

ORIGINAL

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

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Mailing Online Service )

Docket No. MC98-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE  
(USPS/OCA-7-8)  
(MARCH 15, 1999)

The Office of the Consumer Advocate hereby submits answers to interrogatories USPS/OCA-7-8, dated March 3, 1999. The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

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ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO INTERROGATORIES USPS/OCA-7-8

USPS/OCA-7. Please refer to the response to interrogatory USPS/OCA-3(a), which states that "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." (emphasis added.) Also, please refer to the statement at page 9 of the Office of the Consumer Advocate Response to Issue No. 5 of Notice of Inquiry No. 1, filed February 8, 1999, which states "advertising costs of POL clearly fall within the ambit of costs that must be attributed under the principles of Docket No. R87-1—they are incurred solely for the benefit of a subset of classes and services, i.e., MOL, SOL, Express Mail tracking, and Priority Mail delivery confirmation."

- (a) Does the use of "caused" in the first statement quoted above include the concept of "benefiting from" the costs? That is, does the OCA agree with the following rewrite of the quoted statement: "OCA's recommendation is that once a determination has been made that only a subset of classes or services benefits from 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." Please explain any negative response.
- (b) With reference to the first statement quoted above, must the distribution key that is identified be a cost driver for the common cost? Please explain.

A. (a) OCA understands the Commission's view of causation to be that, under the strictures of § 3622(b)(3) of title 39, every class of mail must 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. PRC Op. R97-1, para. 4029. Furthermore, unique entitlement to or use of a service by specific classes establishes cost responsibility by those classes. PRC Op. R87-1, Appendix J, [CS IX], para. 003; and PRC Op. R84-1, Appendix J, [CS IX], para. 009. The Commission questioned the distribution of such costs to "classes not entitled to *benefit*" from their incurrence. *Id.* (R84-1 opinion). Similarly, in the testimony of Postal Service witness Baumol, in Docket No. R87-1, the Postal Service maintained that "[I]f a fixed outlay simultaneously *benefits* consumers of services A and B but not customers of service C, then none of that outlay is included in the incremental costs of service C . . . . In this case the fixed outlay must be

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included in the (combined) incremental cost of A and B. . . ." USPS-T-3 at 22-23  
(emphasis added).

Both the Commission's and Professor Baumol's statements indicate that unique benefit from particular activities (in this case, advertising for PostOffice Online) establishes causation, making attribution appropriate under § 3622(b)(3). By virtue of this chain of reasoning, OCA agrees with the statement posed.

(b) Economic efficiency, as well as fairness and equity, are best promoted when a cost driver is selected as the distribution key.

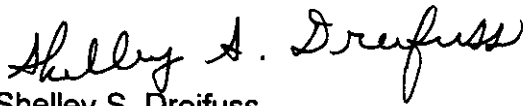
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USPS/OCA-8. Please refer to the response to interrogatory USPS/OCA-3(a), which states that "[t]he allocation process just described is similar to the distribution of volume-variable costs commonly made in Commission proceedings." Please confirm that this statement relates the distribution of volume variable costs to the distribution of non-volume-variable costs. If you do not confirm, please explain.

A. The question, including the use of the word "relate," is unclear.

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  
March 15, 1999