

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

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U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

Mailing Online Service)

Docket No. MC98-1

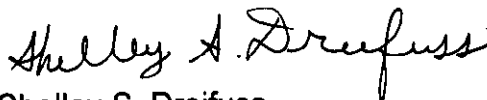
OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORY TO UNITED STATES POSTAL SERVICE
WITNESS: MICHAEL K. PLUNKETT
(OCA/USPS-T5-52-53)
(JANUARY 25, 1999)

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/USPS-T1-1-7 to witness Lee Garvey, dated July 21, 1998, are hereby incorporated by reference.

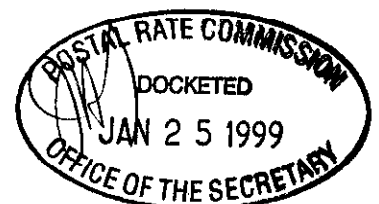
Respectfully submitted,



Gail Willette
Acting Director
Office of the Consumer Advocate



Shelley S. Dreifuss
Attorney



OCA/USPS-T5-52. Please refer to your revised response to interrogatory OCA/USPS-T5-10, filed January 14, 1999.

- a. When OCA asks you whether the "fixed information systems costs" of MOL "will become institutional, rather than attributable," are you applying the definition of "attributable" articulated by the Commission in PRC Op. R97-1, paras. [4016-4018], i.e.,

[4016] In analyzing witness Panzar's position, the Commission first considers whether it is reasonable to limit the concept of attributable cost to marginal cost. The Commission has recognized since Docket No. R71-1 that marginal costs are the most important element of attributable cost. Over the years both the Service and the Commission have also included specific fixed costs under the rubric of attributable. Further, the Commission has analyzed costs caused by the classes of mail and found other nonvariable costs to be attributable (the fixed portion of special delivery messengers, the fixed portion of the Eagle Air Network, and the single subclass stop portion of access, among others). The Commission has even deleted marginal costs from attributable costs as in the case of the air transportation of parcel post to the Alaskan bush. In the latter case, the Commission found that the primary cause of those costs was the Service's universal service obligation, even though the cost varied with the volume of parcel post being transported to the bush.

[4017] The Commission is not prepared to depart from the position that attributable cost means costs which can be said to be reliably caused by a subclass of mail or special service. Marginal costs, by definition, include only the additional costs caused by the last unit of output. Marginal costs are an important subset of attributable costs, but the Commission cannot agree that marginal cost is all that is meant by the term "attributable." Unlike incremental costs, marginal costs have been central to microeconomic theory for a long time. The framers of the Act knew about and could have used the concept of marginal costs, but they did not. The language of the Act requires the Commission to set rates for each subclass so that it covers its attributable

cost and makes a reasonable contribution to all other costs. In interpreting this language the Commission continues to believe that the authors of the Act intended "attributable" to mean more than just marginal cost. If they had meant marginal cost, they would have said so.

[4018] *Marking up attributable cost is the means by which the Commission makes its determination of a reasonable contribution to all other costs. All other costs are the difference between total cost and attributable costs. All other costs are not the difference between total cost and marginal cost. When the Commission determines the reasonableness of a subclass's contribution to all other costs, it must use attributable cost as a base and mark-up.*

.....

[4024] The Commission's calculation of attributable costs by subclass and service does not precisely conform to witness Panzar's definitions of either marginal cost or incremental cost. However, they come closest to being the incremental costs associated with the subclasses and services taken one at a time.

- b. Do you agree with the Commission's view that attributable costs should include the volume variable costs of a subclass plus the specific fixed costs of that subclass?
- i. If you disagree, state whether you reject the Commission's articulated view of attributable costs.
 - ii. If you disagree with the Commission's view of attributable costs, then state your definition of attributable costs. Include in your discussion whether attributable costs must include the specific fixed costs of a subclass.
 - iii. Is the definition given in subpart ii. of this interrogatory the one you applied in determining the costs to be marked up for the purpose of

recovering Information Systems costs in MOL's premailing, per impression fee?

- iv. If your answer to subpart iii. is negative, then state the definition of attributable costs you applied in determining the costs to be marked up for the purpose of determining the premailing, per impression fee for MOL.
 - v. Did you include any of the fixed Information Systems costs in the cost base you marked up to determine the premailing, per impression MOL fee?
 - vi. If you excluded the specific fixed Information Systems costs from the cost base you marked up to determine the premailing, per impression MOL fee, didn't you deviate completely from the Commission's articulation of attributable costs?
- c. Do you agree with the Commission that incremental costs come closer to being the attributable costs of a subclass than do marginal costs?
- i. If you agree with this view, did you apply it in determining the costs to be marked up for the purpose of determining the premailing, per impression MOL fee?
 - ii. If you disagree with this view, then state whether you marked up only the marginal costs of MOL to calculate the premailing, per impression MOL fee.
- d. Do you agree with the Commission that the volume variable plus the specific costs of a subclass best approximate attributable costs and that both should be added together and marked up to determine the rate for the subclass?

- i. If you agree with this view, did you apply it in determining the costs to be marked up for the purpose of determining the premailing, per impression MOL fee?
 - ii. If you disagree with this view, then state whether you marked up only the marginal costs of MOL to calculate the premailing, per impression MOL fee.
- e. Please review a relevant holding of the Commission in PRC Op. MC97-5, at page, 47 concerning the recoupment of start-up costs of a proposed, new

Packaging Service:

The Commission has adjusted packaging service costs to recover all start-up costs during the two-year life of the provisional service. . . . Reliance on the packaging service's contribution to institutional costs for recovery of these direct costs is also an unacceptable approach, for two reasons. First, it would be inappropriate in principle to recover an attributable cost from revenues that have been earmarked for contribution to the Postal Service's institutional costs. Second, doing so in this instance would reduce the institutional cost contribution of packaging service to an unacceptably low level.

- i. Have you applied this approach in your method for setting rates in MC98-1? Please explain.
- ii. Specifically, have you included the start-up costs for MOL in the attributable cost base to be marked up for the purpose of establishing MOL rates? Please explain.
- iii. If you have not done so, have you rejected the Commission's holding in PRC Op. MC97-5? Please explain.

- iv. Is there any way to reconcile your answer to interrogatory OCA/USPS-T5-10 (revised January 14, 1999) with the Commission's holding in Docket No. MC97-5? Please explain.
- v. What is the true cost coverage of MOL if start-up costs are included in the attributable costs to be marked up?
- vi. Isn't the true cost coverage far less than the 125 percent you have proposed if start-up costs are included in the costs to be marked up?
- f. Please compare your answer to question 1, POIR No. 2, that, "[T]he Postal Service considers that fees should be based on a markup of the volume variable costs of the service. Exhibits A and B were developed in conformity with this view," with the view articulated by the Commission at paras. [4016-18, and 4024] of PRC Op. R97-1, quoted in part a. above. Include in your comparison whether your view can be reconciled with the Commission's.

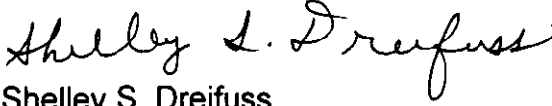
OCA/USPS-T5-53. Please refer to part a. of your revised answer (January 14, 1999) to interrogatory OCA/USPS-T5-10.

- a. Are the one-time costs of \$11.1 million you refer to merely a rounding of the \$11,120,030 set forth in Table 2, column 3 ("One Time Cost"), at page 2 of USPS-ST-9?
- b. Are the one-time costs of \$11.1 million the start-up costs of MOL?
- c. Are the start-up costs of a service that are uniquely caused by offering that service incremental costs of that service? If your answer is negative, please explain.

- d. Are the start-up costs of MOL part of the incremental costs of MOL? If your answer is negative, please explain.
- e. Are the incremental costs of a service (including its unique start-up costs) attributable to that service?
 - i. If your answer is negative, please explain your position.
 - ii. If your answer is negative, reconcile it with the views articulated by the Commission in paras. [4016-18, and 4024] of PRC Op. R97-1.
- f. Are the incremental costs of MOL (including its unique start-up costs) attributable to MOL?
 - i. If your answer is negative, please explain your position.
 - ii. If your answer is negative, reconcile it with the views articulated by the Commission in paras. [4016-18, and 4024] of PRC Op. R97-1.

CERTIFICATE OF SERVICE

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


Shelley S. Dreifuss
Attorney

Washington, D.C. 20268-0001
January 25, 1999