

# DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-001

Postal Rate and Fees Changes, 1997

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Docket No. R97-1

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Motion to Accept Late-Filed Responses and  
Responses of ABA/EEI/NAPM  
Witness Clifton to Interrogatories of Advo, Inc.  
(Advo/ABA, et al.-T1-1-7)

(February 13, 1998)

Pursuant to the Commission's Rules of Practice, American Bankers Association ("ABA"), Edison Electric Institute ("EEI"), and National Association of Presort Mailers ("NAPM") hereby file the responses of their witness James A. Clifton to the interrogatories of Advo, Inc., Advo/ABA, et al.-T1-1-7. In addition, ABA/EEI/NAPM hereby move for acceptance of said responses two days late. The delay was occasioned by difficulties in coordinating the various, and sometimes conflicting, schedules of the individuals concerned.

Respectfully submitted,

American Bankers Association,  
Edison Electric Institute, and  
National Association of Presort Mailers

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## CERTIFICATE OF SERVICE

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

February 13, 1998

  
R. Brian Corcoran

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVVO, INC.**

ADVO/ABAetal.-T1-1.

On page 4 you state that unit attributable costs for First Class Presort have declined over the FY94-FY96 time period while they have increased for First Class single-piece and Standard A regular mail.

- (a) Please explain fully why you believe unit attributable costs for First Class Presort have fallen over that period. Specifically identify whether this is due to continued expansion and improvement in the USPS automation program, changes in the mix of rate categories within First Class Presort, or other changes.
- (b) Do you believe that the mix of letters, flats, and parcels within First Class Presort is similar to the mix of those shapes in First Class single piece, in Standard A Regular, and in Standard A ECR? Please explain your response, including your understanding of any differences in mix by shape.
- (c) Do you believe that the USPS automation program has reduced the costs for flats and parcels to the same extent as it has reduced the costs for letters? Please explain your response.
- (d) Do you believe that the USPS automation program has reduced the costs for First Class Presort non-carrier route letters to the same extent as it has reduced the costs for Standard A Regular non-carrier letters? Please explain your response.
- (e) Do you believe that the USPS automation program has reduced the costs for First Class Presort carrier route letters to the same extent as has reduced the costs for Standard A Regular carrier route letters? Please explain.
- (f) Do you believe that the USPS automation program has reduced the costs for First Class Presort non-carrier route flats to the same extent as it has reduced the costs for Standard A Regular non-carrier route flats? Please explain your response

RESPONSE

- a. See my answer to USPS/ABA/EEI/NAPM-T1-8
- b. My testimony focuses on the costs and appropriate discounts for First-Class workshared letters. I do not focus on the mix of letters, flats, and parcels within First-Class presort, First-Class single piece, Standard A Regular, and Standard A ECR.
- c. I do not know, but clearly since 41 billion pieces of First-Class workshared mail are projected, of which only 285 million are flats, flats' cost behavior cannot be driving the recent unit cost declines for workshared mail.
- d. I do not know as this would require analyzing a much longer time series of data than I have assembled for purposes of my testimony.
- e. See my answer to 1d.
- f. I did not analyze the cost behavior of flats in my proposal for First-Class workshared discounts and rates, for reasons pointed out in "c." above.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-2

On page 20, you state that you have chosen a "modest" 3.6% decline in First Class presort mail processing costs as a roll forward factor to apply to the Hatfield model.

- (a) Please explain how this percentage figure was derived.
  
- (b) Please explain all the reasons why you believe the presort-related unit mail processing cost for each presort rate category will continue to decline by the same proportion through the test year.

RESPONSE

- a. & b. See my answer to USPS/ABA/EEI/NAPM-T1-8

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-3

With respect to your proposed unit mail processing cost by rate category (in Table 14 on page 33), please provide the following:

- (a) Work papers developing your proposed unit mail processing costs (on pages 21 and 33) which are equivalent to Technical Appendices B pages 1,2,3,4 and 10.
- (b) Explanation of how the -.142 cents mail processing cost adjustments and 9.46 cents in Technical Appendix C was developed.
- (c) A reconciliation of the 9.46 cents presort unit cost in Technical Appendix C with your proposed unit costs by rate category.
- (d) A reconciliation of the 9.86 cents presort unit cost in Technical Appendix C with the USPS proposed unit costs by rate category.

**RESPONSE**

- a. Please see my responses to USPS/ABA/EEI/NAPM-T1-4 (revised 2/12/98) and 8; see also Workpapers 1 and 2 which were filed at the Commission.
- b. Assuming that the question refers to page 10 of my Technical Appendices C.1 and C.2, please see my responses to USPS/ABA&EEI&NAPM-T1-8, and 10 (revised 2/12/98).
- c. The meaning of the term "reconciliation" in the question is not clear. As discussed in my testimony, the note at the bottom of page 10 of my Technical Appendices (revised 2/12/98), and in my responses to USPS/ABA&EEI&NAPM-T1-4 and 10 (revised 2/12/98), I have corrected the USPS unit cost calculation for First-Class workshared mail. The 9.46 cents is my estimate of the corrected unit cost.
- d. The meaning of the term "reconciliation" in the question is not clear. The 9.86 cents is the USPS Proposed R97-1 unit cost for First-Class workshared mail.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-4

Does your mail processing cost adjustment apply also to First Class presort flats? If so,

- (a) Please identify you modeled unit and total unit costs for those volumes.
- (b) Provide support for your modeled presort flat and parcel unit and total unit costs.

RESPONSE

a. & b. My testimony addresses the issues of costs and cost coverages for First-Class workshared letter mail. I did not do separate analyses for workshared First-Class flats or parcels.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-5

In Technical Appendix A.4, you calculate an elasticity of First Class workshared unit mail processing cost with respect to nonautomation share. This elasticity is used in Technical Appendix B.1 to derive one of your estimates of unit mail processing cost savings by presort rate category.

- (a) Please confirm that you spread this unit cost savings among all the workshared rate categories. If you cannot, please explain why your unit mail processing costs by rate category and rate category cost differences do not match those of USPS.
- (b) Please confirm that the nonautomation share elasticity of cost includes mail processing cost savings which are in excess of the cost savings resulting solely from a change in the percentage mix of workshared rate categories (assuming no change in unit cost for each rate category). If you cannot, please explain why your unit mail processing costs by rate category and rate category cost differences do not match those of the USPS.
- (c) Please explain the source of these FY94 to FY96 mail processing cost savings which exceed the cost savings resulting solely from a change in the percentage mix of workshared rate categories.
- (d) Why do you believe the unit presort mail processing cost savings that you estimate with your elasticity will continue through the test year?
- (e) Why do you believe the unit mail processing cost savings by presort rate category that you estimate with your elasticity will continue through the test year?

**RESPONSE**

a. The continuing decrease in the nonautomation share as forecast by USPS witness Thress is used, along with my elasticity, to estimate the likely effect of the decline in nonautomation share on unit costs for First-Class workshared mail. The lower First-Class unit costs are used in Technical Appendix B.1 to derive estimates of proportional and fixed costs for First-Class non-carrier route presort letters. These estimates of proportional and fixed costs are then applied to modeled costs by rate category within workshared First-class non-carrier route mail.

b. Not confirmed. The question appears to be based on the hypothesis that historic unit costs by type of First-Class workshared mail (i.e. separate unit costs for basic automation, 3-digit automation, 5-digit automation and all the other First-Class workshared types) are available. In the hypothetical world where such detailed data do exist, unit costs for First-Class workshared mail as a whole could be examined for changes related to changes in shares and for changes related to other factors. In my elasticity calculation, I had available and used the unit cost for First-Class workshared mail as a whole and the non-automation share. Given the data which are available, it is not possible to examine First-Class workshared unit costs changes by type of mail and as a whole and share changes which this question seems to imply can be done.

c. Please see my response to ADVO/ABAetal.-T1-1a.

d. I do not necessarily "believe" my elasticity, which would imply a -25% roll-forward factor for mail processing unit costs, will continue in TY1998. Indeed, I did not use this calculation in any formal way in my conservative -3.6% roll-forward factor. I do believe USPS witness Hatfield incorporated some such volume mix shift factor, in accordance with the volume mix shift found in the Thress and Tolley

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVO, INC.**

testimonies, but that his estimated cost reducing impact on unit mail processing costs is way too small in light of my elasticity calculation.

e. My testimony does not indicate that such savings would necessarily continue into the TY. I simply accepted the Thress/Tolley mix shifts and calculated the impact of that shift on average unit mail processing costs for First-Class workshared mail as a whole in TY1998.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-6

In Technical Appendix B.2, you estimate an average unit mail processing cost savings of .3990 cents between base year and test year for First Class workshared volume.

- (a) Please confirm that this estimate is derived in Table 7 of page 16 (mail processing labor unit cost difference between FY94 and FY96). If this is incorrect, please explain how this estimate was derived.
- (b) Does this unit cost estimate reflect the current USPS proposal for mail processing volume-variability or does it reflect the traditional mail processing volume-variability of 100 percent?
- (c) Please confirm that you spread this historic unit cost savings among all the workshared rate categories. If you cannot, please explain why your unit mail processing costs by rate category and rate category cost differences do not match those of the USPS.
- (d) Please explain the source of these historic mail processing unit cost savings which exceed those resulting solely from a change in the percentage mix of workshared rate categories.
- (e) Why do you believe the historic unit presort mail processing cost savings that you estimate will continue through the test year?
- (f) Why do you believe the historic unit mail processing cost savings by presort rate category that you estimate will continue through the test year?

RESPONSE

- a. Confirmed
- b. The specific unit cost saving figure of -0.3990 cents represents the historic change from FY94 to FY96, albeit for direct labor only. The historic data from which it was derived are based on the traditional mail processing volume-variability of 100 percent. I have used this historic change to estimate the most likely change in costs moving forward to the test year. I have applied this change to the USPS R97-1 unit costs to derive a more reasonable estimate of unit costs in the test year. The USPS R97-1 unit costs are based on the USPS proposal for mail processing volume-variability of less than 100 percent. However, the recent historic change in unit costs is one available guide to the changes in unit costs moving forward to the test year.
- c. The lower First-Class unit costs are used in Technical Appendix B.2 to derive estimates of proportional and fixed costs for First-Class non-carrier route presort letters. These estimates of proportional and fixed costs are then applied to the modeled costs by rate category within First-Class non-carrier route presort mail. The estimates of proportional and fixed costs are the same for each rate category of First-Class non-carrier route presort mail.
- d. Please see my response to ADVO/ABAetal.-T1-1a.
- e. Please see my response to USPS/ABA/EEI/NAPM-T1-8.
- f. Please see my response to ADVO/ABAetal.-T1-5e.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON TO  
INTERROGATORIES OF ADVO, INC.**

ADVO/ABAetal.-T1-7

In regard to your mail processing cost adjustments presented in Appendices B.1 and B.2 and implied in your proposed mail processing unit costs by rate category:

- (a) Please confirm that those adjustments imply an overall increase in the productivities used in the Hatfield models. If you cannot, please explain fully why not.
- (b) Please confirm that those adjustments imply an overall increase in the productivities associated with the cost pools which constitute the proportional costs presented on pages 3 of those appendices. If you cannot, please explain fully why not.
- (c) Please confirm that those adjustments imply an overall increase in the productivities associated with the cost pools which constitute the fixed costs presented on pages 3 of those appendices. If you cannot, please explain fully why not.
- (d) Please explain why there should be such significant (proportional and fixed) operational productivity improvements for First-Class Presort volumes when there are no comparable productivity improvements for any of the other mail classes or rate categories which share the same operations with First-Class Presort and are attributed costs from the same operational cost pools.

**RESPONSE**

a. Not confirmed. I use the test year modeled costs by First-Class workshared letter category presented by USPS witness Hatfield in Exhibit USPS-25A. I have not changed the productivities which Hatfield includes as part of his development of modeled costs, *e.g.*, the number of passes through DBCS and CSBCS machines.

b. Not confirmed. My cost corrections in Technical Appendices B.1 and B.2 continue the historic unit cost decline seen in First-class workshared mail. The historic cost declines may be associated with productivity improvements which may continue through the test year. The historic cost declines may also be caused by improvements in mail preparation done by mailers

c. I have based my corrected unit costs for First-Class workshared mail on the historical trends in unit costs shown in the historic CRA's and a comparison of these historic trends with the trend implied by the USPS R97-1 proposal. The historic trends and implied trends through the test year are shown in Table 7 on page 16 of my testimony. Examination of that table shows that only in the case of First-Class presort are there historic cost declines which are reversed by the USPS R97-1 proposed unit costs test year changes.

**DECLARATION**

I, James A. Clifton, declare under penalty of perjury that the answers to interrogatories ADVO/ABA/EEI/NAPM-T-1-1-7 of Advo, Inc. are true and correct, to the best of my knowledge, information and belief.

Executed FEB 13, 98

A handwritten signature in cursive script, appearing to read "James A. Clifton", written over a horizontal line.

James A. Clifton