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

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–T33-13 THROUGH 16)

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–T33-13 through 16, 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:

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

OCA/USPS-T33-13. Please refer to interrogatory MMA/USPS-T33-7 and your response to part (a) thereof. You state "that in developing [your] additional ounce rate proposal, [you] did not use the weight study data [LR-I-91] on this disaggregated a basis (that is, disaggregated by shape and by weight step)."

(a) Do the disaggregated data (by shape and by weight step) suggest that there are significant cost differences by shape for the single piece category of letters and sealed parcels? Please site specific data from the weight study to support your answer.

(b) Has the Postal Service considered or studied shape-based rate differentials for First-Class letters and sealed parcels? Please provide copies of all documents related to this question.

(c) Did *you* consider the desirability or need for shape-based rate differentials for First-Class letters and sealed parcels? Please elaborate on your response and provide copies of all documents related to this question.

(d) Do the weighted (by volume within shape and weight cell) costs from the weight study match the total volume variable costs of First-Class letters and sealed parcels? Please site specific data from the weight study and billing determinants to support your answer.

(e) Please show the rate schedule that would result from applying a cost coverage of 171.2 percent to unit attributable costs of single piece First Class letters and sealed parcels disaggregated by shape and by weight step. Please confirm that such a rate schedule would generate the same revenue as your proposed schedule. If you do not confirm, please provide an arithmetic demonstration using the same approach to calculating total revenue that you have used (i.e., assuming that billing determinants all change in the same proportion when going from before rates to after rates volumes).

(f) Has the Postal Service observed any change in the proportions of First Class single piece letters and sealed parcels by weight step as a result of the R97-1 change in the additional ounce rate? Please provide the FY1998 and FY1999 volumes by weight step for First Class single piece letters and sealed parcels.

RESPONSE:

(a) I am unsure what is meant by "significant" in this question. Nevertheless, the weight study clearly indicates that there are cost differences by shape (letters, flats, and parcels) in the letters subclass. In USPS LR-I-91 Section 1, please see pages 13-15 for letters, pages 16-18 for flats, and pages 19-21 for parcels.

(b) In developing the rates for the nonstandard surcharge, the Postal Service has considered the effect of shape on costs. To the extent this question is referring to different single-piece rates for letters, flats, and parcels (letters and sealed parcels subclass) generally, the answer would be "no".

RESPONSE to OCA/USPS-T33-13 (continued)

(c) In developing the rate proposals for the nonstandard surcharge, I considered the effect of shape on costs, as discussed in my testimony (USPS-T-33 at pages 27-30). To the extent this question is referring to different single-piece rates for letters, flats and parcels (letters and sealed parcels subclass) generally, the answer would be "no". Consistent with past Postal Service policy and ratemaking practice, I considered it desirable to have a single, averaged first-ounce rate for all shapes and for the additional ounce rate. I viewed varying rates by shape as undesirable because of its effect on simplicity in rate design. A uniform rate design with a single stamp that can be used for the first ounce and a single stamp for each additional ounce of postage is simple and easy for the general public to use.

(d) I am informed that the weighted costs (by volume within shape and weight cell) from the weight study represent TYBR costs, before final adjustments and contingency. The single-piece costs of $13,003,251 thousand shown in USPS LR-I-91, Section 1 at page 1, match the total volume variable costs for the single-piece portion of the letters subclass shown in the testimony of witness Kashani in his Exhibit USPS-14H ("Cost Segments and Components, Test Year 2001, Current Rates with Workyear Mix Adjustment") at page 7. Note that these costs are not the same as the single-piece costs of $13,437,357 thousand included in my workpaper (USPS-T-33 Workpaper at page 2), which represent TYAR total volume variable costs after final adjustments and including contingency (from witness Kashani, USPS-T-14. Workpaper J, Table E). I am also informed that the weight study volumes are TYBR.

(e) The OCA can readily compute such an alternative rate schedule using data already supplied in this case and referred to in this question. Specifically, to obtain such a rate schedule, multiply the cited cost coverage of 171.2 by the Total Unit Costs shown for each weight step in the respective portions of USPS LR-I-91 cited in part (a) above. Since data in these sections are presented by half-ounce increment, to

RESPONSE to OCA/USPS-T-13 (continued)

get ounce-by-ounce data the Total Costs (line 17) within each one-ounce increment for each shape need to be divided by the corresponding volume (line 1).

I note that I am uncomfortable with the implications of such a constant cost coverage approach to rates. I outline my concerns about taking such an approach to setting the additional ounce rate in my testimony at page 25, line 22, through page 26, line 16. More fundamentally, such an approach could conceivably lead to 39 different single-piece stamps (three shapes by 13 weight steps per shape). The potential burden and confusion such a scheme could create is large.

The cost coverage of 171.2 percent included in this question represents the implied TYAR cost coverage for the single-piece portion of the letters subclass ($23,004,794 in revenue / $13,437,357 in costs), as included in my workpaper (USPS-T-33 Workpaper at page 2). While it is arithmetically correct that multiplying the components of a sum by a constant will yield the same result as multiplying the sum by that constant, because the 171.2 percent is calculated using different underlying costs than those shown in USPS-LR-I-91 (see part (d) above), I cannot confirm that such a rate schedule would generate the same revenue as my proposed schedule.

(f) The requested single piece data are shown in the attachment. Based on the proportions shown, it is difficult to discern any major change in volume distribution by weight step between 1998 and 1999. Of course, the increase in weight limit that took effect on January 10, 1999 did add two new weight steps for GFY 1999.

Attachment to OCA/USPS-T33-13 (f)

FIRST-CLASS SINGLE-PIECE MAIL IN LETTERS SUBCLASS: VOLUME BY WEIGHT STEP
GFY 1998 and GFY 1999

	Weight Not Over (ounces)													
	1	2	3	4	5	6	7	8	9	10	11	12	13	**Total**
GFY 1998:														
Volume (000s)	46,819,464	3,618,628	1,440,618	776,457	505,188	341,900	243,875	183,399	145,138	115,357	83,000	N/A	N/A	54,273,024
%	86.2665%	6.6675%	2.6544%	1.4306%	0.9308%	0.6300%	0.4493%	0.3379%	0.2674%	0.2126%	0.1529%	N/A	N/A	100.0000%
GFY 1999:														
Volume (000s)	46,357,005	3,555,528	1,404,186	760,402	498,520	332,308	248,430	184,075	146,335	115,168	89,560	52,583	39,518	53,783,619
%	86.1917%	6.6108%	2.6108%	1.4138%	0.9269%	0.6179%	0.4619%	0.3423%	0.2721%	0.2141%	0.1665%	0.0978%	0.0735%	100.0000%

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OCA/USPS-T33-14. Please refer to interrogatory Stamps.Com/USPS-T33-4 and your response to part (c) thereof. You state, "While I recognize that the QBRM discount is a single-piece discount, it really represents a special case because it is single piece mail that is received in bulk . . . and that meets mail preparation standards that ensure its automatibility . . . ." Please estimate the proportion of courtesy reply envelopes that
(a) is received in bulk,
(b) meets mail preparation standards that ensure its automatibility.

RESPONSE: Stamps.com and E-Stamp have sent me interrogatories, including the one cited above, which ask me to compare QBRM and IBI postage products and which seem to be attempting to establish that the QBRM single-piece discount should be extended to IBI postage products at this time. My responses to E-Stamp/USPS-T33-1 and Stamps.com/USPS-T33-4(b) and (c) explain why these mailpieces are not the same as QBRM and why the Postal Service presently views an IBI discount as premature, though the Postal Service is optimistic about the prospects of IBI.

(a) This question omits the key phrase "for the calculation of postage due" in quoting my response in the preamble to this question. The complete portion of that response reads, "While I recognize that the QBRM discount is a single-piece discount, it really represents a special case because it is single-piece mail that is received in bulk *for the calculation of postage due* and that meets mail preparation standards that ensure its automatibility (please see DMM Section S922.5.0)" [emphasis supplied].

In retrospect, my use of the term "bulk" in this response was somewhat inartful because it is my understanding that some QBRM customers may be receiving relatively small volumes of BRM on a day-to-day basis. What I was trying to convey is that an IBI mail piece could be received by any postal customer, household or business, while QBRM is processed through postage due units for counting and rating purposes. Thus, offering automation discounts to IBI mailers raises issues of revenue protection that QBRM does not raise due its processing though postage due units.

The Postal Service dose not maintain data on the proportion of courtesy reply mail that is received by postal customers in bulk.

RESPONSE to OCA/USPS-T33-14 (continued)

(b) All letter-size reply envelopes enclosed in mailings claimed at automation rates must meet automation compatibility standards. Also, please see the response of the U.S. Postal Service to OCA/USPS-35.

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OCA/USPS-T33-15. Please refer to the response to interrogatory MMA/USPS-1.

(a) Has the Postal Service considered or studied a separate charge for returning or forwarding First-Class letters and sealed parcels? Please provide copies of all documents related to this question.

(b) Did *you* consider the desirability or need for a separate charge for returning or forwarding First-Class letters and sealed parcels? Please elaborate on your response and provide copies of all documents related to this question.

(c) Please provide a complete copy of the UAA Mail Study performed in 1999.

RESPONSE:

(a) I am not aware of any such consideration or study.

(b) No. The Postal Service considers these services an integral part of the First-Class Mail product. Such services help create the high value of service associated with First-Class Mail.

(c) Per the Postal Service response to MMA/USPS-1, this study has been filed as USPS LR-I-82.

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OCA/USPS-T33-16. Please refer to your testimony in Docket No R97-1 at page 42 and footnote 16. You stated, "In FY 1996, 12.51 percent of the single-piece First-Class Mail in ODIS (excluding BRM) was identified as Stamped and Metered FIM (see Response to OCA/USPS-T3-10 in Docket No. MC97-1). Applying this percentage to TY 1998 single-piece volume of 54.5 billion yields 6.8 billion pieces." Please provide an estimate of courtesy reply mail for the test year of the current proceeding.

RESPONSE: An estimate of 7.2 billion pieces can be developed here as follows. The response to OCA/USPS-42 includes an attachment which presents FY 1999 First-Class single-piece volumes. Stamped and Metered FIM letters and cards in ODIS total 8,438 million pieces, including BRM (7,858,453,241 stamped FIM letters + 476,214,459 metered FIM letters, 96,258,029 stamped FIM cards + 7,061,826 metered FIM cards). This represents 14.53 percent (including BRM) of First-Class single-piece mail (8,438 / 58,074 million). Applying this percentage to TYAR single-piece volume results in 8,086 million pieces (TYAR single-piece volume of 55,648 million * 14.53 percent). TYAR Business Reply Mail volume is estimated to be 914.3 million pieces (see USPS-T-39, WP-5). Subtracting this Business Reply Mail volume results in an estimate of 7.2 billion pieces of courtesy reply mail in the test year (8,086 million pieces – 914 million pieces).

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.

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April 4, 2000