

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 NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T33-1 THROUGH 8)

The United States Postal Service hereby provides the responses of witness Fronk to the following interrogatories of Newspaper Association of America: NAA/USPS-T33-1 through 8, filed on March 21, 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.
Chief Counsel, Ratemaking



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April 4, 2000

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
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NAA/USPS-T33-1. Please refer to your direct testimony, USPS-T-33, page 24, lines 7-13. There you state:

As noted by witness Daniel (USPS-T-28), there is difficulty in measuring additional ounce costs with the highest degree of precision on a weight-step-by-weight-step basis. Nevertheless, 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.

Please also refer to page 25, lines 11-14:

The cost data compiled witness Daniel also show that the first additional ounce of single-piece mail adds 22.4 cents to unit costs (USPS-T-28 at Table 1) while the first additional ounce of presort mail adds 17.7 cents to cost (Id. at Table 2). In general, subsequent additional ounces add less to costs than the first additional ounce for both single-piece and presort mail.

- (a) Does the second quoted passage represent an example of a "weight-step-by-weight-step" comparison as described in your first quoted passage?
- (b) If not, please explain why not.

RESPONSE:

- (a) No.
- (b) I developed my additional ounce rate proposal by using aggregated cost data in the manner described in the page 24 quote described above (USPS-T-33, page 23, line 7, through page 25, line 10). The paragraph from page 25 quoted here and the page 25 paragraph which is quoted below in NAA/USPS-T33-2 go hand-in-hand, and are designed to provide a general description of how cost changes as weight increases. I included these paragraphs at this point in my testimony not in support of my own 23-cent proposal, but rather in response to previous proposals which had proposed a lower additional ounce rate for particular presort weight steps. For example, in Docket No. R97-1, ABA/NAA proposed reducing the additional ounce rate for the second and third ounces of workshared First-Class letters to 12 cents and maintaining the rate at its current level for the remaining weight steps. I was hopeful that by including the referenced page 25 paragraphs, I might provide more context in which to view the cost data.

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NAA/USPS-T33-2. Please refer to your direct testimony, USPS-T-33, page 25, lines 16-21:

In addition, while the first additional-ounce costs less for presort mail than for single-piece mail, these costs catch up for heavier pieces. This cost behavior argues against a lower additional-ounce rate for presort, since the lower rate would steadily increase the presort discount as the weight of the piece increased, even though the weight study data indicate that the cost difference does not continue to increase for heavier pieces.

- (a) Does this comparison represent an example of a weight-step-by-weight-step comparison discussed at page 24, lines 7-13?
- (b) If not, please explain why not.

RESPONSE:

- (a) No.
- (b) Please see response to NAA/USPS-T33-1(b).

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NAA/USPS-T33-3. Please refer to your direct testimony at USPS-T-33, page 24, lines 5-6, where you cite the testimony of witness Daniel (USPS-T-28) as the basis for your rate design proposals for the additional ounce rate for single piece and presort mail. Witness Daniel in turn cites data from LR-I-91 through LR-I-102 for the creation of Tables 1 and 2 (Revised 3/1/00). Please also refer to LR-I-91, Section 1, page 11 of 34, which appears to be a regression with "single-piece [first-class] all shapes test year unit costs" as the dependent variable and "detailed (1/2 ounce) weight increment" as the independent variable.

- (a) Do you consider this regression to be a reliable measure of the effect of weight on unit costs?
- (b) Please provide all measures of reliability on which you base your answer to (a).
- (c) Do you consider any other regressions of unit costs on weight for single piece first class to be reliable?
- (d) If so, please explain fully the basis for your answer.

RESPONSE: I note that the cited regression appears to be in Section 1, page 10 of 32, as revised 3/1/00.

- (a) In my testimony, I explain how I used the additional-ounce cost study results presented in Tables 1 and 2 of USPS-T-28, as revised 3/1/00 (please see USPS-T-33 at page 24, lines 14-19). I did not use the regression analysis results cited in this question.

It is my understanding that this regression is not volume-weighted and is therefore of limited use in ascertaining the effect of weight on costs. Each data point is given equal weight, even though some data points may represent a relatively small portion of volume.

- (b) Please see my response to (a).
- (c) Please see my response to (a); I did not use regression analysis in developing my rate proposal.
- (d) Not applicable.

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NAA/USPS-T33-4. Please refer to LR-I-91, Section 2, page 10 of 30 which appears to be a regression of "Presort [first class] all shapes test year unit costs" as the dependent variable and "detailed (1/2 ounce) weight increment" as the independent variable.

- (a) Do you consider this regression to be a reliable measure of the effect of weight on unit costs?
- (b) Please provide all measures of reliability on which you base your answer to (a).
- (c) Do you consider any other regressions of unit costs on weight for presort first class to be reliable?
- (d) If so, please explain fully the basis for your answer.

RESPONSE:

- (a) Please see response to NAA/USPS-T33-3 (a).
- (b) Please see response to NAA/USPS-T33-3 (b).
- (c) Please see response to NAA/USPS-T33-3 (c).
- (d) Please see response to NAA/USPS-T33-3 (d).

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NAA/USPS-T33-5. Please refer to your direct testimony USPS-T-33, page 24, lines 1-3:

Several considerations went into developing the proposed 23-cent rate, including achievement of the revenue requirement and the First-Class Mail cost coverage provided by witness Mayes.

Please also refer to the response of NAA/USPS-T32-18 propounded to witness Mayes. She was asked in part:

What role did the one cent increase in the first and additional ounce rates play in your selection of the cost coverage for First Class Mail?

Her answer in part reads:

My testimony does not state that the cost coverage "results" in a one-cent increase in the first or additional ounce rates...I would not characterize the direction of causality the way that your question has.

- (a) Do you perceive any discrepancy between her characterization of the cause and effect and your own?
- (b) If not, please explain fully why not.

RESPONSE:

(a) No.

(b) As witness Mayes also stated in the same response, "Establishing the actual rate design within the subclass in conjunction with the target cost coverage is the responsibility of witness Fronk (USPS-T-33)."

In developing the First-Class Mail rate proposal, there were a number of rate elements that could be changed to achieve the target First-Class Mail cost coverage and revenue, including the additional ounce rate. As I stated in my testimony:

The additional-ounce rate continues to be an important source of revenue for the Postal Service. In FY 1998, additional ounces generated about \$4.7 billion in revenue or 14 percent of First-Class Mail revenue for the year...Accordingly, the additional ounce rate is an important factor in helping First-Class Mail meet its cost coverage target and in helping the Postal Service meet its revenue requirement. [USPS-T-33, page 23 at lines 16-23]

Within the context of the overall First-Class Mail rate design, an increase of one-cent in the additional ounce rate was the amount I considered most appropriate in light of the ratemaking issues discussed in the rate design section of my testimony (USPS-T-33, at pages 16-42).

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NAA/USPS-T33-6. Please refer to page 24, line 4, of your testimony, where you state that the Postal Service "considers it important to develop an additional ounce rate that reflects the underlying costs the rate is designed to recover." Please define the word "reflects" as you use it in the quoted passage.

RESPONSE: The quoted portion of my testimony appears within the following context:

Several considerations went into developing the proposed 23-cent rate, including achievement of the revenue requirement and the First-Class Mail cost coverage provided by witness Mayes. The Postal Service also considers it important to develop an additional ounce rate that reflects the underlying costs the rate is designed to recover. [USPS-T-33, page 24 at lines 1-5]

As indicated in this quote, the additional ounce rate is not strictly cost-based. Thus, I am using "reflects the underlying costs" in the sense of "takes into account the underlying costs."

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NAA/USPS-T33-7. Did you take into consideration the rate design proposals for subclasses of mail in other classes which may serve as substitutes for First-Class Mail? If so, please identify the particular subclasses and rate design proposals you considered, and what effect those proposals had on your proposals?

RESPONSE: Yes. The TYAR forecast volumes at proposed rates obtained from RCF take into account the cross-price elasticity between workshared First-Class letters and Standard (A) regular mail (please see USPS-T-7 at pages 17-20). I combined these TYAR forecasts with the proposed First-Class Mail rates to determine if the resulting revenue met the cost coverage target.

In addition, the volume of former Priority Mail pieces migrating into the "new" 11-12 ounce and 12-13 ounce First-Class Mail weight increments (effective 1/10/99) is affected by the relationship between Priority Mail and First-Class Mail prices (see USPS-T-33, Workpaper at pages 8 and 9, which cite USPS-LR I-114 at pages 8 and 15 and USPS-T-7, Workpaper 4, Table 1).

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NAA/USPS-T33-8. Please refer to page 25 lines 6-15, of your testimony, where you discuss the markup for the additional ounce rate in terms of witness Daniel's cost data. Please provide the average markup and unit contribution, for each ounce increment, for:

- (a) Presorted (non-automation) First Class letters and
- (b) Automation First Class letters.

RESPONSE:

It is my understanding that the requested breakdown (separating nonautomation presort letters from automation presort letters) is not available. (The weight study (USPS-LR-I-91) provides data for all presort letters at Section 1, pages 13-15.)

DECLARATION

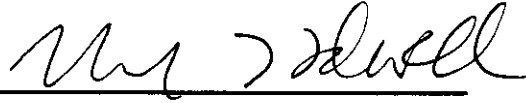
I, David R. Fronk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


David R. Fronk

Dated: 4-4-00

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 cursive script, appearing to read "Michael T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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