

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF VAL-PAK/CAROL WRIGHT
(VP-CW/USPS-T30-6 - 9)**

The United States Postal Service hereby files the responses of witness O'Hara to the following interrogatories of Val-Pak/Carol Wright, dated September 16, 1997: VP-CW/USPS-T30-6 through T-30-9.

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


Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202)268-2998/FAX: -5402
September 30, 1997

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VP-CW/USPS-T30-6.

Your testimony at pages 34-35 states that Standard A ECR mail has a *relatively low intrinsic value of service*. Your response to VP-CW/USPS-T30-4(b) states that you looked at the Postal Service's service standards - as reported in the Postal Service's statement in this docket in compliance with Rule 54(n) - to assess the service actually provided to Standard A ECR under criterion 2.

- a. Please confirm that, according to the Postal Service's statement in this docket in compliance with Rule 54(n), no class or subclass of mail has a lower service standard than Standard A. If you do not confirm, please explain your answer fully.
- b. Please identify all classes and subclasses of mail that, according to the Postal Service's statement in this docket in compliance with Rule 54(n), enjoy a higher standard of service than Standard A.
- c. Please refer to Exhibit USPS-30B. Please confirm that, for Test Year After Rates, only Mailgrams would receive a cost coverage that is as high or higher than that applied to Standard A ECR.
- d. In your response to VP-CW/USPS-T30-4, you state that actual performance in delivery is considered under criterion 2, value of service. In your opinion, do any issues of fairness and equity arise when a subclass such as Standard A ECR with the lowest service standard pays the second-highest cost coverage?
- e. Please explain what information the Postal Service's statement in compliance with Rule 54(n) provides about the service actually provided to Standard A mail.

RESPONSE:

- a. Confirmed.
- b. All other classes.
- c. *Confirmed.*
- d. Coverages are set with respect to the entire set of criteria, not just value of service; the ECR cost coverage is, however, relatively high given its evaluation on these criteria, as noted in my testimony at page 36, lines 1-2.
- e. Please see my responses to DMA/USPS-T30-4(b) and VP-CW/USPS-T30-4.

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VP-CW/USPS-T30-7.

In your testimony, at page 9, you state that "the coverage of a subclass with a greater-than-average increase in worksharing will need to increase relative to the system-average coverage."

- a. 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.
- b. Does the imposition of a higher cost coverage on a class or subclass of mail due to its "greater-than-average increase in worksharing" create a disincentive for mailers to participate in worksharing, thereby reducing their participation in projects which increase Postal Service efficiency and productivity?

RESPONSE:

- a. Not at all; my testimony refers to changes in the degree of worksharing (relative to the system average) over time, not to differences in the level of worksharing, and notes that an increase in coverage (relative to the system average) is needed to avoid reducing the subclass's contribution to institutional costs as an indirect, and perhaps unintended, consequence of increased worksharing.
- b. No; the incentive to participate in worksharing is primarily driven by rate design within the subclass. Moreover, to mechanically impose prior coverage indexes in this situation would reward all pieces in the subclass, even those that did not increase their degree of worksharing.

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VP-CW/USPS-T30-8.

Please refer to Exhibit USPS-30D, and to page 36 your testimony, where you state that application of several of the statutory criteria to Standard A ECR "would indicate a cost coverage lower than that actually proposed," however, "this could only be achieved by imposing **greater rate increases on other subclasses**, thereby widening the range of increases around the modest overall average (emphasis added)."

- a. Please confirm that the systemwide average proposed rate increase is 4.5 percent. If you do not confirm, please provide the correct figure.
- b. Do you agree that your argument against **greater rate increases on other subclasses** does not apply to subclasses where the proposed increase is **less than the systemwide average**. If not, please explain.
- c. Please confirm that, under the Postal Service's proposal, First-Class letter mail, Express Mail, In-County Periodicals, Nonprofit Periodicals, Regular Rate Periodicals, Standard A Regular mail, and Standard B Special Mail have average proposed rate increases **less than the systemwide average**. If you do not confirm, please explain.
- d. Please confirm that, in addition to the subclasses set out in the preceding subpart, under the Postal Service's proposal, First-Class card mail, Classroom Periodicals, and Standard B Bound Printed Matter also have average proposed rate increases **under 6 percent**. If you do not confirm, please explain.
- e. Do you agree that your argument **against greater rate increases on other subclasses** has limited applicability to subclasses which have average proposed rate increases of under 6 percent? If not, please explain.
- f. Please explain how it is **fair and equitable** to impose a higher cost coverage on Standard A ECR, despite the fact that the application of the statutory criteria you reference in your testimony support a lower cost coverage, so that so many classes and subclasses of mail may have rate increases which are less than the systemwide average increase, or increases which are less than 6 percent.

RESPONSE:

- a. Confirmed.
- b. The "greater increases for other subclasses" portion of the statement necessarily applies to any subclass; the "widening the range" of increases

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portion of the statement does apply only to subclasses with increases that are above average.

- c. Confirmed; it should however be noted that two of these are preferred rate subclasses whose rate increases are indirectly determined by the Revenue Forgone Reform Act (RFRA), which links their coverages to the coverages of commercial subclasses.
- d. Confirmed except for Classroom Periodicals (see Exhibit USPS-30D revised 8-22-97), which is another preferred-rate subclass with a coverage determined by the RFRA.
- e. No, because the coverages proposed for those subclasses with rate increases below 6.0% were developed after considering all the criteria; for example, subclasses with below-average rate increases generally experienced greater-than-average reductions in their measured costs due to the new costing methodology.
- f. Please see the cited portion of my testimony, as amplified by my responses to the preceding parts of this question and to VP-CW/USPS-T30-9.

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VP-CW/USPS-T30-9.

At p. 36 of your testimony you state that:

a lower coverage for ECR would have made it more difficult to design rates so 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.

In your response to VP-CW/USPS-T30-5, you state that "the cost differential between automation letters and basic ECR letters has virtually disappeared."

- a. Why was it necessary to assign Standard A ECR a cost coverage over 228 percent to encourage the migration of ECR basic letters into the automation mailstream?
- b. Would a Standard A ECR cost coverage of 180 percent have been sufficient to encourage such migration? 200 percent? 210 percent?
- c. If your proposed cost coverage for the Standard A ECR subclass were lower (e.g., 200 percent) what principle(s) of rate design would prevent the Postal Service from maintaining the proposed rate on basic letters and lowering rates in all other ECR rate cells?

RESPONSE:

- a. First, I want to emphasize that my response to VP-CW/USPS-T30-5 refers to the test-year cost differential, not the current rate differential, and that beyond the test-year, as stated in that response, automation letters are expected to cost less than basic ECR letters. The 228% coverage facilitates the alignment of proposed rates with these costs; please see my response to parts b and c.
- b. A cost coverage of 180% would imply a decrease of approximately 19% from current rates (calculated by dividing 180% by the after-rates coverage of 228% adjusted to back out the 3.2% increase implied by the after-rates

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coverage); a coverage of 200% would imply a decrease of about 9%, and a coverage of 210% would imply a decrease of about 5%.

- c. As noted in my response to part b, a coverage of 200% would imply an overall rate decrease of 9% for ECR. Holding the basic ECR rate at its proposed level with a 200% coverage would thus imply rate decreases of even more than 9% for the high-density and saturation portion of ECR; I would expect that this would require passthroughs of the cost differences between basic ECR and the remaining presort tiers that greatly exceeded 100%.

DECLARATION

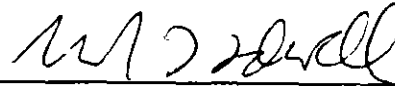
I, Donald J. O'Hara, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

9-30-97
Date

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

CERTIFICATE OF SERVICE

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

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

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
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