

# 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

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ALEXANDROVICH  
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE  
REDIRECTED FROM WITNESS DEGEN  
(OCA/USPS-T12-65)

The United States Postal Service hereby provides the response of witness Alexandrovich to the following interrogatory of the Office of the Consumer Advocate: OCA/USPS-T12-65, filed on September 17, 1997 and redirected from witness Degen.

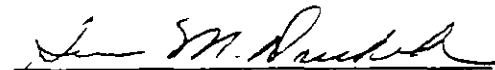
The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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October 1, 1997

Response of United States Postal Service Witness Alexandrovich  
to  
Interrogatories of OCA  
(Redirected from Witness Degen, USPS-T12)

**OCA/USPS-T12-65.** Please refer to interrogatory OCA/USPS-14, redirected from the Postal Service and answered by witness Alexandrovich. In witness Alexandrovich's response, he indicates that your testimony (and witness Brehm's) go into greater detail (than does his testimony) about the underlying volume variability changes and distribution keys for component C/S 2.2 and C/S 3.2 costs that contributed to the 12-to-1 and 15-to-1 ratios calculated in parts a. and b. of interrogatory 14.

- a. Please provide detailed explanations for parts a.i.-iv. of interrogatory 14.
- b. Please provide detailed explanations for parts b.i.-iv. of interrogatory 14 (but make the following correction in subpart iii.: change " $1123 \div 25$ " to " $1123 \div 74$ " to yield the 1518% ratio).
- c. In providing the explanations sought in parts a. and b. of the instant interrogatory, please address how the volume variability and distribution key changes in the instant case may have affected a subclass as small as Library Rate mail. Include in this discussion your views on how new MODS data specifically impact Library Rate mail. If possible, try to match operations to which Library Rate mail is subject to the new MODS cost pools and distribution keys. Please do the same for Special Fourth Class Rate mail.
- d. If witness Brehm is more knowledgeable about these issues than you are, please redirect these questions (or portions of these questions) to him.

**Response to OCA/USPS-T12-65**

- a-b. Before providing an explanation of the difference in the ratios that are presented in OCA/USPS-13 and OCA/USPS-14, it is necessary to fully explain the method by which they were calculated. First, the ratios presented in OCA/USPS-13 were calculated from the following cost information.

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to  
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**Response to OCA/USPS-T12-65 (cont.)**

	5A		
	CRA (Base Year)		Change
SFCR	\$248.3	\$226.5	-\$21.8
LR	\$52.0	\$47.8	-\$4.2

The changes in each subclass from CRA to 5A were then calculated, and a ratio of these changes was created ( $\$21.8 / \$4.2 = 519\%$ ). This ratio, however, when taken out of context, yields a nonsensical point of comparison for the figures that are presented in OCA/USPS-14, parts a.iv and b.iv. This 519% difference in the absolute changes in SFCR and LR is driven entirely by the original difference in the CRA costs between SFCR and LR. That is, SFCR is 4.78 times greater than LR in the CRA (478%). Therefore, after similar relative changes to each subclass, it is reasonable to expect that the SFCR change would be 5.19 times the LR change (519%). A much more meaningful analysis would be to compare the percentage changes in the two subclasses, which are calculated in the following table.

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**Response to OCA/USPS-T12-65 (cont.)**

	5A			
	CRA (Base Year)	Change	Percentage Change	
SFCR	\$248.3	\$226.5	-\$21.8	-8.8%
LR	\$52.0	\$47.8	-\$4.2	-8.1%

This calculation shows that the percentage changes in the two subclasses are very similar from SFCR to LR. With these numbers, the magnitude of the SFCR change can be compared to the LR change ( $-8.8\% / -8.1\% = 1.09 = 109\%$ ).

Similar tables can be constructed for the numbers that are presented in OCA/USPS-14 for C/S 2.2 and C/S 3.2.

C/S 2.2		5A		
	CRA (Base Year)	Change	Percentage Change	
SFCR	\$382.0	\$298.0	-\$84.0	-22.0%
LR	\$2.0	\$9.0	\$7.0	350.0%

C/S 3.2		5A		
	CRA (Base Year)	Change	Percentage Change	
SFCR	\$4,310.0	\$3,187.0	-\$1,123.0	-26.1%
LR	\$25.0	\$99.0	\$74.0	296.0%

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**Response to OCA/USPS-T12-65 (cont.)**

The reason that the SFCR change in costs is 12 times the LR change in C/S 2.2 is, in part, because the SFCR base is so much larger than the LR base in this cost segment. (The ratio of SFCR to LR cost in the CRA for C/S 2.2 was 191 [ $\$382.0 / \$2.0 = 191.0$ ].) The 5-to-1 ratio (519%) in the overall cost changes to which the question requests a comparison be drawn was driven entirely by the fact that the total costs for SFCR were 4.78 times (478%) the total costs for LR. Therefore, the large difference in the 12-to-1 "benefit" in C/S 2.2 and the 5-to-1 ratio in overall cost changes is simply caused by the difference in the ratio of the original CRA costs between C/S 2.2 and the overall costs for these two subclasses.

Likewise, the 15-to-1 "benefit" that SFCR enjoys over LR in C/S 3.2 can be compared to the 5-to-1 ratio (519%) in overall cost changes. The 5-to-1 ratio in overall cost changes was driven by the 4.78-to-1 ratio in CRA costs for the two subclasses. The ratio of changes in C/S 3.2 is so much larger than the overall cost changes because the ratio of SFCR to LR CRA costs in C/S 3.2 is so much larger ( $\$4310.0 / \$25.0 = 172.4$ ).

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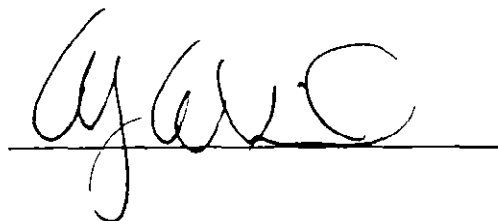
**Response to OCA/USPS-T12-65 (cont.)**

In summary, comparing ratios of the changes in costs across cost segments can not be analyzed with any meaning without first examining the relative magnitude of the original cost pools.

- c. The new window service variability factors do have a small influence on a subclass such as *Library Rate mail*. For instance, the new variability factors for stamp sales and meter settings lowered the pool of volume variable stamp and meter costs that must be distributed to individual classes of mail. Therefore, all classes of mail, including *Library Rate*, receive a smaller portion of the costs associated with selling stamps and setting meters. In addition, the newly estimated variability for weighing and rating activities lowers the volume variable costs for direct mail acceptance activities, although *Library Rate mail* did not have any direct mail acceptance costs in the Base Year.
- d. Not applicable.

## DECLARATION

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

A handwritten signature in cursive script, appearing to read "Joe Alexandrovich", is written over a horizontal line.

Dated: 10/1/97

**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.

  
\_\_\_\_\_  
Susan M. Duchek

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