

DOCKET SECTION

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

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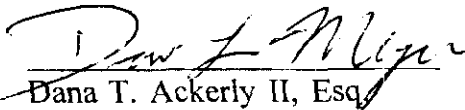
POSTAL RATE AND FEE CHANGES, 1997)
_____)

Docket No. R97-1

**THE DIRECT MARKETING ASSOCIATION, INC.'S FIRST SET OF
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF
DOCUMENTS DIRECTED TO NAA WITNESS CHOWN (DMA/NAA-T1-1-6)**

Pursuant to Sections 25 and 26 of the Commission's Rules of Practice, the Direct Marketing Association, Inc. hereby submits the attached first set of interrogatories and requests for production of documents to NAA witness Chown (DMA/NAA-T1-1-6). If the designated witness is unable to respond to this interrogatory, we request a response by some other qualified witness.

Respectfully submitted,



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January 27, 1998

DMA/NAA-T1-1. Please refer to Page 17, Lines 1 through 3 where you state, "When computing the revenues to be recovered from each class of mail, each class of mail would be assigned its actual attributable costs (unweighted) as required under the Act and the institutional costs as derived above."

- a. Please confirm that the following process accurately reflects your method for computing the revenues to be recovered from each class of mail. If not confirmed, please correct.
 - 1) Determine attributable costs and institutional costs for five functions: delivery, mail processing, transportation, window service, and other.
 - 2) Divide the attributable costs for each function by total attributable costs for all functions to determine the "attributable ratio."
 - 3) Divide the institutional costs for each function by total institutional costs for all functions to determine the "institutional ratio."
 - 4) Divide the institutional ratio for each function by the attributable ratio for the function to determine the weighting factor for the function.
 - 5) Separately for each function and subclass, multiply the subclass' attributable costs for the function by the function's weighting factor to obtain weighted attributable cost for the function.
 - 6) Sum weighted attributable costs by subclass across all functions.
 - 7) Determine markup for each subclass based upon pricing factors.
 - 8) Determine the institutional costs borne by each subclass by applying the subclass' markup to its weighted attributable cost.
 - 9) Determine revenue to be recovered from each subclass of mail by adding institutional cost from Step 8 to actual attributable cost.
- b. Please confirm that under your proposed approach the revenue produced by a subclass would be equal to its actual attributable costs plus the institutional costs borne by the subclass, and not weighted attributable costs plus institutional costs.

DMA/NAA-T1-2. Please confirm that, in general, the Postal Service's costing approach for this case defines volume variable costs as attributable costs. If not confirmed, please explain fully.

DMA/NAA-T1-3. Refer to Pages 21-23 of USPS-T-11.

- a. Please confirm that in theory volume variable costs are all costs that will vary with marginal changes in mail volume. If not confirmed, please explain fully.
- b. Please confirm that all costs other than volume variable costs are costs that do not vary with marginal changes in mail volume.

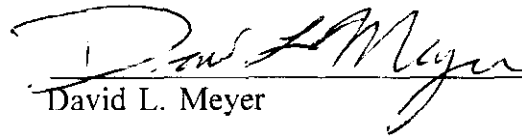
DMA/NAA-T1-4. Do you agree that all rates should be free from cross-subsidy? If not, please explain fully.

DMA/NAA-T1-5. Refer to USPS-T-11, page 8, lines 9-15. Do you agree that the incremental cost test is the appropriate test to ensure that the rate schedule is free from cross-subsidy? If not, please explain fully.

DMA/NAA-T1-6. Refer to section 3626 of the Revenue Forgone Reform Act where it describes the required relationship between the markup on preferred rate subclasses and the markup on the most closely corresponding regular rate subclass. Please confirm that the constraint that for FY 1998 the markup on attributable costs for preferred rate subclasses be equal to five-twelfths of the markup for regular rate subclasses is applicable even if one uses your method for assigning institutional costs. If not confirmed, please explain fully.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Rule 12 of the Commission's Rules of Practice, as modified by the Special Rules of Practice.


David L. Meyer

January 27, 1998