

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION  
(MMA/USPS-T33-1-3, 5, 6(a,b,d-f))

The United States Postal Service hereby provides the responses of witness Fronk to the following interrogatories of Major Mailers Association: MMA/USPS-T33-1-3, 5, 6(a,b,d-f).

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

The following interrogatories have been redirected to other witnesses for response: MMA/USPS-T33-4, to witness Daniel; T33-6(c), to witness Thress.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK  
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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.

**RESPONSE:**

- (a) The description of bulk metered mail which appears in footnote 2 on page 18 of my testimony is the description set forth in Docket No. R97-1. Please see Docket No. R97-1, Opinion and Recommended Decision at paragraph 5050, and Tr. 4/1418.
- (b) The bulk metered benchmark described in my testimony (USPS-T-33 at pages 16-19) represents a pricing reference point to appropriately identify workshare savings. The standards governing bulk metered mail are the same as those governing metered mail and First-Class Mail generally. Please see Domestic Mail Manual sections C100, D100, E100, and P030.
- (c) No data are available which separate bulk metered letters that paid the single-piece rate from nonbulk metered letters that paid the single-piece rate. Available data which include both bulk and nonbulk metered letters are presented below. The percentage data below are from ODIS. These percentages were then applied to the total number of nonpresort pieces by year from RPW.

	<u>% of Nonpresort (Letters, Flats &amp; Parcels) that is Metered Letters</u>	<u>Number of Nonpresort Metered Letters (millions)</u>
FY 1995	35.10%	19,283
FY 1996	35.05	18,978
FY 1997	35.60	19,308
FY 1998	34.99	18,988
FY 1999	34.07	18,326

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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 review 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 are 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. 1-5), 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.

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RESPONSE: First, I would note that the juxtaposition of the two quotes from my testimony in the preamble to questions (a) – (h) may be misleading. Also, the incomplete quotation from page 19 of my testimony may be similarly misleading.

The full quote from page 19 of my testimony states:

Consistent with precedent, the discounts the Postal Service is proposing here use the same approach as in Docket No. 97-1, that is, the bulk metered benchmark is used in conjunction with mail processing and delivery costs to measure costs avoided.

As the full quote indicates, in using the phrase “same approach” I was not referring to whether there were underlying costing changes proposed in this Docket which could affect the measurement of costs. Further, I was using “approach” in a manner consistent with the Commission’s usage in its Docket No.

R97-1 Opinion and Recommended Decision:

In general, the Commission agrees with the Service’s basic approach to developing worksharing cost savings. In particular, the Commission commends the Service’s proposed adoption of bulk metered (BMM) as the basis for calculating unit mail processing cost differences. It also agrees with the Service that the measured costs should be limited to activities exhibiting identifiable savings, namely unit processing and delivery costs.” [paragraph 5027 at page 268]

(a) I was referring to the automation letter cost differences set forth in the Commission’s Docket No. R97-1 Opinion and Recommended Decision, since these specific cost differences form the basis for the discounts currently in effect.

	<u>Unit Cost Difference Comparison (cents)</u>	
	<u>R97-1 Decision</u>	<u>R2000-1 Proposal</u>
Basic Automation	7.2	4.9
3-Digit	0.9	1.0
5-Digit	1.8	1.2
Carrier Route	0.5	0.3

Sources: Table 5-6 (at page 297) of the Commission’s Docket No. R97-1 Opinion and Recommended Decision; Docket No. R2000-1, USPS-T-24 at Table 1.

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RESPONSE to MMA/USPS-T33-2 (continued)

I recognize that the difference between the Basic Automation and 3-Digit tiers is 0.1 cent larger in the Postal Service's Docket No. R2000-1 proposal (from 0.9 to 1.0 cents). However, as I state in my testimony, "Since the discounts for the subsequent automation tiers are keyed to the basic automation starting point, any decision to reduce the basic automation starting would also work to reduce the discounts from the single-piece rate for 3-digit, 5-digit, and carrier route rates." (USPS-T-33 at page 34)

- (b) No - it is my understanding that the cost methodologies are not identical. For a description of the differences, please see the testimony of cost witness Miller (USPS-T-24, beginning at page 3).
- (c) Yes – this is my understanding.
- (d) No – in my view, differing assumptions or theories about volume variability can lead to differences in cost savings. Also, please see the opening paragraphs of my response to this interrogatory.
- (e) Yes – this is my understanding.
- (f) No – in my view, differing assumptions regarding MODS labor cost pools can lead to differences in cost savings. Also, please see the opening paragraphs of my response to this interrogatory.
- (g) I am confused by this question because it appears to be asking me whether I am aware of its assertion about "alleged actual costs." I will try to be responsive. While I would not characterize any adjustment as either overstating actual costs or understating actual costs, I am aware that CRA proportional adjustment factors are sometimes greater than one and sometimes less than one.
- (h) No – in my view, differing CRA proportional adjustment factors can lead to differences in cost savings.

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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 3<sup>rd</sup> 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 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.

RESPONSE:

- (a) Yes. The study includes the total unit cost of letter-shaped mail by ounce increment (including the 1 to 2-ounce and the 2 to 3-ounce increments). The information for single-piece letters is found in USPS-LR-I-91, Section I at page 15. The information for presort letters is found in USPS-LR-I-91, Section II at page 15. As described in my testimony (USPS-T-33 at pages 23-26), I used the weight study data in the aggregate as the appropriate basis for my proposed additional ounce rate.
- (b) See response to (a).
- (c) The question mischaracterizes my testimony. I make no characterization of any kind in my testimony about 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. My use of the phrase “weight step-by-weight

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RESPONSE to MMA/USPS-T33-3 (continued)

step" (USPS-T-33, page 24 at lines 8-9) refers generally to the First-Class Mail rate structure where each additional ounce of weight up to 13 ounces increases the postage required. As I state in my testimony, "...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 at page 24). The overall costs the rate is designed to recover include weight-related costs, shape-related costs, and costs related to the degree of presortation.

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MMA/USPS-T-33-5. On page 26 of your prepared testimony, you state:

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

You then proceed to 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 letters, 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?

RESPONSE:

- (a) Those are not necessarily the only three reasons. The three reasons described reflect the Postal Service's general concerns about a varying additional ounce rate. If faced with the details of another specific additional ounce proposal, other objections and concerns could surface.
- (b) No. My additional ounce rate proposal was developed in light of the weight study prepared for this docket by witness Daniel, in light of the Test Year revenue requirement and the First-Class Mail cost coverage target, and in light of concerns about a varying rate structure cited in the preamble to this question.



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RESPONSE to MMA/USPS-T33-5 (continued)

- (c) Please see the three reasons referenced in part (a) of this question and described in my testimony (USPS-T-33 at page 26).
- (d) While I am mindful of statements contained in Commission recommended decisions, in this instance my conclusions about additional ounce costs were guided by the weight study prepared for the current docket.
- (e) Please see response to parts (b) and (c).

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MMA/USPS-T33-6. On pages 33 and 34 of your prepared testimony you indicate several 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 manual 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 their 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 the 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.

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RESPONSE:

- (a) I am unsure what is meant by my "significantly higher." The four reasons described in my testimony do summarize why I did not rely solely on the latest cost data in developing my discount proposals.
- (b) My statement is a qualitative one based on a general understanding of how mail preparation requirements changed following Classification Reform (Docket No. MC95-1) and the cost of mail processing equipment. This basic knowledge has been acquired generally during my tenure with the Postal Service, and is not the result of a specific fact-finding mission where I interviewed colleagues or customers and took notes.
- (c) Redirected to witness Thress.
- (d) The benchmark represents a pricing reference point to appropriately identify workshare cost savings. The benchmark is not meant to imply that every piece that converts to worksharing physically comes from a pool of bulk metered pieces, or that every piece that is no longer workshared physically reverts to such a pool of bulk metered pieces.
- (e) I view all four considerations described at page 33 of my testimony as important. I am unable to rank them.

**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.

A handwritten signature in black ink, appearing to read "David R. Fronk", written in a cursive style.

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.

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

Michael T. Tidwell

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