

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

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: POSTAL RATE AND FEE CHANGES, 2000 : Docket No. R2000-1  
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:

RESPONSES OF AMERICAN BANKERS ASSOCIATION AND NATIONAL  
ASSOCIATION OF PRESORT MAILERS WITNESS CLIFTON TO INTERROGATORIES  
OF DMA  
(DMA/ABA&NAPM-T1-1-4)

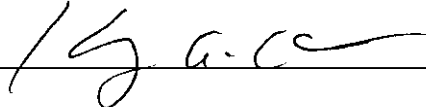
(June 15, 2000)

The American Bankers Association ("ABA") and the National Association of Presort Mailers ("NAPM") hereby provide the responses of witness Clifton to the following interrogatories of the Direct Marketing Association, which were filed on June 2, 2000: DMA/ABA&NAPM-T1-1-4.

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

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION  
NATIONAL ASSOCIATION OF PRESORT MAILERS

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## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO DMA INTERROGATORIES

**DMA/ABA&NAPM-T1-1.** Please refer to your testimony on page 60, lines 1-5, where you refer to “these changes in cost coverage” as being “discriminatory and unfair to First Class worksharing mailers . . .”

- a. Please confirm that the Commission’s rate recommendations in Docket No. R97-1 were made following major classification changes pursuant to PRC Docket No. MC95-1. If you do not confirm, please explain fully.
- b. Do you contend that cost coverages recommended by the Commission in Docket No. R97-1 for First Class and Standard A mail were “discriminatory” and “unfair?” If so, please explain your contention in as much detail as possible with specific reference to the pricing criteria of section 3622(b).
- c. What is the continued relevance, if any, of conclusions made by the Commission in Docket No. R90-1, a case that was litigated a decade ago and that preceded the classification changes instituted pursuant to Docket No. MC95-1? Please explain fully.

### **RESPONSE:**

- a. Confirmed.
- b. The citation from my testimony which you cite does not talk about the R97-1 decision by the Commission, but the dynamic pattern of actual changes in cost coverage which have occurred since 1990, as a result of rate decisions made by the Commission and other reasons. What I contend is that the Commission has allowed these dynamics to unfold in a direction which the Commission itself roundly rejected in R90-1, a direction which the USPS proposed. Without an explanation from the PRC and notwithstanding M95-1, this appears contradictory to me, as the Commission does not appear to have said anything else about its cost coverage goals since R90-1.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO DMA INTERROGATORIES

### **RESPONSE to DMA/ABA&NAPM-T1-3 (Continued)**

However, if I take your question at face value and look at the dynamic pattern of test year “cost coverages recommended by Commission” over the 1990s, including the R97-1 test year and the USPS proposal in this case, and further isolate the comparisons to subclasses, I arrive at the same conclusion. Relative to all mail, the cost coverage for the First Class letters subclass has increased from the decision rendered in R90-1 through the proposed decision in this rate case, whereas it has decreased for the Standard A Regular subclass (pre-reclassification third class, bulk rate regular). For the Standard A Commercial ECR subclass, it has trended down between the initiation of that subclass and the USPS proposal in this case. See the Attachment to this response for the numbers. I believe these patterns are in violation of section 3622 (b) (1).

c. See page 58 of my testimony, line 10 through page 60, line 5, including the text and footnote references to the O&RD in R90-1. I am not aware of any changes made in MC95-1 which changed the Commission’s earlier stated goals as between advertising mail and FCM, however classified. The trends are highly illuminating when it comes to issues of discrimination between subclasses, and unfairness insofar as rate categories within a subclass are concerned.

**Attachment to DMA/ABA&NAPM-T1-1.**

PRC Proposed TY Subclass  
Cost Coverage

	<u>FC Letters &amp; Sealed Parcels</u>	<u>Standard A Commercial Regular</u>	<u>ECR</u>
R90-1 Relative to All Mail	161.8% 1.08	146.2% 0.98	NA
R94-1 Relative to All Mail	174.5% 1.11	150.9% 0.96	NA
MC95-1 Relative to All Mail	179.6% 1.05	134.6% 0.79	218.1% 1.28
R97-1 Relative to All Mail	172.4% 1.11	134.6% 0.87	203.0% 1.31
R2000-1 (USPS Proposed) Relative to All Mail	196.3% 1.17	132.9% 0.79	208.8% 1.24

Source: PRC, R90-1, Appendices to Opinion and Recommended Decision, Volume 2 of 2, Appendix G Schedule 1; PRC, R94-1, Opinion and Recommended Decision, Appendix G Schedule 1; PRC, MC95-1, Opinion and Recommended Decision, Appendix F; PRC, R97-1, Appendices to Opinion and Recommended Decision, Volume 2, Appendix G; and R2000-1 USPS-T-32, Exhibit USPS-32B, Page 1 of 2.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO DMA INTERROGATORIES

**DMA/ABA&NAPM-T1-2.** Please refer to your testimony at page 60, lines 7-13, where you state, “it does appear unmistakably that in the growing disparate trends between cost coverages for single piece versus workshared mail in the allocation of institutional costs, workshared mail is being singled out in an arbitrary and almost punitive way. This is unfair, inequitable, and discriminatory . . .”

- a. Is it your contention that the USPS proposals in this proceeding discriminate unfairly against workshared First Class mailers, as compared with mailers of single-piece First Class mail? If so, please explain as fully as possible your contention with references to the pricing criteria of section 3622(b).
- b. Is it your contention that the USPS proposed rates for workshared First Class mail discriminate unfairly against the mailers of workshared First Class mail as compared with the mailers of Standard A mail? If so, please explain your position as fully as possible with reference to the pricing criteria of section 3622(b).

### **RESPONSE:**

a. and b. It is my position in the first instance that the rate proposals made by the USPS in this case continue a pattern of rate discrimination clearly observable over the 1990s: raising the cost coverage of the First Class letters subclass while lowering it for Standard A Commercial Regular (old third class, bulk rate regular) and ECR. In the second instance it is my position that the rate proposals made in this case by the USPS continue a pattern of rate unfairness within the First Class letters subclass, with the cost coverage for workshared mail increasingly diverging from that for single piece relative to the all mail average. Reducing the rate discrimination between the classes can be accomplished in part by adopting my proposals, and reducing the rate unfairness within the First Class letters subclass can also be accomplished in part by adopting my proposals. Also, see my answer to DMA/ABA&NAPM-T1-1 parts b. and c. above.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO DMA INTERROGATORIES

**DMA/ABA&NAPM-T1-3.** Please refer to your testimony at page 60, lines 26-28, where you state, “. . . First Class Mail, and workshared mail in particular, has been shouldering an extremely unfair share of institutional delivery costs for several years, while Standard A mail has unfairly benefited from this cost coverage convention,” citing USPS witness Mayes as “acknowledging this benefit,” referring to witness Mayes’ interrogatory answer ABA&NAPM/USPS-T32-4, at Tr. 11/4214-15.

- a. Please confirm that the referenced “benefit” accruing to Standard A mail as a result of the contributions to institutional costs made by First Class mail is no different qualitatively from the benefit accruing to First Class mail as a result of the contributions to institutional costs made by Standard A mail. If you do not confirm, please explain fully. In your opinion, would USPS witness Mayes confirm the foregoing statement? If your answer is other than an unqualified “yes”, please explain fully.
- b. Is it your understanding that witness Mayes is of the opinion that First Class mail shoulders “an extremely unfair” share of institutional delivery costs and that Standard A mail has “unfairly” benefited from the cost coverage convention utilized in PRC proceedings? Please explain fully with specific references to witness Mayes’ testimony.
- c. With specific references to the pricing criteria set forth in section 3622(b), please explain as fully as possible your contention that the First Class mail contribution to institutional costs is “extremely unfair” and that Standard A mail has benefited “unfairly” from the cost coverage convention.

### **RESPONSE:**

a. – c. I cannot speak for USPS witness Mayes. Reductio ad absurdum, it would be “true” that each class/subclass confers benefits on other classes/subclasses in a qualitative sense if, for example, Standard A mail only contributed \$1.00 to the Postal Service’s \$8,059,876,000 FY1999 institutional delivery costs, while First Class Mail paid all the rest. My point as summarized in the numbers in Table 14, page 62, is that the quantitative allocation of institutional delivery costs as between Standard A and First Class Mail is grossly discriminatory and unfair and violates at least sections 3622 (b.) (1) and (3.) of Title 39, CFR. How can the USPS or the Commission continue to justify rates and cost coverages which lead, for example,

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO DMA INTERROGATORIES

**RESPONSE to DMA/ABA&NAPM-T1-3 (Continued)**

to the payment of over \$3.1 billion of institutional delivery costs for 43 billion pieces of First Class presort mail, when those same rates and cost coverages lead to the payment of only \$2.3 billion of institutional delivery costs for double that volume of Standard A mail, namely 86 billion pieces?

All of FCM, some 102 billion pieces, pays \$5.4 billion in institutional delivery costs whereas 86 billion pieces of Standard A mail pays only \$2.3 billion. It is discriminatory, inequitable and unfair for Standard A mail, which constitutes 84% of the volume of all FCM to pay only 43% of the institutional delivery costs that FCM pays, notwithstanding the statutory caps on cost coverages for the 14 billion pieces of nonprofit mail out of that 86 billion total.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO DMA INTERROGATORIES

**DMA/ABA&NAPM-T1-4.** Please refer to your testimony on page 61, lines 11-16, where you address per-piece contributions to institutional delivery costs paid by First Class mail and Standard A mail.

- a. What, in light of the statutory pricing criteria of section 3622(b), is the proper weight that should be given to a per-piece revenue contribution analysis as compared with the “cost coverage convention” that you criticize?
- b. What, in your opinion, are the differences between your position and the Commission’s previously stated views on this issue? Please be as specific as possible.
- c. In your opinion, would the Commission need to modify its previously described views concerning per-piece analyses in order to agree with your rate proposals? Please explain fully.

### **RESPONSE:**

a. – c. This question mis-characterizes my testimony to some extent. I do not propose to change the existing cost coverage convention in favor of a “per piece revenue contribution” convention. I propose to solve the discriminatory and unfair allocation of institutional delivery costs within the current cost coverage convention by raising cost coverages for Standard A mail and reducing them for First Class mail. Please see page 62, lines 16 and 17, of my testimony, and Technical Appendix A.5, cost coverages, “alternate proposal”, page 2. The lines you cite in my testimony are one analytical input motivating my proposed changes in relative cost coverages, and the Attachment and argument in answer to DMA/ABA&NAPM-T1-1 is another analytical input. I am not assigning any particular weights to my arguments.



**DECLARATION**

I, James A. Clifton, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

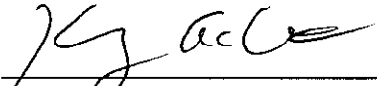
  
James A. Clifton

Dated: 5-15-00

June 15, 2000  
Washington, D.C.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

  
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