

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

RECEIVED

Postal Rate and Fee Changes, 1997

FEB 10 3 17 PM '98  
Docket No. R97-1  
U.S. DEPARTMENT OF JUSTICE  
OFFICE OF THE ATTORNEY GENERAL

**NEWSPAPER ASSOCIATION OF AMERICA  
WITNESS SHARON CHOWN  
ANSWERS TO INTERROGATORIES OF  
DIRECT MARKETING ASSOCIATION (DMA/NAA-T1-1-6)  
February 10, 1998**

The Newspaper Association of America hereby provides answers of witness Sharon Chown to the following interrogatories of the Direct Marketing Association (DMA/NAA-T1-1-6) filed on January 27, 1998.

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

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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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 10, 1998

William B. Baker  
William B. Baker

NEWSPAPER ASSOCIATION OF AMERICA WITNESS SHARON CHOWN  
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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 the 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 that 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 the institutional costs 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.

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Answer:

- a. Confirmed.
- b. Confirmed.

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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.

Answer:

Confirmed.

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DMA/NAA-T1-3. Refer to Page 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.

Answer:

- a. Confirmed, in theory.
- b. Confirmed, in theory.

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

Answer:

Yes.

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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.

Answer:

In general, yes. Rates should recover revenues in excess of the average incremental costs or the marginal costs of the service, *whichever is greater*. Where economies of scale are present, incremental costs are higher than marginal costs and the incremental cost test is the appropriate test to ensure that the average rate for the service is free from cross-subsidy.

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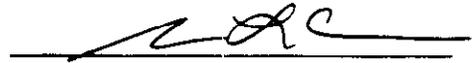
DMA/NAA-T1-6. Refer to section 3626 of the Revenue Forgone Reform Act where it describes the required relationship between the markup on preferred rate subclasses and the markup on the most closely corresponding regular rate subclass. Please confirm that the constraint that for FY 1998 the markup on 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.

Answer:

Confirmed, based upon my understanding of the Act. However, I am not a lawyer and therefore, cannot render a legal opinion as to what the Act requires.

## 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 horizontal line.

Date: FEB 10, 1998