

DOCKET SECTION

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

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION  
(DMA/USPS-T30-12 - 16)**

The United States Postal Service hereby files the responses of witness O'Hara to the following interrogatories of Direct Marketing Association, filed September 16, 1997: DMA/USPS-T30-12 through 16.

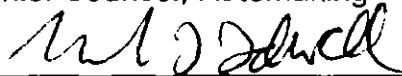
The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
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September 30, 1997

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-12.** Please refer to page 7, line 10, to page 9, line 12, of your direct testimony (USPS-T-30), where you discuss Criteria 6 (Degree of Preparation) and state that this criterion "now plays an important role at the level of rate design within each subclass."

- (a) Does this statement indicate that you do not regard the relative degree of preparation as a significant factor in setting the relative cost coverages across classes or subclasses? If so, please explain in detail the basis for this conclusion? If not, please describe in detail how you applied this criterion.
- (b) In applying this criterion, did you treat mailer preparation that qualified for worksharing discounts (e.g., application of a barcode in Standard (A) Regular) on the same basis as mailer preparation intrinsic to the definition of an entire subclass (e.g., sortation to carrier route in Standard (A) ECR? Explain fully your reasoning.
- (c) Please confirm that, to the extent there are significant differences among subclasses with respect to degree of mailer preparation not reflected in the applicable cost coverages for the subclasses, and the passthroughs applicable to worksharing discounts within the subclasses are less than 100%, the rate levels within the subclasses may not appropriately affect differences in the degree of preparation as called for by 39 U.S.C. § 3622(b).

**RESPONSE:**

(a)-(b) Please see my response to VP-CW/USPS-T30-7.

(c) I cannot confirm because I'm not sure I understand what is meant by "rate levels within subclasses may not appropriately affect differences in the degree of preparation" (emphasis added).

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-13.** Please refer to page 33, lines 19-22, of your direct testimony (USPS-T-30), where you address the degree of mailer preparation of Standard (A) mail and conclude that Standard (A) Regular mail overall "does not have the same degree of preparation as Enhanced Carrier Route."

- (a) Please describe in detail all data and analysis on which this conclusion was based. Did you take into account the cost to the mailer associated with mailer preparation?
- (b) Please confirm that at least some pieces of Standard (A) Regular mail have a greater degree of mailer preparation than certain pieces of Standard (A) ECR mail.

**RESPONSE:**

- (a) This conclusion is based on a straightforward examination of the billing determinants for the two subclasses. As I understand criterion 6, it does not call for consideration of the cost to the mailer of mailer preparation, and I did not take this into account.
- (b) Although examples of greater preparation in Standard (A) Regular relative to Standard (A) ECR are quite limited, a prebarcoded Standard (A) Regular letter presorted to the 5-digit level could be viewed as having a greater degree of preparation than a Standard (A) ECR basic letter without a barcode.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-14.** Please refer to your response to DMA/USPS-T30-4(b), which describes the Postal Service's policies of deferring Standard (A) mail to facilitate "workload leveling."

- (a) Please provide the Postal Service's best possible description of the circumstances in which Standard (A) mail is most commonly deferred, and the Postal Service's best possible estimate of the approximate frequency of deferral.
- (b) Please state whether Standard (A) Regular mail is deferred more often than: (i) First Class mail; (ii) Periodicals; and (iii) Standard (A) ECR mail.
- (c) Please describe in detail all data or analysis on which you base your responses to sub-parts (a) and (b).

**RESPONSE:**

- (a) I am informed that Standard (A) mail is probably more often deferred at the delivery unit than at earlier stages of processing, but that no estimate of the frequency of deferral is available.
- (b) I am informed that, in accordance with the processing priorities referenced in my response to DMA/USPS-T30-4, First-Class Mail and Periodicals may not be deferred, while service standards for Standard (A) allow for deferral; therefore, Standard (A) Regular would necessarily be deferred "more often" than First-Class or Periodicals. Standard (A) Regular and ECR have the same processing priority, and no information is available that would permit a judgment as to whether one is deferred more often than the other.
- (c) The above responses are based on the judgment of knowledgeable Postal Service operations personnel; no data or analyses are available.

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO  
INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T30-15.** Please refer to your response to DMA/USPS-T30-5, where you state that "management judgment is employed to determine what balance to strike between expenditure on capacity and the risk of service failure."

- (a) Please confirm that the fact that a "balance" is struck indicates that postal management is willing to incur some risk of service failure. If not confirmed, please explain fully.
- (b) Please confirm that in striking this balance, postal management at times decided to put in place fewer capacity resources than would be regarded as sufficient to ensure that anticipated mail volumes during a high-volume period will be meet applicable service standards, and that service failures in fact result from these decisions. If not confirmed, please explain fully.
- (c) Please confirm that, in the instances referred to in sub-parts (a) and (b), the service failures are suffered by (and/or the risks of service failures are borne by) Standard (A) mail to a greater extent than by First Class mail.

**RESPONSE:**

- (a) Confirmed; by definition, striking a balance implies that the risk of service failure is not reduced to zero. I would note, however, that service failure may be due to many other factors than lack of capacity; see my response to DMA/USPS-T30-5(a).
- (b) Confirmed; however, I am informed that service failures are minimized by bringing additional casual employees and extending the hours of regular employees during high volume periods. Facilities are provided with more manual cases than would be required in a normal volume period in order to provide distribution workspace for the additional workers.
- (c) Not confirmed. Although First-Class Mail has priority in processing relative to Standard (A) mail, it also has tighter service standards. The net effect on the degree of failure to meet service standards is not clear.

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**DMA/USPS-T30-16.** Please refer to your response to OCA/USPS-T30-5, under the heading "Value of Service," where you state that Ramsey pricing included the effect of "cross price elasticities more explicitly" than "economic value of service" under 39 U.S.C. § 3622(b).

- (a) Please describe in detail the appropriate role, if any, of "cross price elasticities" under the pricing criteria of § 3622(b).
- (b) If such elasticities have some role, is it appropriate to limit consideration to cross-price elasticities among postal products? Explain fully your reasoning.
- (c) Do you believe that the cross-price elasticity estimates contained in the record are appropriate for use in applying the pricing criteria of § 3622(b)? Please explain your response fully.

**RESPONSE:**

- (a) Given the qualitative role that own-price elasticities have in setting rate-levels, I do not see any role for cross-price elasticities at present in setting rate levels under § 3622(b).
- (b) Not applicable.
- (c) I have not formed an opinion on this question.

**DECLARATION**

I, Donald J. O'Hara, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

9-30-97  
Date

Donald J. O'Hara  
Donald J. O'Hara

CERTIFICATE OF SERVICE

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

A handwritten signature in black ink, appearing to read "MT Tidwell", written over a horizontal line.

Michael T. Tidwell