

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Mailing Online Service

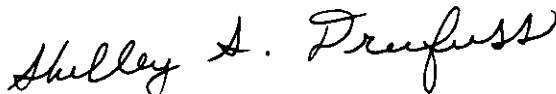
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Docket No. MC98-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS/OCA-3-4)
(FEBRUARY 26, 1999)

The Office of the Consumer Advocate hereby submits answers to interrogatories USPS/OCA-3-4, dated February 16, 1999. The interrogatories are stated verbatim and are followed by the responses.

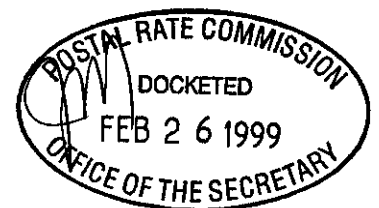
Respectfully submitted,



Shelley S. Dreifuss

Attorney

Office of the Consumer Advocate



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TO INTERROGATORIES USPS/OCA-3-4

USPS/OCA-3. On pages 6 and 7 of the Office of the Consumer Advocate Response to Issue No. 5 of Notice of Inquiry No. 1, filed February 8, 1998, the OCA quotes Postal Service witness Baumol and OCA witness Sherman from prior proceedings. In footnote 16, the OCA states that "it must be conceded that witnesses Baumol and Sherman did not testify that common fixed costs ought to be included in the cost base of a class and marked up." The footnote then goes on to state that "if one looks as [sic] the overarching meaning of their remarks, it becomes clear that the most equitable treatment for fixed costs incurred by only a small subset of classes is to make that cost part of the attributable cost base and mark it up."

(a) When the OCA states "make that cost part of the attributable cost base and mark it up," does this statement apply to the attributable cost base of the group of products, or to the cost base of each of the products individually?

(b) If the common cost is applied to the cost base of each of the products individually, is the entire common cost applied to the cost base of each product? If not, how is the common cost applied?

(c) Assume that a common cost is incurred for two products A and B. Does the OCA's statement that this common cost should be made part of the attributable cost base and be marked up mean that the common cost should become part of the attributable cost base of products A and B together, or of A individually and B individually?

(d) In footnote 16, the OCA states that "a meaningful contribution to institutional costs can only be ensured by marking up the specific fixed cost (or joint fixed costs) of the small subset of classes." Does this mean that the cost should be marked up for the subset of classes as a group, or that the cost should be marked up for each of the classes individually? Please explain how this mark-up would work.

A. (a) OCA's recommendation is that once a determination has been made that only a subset of classes or services has caused a non-volume-variable common cost to be incurred, a distribution key be identified that best allocates the common cost to each of the classes or services making up the subset. In this way, each class or service will have an appropriate portion of the common cost added to its attributable cost base. The allocation process just described is similar to the distribution of volume-variable costs commonly made in Commission proceedings.

Naturally, the "mark-up" must be performed for each class individually so that the pricing criteria of 39 U.S.C. §3622(b) can be reflected appropriately in the cost

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coverage of each of the classes comprising the subset. It must be noted that the “causation” criterion (b)(3) of §3622—“the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type”—has already been satisfied by the determination that the subset and only the subset has caused the particular cost to be incurred, and the consequent allocation of the common cost to each class or service causing it.

(b) No. All of the common cost must be allocated only to the subset of classes or services that caused the cost. However, an appropriate “share” of the common cost is allocated to each of the classes or services comprising the subset. When the shares are added up, they equal the common cost.

(c) See the answers to (a) and (b).

(d) Each class’ or service’s share of the joint cost must necessarily be marked up individually if the pricing criteria of the Act are to be applied meaningfully.

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USPS/OCA-4. In footnote 16 on page 7 of the Office of the Consumer Advocate Response to Issue No. 5 of Notice of Inquiry No. 1, filed February 8, 1998, the OCA states that "it becomes clear that the most equitable treatment for fixed costs incurred by only a small subset of classes is to make that cost part of the attributable cost base and mark it up."

- (a) Please provide a more precise definition of a "small subset of classes"?
- (b) How many classes or services could be included in a "small subset of classes"? Please use exact numbers if possible.
- (c) Please explain why the quoted statement is conditioned on a "small subset of classes"?
- (d) Does the OCA agree with the following statement as well?

The most equitable treatment for fixed costs incurred by any subset of classes is to make that cost part of the attributable cost base and mark it up.

- (e) If the answer to part (d) is in the negative, please explain why this statement does not apply to any subset of classes.

A. (a) Theoretically, any subset of classes that is less than the full set of classes and services should bear responsibility for costs it has caused. However, there may be practical impediments in applying the theory. The expression "small subset of classes" was used because it appeared to be an apt description of the circumstances of the instant proceeding, i.e., POL advertising costs are incurred for the benefit of only a small subset of services: Mailing Online, Priority Mail, and Express Mail.

(b) There is not a precise number, nor a minimum nor maximum number of classes or services comprising the subset. Theoretically, it is any number less than the full set of classes and services. In Docket No. MC98-1, the number of services benefiting from POL advertising costs is three.

(c) There was no intention to *limit* this principle to a small subset of classes. See the answers to (a) and (b) above.

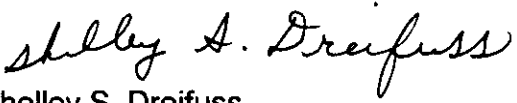
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(d) Yes.

(e) Not applicable.

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.


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Washington, DC 20268-0001
February 26, 1999