

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

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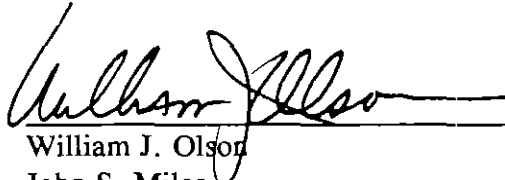
Postal Rate and Fee Changes, 1997 )

Docket No. R97-11  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

CTC DISTRIBUTION SERVICES, L.L.C.  
FIRST INTERROGATORIES AND REQUEST FOR PRODUCTION OF DOCUMENTS  
TO UNITED STATES POSTAL SERVICE  
WITNESS VIRGINIA J. MAYES (CTC/USPS-T37-1-7)  
(September 16, 1997)

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, CTC Distribution Services, L.L.C., hereby submits interrogatories and requests for production of documents. If necessary, please redirect any interrogatories and/or requests to a more appropriate Postal Service witness.

Respectfully submitted,

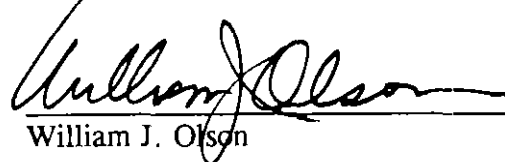


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CERTIFICATE OF SERVICE

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



William J. Olson

September 16, 1997

**CTC/USPS-T37-1.**

Please refer to your response to UPS/USPS-T37-24(c), in which you refer to “narrowly-defined cost savings,” and to your response to UPS/USPS-T37-27, in which you refer to “narrowly-measured cost savings.”

- a. Please explain what you mean by “narrowly-defined” and “narrowly-measured” cost savings in these responses.
- b. Are you aware of any examples of cost savings presented in any testimony in this docket that are not narrowly-defined or narrowly-measured? Please provide a citation to each example of which you are aware.

**CTC/USPS-T37-2.**

Witness Crum, at page 3 of his testimony (ll. 3-6), concluded that DBMC dropshipment saves the Postal Service 46.9 cents per piece in mail processing plus window and acceptance costs, when compared with non-DBMC intra-BMC mail. Your proposed rates for zones 4 and 5 DBMC parcel post do not reflect any of this cost differential. Please explain your rationale for not recognizing any DBMC cost differentials in your rates for zones 4 and 5, in light of witness Crum’s cost data.

**CTC/USPS-T37-3.**

Please refer to witness Bradley’s response to UPS/USPS-T13-24, where he states that some purchased highway contracts include the cost of loading and unloading in the contract cost.

- a. In your opinion, is the time and cost of time spent waiting for loading and/or unloading a distance-related or non-distance related cost in such contracts? Please explain the basis for your answer.
- b. Has any effort been made to distinguish driving time costs from loading and unloading costs?
- c. Please explain why certain nondistance-related costs, such as time spent loading and unloading, are treated as distance-related costs in parcel post rate design.

**CTC/USPS-T37-4.**

Please refer to your response to UPS/USPS-T37-31.

- a. Would you agree that the forecast for test year volumes before rates is predicated on existing rates, *i.e.*, no rate change? Please explain any disagreement.
- b. In the absence of any information about specific rate cells, or specific sets of rate cells (*e.g.*, price competition directed at heavier weight packages), would you agree that using the distribution of base year volumes to distribute TYBR volumes to individual rate cells is a reasonable procedure? Please explain any disagreement.
- c. Assume that rates for all cells within a subclass such as parcel post were increased by an equal percentage amount. Would you agree that (i) adjusting the TYBR volume in each cell to take account of the subclass elasticity and the proposed rate change would give the same result as (ii) adjusting the TYBR aggregate volume to take account of the uniform price change and the elasticity (*i.e.*, deriving TYAR aggregate volume) and

then distributing the TYAR aggregate volume to individual cells on the basis of the base year distribution? Please explain any disagreement.

- d. Assume that rates for individual cells within a subclass such as parcel post are changed by varying percentages, ranging from a small decrease or no increase in some rate cells to substantial increases in other rate cells. Would you agree that (i) adjusting the TYBR volume in each rate cell by the subclass elasticity and the percentage price change for that rate cell would NOT necessarily give the same results as (ii) adjusting the TYBR aggregate volume to take account of the average price change and the elasticity (*i. e.*, deriving TYAR aggregate volume) and distributing the TYAR aggregate volume to individual rate cells on the basis of the base year distribution? Please explain any disagreement.
- e. Assuming you agree that the alternative procedure described in preceding subpart d does not necessarily result in the same distribution of volume by individual rate cell, would you also agree that different distributions of TYAR volumes will also be likely to result in different estimates of TYAR revenues? Please explain any disagreement.
- f. Please comment on the merits of each of the above-described alternative methodologies for projecting TYAR volumes by individual rate cell, and explain all reasons why you prefer the alternative that you selected for your testimony.

**CTC/USPS-T37-5.**

Please refer to CTC/USPS-T37-4 and your response to UPS/USPS-T37-31, where you state that:

It seems to be beyond the realm of possibility and plausibility to consider independently calculating, establishing and defending a unique elasticity estimate for every rate element in every subclass of mail.

- a. Would you agree that in order to have an alternative procedure for projecting TYAR volumes by rate cell for purposes of revenue estimation, it is not necessary "to consider independently calculating, establishing, and defending a unique elasticity estimate for every rate element in every subclass of mail"? That is, would you agree that other alternatives exist to the rather extreme alternative which you posited in your interrogatory response? Please explain any disagreement.
- b. Consider a subclass such as parcel post, where the proposed rate changes vary significantly between rate cells, and vary in some systematic (*i.e.*, non-random) way, such as a substantial percentage rate increase for all lighter weight packages (to all zones) and tapering off to little or no rate increase for heavier weight packages (to all zones), or vice versa. For purposes of revenue estimation, please state whether under the circumstances described here you would prefer to have TYAR volumes distributed (i) exactly as in the base year, or (ii) distributed in a manner that is reflective of the elasticity estimate and the varying price changes proposed for individual rate cells. Please explain the reasons for your answer.

**CTC/USPS-T37-6.**

- a. As an economist, would you agree that as the price of something (such as a postal product) increases, the quantity demanded would generally be expected to decrease? Please explain any disagreement.

- b. If a product, such as a postal product, is offered in a competitive market, would you agree that the elasticity of demand for that product will generally be greater than it would be if the offeror had a monopoly over the product? Please explain any disagreement.

**CTC/USPS-T37-7.**

For your response to this interrogatory, assume the following scenario, or sequence of events.

- A. For a subclass such a parcel post, there is a projection of test year volume before rates, and that projection of TYBR volume is distributed to rate cells in proportion to the distribution of base year volume.
- B. TYAR volume is projected on the basis of a weighted average rate increase of X percent that results from an across-the-board rate increase of the same amount.
- C. TYAR volume is subsequently projected on the basis of a weighted average rate increase of  $X/3$  percent; *i.e.*, the average rate increase (weighted by volume) under C is one-third the average rate increase under B. In this case, however, the average rate increase results from a substantial increase in rates for all parcels that weigh 8-70 pounds, and no increase in rates for parcels under 8 pounds.
- D. Using your methodology to distribute test year volumes (which you describe as "the approved and generally accepted methodology"), the total volume of parcels in the rate cells for 8-70 pounds is somewhat greater under C than B. That is,

comparing C to B, substantially higher rates for parcels 8-70 pounds results in higher volume and a corresponding higher estimate of revenue, despite the sharply higher rates proposed for such parcels in C.

- a. Please refer to your response to CTC/USPS-T37-6 and explain whether such a result, higher volume resulting from higher rates, strikes you as counter-intuitive, or perhaps even as anomalous.
- b. Under circumstances such as those described here, please explain whether you would recommend reviewing and possibly changing "the accepted and approved methodology" in favor of an alternative methodology that does not yield results such as those described here.