

DOCKET SECTION

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

Postal Rate and Fee Changes, 1997

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Docket No. R97-1
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA
WITNESS SHARON CHOWN TO INTERROGATORIES OF
UNITED PARCEL SERVICE (UPS/NAA-T1-1-3)
February 3, 1998**

The Newspaper Association of America hereby provides responses of witness Sharon Chown to the following interrogatories of United Parcel Service (UPS/NAA-T1-1-3) filed on January 20, 1998.

Each interrogatory is stated verbatim and is followed by the response. A declaration is attached.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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William B. Baker

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CERTIFICATE OF SERVICE

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

February 3, 1998

William B. Baker
William B. Baker

RESPONSES OF NAA WITNESS CHOWN TO INTERROGATORIES
OF UNITED PARCEL SERVICE

UPS/NAA-T1-1. Please refer to page 18, line 24, where you refer to "markups based upon the weighted attributable costs."

- a. Please confirm that you are not recommending that these markups be applied directly to unweighted attributable costs to determine rates. Please explain any answer other than an unqualified confirmation.
- b. Please confirm that to determine the actual rates, the Commission must convert the weighted markups to another set of numbers -- call them unweighted markups -- which are then applied to unweighted attributable costs. Please explain any answer other than an unqualified confirmation.
- c. Is it correct that your testimony does not indicate how to determine specific rates from the weighted markup system you propose? If the answer is "no," please provide the reference to your proposed method.
- d. Do you agree that one way for arriving at actual rates could be summarized as follows: First, compute weighted attributable costs according to the method set forth in your testimony; second, determine markups based on the criteria set forth in Section 3622(b), using weighted attributable costs as the cost base; third, compute the contribution to institutional costs that would result from those markups; fourth, to determine actual rates, calculate another set of markups by dividing the sum of "true" attributable cost plus the contribution determined in steps one through three by the sum of the true attributable costs? Please explain any answer other than an unqualified confirmation.
- e. Aside from what is discussed in (d) above, are there any other ways to go from your weighted attributable cost calculations to actual rates?
- f. Please confirm that the markups computed in step four of part (d) would be applied to attributable costs in the same way that markups determined using the Commission's current methods are applied to attributable costs. If you do not confirm, please explain.

Response:

- a. Confirmed. See (b) below.
- b. Not confirmed. The Commission need not convert the "weighted markups" to a set of "unweighted markups" which are then applied to

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unweighted attributable costs to determine the revenues to be recovered from each subclass of mail. As explained at page 17, lines 1-4 and as shown in the example at page 17, Table 9 of my direct testimony, the Commission need only take the institutional cost contribution in dollars that it determines judgmentally is appropriate using the weighted attributable costs and add the actual attributable costs to determine revenues to be recovered from each subclass.

- c. My testimony does not recommend specific rates or markups for each subclass.

However, I do indicate how the Commission can calculate the revenues to be recovered from each subclass of mail when assigning institutional costs using weighted attributable costs. See page 17, lines 1-4 of my direct testimony and the response to (b) above.

- d. I agree that your description is one way to arrive at the actual revenues to be recovered from each subclass of mail, with the exception that the "markups" you refer to in step four are actually "cost coverages" rather than "markups."

- e. Yes. See my response to part (b) above. The more direct method of computing the revenues to be recovered from each subclass of mail is to take the institutional costs derived in step three and simply add the actual attributable costs for the subclass. The Commission need not derive

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another set of markups or cost coverages to apply to the actual
attributable costs.

- f. Confirmed, with the exception that the "markups" to which you refer are
actually "cost coverages."

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UPS/NAA-T1-2. Please refer to NAA-1A, page 5, which refers to \$1,983,222,000 of "Other Costs & Adjustments." Please provide a list of the cost segments and components that make up "Other Costs," and please list or provide a reference for the "Adjustments."

Response:

As explained in Exhibit NAA-1G of my testimony, the "Other Costs & Adjustments" are derived by subtracting the attributable costs of mail processing, transportation, window service and delivery service from the total attributable costs for each subclass. As noted in my testimony, I have used the Postal Service's estimates of test year attributable and total costs for purposes of illustration.

"Other Costs" include those cost segments and components that are not directly related to providing the four basic functions -- mail processing, window service, transportation and delivery. These other costs include the attributable costs associated with cost segments such as Cost Segment 1 (Postmasters) plus related benefits, Cost Segment 16.1 (Supplies), Cost Segment 16.3.4 (Other Miscellaneous Service), and portions of Cost Segment 18 (Administrative and Regional Operations).

"Adjustments" include the adjustments made to the total attributable costs by the Postal Service's pricing witnesses and Postal Service Witness O'Hara, as summarized on Exhibit USPS-30F, revised 9/19/97.

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UPS/NAA-T1-3.

- (a) Please refer to Exhibit NAA-1C. Please confirm that you identify \$18,261,293,000 of institutional cost for the four functions.
- (b) Please refer to Exhibit NAA-1A, page 5. Please confirm that the Postal Service proposal shows total institutional costs of \$26,997,063,000.
- (c) Please confirm that \$8,735,824,000 of institutional cost is not identified in Exhibit NAA-1C. Please explain any answer other than an unqualified confirmation.
- (d) Is it a correct interpretation of your testimony that none of the \$8,735,824,000 of unidentifiable cost is associated with the \$1,983,222,000 of "Other Costs & Adjustments"? Please explain any answer other than an unqualified "yes."

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed. As I discuss at page 8, lines 13-17, there is a pool of institutional costs that cannot be specifically associated with any particular function. I refer to these institutional costs as "system-wide" institutional costs. Because they cannot be associated with any particular function, they are not used in deriving the attributable cost weighting factors (as illustrated in Exhibit 1C). However, these costs should be included in the total institutional costs to be assigned to the subclasses of mail.
- (d) I have not associated any of these "system-wide" institutional costs with "Other Costs & Adjustments," as the other functions whose costs are included in the other costs do not appear to directly cause these "system-wide" institutional costs to be incurred.

DECLARATION

I, Sharon L. Chown, 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 black ink, appearing to read 'S. Chown', is written over a solid horizontal line.

Date: February 3, 1998