

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, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS FRONK TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T33-4 THROUGH 8)

The United States Postal Service hereby provides the responses of witness Fronk to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T33-4 through 6 (filed on February 10, 2000); OCA/USPS-T33-7 and 8 (filed February 11, 2000).

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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February 24, 2000

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF THE OCA**

OCA/USPS-T33-4. Please refer to your response to OCA/USPS-T29-8 (redirected from Witness Campbell). You state, "My proposed increase in the passthrough in the current docket is consistent with a discount that is now established."

- (a) Please state all of the reasons you believe the QBRM discount is "now established."
- (b) Please provide all *actual* cost, revenue, and other data which have been collected for QBRM.

RESPONSE:

- (a) Since this rate was implemented on January 10, 1999 and is in existence, it has now been established.

While the Qualified Business Reply Mail (QBRM) discounted postage rate was new in Docket No. R97-1, the requirements mailers need to meet to qualify for the rate represent a continuation of the requirements of the Business Reply Mail Accounting System (BRMAS), which was established more than a decade ago in 1988. As with the former BRMAS program, QBRM mailers need to be pre-approved and prepare prebarcoded, automation-compatible Business Reply Mail. Thus, in important respects, the QBRM program has been established for many years.

- (b) QBRM revenue, volume, and weight data are available from the RPW system for Postal Quarters 2-4 1999 and GFY 1999. The QBRM rates were implemented during Quarter 2 on January 10, 1999.

	<u>Postage Revenue</u>	(000s) <u>Pieces</u>	<u>Weight</u>
<u>PQ2 1999</u>			
QBRM Letters	\$12,876	42,062	879
QBRM Cards	1,388	7,706	48
<u>PQ3 1999</u>			
QBRM Letters	\$36,070	118,649	2,317
QBRM Cards	1,977	10,904	68
<u>PQ4 1999</u>			
QBRM Letters	\$36,483	119,863	2,321
QBRM Cards	3,389	18,779	117
<u>GFY 1999</u>			
QBRM Letters	\$93,393	306,743	6,024
QBRM Cards	7,494	41,490	259

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RESPONSE TO OCA/USPS-T33-4 (continued)

The special service fee revenue and transaction count for QBRM (excluding BRMAS) are available for letters and cards combined for PQ3 and PQ4 1999. For PQ3 and PQ4, fee revenues for \$5,292 thousand and \$6,396 thousand, respectively. For PQ3 and PQ4, transactions were 105,860 thousand and 127,924 thousand, respectively.

It is my understanding that no actual cost data for QBRM have been collected.

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OCA/USPS-T33-5. Please refer to your response to OCA/USPS-T29-8 (redirected from Witness Campbell). You state, "In the current docket, I have proposed discounts for both QBRM letters and cards of three cents below the proposed single piece rates of 34 cents for letters and 21 cents for cards." Was the passthrough percentage a factor in your discount proposals, or was the 90-percent passthrough, simply a result of your proposals? Please explain fully.

RESPONSE: The 90-percent passthrough percentage was both a factor in developing my proposal and the result of my proposal. As discussed in my response to OCA/USPS-T33-4, I increased the passthrough from the 75 percent I proposed in Docket No. R97-1 to the 90 percent I am proposing here because the QBRM discount is now established. A 90-percent passthrough will maintain the QBRM letter discount at its present 3-cent level and increase the QBRM card discount a full penny to 3 cents. In developing my proposed QBRM rates, I was also mindful that the measured cost avoidance decreased by 0.6 cents per piece between Docket No. R97-1 and Docket No. R2000-1 (from 4.0 cents per piece in Docket No. R97-1 to 3.4 cents per piece in the new cost study prepared by witness Campbell for this docket; USPS-T-29 at Section IV.D).

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OCA/USPS-T33-6. Are you aware of any information that shows whether QBRM has "attracted more volume from First-Class Mail than anticipated?" If so, please provide all such information.

RESPONSE: As indicated in my response to OCA/USPS-T-33-4 (b), 1999 RPW data indicate that there were 129.6 million QBRM pieces (both letters and cards) in PQ 3 1999, and 138.6 million QBRM pieces in PQ 4 1999. These are the first two full quarters of data that are available following the implementation of the QBRM rate on January 10, 1999. As a very rough approximation of an annual QBRM volume, the sum of these two quarters (268.2 million) can be annualized by dividing by the seven accounting periods in PQ 3 and PQ4, and then multiplying by the 13 accounting periods in the year. The result is 498.1 million pieces for the year.

In developing my QBRM proposal, I reviewed these data, as well as recent annual volumes of BRMAS mail. In GFY 1997 and GFY 1998, BRMAS volumes were 515.4 million pieces and 440.3 million pieces, respectively. Thus, in recent years, BRMAS/QBRM volumes appear fairly stable in the 400-500 million range.

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OCA/USPS-T33-7. Please refer to your testimony at page 15, lines 2-7.

- (a) Please confirm that Letters and Sealed Parcels subclass mail weighing one ounce or less that does not conform to the specified aspect ratio of at least 1 to 1.3 (i.e., that is, between 1 to 1 and 1 to 1.3) is nevertheless processed on the following mail processing equipment: facer-cancellers, OCRs, and BCRs. If you do not confirm, please explain.**
- (b) Please confirm that nonconforming mail identified in part (a) of this interrogatory is not returned to the sender or delivered to the recipient with a marking of postage due equal to the nonstandard surcharge. If you do not confirm, please explain. Include in your explanation an identification of the portion of such mail that is not returned to sender or delivered to the recipient with a marking of postage due.**
- (c) Please provide the total revenue produced by the nonstandard surcharge.**
 - (i) What portion of the total revenue produced by the nonstandard surcharge is from letters and sealed parcels below the specified aspect ratio of 1 to 1.3?**
 - (ii) What portion of the total revenue produced by the nonstandard surcharge is from letters and sealed parcels exceeding the specified aspect ratio of 1 to 2.5?**
 - (iii) What portion of the total revenue produced by the nonstandard surcharge is from letters and sealed parcels that exceed the standard letter-size dimensions?**

RESPONSE:

- (a) Not confirmed. Witness Miller discusses aspect ratio and its affect on processing in his testimony (USPS-T-24 at pages 20 and 21). Also, please note that to be standard, a mail piece needs to have an aspect ratio between 1.3 and 2.5, inclusive.**
- (b) Not confirmed. First, this question appears to assume that the nonstandard surcharge has not been paid. Nonconforming mail that has paid the surcharge will certainly not be returned to sender. In addition, please see the Postal Service's response to USPS/OCA-23(b) for a description of how shortpaid First-Class Mail is handled.**
- (c) The nonstandard surcharge produced approximately \$44.5 million in revenue in 1998. See part (iii) below for the underlying calculation.**
 - (i) The Postal Service does not maintain these data. Please note that to be standard, a mail piece needs to have an aspect ratio between 1.3 and 2.5, inclusive.**

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RESPONSE to OCA/USPS-T33-7 (continued)

- (ii) The Postal Service does not maintain these data. Please note that to be standard, a mail piece needs to have an aspect ratio between 1.3 and 2.5, inclusive (the lower bound of this range is not 1 as implied in the question).
- (iii) An estimate for 1998 can be developed as follows. According to the 1998 Billing Determinants (USPS-LR-I-125), there were 370,848 thousand nonstandard single pieces (Table A-1) and 74,016 thousand presort nonstandard pieces (33,924 thousand nonstandard nonautomation presort pieces from Table A-2 and 40,092 nonstandard automation flats from Table A-3). The distribution of these pieces by shape below is approximate and is based on 1998 mailing statement data for presort and domestic RPW data for single piece.

	1998 Nonstandard Volume (millions)			
	<u>All</u>	<u>Letters</u>	<u>Flats</u>	<u>Parcels</u>
Single Piece	370.8	64.6	287.3	19.0
Presort	<u>74.0</u>	<u>10.6</u>	<u>61.9</u>	<u>1.6</u>
Total	444.8	75.2	349.2	20.6

Total nonstandard revenue in 1998 was approximately \$44.5 million (370.8 million single pieces paying the 11-cent surcharge and 74.0 million presort pieces paying the 5-cent surcharge). Of this total, approximately \$36.9 million, or 83 percent, was produced by nonletter-size pieces.

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OCA/USPS-T33-8. Please refer to your testimony at page 19, lines 17-18.

- (a) Please confirm that the term "workshared First-Class Mail" does not include "workshared First-Class Mail" qualifying for Basic Presort. If you do not confirm, please explain.**
- (b) Please provide the source for the 69 percent figure.**
- (c) Please provide the percentage of, and source for, workshared First-Class Mail qualifying for the Automation Basic Presort Rate Category comparable to the percent identified in part (b) above.**
- (d) Please provide the percentage of, and source for, workshared First-Class Mail qualifying for Automation Carrier Route Presort comparable to the percent identified in part (b) above.**
- (e) Please confirm that workshared First-Class Mail qualifying for the Automation Basic Presort Rate Category is "residual" mail; that is, mail qualifying for automation discounts that cannot be sorted to the 3-digit and 5-digit level. If you do not confirm, please explain.**

RESPONSE:

- (a) Not confirmed. Please see part (b) below.**
- (b) The term "workshared First-Class Mail" as used in the cited portion of my testimony refers to workshared mail in both the letters and cards subclasses. Table 4 of my testimony (USPS-T-33 at page 10) indicates that there were 43,189 million pieces of workshared First-Class Mail in 1998 (40,634 pieces from the letters subclass and 2,555 pieces from the cards subclass). Table 5 of my testimony (USPS-T-33 at page 12) indicates that there were 19,631 million 3-digit automation letters and 10,203 million 5-digit automation letters in 1998, for a total of 29,834 million pieces. Dividing 29,834 million 3-digit and 5-digit letters by 43,189 million workshared First-Class Mail pieces yields 69 percent.**
- (c) Per Table 5 of my testimony (USPS-T-33 at page 12), there were 4,594 million basic automation letters in 1998. Dividing 4,594 million basic automation letters by 43,189 million workshared First-Class Mail pieces yields 11 percent.**
- (d) Per Table 5 of my testimony (USPS-T-33 at page 12), there were 1,279 million carrier route letters in 1998. Dividing 1,279 million carrier route letters by 43,189 million workshared First-Class Mail pieces yields 3 percent.**

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RESPONSE to OCA/USPS-T33-8 (continued)

(e) In general, I agree that basic automation pieces can be viewed as residual. Note, however, that in addition to required 3-digit preparation, AADC sortation is also required.

DECLARATION

I, David R. Fronk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

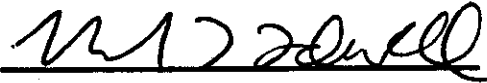
David R. Fronk

David R. Fronk

Dated: 2-24-00

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.



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February 24, 2000