

## DOCKET SECTION

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

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T40-32-33, 35, AND 37-39), AND  
REVISED RESPONSES OF WITNESS PLUNKETT TO  
OFFICE OF THE CONSUMER ADVOCATE INTERROGATORY OCA/USPS-T40-  
31(A), AND DAVID B. POPKIN INTERROGATORY DBP/USPS-26(A),  
REDIRECTED FROM THE POSTAL SERVICE  
(October 6, 1997)

The United States Postal Service hereby provides responses of witness Plunkett to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T40-32-33, 35, and 37-39, filed on September 25, 1997. Objections to interrogatories OCA/USPS-T40-35 (in part) and 36 are also being filed today. The response to interrogatory OCA/USPS-T40-34 will be filed later, by the due date of October 9, 1997.

The Postal Service is also filing witness Plunkett's revised responses to Office of the Consumer Advocate interrogatory OCA/USPS-T39-31(a), and David B. Popkin interrogatory DBP/USPS-26(a). In both cases the revisions clarify witness Plunkett's confirmations.

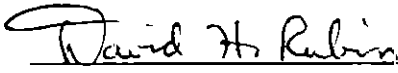
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
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October 6, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS PLUNKETT TO  
FOLLOW-UP INTERROGATORIES OF THE OFFICE OF THE CONSUMER  
ADVOCATE

OCA/USPS-T40-32. Please refer to your response to OCA/USPS-T40-9.

- a. Consider a hypothetical situation where a mailer sends a Christmas gift he or she purchased on or about December 1, and mails the gift soon thereafter (after having purchased insurance). The parcel is lost or totally destroyed. Upon presentation of a sales receipt, invoice, or appropriate statement of value from a reputable dealer, and after filing a claim, will the mailer receive full replacement value? Please explain.
- b. Consider the same hypothetical as in (a), but the mailer purchased the gift on September 1, and never used it personally. The actual mailing takes place in December.

OCA/USPS-T40-32 Response:

- a. As DMM § S010.2.11 provides for recovery only of the replacement value, a precise answer would require information regarding the expected life of the article. From a practical standpoint, assuming that the customer presents proof of insurance, and that the fee is sufficient to indemnify the full replacement value of the article, claims of this type are normally paid at the full replacement value.
- b. As in subpart (a), a precise answer would require knowledge of the expected life of the article. Unlike subpart (a), in this hypothetical case, some time has elapsed which, despite the fact that the article has not been used, may cause some diminution of value of the article.

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OCA/USPS-T40-33. Please refer to your responses to OCA/USPS-T40-7 and 10. Confirm that no documents exist (including documents which advise employees what the "remaining useful life" of an article is and how to evaluate it) that would tell Accounting Center employees or other postal employees how to depreciate items for insurance purposes other than the DMM guidelines. If not confirmed, please explain.

OCA/USPS-T40-33 Response:

Confirmed.

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OCA/USPS-T40-35. Please refer to your responses to OCA/USPS-T40-14 and 15. Please confirm that the insurance business of the Postal Service is not regulated by any state or federal agency. If not confirmed, please explain.

OCA/USPS-T40-35 Response:

I am not aware of any such regulation.

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OCA/USPS-T40-37. Please refer to your response to OCA/USPS-T40-11. Is Publication 122 routinely handed out to insurance purchasers at the time they purchase insurance? Please discuss.

OCA/USPS-T40-37 Response:

Publication 122 is typically handed out in response to customer requests for more detailed or written information regarding insurance, registered mail, or Express Mail insurance. It is not given out during every insurance transaction.

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OCA/USPS-T40-38. Please refer to your response to OCA/USPS-T40-11. Is Publication 201 routinely handed out to insurance purchasers at the time they purchase insurance? Please discuss.

OCA/USPS-T40-38 Response:

Publication 201 is typically handed out in response to customer requests for more detailed or written information regarding postal service products and services. It is not given out during every insurance transaction.

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OCA/USPS-T40-39. Please refer to your response to OCA/USPS-T40-16.

- a. Please describe the training that clerks receive in the DMM provisions relating to indemnity claims.
- b. Provide any documents used in such training.
- c. Are all window clerks trained in the DMM provisions relating to indemnity claims? Please discuss.

OCA/USPS-T40-39 Response

a-b. The Postal Service's standard training program for window clerks includes a module devoted to claims and inquiries which includes information on, and exercises dealing with, customer interaction and claim submission, including training on the applicable DMM provisions. Copies of relevant sections of the facilitator and participant guides, along with a copy of PS Form 1000, Domestic Claim or Registered Mail Inquiry, which is used in the training, are being filed as a separate library reference H-293.

c. Yes.



RESPONSE OF U.S. POSTAL SERVICE WITNESS PLUNKETT TO  
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OCA/USPS-T40-31. Please refer to page 8 of your direct testimony where you state as to bulk insurance: "The proposed bulk insurance service would provide indemnity for the lesser of the actual value of the article at the time of mailing or the wholesale cost of the contents to the sender. This is a reasonable approach because *the lost value to the shipper is the replacement cost of the article*, which may be different from the retail price." [emphasis added.]

- a. Confirm that the Postal Service proposes a wholesale cost type of insurance for bulk mailers that will compensate these mailers for the replacement value of the item. If not confirmed, please explain.
- b. It would appear that for certain classes of bulk mailers (e.g., manufacturers, companies that sell items through catalogs) the compensation standard will normally be replacement cost, since the items they will mail will be new. Please comment.
- c. Please explain how "wholesale cost" will be determined and defined.
- d. Provide any proposed or finalized DMM provisions relating to this type of insurance.
- e. Suppose a manufacturer mails items whose cost of manufacturer (sic) is \$100 apiece. It sells the items for \$150 apiece to a distributor. The distributor in turn sells them to a retailer for \$200 apiece. The retailer sells them to the public for \$250 apiece. Under the terms of the proposal, what is the "wholesale cost" at which price the manufacturer will be compensated?
- f. Why is the Postal Service not offering replacement value insurance to all customers, including household mailers who typically will not be able to take advantage of the bulk insurance proposal? Further, please explain why this disparate treatment is not discriminatory as to mailers who cannot take advantage of the bulk insurance requirements.
- g. At page 8 you also state that "indemnity costs for bulk insurance are expected to be lower than for basic insurance. Current insurance coverage provides indemnity for the actual value of the article at the time of mailing." Please now refer to the hypothetical in (e) herein. Suppose that the ultimate purchaser of the item, e.g., a household consumer, keeps the item after purchase from the retailer and uses it for a year, but then mails it insured to a relative. Is it not likely or possible that the depreciated value of the item after a year will be lower than the wholesale cost value? Please explain.
- h. We cannot discern either from your direct testimony or from the proposed changes to the DMCS (see Request of the United State Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Attachment A, p. 81) what the bulk mail insurance qualifications and conditions will be. Please describe any such proposed qualifications and conditions, including applicable DMM language. Include in your explanation any volume requirements to be attached to the proposal.

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## OCA/USPS-T40-31 Response:

- a. Confirmed, but only in the sense that, in most instances, bulk insurance customers would receive their replacement cost for the article being insured. While the relevant DMM provisions have not been written at this point, the proposed service calls for mailers to receive the lesser of either the *actual* or *wholesale* value of the article [emphasis added]. As indicated in my testimony, this will presumably be equal to replacement cost in many cases. Note that this treatment of bulk insurance claims is in no way intended to be advantageous relative to the treatment of insurance claims. In fact, the replacement cost for wholesalers is often less than the actual value (which is based on retail price) for the individual customer. Consider a hypothetical example where an individual purchases a garment mail order with a retail price of \$175 and a wholesale cost of \$125. If the retailer ships the article using bulk insurance and the article is lost, the retailer would be entitled to recover \$125. If, on the other hand, the customer receives the article intact and immediately mails the article to a third party, purchasing insurance, the customer would be entitled to recover \$175 in the event of loss.
- b. For the examples cited in subpart (b) I would agree. However, the replacement cost for these types of mailers is the wholesale cost, not the retail price.
- c. The method for determination or definition of wholesale cost has not yet been developed.
- d. No such provisions exist at this time.
- e. See subpart c. I would expect the "wholesale cost" to be \$100.

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- f. As indicated in subpart (b), the replacement value for household mailers generally is much higher than the replacement value for bulk mailers, so offering replacement value insurance for non-bulk customers would not necessarily treat them the same as bulk mailers. Moreover, for most of the intended users of bulk insurance, insured articles will be new merchandise. Consequently these mailers would be entitled to recover the replacement value of these articles in the event that they are lost or completely damaged. As indicated in my response to OCA/USPS-T40-9 household mailers are also entitled to recover the replacement value of new articles, albeit different replacement values than those available to bulk mailers.
- g. The likelihood that an article would have depreciated in the manner described in this question depends on the expected life of the article. In the hypothetical example presented, more than 60 percent  $((250-100) \div 250)$  of the article's value would have to be depreciated before the actual value is less than the wholesale value. Only if the article has an expected life of less than 20 months  $(12 \text{ months} \div 0.6)$  would this be the case.
- h. The specific qualifications and conditions that mailers will have to meet in order to qualify for bulk insurance have not yet been determined, beyond what is included in the proposed DMCS § 943.22.

RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO  
INTERROGATORIES OF DAVID B. POPKIN

DBP/USPS-26 [c] Confirm, or explain if you are unable to do so, that when delivering a Return Receipt for Merchandise article, that the delivery employee must obtain two separate signatures from the addressee, one on the Postal Service delivery record [irrespective of whether there is a single article to deliver this way or multiple articles for delivery on some form of manifest] and the second on the Return Receipt card PS Form 3811. [d] Confirm, or explain if you are unable to do so, that the time and therefore costs for obtaining both signatures for Return Receipt for Merchandise service are charged to that service since there is a single fee.

DBP/USPS-26 Response:

- c. Confirmed, except when the customer instructs the Postal Service to deliver without obtaining the recipient's signature. See DMM § S917.2.2f.
- d. Please see my response to DFC/USPS-T40-20.

# DECLARATION

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

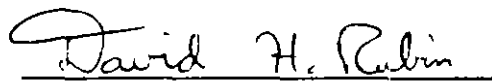


MICHAEL K. PLUNKETT

Dated: October 6, 1997

### **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.

  
David H. Rubin

475 L'Enfant Plaza West, S.W.  
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October 6, 1997