

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

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS FRONK
TO INTERROGATORY OF MAJOR MAILERS ASSOCIATION (MMA/USPS-T33-2)
(ERRATUM)

The United States Postal Service hereby provides the revised response of witness Fronk to the following interrogatory of the Major Mailers Association:

MMA/USPS-T33-2.

The original response to this interrogatory was filed on February 24, 2000. The revisions to that response are made necessary by the errata to USPS-T-33, which are being filed today. The revised response to MMA/USPS-T33-2 filed today supersedes the original response. Changes are highlighted by shading.

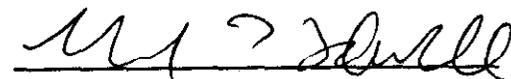
The interrogatory is stated verbatim and is followed by the revised response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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April 17, 2000

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

4/17/00

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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4/17/00

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 | 2 |
| 3-Digit | 0.9 | 1.0 |
| 5-Digit | 1.8 | 3 |
| 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, **revised 4/10/00**.

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TO INTERROGATORIES OF THE MMA
(4/17/00)

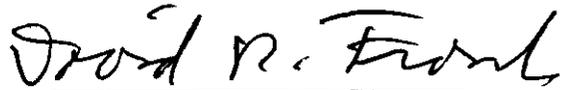
RESPONSE to MMA/USPS-T33-2 (continued)

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.

DECLARATION

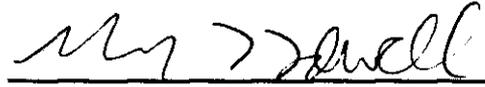
I, David R. Fronk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


David R. Fronk

Dated: 4-17-00

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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