

DOCKET SECTION

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

RECEIVED
OCT 3 4 57 PM '97

POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF ABA & EEI & NAPM
AND MOTION FOR LATE ACCEPTANCE
(ABA & EEI & NAPM/USPS-T30-2 - 4, 6 - 17)**

The United States Postal Service hereby files the responses of witness O'Hara to the following interrogatories of American Bankers Association, Edison Electric Institute & National Association of Presort Mailers, dated September 17, 1997: ABA&EEI&NAPM/USPS-T30-2 through 4 and 6 through 17. Each interrogatory is stated verbatim and followed by the response. T30-5 has been redirected to the Postal Service for response.

These responses were due to have been filed two days ago. Unfortunately, the press of business prevented witness O'Hara from being able to complete them in a timely fashion. The Postal Service regrets the delay. To mitigate any inconvenience it may have caused, the Postal Service sent facsimile copies of these responses to ABA counsel this morning.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 3, 1997

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&APM/USPS-T-30-2. For the base year and test year (before and after rates), please provide the following costs for First Class and Standard (A) mail by subclass and by rate category: (a) volume variable; (b) incremental; and accrued (or institutional).

RESPONSE:

For the subclasses requested, base-year volume-variable costs can be found in Exhibit USPS-5B; test-year volume-variable costs can be found in my Exhibits USPS-30A (before rates) and USPS-30B (after rates). Incremental costs are in Exhibit USPS-41B, column 2 (base-year), column 5 (test-year after rates); test-year before-rates incremental costs can be obtained by multiplying the ratio in column 3 of Exhibit USPS-41B by the volume-variable costs in my USPS-30A.

These costs are not available for rate categories. As far as I am aware, the term "accrued costs" is not applied to subclasses, but rather to cost segments, where it is simply the total (volume-variable plus non-volume-variable) cost for a segment.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-3. Please explain and, if possible, quantify how the degree of mailer preparation influenced your proposed coverages for the following: (a) First-Class single piece; (b) First-Class automation presort (i) basic, (ii) 3-digit, (iii) 5-digit, and carrier routes; and (c) Standard (A) (i) basic, (ii) 3digit, (iii) 5-digit, and enhanced carrier route.

RESPONSE:

I am proposing coverages only for subclasses, not for rate categories. I would note that in my discussion of increased worksharing over time on pages 8-9 of my testimony, I indicate that it is appropriate to assure that increased worksharing in one subclass does not produce unintended consequences for the rates of another.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-4. Re your example at 15, l. 10-17. You conclude this paragraph by stating: "This seems to me unfair, given that the two products received equal evaluations on the non-cost criteria."

(a) Does "This" refer to the 2 to 1 ratio or that any difference in the each products contribution to other costs exists? if the latter, would such a result "seem to you unfair" regardless of the difference in each product's contribution to other costs? if neither, please explain.

(b) Eliminating the assumption that the products have the same cost coverage, at what level, if any, would the difference in each product's contribution to other costs be deemed by you to be unfair? Please explain, identifying those factors which would shape your judgment.

RESPONSE:

(a) The latter, although the degree of unfairness would diminish as the difference in contribution diminished.

(b) If the products have different evaluations on the non-cost criteria, then differences in contribution reflecting these evaluations are not unfair.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-6. Re Testimony at 30, lines 16-19.

(a) If the coverage from Docket Mo. R94-1 had been used, would the percentage change in rates be approximately 3.8% as opposed to 3.54? (see Exhibit USPS-30D; revised 8/22/97.) If not, what would the percentage increase have been?

(b) Explain what you mean by the phrase "only intensify the problem." Id. at line 19.

RESPONSE:

(a) No; the cited lines say "nine percentage points higher," which implies a rate increase of approximately 12.5% (=3.5 + 9.0).

(b) The problem referred to is that of the effect of rate increases on Periodicals mailers; adjustment for the change in system-average coverage would result in rate increases greater than 12.5%, which would intensify the effect of rate increases on Periodicals mailers.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EBI&MAPM/USPS-T-30-7. Re Testimony at 30, lines 20-22.

- (a) For Periodicals regular, please provide by rate category the mail processing costs for flats for fiscal years 1993 through 1997, or year-to-date if not available, and for the test year.
- (b) Please explain the analysis Postal Service is undertaking, including its status.
- (c) Quantify the "full cost increase" (id. line 22) and the percent of the full cost increase reflected in your proposed rate levels for this mail. If available, provide this information, by rate category.

RESPONSE:

- (a) Regular Periodicals are about 90% flats, so that overall Regular Periodicals mail processing costs can be taken as useful indicator of mail processing costs for Regular Periodicals flats; such data is contained in the Cost Segments and Components Report for each Fiscal Year. As far as I am aware, the requested data are not available for rate categories within Regular Periodicals.
- (b) Please see the testimony of witness Moden, USPS-T-4, pages 11-13. I am informed that this analysis is still in the design stage.
- (c) I have not quantified this cost increase, nor would it be a straightforward exercise, given the change in costing methodology; hence, I am unable to say what percentage of it is reflected in my proposed rate level. A rough estimate of the increase could be obtained by comparing the growth of CRA unit costs for Periodicals from FY 1993 to FY 1996 with the growth of salaries and benefits per workhour over the same period.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPH/USPS-T-30-8. Is it your testimony that each criterion (page 2 and 3 of Testimony) applies to each (a) class, (b) subclass, and (c) rate category of mail? If not, please explain.

RESPONSE:

My testimony applies the criteria at the subclass level. The pricing witnesses apply the criteria as appropriate in rate design within each subclass.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPMIUSPS-T-30-9. (a) You state on page 10, line 8 that First-Class Mail letters have ECSI value. Do you acknowledge that bills and financial statements sent under various worksharing rates have high ECSI value? if not, please explain.

(b) In setting cost coverages for First-Class presort and automation letter mail, how did you take ECSI value into account?

(c) In setting cost coverages for First-Class presort and automation mail, did you assign a higher or lower ECSI value than you assigned for (i) Standard class mail, and (ii) First-Class single piece mail?

RESPONSE:

(a) The Postal Service is not proposing any change from the Commission's previous determination regarding the ECSI value of First-Class Mail; in reaching that determination in R87-1, the Commission noted that the survey on which it relied had found that consumers considered utility bills to have a relatively low ECSI value. See Opinion & Recommended Decision in Docket No. R87-1, paragraph 4102.

(b)-(c) My cost coverage applies to the entirety of First-Class Mail letters; I do not set cost coverages for First-Class presort and automation mail.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-10. Regarding criterion 8, (educational, cultural, scientific, and informational value to the recipient) you note that the Commission has recognized this criterion in the past, and that your proposal "reflects this as well." Testimony at 25, l. 1; see also pages 30, lines 7-10, and 40, lines 10-12. Please explain specifically how, for each rate level affected, you applied criterion 8 in determining the contribution to other costs by the subject mail.

RESPONSE:

The Postal Service is not proposing any changes from the Commission's previous determinations regarding the degree to which the various subclasses deserve ECSI consideration under criterion 8; these determinations are reflected in the previously determined cost-coverages that provide a starting point for my own development of rate levels as discussed in my testimony at page 19, line 15 through page 20 line 7.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-11. You state on page 8 lines 4-6 that "as the degree of preparation increases over time, all else equal, the coverage required to obtain the same contribution also increases." Yet, you are proposing a cost coverage of 282% for First Class worksharing letters, but only 228% for Standard (A) commercial ECR and 154% for Standard (A) commercial regular.

(a) Do your relative cost coverages reflect your belief that there is a greater degree of mailer preparation in First-Class worksharing than Standard (A) commercial mail worksharing?

(b) By each rate category for workshared First-Class and Standard (A) mail, please list all worksharing activities of which you are or were aware in setting the above cost coverages.

RESPONSE:

Please review the example (page 8, line 8 through page 9, line 12) that immediately follows the cited lines of my testimony; note that it discusses changes in worksharing over time, not differences in the level of worksharing at a point in time. Also, note that coverages are set with reference to all the criteria, and that I am not proposing a coverage for First-Class worksharing letters but rather for the entire First-Class Mail letters subclass.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-12. On page 8 you make the point that increased worksharing takes attributable costs out of the system, thereby increasing the systemwide cost coverage.

- (a) Does not increased worksharing also take institutional costs out of the system, e.g., those automation machinery costs that are not attributable when a presort bureau buys and operates an MLOCR?
- (b) Please confirm that the main reason for an increase in cost coverages in this case has little or nothing to do with worksharing, but reflects instead USPS witness Bradley's regression results for mail processing labor costs. If you do not confirm, please break down the increases in cost coverage associated with each of the foregoing, i.e., worksharing and witness Bradley's regression results for mail processing labor costs.

RESPONSE:

- (a) No; this would only happen if attributable cost as measured did not capture all costs that were in fact caused by a subclass. With respect to your example, I am informed that the machinery costs (depreciation and maintenance, for example) associated with MLOCRs were 100% attributable.
- (b) I cannot confirm since I have not performed (nor could I with reasonable effort) the analysis specified in the last sentence of this part of the question. However, I accept as reasonable the hypothesis that, over the period since R94-1, the change in costing methodology has had a greater effect than the change in worksharing. Granting this, however, I also believe that the increase in worksharing is too great to justify a casual acceptance of a "little or nothing" assessment of the effects of worksharing.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-13. You note in this proceeding (at 5) a higher own price elasticity calculated for First-Class presort letters than for First-Class as a whole. How, if at all, did you use this knowledge in setting First-Class presort and automation coverages relative to the single piece rate?

RESPONSE:

I do not propose cost coverages for First-Class presort and automation mail. My cost coverage applies to the entirety of First-Class Mail letters and I utilized the average elasticity for the entire First-Class Mail letter subclass in setting that coverage (see my testimony at page 23, lines 4-6).

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-14. (a) Please confirm that since the last rate case, and in light of MC95-1 and this rate filing, the percentage increase in the discount for Standard (A) mail is: (i) 67% greater for basic automation Standard (A) mail than for its First-Class counterpart; (ii) 233% greater in Standard (A) 3-digit automation than for its First-Class counterpart; and (iii) 74% greater in Standard (A) 5-digit automation than for its First-Class counterpart.

(b) How, if at all, is the "fairness and equity" criterion achieved by setting the lower levels of discounts for automation mailstreams in First-Class than Standard (A) mail, specifically for basic automation first ounce letter rates, 3-digit automation, 5-digit automation, and the extra ounce rate?

RESPONSE:

(a) I cannot confirm or disconfirm, since I am unclear on how the percentage increases in the question were calculated.

(b) My testimony does not address automation discounts. The pricing witnesses for First-Class Mail and Standard (A) mail develop those discounts taking into account the specific cost-avoidance information for the respective subclasses as well as other rate design considerations.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-15. (a) Please confirm that since the last rate case and through FY 1996, the cost coverage ratios have: (i) increased by 19% for First-Class presort; (ii) decreased marginally for First-Class single piece; (iii) increased by only 7% for Standard (A) bulk rate regular, and (iv) decreased by 6% for standard A carrier route.

(b) If confirmed, how did you take these coverage ratios into account in setting cost coverages for test year 1998 using the "fairness and equity" criterion?

(c) On what postal statutory ratemaking criteria have the cost coverages for First Class presort been allowed to increase so much more than other large volume drivers for the Postal Service?

(d) On what statutory grounds did you set the cost coverage for advertising mail as a whole (Standard mail (A) total commercial) at the same rate as First-Class single piece letter mail (174.14% and 173.25% respectively)?

RESPONSE:

(a)-(d) In the time available, and given the press of other discovery, I have not been able to confirm the percentages listed in part (a). In any case, I am not proposing coverages below the subclass level, so that comparisons involving coverages for First-Class presort or First-Class single-piece are outside the scope of my testimony.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

ABA&EEI&NAPM/USPS-T-30-16. As a result of the proposed changes in cost methodology in this case which reduce attributable costs in mail processing and other areas, systemwide cost coverages have had to rise. Below are the coverage ratios for CRA 1996, Base Year 1996 (at existing rates which incorporate the now costing methods), and your proposed coverages for test year 1998.

Rate	Cost Coverage Ratios		
	FY1996	BY1996	TY1998
First Class Single Piece	149.8	176.1	173.2
First Class Presort	261.3	285.6	282.3
Standard A BRR	168.9	177.2	154.5
Standard A ECR	229.7	237.1	228.3
Systemwide	162.9	181.0	178.6

(a) Please confirm that your TY1998 proposed cost coverages are in fact lower for Standard (A) commercial mail under the revised costing methodology (and markedly lower for BRR) than the FY1996 CRA derived cost coverages under the old costing methodology.

(b) Please explain the justification for setting the cost coverage ratio for Standard (A) commercial regular mail so much lower, relative to BY1996, than other ratios listed above.

(c) Had you set the Standard A BRR cost coverage ratio for TY1998 in proportion to BY1996 cost coverages as the other test year figures listed, (i.e., at about 175), what would be the rate and revenue implications?

RESPONSE:

I believe this set of questions is based on a misconception. The line labeled "Standard (A) BRR" appears to show coverages for the entirety of commercial Standard (A) in the first two columns but only for Standard (A) Regular in the TY1998 column (i.e., excluding Standard (A) ECR). A proper comparison would be with the coverage for "Total Commercial" shown on line 23 of my Exhibit 30B, which is 174%. Thus, my responses to the individual parts are:

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

- (a) Not confirmed.
- (b) The coverage is not in fact "so much lower" relative to BY 1996.
- (c) The rate and revenue implications would be essentially identical to those
resulting from the coverage I have proposed.

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO JOINT INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION, EDISON ELECTRIC INSTITUTE, AND NATIONAL
ASSOCIATION OF PRESORT MAILERS**

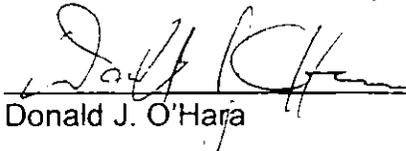
ABA&EEI&NAPM/USPS-T-30-17. Assume: (a) all cost coverages (higher in First-Class than Standard (A)) were to remain in the same relative proportions to each other after a change in costing methodologies which required a systemwide increase in cost coverages, and (b) that the changed cost methodologies reduce attributable costs in First-Class by more than they reduce such costs in Standard (A) commercial mail. Under these assumptions, there would be a net redistribution in total costs (volume variable plus institutional) away from First-Class to Standard (A) commercial. In Docket No. R97-1, there has in fact been a much greater reduction in attributable costs for First-class than for Standard (A) commercial mail, but the changed cost coverages have not been proportional as assumed above. Using the actual cost coverages proposed, please confirm that the increase in institutional costs from the changed cost methodologies shifts the total cost burden from Standard (A) commercial to First Class. Please provide workpapers or other documentation which supports your answer.

RESPONSE:

The total cost burdens of First-Class Mail (letters and cards) and Standard (A) commercial (Regular and ECR) at the actual cost coverages proposed are the revenues shown on lines 8 and 23 of my Exhibit USPS-30B; these are \$34,704 million and \$12,326 million respectively, or 56% and 20% of the total revenue requirement of \$61,616 million. As I interpret your question, an appropriate set of comparison figures would be those contained the Commission R94-1 Recommended Decision, Appendix G, Schedule 1, where the corresponding figures are \$32,364 and \$9,949 respectively, or 59% and 18% of the \$54,517 revenue requirement. Thus, I cannot confirm that the actual coverages proposed, in combination with the new cost methodology, shift the total cost burden from Standard (A) commercial to First-Class.

DECLARATION

I, Donald J. O'Hara, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

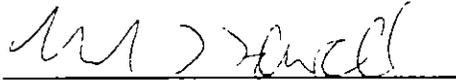


Donald J. O'Hara

10.3-97
Date

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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202)268-2998/FAX: -5402
October 3, 1997