

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

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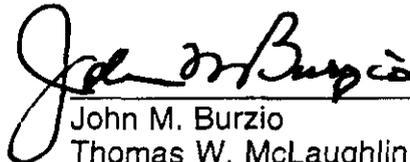
POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

INTERROGATORIES OF ADVO, INC.
TO NEWSPAPER ASSOCIATION OF AMERICA
WITNESS SHARON CHOWN (ADVO/NAA-T1-1-10)

Pursuant to sections 25 and 26 of the Rules of Practice, Advo, Inc. (Advo) directs the following interrogatories to Newspaper Association of America witness Sharon Chown with respect to NAA-T-1.

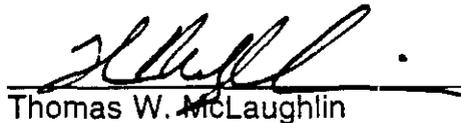
Respectfully submitted,



John M. Burzio
Thomas W. McLaughlin
Burzio & McLaughlin
1054 31st Street, N.W.
Washington, D. C. 20007
Counsel for ADVO, INC.

CERTIFICATE OF SERVICE

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



Thomas W. McLaughlin

January 26, 1998

ADVO INTERROGATORIES TO NAA WITNESS CHOWN (NAA-T-1)

ADVO/NAA-T1-1. Please confirm that, of all the rate classes and categories listed in Exhibits NAA-1B and 1E, the two that have the highest ratio of "weighted attributable costs" to actual attributable costs are In-County Periodicals and Standard A Commercial ECR.

ADVO/NAA-T1-2. At page 19, you state that "Standard A ECR mailers depend primarily on the delivery function."

- (a) Is the same also true of In-County Periodicals mailers?
- (b) Please confirm that, according to your Exhibit NAA-1B, delivery costs account for approximately 67 percent of the total attributable costs of In-County Periodicals.
- (c) Please confirm that In-County Periodicals mailers consist predominantly of daily and weekly newspapers. If you cannot confirm because you do not know, please state whether you have any basis to disagree that In-County mail consists predominantly of daily and weekly newspapers, and identify the basis for your disagreement.

ADVO/NAA-T1-3. Please confirm the following with respect to In-County Periodicals and Standard A ECR mail:

- (a) The "weighted attributable costs" you calculate for In-County Periodicals, \$129.401 million, is \$48.041 million (or 59 percent) greater than In-County attributable costs.
- (b) The \$129.401 million "weighted attributable costs" you calculate for In-County Periodicals is almost \$48 million greater than the total revenues from In-County mail at the USPS proposed rates.
- (c) The \$3,111.033 million "weighted attributable costs" you calculate for Standard A ECR is \$1,190 million less than the total revenues from ECR mail at the USPS proposed rates.
- (d) At the USPS proposed rates, please confirm that ECR mail would generate revenues substantially greater than your calculated "weighted

attributable costs," whereas In-County Periodicals would generate revenues substantially less than your "weighted attributable costs."

ADVO/NAA-T1-4. To facilitate a comparison of your Docket R90-1 proposed approach with your current proposed approach, please provide the following:

- (a) An itemization of all the differences between your Docket R90-1 proposed approach and your current proposed approach.
- (b) Using your example in Table 5 and Tables 6/7/8, a demonstration of how the institutional cost contributions for the three classes would be calculated under both (R97-1 and R90-1) approaches if there is not equal markup but rather class C receives a markup approximately twice as large as that for the other two.

ADVO/NAA-T1-5. On page 17, you state:

. . . this method of assigning institutional costs does not replace the essential role of judgment with any mechanistic method. Instead, this method provides a better cost figure to which the Commission can apply its judgment.

Please confirm the following. If you cannot confirm, please explain why not.

- (a) Your current proposal weights the attributable costs from each of four cost pools on the basis of the ratio of that cost pool's institutional costs to system-wide institutional cost.
- (b) Your current proposal, assuming equal mark-up of the "weighted attributable costs," generates the same results as your R90-1 proposal, assuming equal mark-up of attributable costs within each cost pool.
- (c) Under your proposal, the Commission would develop mark-up percentages that would be applied to subclass "weighted attributable cost" in order to develop the subclass contribution.
- (d) Under your proposal, once the Commission developed mark-up percentages and subclass contributions on the basis of "weighted attributable cost," it would then have to add the subclass contribution

amount to the subclass unweighted attributable cost in order to develop subclass revenue requirement.

- (e) Under your proposal, if the Commission wanted to determine how alternative mark-ups would affect subclass rates, it would have to apply those mark-ups to the "weighted attributable costs," derive the contributions, and then add the contributions to the unweighted attributable costs.

ADVO/NAA-T1-6. With respect to your proposal,

- (a) Please explain the underlying economic significance of your "weighted attributable costs."
- (b) Please explain the underlying economic significance of the "weighted attributable costs" plus contribution amount.
- (c) In considering application of the statutory factors for institutional cost assignment, should the Commission view your "weighted attributable costs" any differently than the unweighted attributable costs? If so, please explain why and how the Commission should view these figures differently. If not, please explain why not.
- (d) With regard to your proposed approach, would it appropriate to apply the same relative percentage mark-ups or indices that the USPS or Commission would use with unweighted attributable costs to your proposed "weighted attributable costs"? If so, please explain why. If not, please explain why not.

ADVO/NAA-T1-7. For Standard A ECR mail, please confirm that your Exhibit NAA-1B shows total TYAR attributable costs of \$1,885.248 million, whereas your Exhibit NAA-1D shows "weighted attributable costs" of \$3,111.033 million, an amount that is \$1,225,785 million (or 65 percent) greater than ECR attributable costs. If you cannot confirm, please explain why not, provide the figures that you believe to be correct, and show how they are derived from your exhibits.

- (a) Please confirm that this extra \$1,225.785 million amount allocated to ECR is not a part of the attributable costs of ECR mail. If you cannot

confirm, explain why not, including a full explanation of why this extra amount should be treated as "attributable" to ECR mail.

- (b) Does this extra \$1,225.785 million amount allocated to ECR constitute a portion of USPS institutional costs that are reallocated by your method to ECR mail?
- (c) Does this extra \$1,225.785 million amount allocated to ECR constitute a portion of the attributable costs of other classes or subclasses of mail, such as First Class mail, that are reallocated by your method to ECR mail?
- (d) If you claim in response to (a)-(c) above that this extra \$1,225.785 million amount is neither an attributable cost of ECR, nor a portion of institutional costs reallocated to ECR, nor a portion of attributable costs of other mail subclasses reallocated to ECR, please explain what kind of "costs" this amount represents.

ADVO/NAA-T1-8. Please refer to Exhibit NAA-1E, where you calculate a "weighted markup" of 77.75 percent for Standard A ECR mail at the USPS proposed rates.

- (a) Please confirm that you derived this "weighted markup" by dividing the ECR contribution to institutional costs at USPS proposed rates by your calculated \$3,111.033 million "weighted attributable costs" for ECR.
- (b) Please confirm that your divisor in this calculation is 65 percent greater than the attributable costs of ECR mail as shown in your Exhibit NAA-1B.
- (c) Please confirm that your resulting "weighted markup" represents ECR total contribution to institutional costs divided by a number that includes both (i) total ECR attributable costs plus (ii) a portion of either institutional costs or attributable costs of other subclasses that have been reallocated by you to ECR mail.

If you cannot confirm any of the above, explain why not.

ADVO/NAA-T1-9. For First Class Letters, please confirm that your Exhibit NAA-1B shows total TYAR attributable costs of \$16,805.748 million, whereas your Exhibit NAA-

1D shows "weighted attributable costs" of \$16,455.049 million, an amount that is \$350.699 million (or 2.1 percent) less than First Class Letters attributable costs. If you cannot confirm, please explain why not, provide the figures that you believe to be correct, and show how they are derived from your exhibits.

- (a) Please confirm that this \$350.699 million amount that is deducted from First Class Letter mail under your method is a part of the attributable costs of First Class Letter mail. If you cannot confirm, explain why not, including a full explanation of why this amount should be considered as part of the attributable costs of First Class Letter mail.
- (b) Please confirm that this \$350.699 million of attributable First Class Letters costs that is deducted from First Class Letters is, under your method, reallocated to other classes or subclasses of mail, such as ECR mail. If you cannot confirm, please explain the nature of this \$350.699 million amount (i.e., attributable costs of First Class Letters, attributable costs of other specific subclasses, or institutional costs), and explain what happens to these costs under your method (i.e., reclassified as institutional costs, reallocated to other subclasses, vanishing costs).

ADVO/NAA-T1-10. With respect to Priority Mail and Parcel Post, please confirm the following:

- (a) For Priority Mail, please confirm that your Exhibit NAA-1B shows total TYAR attributable costs of \$2,266.217 million, whereas your Exhibit NAA-1D shows "weighted attributable costs" of \$1,343.833 million, an amount that is \$922.384 million (or nearly 47 percent) less than Priority Mail attributable costs.
- (b) For Parcel Post, please confirm that your Exhibit NAA-1B shows total TYAR attributable costs of \$753.327 million, whereas your Exhibit NAA-1D shows "weighted attributable costs" of \$531.757 million, an amount that is \$221.570 million (or 29 percent) less than Parcel Post attributable costs.

If you cannot confirm, please explain why not, provide the figures that you believe to be correct, and show how they are derived from your exhibits