reaction to your proposed rates and the 9.3% does? Please explain your answer.

RESPONSE:

A. The method I use in the response to MMA/USPS-T29-16 is correct. In this Docket, the Postal Service has calculated percentage changes in rates for all classes of mail holding the volume constant at the test-year-before-rates level. Your example in this question demonstrates why this is the appropriate method to use.

For Category A in your example, the rate increase is 50 percent (= [0.15 – 0.10] / 0.10). For Category B in your example, the rate increase is 20 percent (= [0.30 – 0.25] / 0.25). Therefore, a mailer whose mailing pattern does not change will face an average rate increase between 20 and 50 percent depending on its relative use of Category A and Category B. For the entire subclass in your example, if volume does not change, the average rate increase would be 25 percent (= [0.2500 – 0.2000] / 0.2000). This calculation is more representative of the actual rate change than the rate change calculation you present as an alternative.

By including changes in volume mix when calculating the percentage rate change, the impact of the rate change is distorted. In your example, the calculated rate change (allowing volume mix to change) is 4 percent, even

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though the rate changes for the two component parts of the subclass are 20 percent and 50 percent respectively.

B. Yes. See response to MMA/USPS-T29-18A.

MMA/USPS-T29-19 Please refer to your response to Part J of Interrogatory MMA/USPS-T29-16 where you were asked to confirm what would happen to the cost coverage for First-Class workshare letters had you proposed an average of 7.4%, as you propose for First-Class single piece. You answered that you could not do so because you did not know what the after-rates volume would be.

A. Why couldn't you use the before-rates volume to compute the cost coverage as you did to compute the proposed rate increase in response to Part E of Interrogatory MMA/USPS-T29-16? Please explain your answer.

B. Why couldn't you use either the before-rates volume or the after rates-volume to compute the cost coverage, using the unit revenue and unit volume variable cost? Please explain your answer.

RESPONSE:

To clarify, my response to MMA/USPS-T29-16J states that "I did not prepare a rate design resulting in a 7.4 percent increase in First-Class Mail workshare rates. Therefore, I do not have either a volume forecast or a roll-forward associated with this hypothetical 7.4 percent increase in First-Class Mail workshare rates. As a result, I cannot determine what the implicit cost coverages would be under any such rate design." Response to MMA/USPS-T29-16J.

A. – B. The described methods could be used to estimate the implicit cost coverage for workshared mail. MMA/USPS-T29-16J asked me to confirm that the cost coverage using the PRC methodology "would be 262;" I cannot do this without an associated volume forecast and an associated PRC-methodology, roll-forward. I would also observe that the hypothetical adjustment of workshare rates so that they increase "an average of 7.4%" is

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vague and difficult to translate into specific rate elements that could be used to estimate revenue.

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MMA/USPS-T29-20 Please refer to your response to Part I of Interrogatory MMA/USPS-T29-16 where you claim that the revenue burden for First-Class workshare pieces within the Letters and Sealed Parcels subclass remains approximately the same. You also claim that **any** reduction in your proposed First-Class workshare rates beyond those proposed in your testimony would result in a reduction in the workshare letters revenue burden.

A. Was it your goal to keep this revenue burden for workshare letters approximately the same? Please explain your answer.

B. Please confirm that by using your method for computing the First-Class revenue burden under your proposed rates, you do not anticipate volume reactions to your proposed rate increases for either First-Class single piece or workshare mail. If you cannot confirm, please explain how your methodology of using just before rates volumes anticipates volume reactions to your proposed rate increases.

C. Please confirm the following, or, if you cannot confirm, explain why not:

   1. that using your method for computing the First-Class revenue burden under your proposed rates, the intra-subclass revenue shift is $154 million, to the detriment of workshare letters.

   2. that had you used before and after rates to compute the shift in workshare mail's revenue burden, this shift increases to $367 million. These computations are shown in the table below.

Computation of Workshare Revenue Burden Shift
(000's)

Current Rates with Before Rates Volume

	Total Revenue	% of Volume
Single Piece	$ 20,619,369	58.55%
Workshare	$ 14,597,501	41.45%
Total	$ 35,216,870	100.00%

Proposed Rates with Before Rates Volume

Single Piece	$ 22,139,109	58.14%
Workshare	$ 15,936,789	41.86%
Total	$ 38,075,898	100.00%

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Proposed Rates with After Rates Volume

Single Piece	$ 21,661,130	57.57%
Workshare	$ 15,961,755	42.43%
Total	$ 37,622,885	100.00%

Revenue Burden Change Using Before Rates Volumes

(41.86% - 41.45%) x 38,075,898 $ 154,212

Revenue Burden Change Using After Rates Volumes

(42.43% - 41.45%) x 37,622,885 $ 366,953

Source: USPS-T29, Attachment D, page 1

3. that you could have recommended workshare rates that would have produced lower revenues, of up to $154 million, and the rates would not have resulted in a reduction in the workshare letters revenue burden.

4. that by anticipating volume reactions to prices increases (i.e. by using after rates volumes), you could have recommended workshare rates that would have produced lower revenues, of up to $367 million, and the rates would not have resulted in a reduction in the workshare letters revenue burden.

D. Please explain how it is possible to increase single piece letters by 7.4% and to increase workshare letters by 9.2%, but not to increase the workshare intra-subclass revenue burden.

E. Please confirm that all First-Class mail received a 2-cent additional-ounce rate increase in July 2001, but that only workshare mail received a .2-cent additional first ounce rate as well. Please explain how, if at all, this disproportionate rate increase was factored into your decision to raise the workshare intra-subclass revenue burden even further in this case.

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RESPONSE:

To respond to this question, I assume that the column header "% of Volume" in your example should read "% of Revenue."

A. No, although the "revenue burden" calculation provided in response to MMA/USPS-T29-16I provides an indication of how rate changes affect different groups of customers, it does not provide an absolute measure of whether a specific rate change is appropriate. In designing First-Class Mail rates to meet the cost coverage proposed by witness Moeller (USPS-T-28), I considered a number of factors including witness Miller's (USPS-T-22) estimated cost avoidances, the percentage rate changes, the rate relationships between different rate categories, the impact on customers, and operational goals.

B. Confirmed that the method used to calculate revenue burden "assum[es] constant (test-year-before-rates) volume." Response to MMA/USPS-T29-16I.

C.

1. Confirmed that the change in revenue burden could be estimated using this methodology. However, the desire to eliminate any change in "revenue burden" alone is not the sole criterion to be used in determining whether a given rate change is appropriate. Many other factors, including those discussed in my testimony and those discussed in the response to MMA/USPS-T26-20A, are also considered. In addition, the quantification

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of changes in "burden" between various subgroupings of First-Class Mail rate categories can be performed using measures other than changes in relative total revenue shares. For example, if changes in per-piece contribution to institutional costs were used to compute change in relative burden, the "burden" for workshared Letters will decline under the proposed rates. That is, the percentage change in per-piece contribution between the test-year-before-rate and the test-year-after-rates is greater for single-piece Letters than for workshared Letters.

Test Year Before Rates

Letters Subclass	Revenue	Costs	Contribution	Pieces	Contribution per Piece
Single-Piece	20,803,401	12,678,742	8,124,659	47,899,389	0.1696
Workshared	14,622,580	5,421,560	9,201,020	51,299,213	0.1794

Test Year After Rates

Letters Subclass	Revenue	Costs	Contribution	Pieces	Contribution per Piece
Single-Piece	21,881,825	12,426,541	9,455,284	46,865,402	0.2018
Workshared	15,990,746	5,436,662	10,554,084	51,322,082	0.2056

Source: USPS-T-29, Attachment A and Attachment C.

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Change in Contribution per Piece	
Single Piece Letters	18.95%
Workshared Letters	14.65%

2. Not confirmed. This calculation mixes changes in revenue burden from rate changes with changes in total revenue due to volume changes. Holding volume constant is designed to adjust for the volume mix changes that occur between the test-year-before-rates and the test-year-after-rates. Your calculation will result in an apparent "shift in revenue burden" if relative volume mix changes, even if rates do not change. This is particularly important because the volume of workshared Letters increases between the test-year-before-rates and the test-year-after-rates, while the volume of single-piece Letters decreases between the test-year-before-rates and the test-year-after-rates. USPS-T-7.

   Consider the following simplified example where rates do not change while volume does change.

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	Rate	Volume	Revenue	Revenue Burden
Category A	$1.00	100	100	.500
Category B	$1.00	100	100	.500
Total			200	

	Rate	Volume	Revenue	Revenue Burden
Category A	$1.00	200	200	.667
Category B	$1.00	100	100	.333
Total			300	

Using your methodology, “revenue burden” for Category A increases but no customer is paying a higher rate.

3. Confirmed that there is likely some set of rates that would have resulted in a lower percentage increase in workshare Letter rates that would have resulted in the same TYBR and TYAR “revenue burden” (as you calculate it in part 1) for single-piece Letters and workshared Letters.
4. Not confirmed. See response to MMA/USPS-T29-20C.2.

D. If rates increase more for workshare Letters, the relative revenue burden as calculated in the response to MMA/USPS-T29-16 will increase. My objective in using this calculation was to illustrate that the percentage change in this measure of revenue burden was not extremely large and that my proposed rate changes (including a 0.5 cent increase in the workshare discounts) resulted in a reasonable rate proposal. It was not my intent to propose the "across the board" even percentage increase in all First-Class Mail rates that would have resulted in no change in revenue burdens of various subgroupings of First-Class Mail rate categories.

E. Confirmed that the Governors' modification of the Postal Rate Commission's Docket No. R2000-1 recommended rates for First-Class Mail Letters and Sealed Parcel subclass increased the additional ounce rate by 2 cents from 21 cents to 23 cents and that the workshare Letter discounts for all rate categories decreased 0.2 cents. Docket No. R2000-1, GOVS-LR-I-4 at 1. Not confirmed that this rate increase was "disproportionate." As the Governors explained:

> Our rejection of the Commission's treatment of the revenue requirement has the consequence of requiring that we allocate additional institutional cost burden among the various subclasses and special services, including First-Class Mail Letters and Sealed Parcels. As we have explained above, it does not seem appropriate to adjust certain rate elements within this subclass. In that conclusion, we are firm. However, we are then faced with the difficult task of determining the extent to which the remaining rate elements must bear a portion of the additional cost burden resulting from our restoration of the revenue requirement. In the iterative process of determining what is fair and equitable, we find that we cannot avoid making a modest imposition on the various Letters and Sealed Parcels worksharing rate categories.
>
> * * * * * * * *
>
> With these modified worksharing rates that we have designed, the Letters and Sealed Parcels subclass continues to meet the requirement that the rates for the subclass, as a whole, cover its costs, as required by

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> subsection 3622(b)(3). The modified rates retain the relatively simple structure of the First-Class Mail rate schedule and the identifiable rate and classification relationships therein, as required by subsection 3622(b)(7). We consider that these very modest rate increases continue to reflect a very high degree of consideration of the value of mailer preparation, within the meaning of subsection 3622(b)(6). We have been influenced by the relatively high, implied cost coverage for workshared First-Class Mail in keeping these increases to a minimum. Accordingly. we consider that we have demonstrated proper concern for the effect of increases upon those who engage in worksharing and the availability of alternatives, as required by subsections 3622(b)(4) and (b)(5). [footnotes omitted]

Docket No. R2000-1, Governors Decision on Modification at 72-74. I used the First-Class Mail rates resulting from the Governors' decision to modify the Postal Rate Commission's Recommended Decisions as the starting point for my rate design and my determination of whether the proposed rates in Docket No. R2001-1 were appropriate.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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MMA/USPS-T29-21 Please refer to your response to Interrogatory Part L of Interrogatory MMAWSPS-T29-16 where you appear to have misunderstood the question. You were asked to confirm that, in spite of your stated concern for the high implicit cost coverage for workshare letters, you still propose to increase it further. Your answer compared your proposed implicit cost coverage to the before rates cost coverage.

A. Please compare your proposed cost coverage (that you confirmed in response to Part H of Interrogatory MMA/USPST29-16) to the cost coverage recommended by the Commission in Docket No. R2000-1 (that you confirmed in response to Part G of Interrogatory MMA/USPS-T29-16). Please confirm that, notwithstanding your stated concern for the high implicit cost coverage for workshare letters, you are proposing to increase the implicit cost coverage for workshare letters even further in this case. If you cannot confirm, please explain.

RESPONSE:

To clarify, as I explain in the response to MMA/USPS-T29-16L, "I did not establish cost coverage targets for either single-piece Letters or workshared Letters." In addition, I did not consider implied cost coverages calculated using the Postal Rate Commission methodology in designing the proposed rates. This information is presented in my testimony only to provide an apples-to-apples comparison over a number of Dockets. USPS-T-29 at 12, footnote 7.

A. The implied cost coverage for workshared Letters resulting from the Docket No. R2000-1 Postal Rate Commission Recommended Decision was 248. For Docket No. R2001-1, the implied test-year-after-rates cost coverage for workshared Letters (on the Postal Rate Commission's methodology) is 267 percent. USPS-T-29 at 12, footnote 7.

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Confirmed that the implicit cost coverage for First-Class Mail workshared Letters, on the Postal Rate Commission's methodology, will increase given the rates proposed in this Docket.