

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES

Docket No. R2000-1

**MAJOR MAILERS ASSOCIATION'S
FIRST SET OF INTERROGATORIES AND DOCUMENT PRODUCTION REQUESTS
TO USPS WITNESS DAVID R. FRONK**

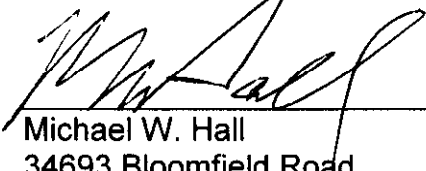
Pursuant to Rules 25 and 26 of the Commission's Rules of Practice, Major Mailers Association herewith submits the following interrogatories and document production requests to United States Postal Service witness David R. Fronk:

MMA/USPS-T33-1-6. If the designated witness is unable to answer any of these questions, please direct them to the appropriate witness who can provide a complete response.

Respectfully submitted,

MAJOR MAILERS ASSOCIATION

By:


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Counsel for
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Dated: Round Hill, VA
February 9, 2000

**Major Mailers Association's First Set Of Interrogatories
And Requests For Production Of Documents
To USPS Witness David R. Fronk**

MMA/USPS-T33-1 In footnote 2 on page 18 of your prepared testimony you provide a definition for bulk metered mail (BMM).

- (a) Please provide the source for this definition.
- (b) Please provide copies of all Postal Service rules, regulations, operating procedures, and/or operating guidelines that pertain to the preparation, entry, and acceptance of BMM letters.
- (c) For the most recent 5 annual periods for which the Postal Service has representative data, please provide the volume of BMM letter mail received and processed by the Postal Service.

MMA/USPS-T33-2 On page 20 of your prepared testimony you state that the "cost analysis performed for the current docket by USPS witness Miller (USPS-T-24) demonstrates that the cost differences between automation tiers are now smaller than they were estimated to be in Docket No. R97-1." On page 19 you state, "the discounts the Postal Service is proposing here use the same approach as in Docket No. R97-1..."

- (a) Please provide the specific "cost differences" that you relied upon in reaching your conclusion that the relevant cost differences are "now smaller than they were estimated to be in Docket No. R97-1".
- (b) Were the cost differences that you provided in response to part (a) of this interrogatory based on identical cost measurement methodologies? Please explain your answer and provide a complete list and description of any differences in the cost measurement methodologies used to derive the cost differences between automation tiers in the R97-1 and R2000-1 cases.
- (c) Are you aware that the Postal Service proposes in the R2000-1 proceeding to establish fees and presort/automation mail discounts based on, among other things, the theory that labor costs do not vary 100% with volume, whereas in the R97-1 proceeding the Commission recommended fees and automation discounts based on, among other things, the assumption that labor costs do vary 100% with volume?
- (d) Is it your view that, all other things being equal, the two distinct assumptions or theories regarding the volume variability of labor costs pointed out in part (c) have no impact on the derived presort/automation

cost savings in Docket Nos. R97-1 and R2000-1? Please explain your answer.

- (e) Are you aware that in this case the Postal Service proposes that MODS labor cost pools be divided up into three distinct categories, including one for fixed costs that are unrelated to worksharing, whereas in the R97-1 case, the Postal Service proposed and the Commission adopted a cost analysis that divided MODS labor cost pools into two distinct categories, both of which were related to worksharing?
- (f) Is it your view that, all other things being equal, the two distinct assumptions regarding MODS labor cost pools pointed out in part (e) have no impact on the derived presort/automation cost savings in Docket Nos. R97-1 and R2000-1? Please explain your answer.
- (g) Are you aware that the Postal Service's cost models in this case overstated the alleged actual costs, causing USPS witness to derive and apply a CRA proportional adjustment factor that decreased the derived unit cost savings (see USPS-T-24, App. I, p. I-5), whereas the Commission's cost models in Docket No. R97-1 understated actual costs, causing it to apply a CRA proportional adjustment factor that increased the derived unit cost savings?
- (h) Is it your view that, all other things being equal, the two distinctly different CRA proportional adjustment factors pointed out in part (g) have no impact on the derived presort/automation cost savings in Docket Nos. R97-1 and R2000-1? Please explain your answer.

MMA/USPS-T33-3 On page 24 of your prepared testimony, you note that, in addition to several other factors, including revenue and cost coverage considerations, "[t]he Postal Service also considers it important to develop an additional ounce rate that reflects the underlying costs the rate is designed to recover. The testimony of witness Daniel (USPS-T-28) presents the results of the First-Class Mail weight study prepared for this docket." You go on to state "...the weight study does provide a basis for evaluating, *in the aggregate*, the alignment between the additional ounce rate and the overall costs it is designed to recover." USPS-T-33, p. 24 (emphasis added).

- (a) Does the Daniel weight study provide any specific, non-aggregated information regarding the impact on cost caused by the additional ounce of a 2-ounce First-Class letter? If so, please state your conclusion and explain exactly what information you obtained from the study that led you to that conclusion.
- (b) Does USPS witness Daniel's weight study provide any specific non-aggregated information regarding the impact on cost caused by the additional

3rd ounce of a 3-ounce First-Class letter? If so, please state your conclusion and explain exactly what information you obtained from the study that led you to that conclusion.

- (c) Do you agree that that the weight study of USPS witness Daniel that you reference did not provide, nor did it even attempt to provide, what you characterize as a “weight-step-by-weight-step” relationship between the weight of an average First Class letter and the cost of processing such a letter piece? If you do not agree, please explain.

MMA/USPS-T33-4 On page 25 of your prepared testimony you state that the Daniel weight study shows that “the first additional ounce of single-piece mail adds 22.4 cents to unit costs, while the first additional ounce of presort mail adds 17.7 cents to cost.” Citation omitted.

- (a) Does this statement mean that for an average First-Class nonpresorted mail piece, it costs the Postal Service 22.4 cents more to process a 2-ounce piece than it costs if that same piece weighs 1 ounce? Please explain your answer.
- (b) Does this statement mean that for an average First-Class presorted mail piece, it costs the Postal Service 17.7 cents more to process a 2-ounce piece than it costs if that same piece weighs 1 ounce? Please explain your answer.
- (c) If your answer to either part (a) or (b) is yes, please indicate exactly where such a conclusion is stated and/or supported in USPS witness Daniel’s testimony or the library references related to her testimony.

MMA/USPS-T33-5 On page 26 of your prepared testimony, you state:

It might be argued that the rates for additional ounces of First-Class Mail should be strictly cost based. Under such a scheme, the rates for additional ounces would vary from ounce increment to ounce increment to reflect a more-or-less constant cost coverage.

You then proceed explain why the Postal Service would not want to offer varying rates from ounce increment to ounce increment.

- (a) You indicate that there are “at least” three reasons why the Postal Service considers a variable incremental ounce rate “undesirable.” Are those the only three reasons that the Postal Service believes the particular rate structure you describe to be undesirable? If your answer is no, please state and explain any other objections the Postal Service has to the referenced rate structure alternative for First Class additional ounce rates.
- (b) Did the Postal Service ever consider any other rate structure other than the current fixed rate per additional ounce for First-Class? If yes, please indicate what rate structures the Postal Service considered and explain in detail why

they were ultimately rejected? As part of your response please provide all documents discussing other possible rate structures for additional ounces considered by the Postal Service.

- (c) Is there a specific reason why the Postal Service could not offer the current rate structure for nonpresorted First-Class letter, yet a different rate structure for presorted First-Class letters?
- (d) In determining your proposed rates for additional ounces of First-Class letters did you consider the Commission's statement from the Opinion and Recommended Decision in Docket No. R94-1 that "letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces"? (Op. R94-1 at V-9) Please explain your answer.
- (e) Why did you not propose a reduced second or third ounce rate for (i) nonpresorted First-Class letters and (ii) presorted First-Class letters?

MMA/USPS-T33-6 On pages 33 and 34 of your prepared testimony you indicate several different considerations that you took into account when determining your proposed First-Class discounts. Three of the four considerations concern the Postal Service's relationship with First-Class bulk mailers: "recognizing the value of mailer worksharing," "avoiding changes in discount levels which result in disruptive rate impacts," and "acknowledging the importance of mailer barcoding in overall postal operations". You further state "Mailers have invested significantly in automation equipment and changed their mail processes as a result of the recent expansion in worksharing incentives." Finally, you state "the Postal Service could experience operational difficulties if a large portion of the nearly 45 billion workshared First-Class Mail pieces reverted to the Postal Service for sorting and barcoding."

- (a) Do these reasons summarize why you proposed First-Class Automation discounts that are significantly higher than the estimated cost savings derived by USPS witness Miller? Please explain any no answer.
- (b) Please state the bases for your statement that "Mailers have invested significantly in automation equipment and changed their mail processes as a result of the recent expansion in worksharing incentives." As part of your response to this request, please provide all documents that you reviewed in arriving at your conclusions regarding the extent to which mailers have invested in equipment and changed mail processing operations.

- (1) If the source of your knowledge on this subject is the result of conversations you have had directly with mailers, please identify all the mailers you discussed this subject with, the date(s) of such

conversations, state the substance of such discussions, and provide any contemporaneous notes you made regarding such discussions.

(2) If the source of your information on this subject is the result of conversations with other Postal Service personnel, please identify the parties to all such discussions, provide the job title and job description for each such individual, the date(s) on which such conversations occurred, the substance of such discussions, and provide any contemporaneous notes you made regarding such discussions.

(c) Has the Postal Service studied at what point and to what extent First-Class Automation mailers would lose their incentive to workshare, cease presorting and prebarcoding their letter mail, and begin entering letters into the postal system as single piece mail? If yes, please provide all information that the Postal Service has developed on this subject.

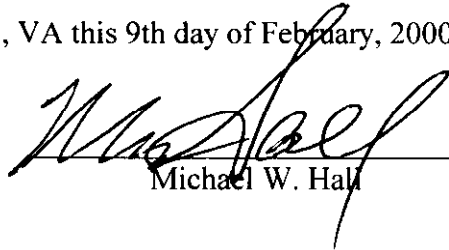
(d) If First-Class presort mailers did in fact lose their incentive to presort and prebarcode their mail, is it your position that these mailers would still enter their mail in the manner described for BMM? Please support your answer and provide copies of all studies, analyses, and other documents that support your conclusion.

(e) Please explain the relative importance of these considerations in light of your warning to First-Class mailers that discounts "might" be smaller in the future as stated on page 20, repeated on page 27, and repeated again on page 32.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing discovery request upon the United States Postal Service, Ted P. Gerarden, Director of the Office of the Consumer Advocate, and participants who requested service of all discovery documents, in compliance with Rules 12, 25, and 26 of the Commission's Rules of Practice And Procedure.

Dated at Round Hill, VA this 9th day of February, 2000.



Michael W. Hall