

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

Postal Rate and Fee Changes, 1997

Docket No. R97-1

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**NEWSPAPER ASSOCIATION OF AMERICA
WITNESS SHARON CHOWN
ANSWERS TO INTERROGATORIES OF
VAL-PAK/CAROL WRIGHT (VP-CW/NAA-T1-1-11)
February 11, 1998**

The Newspaper Association of America hereby provides the answers of witness Sharon Chown to the interrogatory of Val-Pak/Carol Wright filed on January 28, 1998. Each interrogatory is stated verbatim and is followed by the answer. A declaration is attached.

Respectfully submitted,

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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 11, 1998

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VP-CW/NAA-T1-1. Please explain how your total weighted attributable cost methodology differs from the cost ascertainment system used by the former Post Office Department to allocate costs.

Answer:

I am not familiar with the cost ascertainment system used by the former Post Office Department to allocate costs. Therefore, I cannot answer your question.

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VP-CW/NAA-T1-2. Please refer to page 18 of your testimony, where you compare a systemwide markup to the markups of individual mail classes and subclasses.

- (a) What purpose does a systemwide markup serve when each class and subclass is already allocated its respective share of "institutional costs"?
- (b) As an illustration of how your proposal operates, please explain why your allocation of institutional costs to Standard A ECR reduces the markup of that subclass.

Answer:

- (a) My method does not "already allocate a respective share of institutional costs to each class and subclass." My method simply provides a better metric for the assignment of institutional costs. Using my method, the Commission will continue to assign institutional costs based upon its assessment of the factors in Section 3622(b) of the Postal Reorganization Act.
- (b) I do not propose any specific "allocation" of institutional costs to Standard A ECR mail. Exhibit NAA-1E shows the weighted markups that result from the Postal Service's proposed institutional cost contributions. The weighted markup is lower than the unweighted markup for Standard A ECR mail since Standard A ECR mail heavily relies upon functions which account for a large share of the institutional costs of the Postal Service.

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VP-CW/NAA-T1-3. Please refer to page 19, lines 16-18 of your testimony, where you discuss, under your proposal the Commission's application of "its judgmental assessment of the factors under Section 3622(b) of the Act to derive the appropriate markup for each class (sic) of mail."

- (a) Is it your view that, under your proposal, the Commission should somehow take institutional costs allocated to one subclass and shift them to another subclass? If so, how should the Commission determine, for example:
- i. which class/subclass' institutional costs should be shifted to First-Class letters, or which subclass should receive institutional costs belonging to Standard A Nonprofit?
 - ii. how much of the institutional costs otherwise assigned to Periodicals should be covered by other classes or subclasses of mail?
 - iii. having your metric, should or would institutional costs assigned to Periodicals be increased?
- (b) Is it your view that the Commission is only distributing "system-wide" institutional costs (p. 8, l. 17)?

Answer:

- (a) No. I am not proposing any specific assignment of institutional costs to each subclass of mail. Hence, I am not proposing any specific "shift" of institutional costs from one subclass to another.
- (b) No. I am proposing that the Commission assign total institutional costs to subclasses of mail based upon the factors in the Act using weighted attributable costs, rather than actual attributable costs.

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VP-CW/NAA-T1-4. Please refer to page 11, lines 15-18 of your testimony.

- (a) Is it your testimony that your total weighted attributable cost methodology would supplant the Commission's judgmental assessment of the factors under Section 3622(b) of the Act as the means which governs allocation of institutional costs? Please explain your answer.
- (b) Is it your testimony that your total weighted attributable cost methodology should have more weight than the Commission's judgmental assessment of the factors under Section 3622(b) of the Act in setting class/subclass markups? Please explain your answer.

Answer:

- (a) & (b) No. As explained at page 19, lines 10-18 of my testimony, I am proposing that the Commission continue to apply its judgmental assessment of the factors under Section 3622(b) of the Act when determining institutional cost assignments. The only difference is that I am proposing that the Commission use weighted attributable costs, rather than actual attributable costs, when making this assignment.

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VP-CW/NAA-T1-5. Please refer to page 17, lines 11-12 of your testimony. Is it your testimony that the Commission should calculate the total weighted attributable cost for each class and subclass of mail, but that the institutional costs for the four basic functions should not be allocated to each class and subclass of mail in accordance with that methodology? Please explain your answer.

Answer:

As I explain in my answers to VP-CW/NAA-T1-4, I am proposing that the Commission assign ~~total~~ institutional costs judgmentally to subclasses of mail using my weighted attributable costs as the basis for the markup. I am not proposing that the institutional costs associated with each function be assigned to subclasses based upon the attributable costs of that function only. See also my response to ADVO/NAA-T1-4.

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VP-CW/NAA-T1-6. Please refer to page 17, lines 9-10 of your testimony. Is it your view that your method provides a better cost figure to which the Commission can apply its judgment (to allocate the remaining institutional costs) for the reason that a larger portion of costs (both certain institutional and volume variable) have been assigned by class and subclass than under either the Postal Service's proposed, or the Commission's methodology? Please explain your answer.

Answer:

No. My method does not assign or attribute a larger portion of costs – both certain institutional costs and volume variable – to the subclasses of mail. As noted in my response to VP-CW/NAA-T1-3(b), I propose that the Commission judgmentally assign total institutional costs to subclasses of mail using my weighted attributable costs. It is my view that this metric is a better measure of how each subclass of mail benefits from institutional effort. Please see my response to AMMA/NAA-T1-6(b).

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VP-CW/NAA-T1-7.

- (a) Is it your testimony that the Commission should partition the total pool of institutional costs into two separate pools, described by you as "identifiable" and "system-wide" institutional costs (page 8, lines 15-17). Please explain fully any answer that is not an unqualified affirmative.
- (b) Is it your testimony that what you describe as "identifiable" institutional costs should be reasonably assigned to the classes and subclasses of mail using your "metric" of weighted attributable costs, and that "system-wide" institutional costs should be allocated according to the non-cost criteria in Section 3622(b) of the Act? Please explain fully any answer that is not an unqualified affirmative.

Answer:

- (a) For the purposes of deriving the weighting factors in Exhibit NAA-1C, I identify the institutional costs associated with providing each function. Then, as explained in my response to VP-CW/NAA-T1-3(b), I am proposing that the Commission assign the total institutional costs based upon its judgmental assessment of the factors in Section 3622(b) of the Act using weighted attributable costs, rather than actual attributable costs. The institutional cost contribution determined by the Commission using this approach would then be added to the actual (unweighted) attributable costs to arrive at the revenues for a subclass. For a step-by-step description of my recommended method, please refer to DMA/NAA-T1-1(a).
- (b) No. Please see my response to part (a) above.

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VP-CW/NAA-T1-8. Please explain how using your "metric" of weighted attributable costs to assign institutional costs to the classes and subclasses of mail comports with each of the criteria in Section 3622(b) of the Postal Reorganization Act.

Answer:

As explained in my response to AMMA/NAA-T1-6(b), my "metric" of weighted attributable costs provides a better measure of how each subclass of mail benefits from institutional effort. I recommend that the Commission apply the criteria in Section 3622(b) of the Postal Reorganization Act to assign the institutional costs using weighted attributable costs. The institutional cost contribution determined by the Commission using this approach would then be added to the actual (unweighted) attributable costs to arrive at the revenues for a subclass. The institutional costs assigned in this manner will "comport" with each of the criteria in Section 3622(b) of the Act, since the Commission will take each of these criteria into account when making its institutional cost assignment.

In my view, it is inaccurate to state that either weighted or unweighted attributable costs "comport" with the criteria in the Act. It is the institutional costs assigned using these metrics that must comport with the criteria in the Act.

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VP-CW/NAA-T1-9. Should weighted attributable costs be used as the basis for allocating system-wide institutional costs? If your answer is affirmative, please explain why this is more fair and equitable than using actual attributable costs.

Answer:

As I explain in my response to VP-CW/NAA-T1-3, I propose that the Commission use weighted attributable costs as the basis for assigning total institutional costs. As I explain in my response to AMMA/NAA-T1-6(b), the use of weighted attributable costs will result in a more fair and equitable assignment of institutional costs since this metric provides a better measure of how each subclass of mail benefits from institutional effort.

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VP-CW/NAA-T1-10. Please refer to Exhibit NAA-1E.

- (a) Confirm that the weighted markup for Standard A Commercial ECR is 77.75 percent, and for Nonprofit ECR it is 41.06 percent.
- (b) Confirm that the weighted markup for Standard A Commercial Regular is 49.19 percent, and for Nonprofit Regular it is 20.23 percent.
- (c) Do you agree that the nonprofit markups do not conform with the requirements of the RFRA? Explain fully any negative answer.
- (d) Would you bring the nonprofit markups into compliance with RFRA by (i) adjusting the nonprofit markups, or (ii) adjusting the commercial rate markups so that the nonprofit markups are equal to 50 percent of the corresponding regular rate markup?

Answer:

- (a) & (b) Confirmed. These figures represent the weighted markups using the Postal Service's proposed institutional cost contributions.
- (c) I am not qualified to render a legal opinion. However, based upon my understanding of the Revenue Forgone Reform Act, the relevant markups as defined by the Act are the unweighted markups. Please see my responses to NNA/NAA-T1-8 and DMA/NAA-T1-6.
- (d) If the proposed nonprofit unweighted markups do not conform to the requirements of RFRA, I leave it for the Commission to determine the appropriate adjustments in the markups for these subclasses of mail. As stated clearly in my testimony at page 19, lines 20-22, I am not making a specific

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recommendation on the institutional costs to be recovered from each subclass of
mail.

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VP-CW/NAA-T1-11. Refer to your testimony at page 11, line 7.

- (a) Define the term "reasonable share" as you use it there, and explain whether that is solely your interpretation, or whether you believe it derives from some criterion or criteria in Section 3622(b) of the Act.
- (b) Define the word "escapes" as you use it there. Would you agree that your statement assumes that Class C should be paying a higher share of institutional costs.

Answer:

- (a) By "reasonable share" I am referring to a share of institutional costs that reflects how much the class benefits from institutional cost effort. The example at page 10, lines 12-15 is a special case in that it assumes that:

"...the Commission decides that there is no reason to differentiate among the classes with respect to the factors in Section 3622(b) and therefore, that each subclass should be assigned institutional costs on an 'equal' basis."

Given the assumption in this example that institutional costs should be borne on an equal basis, it is reasonable to expect each class to pay an equal share of the institutional costs associated with the functions used by that class.

- (b) "Escapes" refers to the fact that Class C is assigned less than its "reasonable share" of institutional costs as defined in part (a) above. Therefore, Class C avoids institutional costs that should be assigned to this class.

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I agree that this statement assumes that Class C should be paying a higher share of institutional costs. For the reasons explain in my response to part (a) above, this assumption is reasonable.

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.



Date: February 11, 1998